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Update Report

Investors should consider this report as only a single factor in making their investment decision.

Intellinetics Inc.

Speculative Buy

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June 1, 2020

INLX $4.20 — (OTC)

	2018 A	2019 A	*2020 E*	*2021 E*
Revenue (in millions)	$2.4	$2.5	***$6.2***	***$9.6***
Earnings (loss) per share	($6.60)	($5.76)	***($0.66)***	***$0.03***

52-Week range	$7.00 – $0.04	Fiscal year ends:	December
Shares outstanding a/o 05/13/20	2.8 million	Revenue/shares (ttm)	$5.63
Approximate float	1.9 million	Price/Sales (ttm)	0.8X
Market Capitalization	$11.8 million	Price/Sales (2021) E	1.3X
Tangible Book value/shr	($0.13)	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2021) E	NMF

All per share amounts have been adjusted to reflect a 1-for-50 reverse stock split on March 20, 2020.

Intellinetics Inc., headquartered in Columbus, OH, is a cloud-based document services software provider. IntelliCloud™, its software solutions platform serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets in Healthcare, K-12, Public Safety, Public Sector, as well as Risk Management, and Financial Services by enabling customers to securely capture and manage documents across its operations. The company's Graphic Science subsidiary converts images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments.

Key Investment Considerations:

Maintaining our Speculative Buy rating and setting a 12-month price target of $6.50 per share based on our sales estimates and achieving profitability in 2021.

Intellinetics' IntelliCloud software solutions platform and the acquisitions of Graphic Sciences and CEO Imaging Systems should provide the scale needed to grow within the records management services segment of the $6.9 billion document management services (DMS) industry. According to IBISWorld, the records management segment could reach $5.2 billion in revenue in 2020, up from an estimated $4.9 billion in 2019.

While the current COVID-19 pandemic environment is likely to diminish sales in 2Q20, as pandemic conditions ease, a revenue rebound should occur in 2H20 driven by the March 2020 acquisition of Graphic Sciences. Recurring revenue should also resume as new public and private sector customers deploy the company's IntelliCloud™ software solutions platform.

On March 2, 2020, the company announced it acquired Graphic Sciences, Inc. The new subsidiary converts images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments primarily in Michigan. In the month of March 2020, Graphic Sciences generated revenue of over $556,000 and on an unaudited pro-forma basis it would have generated revenue of approximately $1.8 million in 1Q20.

For 2020, we project a loss of ($0.66) per share on revenue of $6.2 million. Our forecast reflects the 2Q20 impact of the COVID-19 pandemic, partly offset by the estimated revenue generated by Graphic Sciences.

For 2021, we project EPS of $0.03 on revenue growth of 55.3% to $9.6 million. Our forecast reflects easing of COVID-19 conditions, a full year of revenue from Graphic Sciences, and operating expense margin improvement to 49.7% from an estimated 73.1% (excluding one-time costs) in 2020.

Please view our Disclosures on pages 14 – 16.

Appreciation Potential

Maintaining our Speculative Buy rating and setting a 12-month price target of $6.50 per share based on our sales estimates and achieving profitability in 2021.

Our rating reflects the company's acquisitions of privately held Graphic Sciences and CEO Imaging Systems in 2020 with the former generating significant professional services revenue and the later providing an opportunity to convert their customer base to INLX's higher margin recurring revenue IntelliCloud™ software solutions platform.

The company also strengthened is balance sheet with a March 2020 capital raise of $5.5 million through a combination of an equity and debt private placement (Taglich Brothers was the placement agent). Concurrently, the company's $4.7 million in existing convertible notes were converted into shares of common stock. On March 20, 2020, a 1-for-50 reverse stock split became effective.

Our 12-month price target of $6.50 per share implies shares could appreciate approximately 55% over the next twelve months. According to finviz, the average trailing twelve-month price-to-sales multiple for companies in the Specialty – Business Services sector is 2.8X. INLX's trailing twelve-month price-to-sales multiple is 0.8X. We anticipate investors are likely to accord INLX a multiple approaching that of the sector given INLX's forecasted sales growth of 55.3% for 2021. We applied a multiple of 2.2X to our 2021 sales per share forecast of $3.39, discounted for execution and COVID-19 risks, to obtain a year-ahead price target of approximately $6.50 per share.

A higher valuation of Intellinetics Inc. is likely to be supported by quarterly sequential sales growth that should begin in 2H20, a swing to an operating profit, generating cash earnings, and leveraging acquisitions to increase its professional services and recurring revenue customer-bases. We forecast an operating profit of $530,000 in 2021 compared to an estimated operating loss (excluding one-time transaction costs of $461,000) of $991,000 in 2020. In 2021, the company should generate cash earnings of $855,000 from a forecasted cash burn of $525,000 in 2020.

In our view, Intellinetics Inc. is most suitable for high-risk tolerant investors seeking exposure to a microcap technology company that is attempting to build a solid SaaS recurring revenue customer base.

Overview

Intellinetics, Inc., located in Columbus, Ohio, is a cloud-based document services software provider. Its secure document management solution, IntelliCloud™ serves a mission-critical role for organizations in highly regulated, risk and compliance-intensive markets in healthcare, K-12, public safety, public sector, risk management, financial services and more. The March 2020 acquisition of Michigan based Graphic Sciences, Inc., created the company's Image Technology Group and large scale production scanning department. This subsidiary has converted hundreds of millions of images over the last 33 years from paper to digital, paper to microfilm, and microfiche to microfilm for business and government agencies (local, state, and Federal). The April 2020 acquisition of CEO Imaging Systems, brings an existing customer base and the knowledge and capabilities to enable its clients (primarily in the K-12 education and financial services markets) to transform their paper records and document content into the digital cloud. The management system offered saves time, money, and floor space, and streamlines the archiving processes.

The company and its subsidiaries are targeting existing and new organizations and governmental agencies (state and local) within the health and human services and K-12 education market initially in the Midwestern US states.

History

Intellinetics, Inc., (fka GlobalWise Investments, Inc.), is a Nevada holding company incorporated in 1997, with a single operating subsidiary, Intellinetics, Inc., an Ohio corporation. Intellinetics Ohio was incorporated in 1996, and on February 10, 2012, Intellinetics Ohio became the sole operating subsidiary of Intellinetics as a result of a reverse merger and recapitalization.

In March 2020 and April 2020, the company acquired Graphic Sciences and CEO Imaging Systems, Inc., respectively.

Recent Developments

In April 2020, INLX announced it acquired Michigan based CEO Imaging Systems, Inc., a document solutions company that has customers in the K-12 education and financial services markets. In 2019, CEO Imaging Systems generated revenue of approximately $500,000. The acquisition should enable Intellinetics' the ability to expand into an established customer base its content management products and services to highly regulated, risk and compliance-intensive markets.

In March 2020, the company announced it acquired Michigan based Graphic Sciences, Inc., as a wholly owned subsidiary, but each company will continue to operate under its own name, maintain current offices, and experience minimal changes in personnel. The purchase price consisted of approximately $3.5 million in cash, subject to a post-closing net working capital adjustment. The sellers have three annual potential earn-out payments of up to $2.5 million, if certain gross profit levels are achieved. In the month of March 2020, Graphic Sciences generated revenue of over $556,000 and, on an unaudited pro-forma basis, it would have generated revenue of approximately $1.8 million in 1Q20.

The acquisition should create synergies with each providing document management products and services to highly-regulated, risk- and compliance-intensive markets. INLX's IntelliCloud solution will be integrated to include Graphic Sciences' document scanning and microfilm services while Graphic Science customers will benefit from the option to gain anywhere, anytime access to their digitized documents via the IntelliCloud Document Management Platform.

In March 2020, Intellinetics Inc., announced it has closed on a financing that raised gross proceeds of $5.5 million through a combination of an equity and debt private placement (Taglich Brothers was agent). At the same time, the company restructured its balance sheet by converting all of its $4.7 million in existing convertible notes into shares of common stock, as well as stockholders and the board of directors approving a 1-for-50 reverse stock split. The debt conversion and reverse split were done in order to improve the liquidity and marketability of INLX's common stock, and to be in a position to respond to potential future opportunities to raise capital and make acquisitions.

Growth Platforms

IntelliCloud™ Solution

The IntelliCloud software solutions platform is a Windows application that can have unlimited downloads and installs, enabling customers secure access even from remote locations. The platform has in excess of 50 pre-configured industry solutions ready for deployment. The primary modules of IntelliCloud include image processing, records management, workflow, and extended components.

The image processing module is used for capturing, transforming and managing images of paper documents, including support of distributed and high-volume capture, and optical character recognition. Records management enables customers the ability to retain content through automation and policies, ensuring legal, regulatory and industry compliance within the markets they serve. The workflow module is designed to support business processes, routing content electronically, assigning work tasks and states (e.g., reviews or approvals, including incident case management), and creating related audit trails. The company's solution allows document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party data visualization and advanced optical character recognition engine partnerships), email and information archiving, packaged application integration, and advanced capture for invoice processing.

Graphic Sciences

The company's new subsidiary Graphic Sciences (acquired March 2, 2020) service offerings include digital scanning, microfilm and microfiche, box storage, and equipment, software, and repair. The primary offering that drives this subsidiary's growth is its digital scanning services offering that provides paper scanning, newspaper and microfilm scanning, microfiche scanning, aperture card scanning, drawing scanning, and book scanning. Since most government files must be retained for a long term or permanently, the ability of Graphic Sciences to convert images from paper to digital, paper to microfilm, and microfiche to microfilm for business and federal, county, and municipal governments places it in a position to grow its customer bases. The service offerings provided by the company has four production categories consisting of document prep, scanning, indexing, and delivery.

Graphic Sciences' offering includes converting scanned images to microfilm or microfiche, and microfilm/microfiche preservation and duplication. To a lesser extent, the company provides physical document storage and retrieval services for its clients. Graphic Sciences sells and services document image software, document scanners, and microfilm scanners, readers and printers, however, this is a small and declining part of its operations.

Document Management Market

According to IBISWorld, the Document Management Services industry should reach $6.9 billion in 2024, up from an estimated $6.5 billion in 2019. The industry is divided into companies that provide commercial and government clients with outsourced records storage, document destruction services and digital conversion of paper-based records. The growth in the industry reflects increasing regulatory requirements mandating the retention of company records. Operators in the industry, such as Intellinetics, should benefit from sustained demand for secure document storage in electronic form.

IBISWorld estimates records management services segment revenue should reach $5.2 billion in 2024, up from an estimated $4.9 billion in 2019 (forecast assumes that 74.9% of the segment remains through 2024). One of the primary drivers of industry and segment growth is the increasing demand for digital conversion services. Industry participants estimate that only 1% of stored paper documents have been converted into digital files. In the next five-years, industry operators anticipate the digital conversion of medical records should be a significant growth opportunity.

Additional industry growth drivers should include people working from home that need access to documents in their office location, stricter records management required by various governmental and industry regulatory authorities, as well as records requirements for potential litigation. Companies within the industry must provide a platform that is cost-effective and secure for outsourcing document and record management.

Customers seeking a document management solution have begun to embrace a hybrid deployment model that allows an organization to move their most vital data to a private cloud without compromising on security and their non-sensitive data to a public cloud. Analysts estimate this is likely to be the fastest-growing segment over the next five years due to the flexibility, technical control, enhanced security, and adherence to the compliance requirements it offers.

Growth Strategy

The company's aim is to drive recurring cloud-based software-as-a-service (SaaS) revenue from a growing customer base. INLX has an opportunity to grow its customer base for its IntelliCloud solutions platform based on the potential conversion of existing customers of Graphic Sciences (acquired in March 2020) and CEO Imaging Systems (acquired in April 2020). The opportunity to expand the company's IntelliCloud solutions platform to those two existing customer bases (governmental agencies and K-12 school districts primarily in Michigan) should reduce customer acquisition costs, thus providing greater operating leverage as recurring revenue sales increase.

INLX seeks to accelerate adoption of its IntelliCloud software solutions platform through direct sales, partnerships, and a reseller network. IntelliCloud is designed with templates for specific vertical markets that provide base software configurations that should make it easy to deliver and install the offering to new and existing customers. The company anticipates its offerings (large scale scanning capabilities and IntelliCloud) will be a means for small to medium size organizations (public and private sectors) to create a cloud based remote file cabinet of documents for employees as people will likely continue to work from home due to the COVID-19 pandemic.

Acquisitions are likely to enable the company to grow its operations. The Graphic Science and CEO Imaging Systems acquisitions not only added revenue but also an existing customer base that provides cross selling opportunities. In March 2020, in order to enhance the company's ability to make acquisitions, it strengthened its balance sheet through a debt conversion and issuance of equity capital and a debt offering. Also, the company completed a reverse split (1-50) that should improve the liquidity and marketability of its common stock. This should place the company in a position to quickly respond to potential future opportunities to make strategic acquisitions to expand its recurring revenue customer base.

Projections

Basis of Forecast

Our forecast reflects COVID-19 pandemic conditions that will restrain 2Q20 revenue as only essential governmental services can be performed in Ohio and Michigan. 2Q20 will include a full quarter of diminished revenue from its Graphic Sciences acquisition. We estimate the 2Q20 contribution from Graphic Sciences to approximated $575,000 compared to $556,000 for the single month of March 2020. We anticipate as COVID-19 pandemic conditions ease, Graphic Sciences revenue contribution (primarily in professional services) will normalize. Overall, we project 2Q20 revenue to decrease compared to 1Q20, but show incremental increase in 2H20.

In 2021, a full year contribution from Graphic Sciences and an increasing customer base for the company's IntelliCloud software solutions platform should translate into higher recurring revenue and drive total revenue growth by 55.3%, generating net income (the first time in the company's history).

We anticipate 2020 and 2021 gross margins of approximately 57.1% and 55.2%, respectively. Our gross margin forecast reflects an increase in lower margin professional services revenue stemming from the Graphic Sciences acquisition. However, as recurring revenue increases, we anticipate SaaS margins of 69.5% in 2021, up from an estimated 68.2% in 2020. SaaS revenue growth should enable the company to leverage operations with minimal incremental cost of sales.

Economic conditions

In April 2020, the International Monetary Fund set its US GDP forecast to a decrease of 5.9% in 2020 with growth rebounding to 4.7% in 2021. The forecast reflects the severe impact of the COVID-19 pandemic and the assumption that the pandemic conditions will ease and containment efforts should be unwound in order to normalize economic activity.

The advance estimate of US GDP growth (released on April 29, 2020) showed the US economy decreased at an annual rate of 4.8% in 1Q20, down from 2.1% growth in 4Q20. The 1Q20 US GDP estimate reflects decreases in consumer spending, business investment, exports, and inventory investment, offset in part by increases in housing investment and government spending.

2020

We project total revenue growth of 144.4% to nearly $6.2 million due primarily to the March 2020 acquisition of Graphic Sciences that should contribute at least $3.5 million to professional service sales and an increase in recurring SaaS and software maintenance revenue in 2H20.

We project gross profit of $3.5 million compared to nearly $2 million in 2019. The increase in gross profit is due to sales growth, partly offset by gross margin contraction to 57.1% from 77.6% in 2019 stemming from an increase in lower margin professional service sales. Excluding one-time acquisition related transaction costs of $461,000, we anticipate the operating loss should narrow to $991,000 from nearly $1.2 million in 2019. We anticipate operating expenses (excluding the one-time costs) of $4.5 million, up from $3.1 million in 2019. The increase in operating expenses reflects the operations (since March 2020) of Graphic Sciences.

We project interest expense decreasing to $620,000 from $981,000 due to lower debt balances stemming from the debt conversion in 1Q20. The conversion of debt generated a $287,000 gain on extinguishment of debt compared to none in 2019. We forecast a net loss of $1.6 million or ($0.66) per share on 2.4 million average shares outstanding compared to a loss of $2.1 million or ($5.76) per share on approximately 370,000 average shares outstanding. The company will record a tax benefit of $188,000 in 2020 compared to none in 2019 due to the releases of a portion of the valuation allowance for deferred tax liabilities of Graphic Sciences.

2021

We project total revenue growth of 55.3% to $9.6 million due primarily to inclusion of a full year of Graphic Sciences professional service sales and a return to more normal economic conditions as the COVID-19 pandemic environment eases. We anticipate a growing recurring revenue customer base driving SaaS and software maintenance revenue (combined) to nearly $2.5 million, up from an estimated $2 million in 2020.

We project a 50% increase in gross profit to $5.3 million due primarily to sales growth. Gross margin is likely to contract to 55.2% from an estimated 57.1% in 2020 due primarily to an increase in lower margin professional services revenue. We forecast a swing to operating income of $530,000 from a loss of nearly $1.5 million (includes one-time transaction costs of $461,000), as operating expense margin should improve to 49.7% from an estimated 73.1% (excluding one-time costs) in 2020. We anticipate operating expenses of nearly $4.8 million compared to $4.5 million (excluding $461,000 in one-timer transaction costs). We project G&A expense increasing $160,000 to $3.5 million and sales and marketing expenses increasing $76,000 to $1.1 million, respectively. D&A expense should increase to $220,000 from $208,000 in 2020. The increase in operating expenses reflect supporting the operations of Graphic Science and converting customers from the two 2020 acquisitions to the company's IntelliCloud software solutions platform.

We project interest expense decreasing to $440 million from $620,000 due to a lower debt balance. We forecast net income of $90,000 or $0.03 per share on approximately 2.8 million average shares outstanding.

Finances

In 2020, we project cash burn of $525,000 and a decrease in working capital of $159,000 due primarily to increases in contingent consideration and payables, partly offset by an increase in receivables and prepaid expense. Proceeds from the issuance of common stock and borrowings should cover cash used in operations of $366,000 and capital expenditures including acquisitions, increasing cash by $409,000 to $813,000 at December 31, 2020.

In 2021, we project cash earnings of $855,000 and an increase in working capital of $513,000. The increase in working capital is due primarily to increases in receivables and prepaid expenses and decrease in contingent consideration, partly offset by an increase in payables. Cash provided by operations of $342,000 is unlikely to cover capital expenses and repayment of debt. Cash should decrease by $73,000 to $740,000 at December 31, 2021.

1Q20 and 2019 Results

1Q20

Total revenue more than double to $1.2 million from $515,000 in the year-ago period. The increase was due to the March 2, 2020 acquisition of Graphic Solutions that added approximately $556,000 to professional service sales that was not present in the year-ago period. Excluding one-month of Graphic Sciences sales, total revenue increased 27.6% to $657,000 compared to $515,000 in 1Q19 due primarily to increased software sales and growth in professional services and software-as-a-service revenue.

Gross profit increased to $776,000 from $373, 000 due to sales growth, offset in part by gross margin contraction to 63.1% from 72.1% in 1Q19. The contraction in gross margin reflects the mix impact of the Graphic Sciences acquisition. Excluding Graphic Sciences, overall gross margin decreased to 69% from 72% in 1Q19 stemming from higher software maintenance services only representing 21.5% of total revenue compared to 49% in the year-ago period.

Operating expenses increased to nearly $1.6 million from nearly $810,000 in 1Q19. Excluding nearly $461,000 in transaction cost related to the acquisition of Graphic Sciences, operating expenses would have been $1.1 million. The increase in operating expenses reflects higher G&A costs to $865,000 due primarily to the addition of nearly $178,000 in expense from Graphic Sciences. Sales and marketing expense decreased $25,000 to nearly $244,000 reflecting reduced stock compensation costs due to certain option grants vesting in 2019, and reduced marketing costs and Website updates in 2019 that did not occur in 1Q20, partially offset by the addition of Graphic Sciences expenses of nearly $28,000. D&A expense increased to $28,000 from nearly $2,000 in the year-ago period due to amortization of the intangible assets and associated depreciation stemming from the acquisition of Graphic Sciences in March 2020, partially offset by a reduction from fully depreciated assets no longer depreciating.

Interest expense increased to $290,000 from $233,000 in the year-ago period due to accelerating the beneficial conversion option on notes converted in the 2020 private placement and 2020 note conversion, partially offset by a lower debt balance. The company had a $287,000 gain on extinguishment of debt stemming from conversion of notes payable accounted for using troubled debt restructuring. There was no such gain in the year-ago period.

The net loss was $646,000 or ($0.54) per share, on nearly 1.2 million average shares outstanding compared to a net loss $670,000 or ($1.81) per share in 1Q19 on nearly 370,000 average shares outstanding. The current period included a $188,000 income tax benefit reflecting releasing a portion of the valuation allowance for deferred tax liabilities of Graphic Sciences (acquired in March 2020) that will no longer be due. In 1Q19, there was no income tax benefit or expense.

Finances
In 1Q20, cash burn of $136,000 and an increase in working capital of $8,000 resulted in cash used in operations of $144,000. Borrowings and proceeds from the issuance of common stock more than covered cash used in operations and capital expenditures including the cash paid to acquire Graphic Sciences. Cash increased by $643,000 to over $1 million at March 31, 2019.

2019
Total revenue increased 6.5% to $2.5 million. The increase was due primarily to increasing demand for the company's professional services, SaaS and maintenance services offerings. The revenue increase was restrained by lower third party service sales.

Gross profit increased 20.1% to nearly $2 million due to higher sales and gross margin expansion to 77.6% from 68.8% in 2018.

Operating expenses were flat at $3.1 million as lower sales and marketing costs were offset by higher G&A expense.

Interest expense was $981,000 compared $866,000 in 2018 due to a higher debt level. The net loss was $2.1 million or ($5.76) per share on approximately 370,000 average shares outstanding compared to a net loss of $2.3 million or ($6.60) per share in the year-ago period on 355,000 average shares outstanding.

Capital Structure
At March 31, 2020, the company had total debt on its balance sheet of nearly $1.4 million. The debt is comprised of nearly $1.4 million in long-term notes and $46,000 of short-term related party notes. On March 2, 2020, the company issued 12% subordinated promissory notes with a principal amount of $2 million (includes $303,000 in unamortized debt issuance costs and $311,000 in unamortized debt discount) that matures on February 28, 2023.

On April 15, 2020, INLX secured payroll protection funding of nearly $839,000 from the CARES Act through PNC Bank. The term of the loan is two years, with an annual interest rate of 1%, which shall be deferred for the first six months of the term of the loan. Based on how the loan is expected to be used by the company, as well as government rules, the loan could be forgiven.

Competition

The market for the company's IntelliCloud software solutions platform is highly competitive with competition likely to intensify as the document solutions market evolves. The market is highly fragmented with the US having a large number of small companies servicing local or regional markets.

The competitive factors affecting the document solutions market include reputation, quality, performance, and price, as well as the availability of software products on multiple platforms, product scalability and integration with other enterprise applications. Additional competitive factors that Intellinetics' solutions are likely to face include the ability to effectively store, manage, and retrieve client records. In this market, companies are responsible for handling client's highly confidential records; thus having a reputation for reliability and security is crucial in order to obtain and retain customers.

The company believes its primary competitors within the small-to-medium business sector are private companies including DocuWare, Square 9, M-files, On Base, and Laserfiche. The competitors for the company's Graphic Science division vary from smaller shops to larger entities, including publicly traded Iron Mountain Incorporated.

Risks

In our view, these are the principal risks underlying the stock.

Going Concern
INLX has yet to turn profitable. At March 31, 2020, the company's accumulated deficit was over $21.4 million, up from nearly $15 million in 2016. Losses are likely to continue but narrow through our forecast period. The lack of sustained profitability could result in the company's inability to execute its growth strategy and/or seek dilutive financing. These factors raise substantial doubt about the company's ability to continue as a going concern.

COVID-19 Pandemic
The COVID-19 global pandemic presents concerns that may dramatically affect the company's ability to conduct normal business operations (such as acquiring new customers or receiving orders from existing customers) effectively. While the trajectory of COVID-19 pandemic remains uncertain, it is likely that INLX operations including sales to new and existing customers may be directly affected for 2Q/3Q 2020.

Dilution
At March 31, 2020, the company's operations could require additional capital in order to implement direct marketing campaigns and leads management, reseller training and on-boarding, and to develop additional software integration and customization capabilities. While management believes the company should have access to additional capital resources, there are currently no commitments in place. Future financings are likely to dilute existing shareholders.

Over the eight-year period ended March 31, 2020, the company raised $17.7 million through the issuance of debt and equity securities.

At May 13, 2020, INLX had over 297,000 shares of common stock reserved for issuance upon the exercise of outstanding warrants, convertible notes, and outstanding and unissued stock options under the company's equity incentive plan.

Customer Concentration
In 1Q20 and 1Q19, government contracts represented approximately 60% and 33% of net revenues, respectively. A significant portion of the company's sales to resellers represents ultimate sales to government agencies. In 1Q20, the company's two largest customers represented 71% of gross accounts receivable, compared to its four largest customers representing 78% of gross accounts receivables at December 31, 2019. The loss of a significant customer could disrupt the company's operations.

Intellectual Property
Since software and most of the underlying technologies are built on a Microsoft.Net framework, Intellinetics must rely on a combination of copyright, trademark laws, non-disclosure agreements, and other contractual provisions to establish and maintain proprietary intellectual property rights. Loss of such rights could adversely impact operations and growth prospects.

Data Center
The company's users must have access to its solutions 24-hours a day, seven-days a week, without interruption. INLX has computing and communications hardware operations located in data centers owned and operated by third parties. Since it does not control the operation of those data centers, the company is vulnerable to any security

breaches, power outages or other issues the data centers experience. Disruptions or experience interruptions, delays and outages in service and availability from time to time could adversely impact customer relationships.

Infringement

Claims of infringement are becoming commonplace within the software industry. While the company does not believe it infringes on the rights of third parties, a third party may assert Intellinetics' software violates their intellectual property rights.

Cyber Security

Security breaches, unauthorized access and usage, viruses or similar types of breaches or disruptions could result in loss of confidential information, damage to the company's reputation, early termination of contracts, litigation, regulatory investigations, etc. If the company's security measures or its third-party data centers are breached as a result of third-party action, employee error, or malfeasance, its business could diminish due to the potential for significant liability expenses.

The US has laws and regulations relating to data privacy, security, and retention and transmission of information. The company must protect its information systems against unauthorized access and disclosure of confidential information and confidential information belonging to customers. The company believes it has policies and procedures in place to meet data security and records retention requirements. However, there is no assurance that the security measures in place will be effective in every case.

Market Acceptance

The markets for the company's IntelliCloud software solutions platform is rapidly evolving, which means that the level of acceptance of the platform will take time to determine. If customer acceptance fails to develop or develops slower than anticipated, current operations and growth opportunities are likely to diminish.

Shareholder Control

Officers and directors of Intellinetics Inc. own or have a controlling interest in of approximately 7.1% of the outstanding voting stock as of the company's May 2020 proxy filing (shares outstanding on April 13, 2020). The company's officers include Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. who was appointed Chairman of INLX in October 2017 and owns or has a controlling interest in 2.4% of the company's outstanding voting stock. Two shareholders, Michael Taglich (President of Taglich Brothers, Inc.) and Robert Taglich (Managing Director of Taglich Brothers, Inc.) collectively own or have a controlling interest in 27.3% of the outstanding voting stock. Significant ownership interests could potentially influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Based on our calculations, the average daily-volume in 2019 was 3,400 shares. During the last three months to May 29, 2020, volume decreased to 1,600. The company has a float of 1.9 million shares and shares outstanding of 2.8 million.

Intellinetics Inc.
Consolidated Balance Sheets
FY2018A – FY2021E
(in thousands)

	FY18A	FY19A	1Q20A	**FY20E**	**FY21E**
ASSETS					
Current assets:					
Cash	$ 1,089	$ 404	$ 1,047	**$ 813**	**$ 740**
Accounts receivable, net	136	330	1,083	**1,291**	**1,604**
Accounts receivable, unbilled	-	23	291	**300**	**450**
Parts and supplies, net	-	4	106	**110**	**175**
Prepaid expense and other current assets	162	111	268	**350**	**450**
Total current assets	1,387	872	2,795	**2,864**	**3,419**
Property and equipment, net	9	7	735	**730**	**715**
Right of use asset	-	97	2,938	**2,893**	**2,848**
Intangible assets, net	-	-	1,214	**1,065**	**671**
Goodwill	-	-	1,800	**1,800**	**1,800**
Other assets	10	10	15	**15**	**10**
Total assets	$ 1,406	$ 987	$ 9,496	**$ 9,367**	**$ 9,463**
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Accounts payable	308	161	230	**250**	**300**
Accrued compensation	-	70	203	**300**	**400**
Accrued expenses, other	-	140	451	**500**	**575**
Lease liability	-	47	476	**476**	**476**
Deferred revenues	724	754	703	**650**	**725**
Deferred compensation	165	117	104	**150**	**175**
Accrued interest payable	-	1,212	20	**20**	**20**
Notes payable	-	3,340	-	**-**	**-**
Notes payable - related party	47	1,467	46	**46**	**23**
Total current liabilities	1,244	7,310	2,234	**2,392**	**2,694**
Notes payable	3,145	-	1,386	**1,386**	**1,000**
Notes payable - related party	1,046	-	-	**-**	**-**
Lease liability	-	53	2,529	**2,529**	**2,529**
Other	-	-	-	**547**	**572**
Contingent consideration	502	-	686	**686**	**456**
Stockholders' equity:					
Common stock, $0.001 par value; authorized 50,000,000 shares;	31	0	3	**3**	**3**
Additional paid-in capital	14,101	14,419	24,100	**24,392**	**24,687**
Retained earnings (accumulated deficit)	(18,663)	(20,796)	(21,442)	**(22,568)**	**(22,478)**
Total stockholders' equity	(4,531)	(6,376)	2,661	**1,827**	**2,212**
Total liabilities and stockholders' equity	$ 1,406	$ 987	$ 9,496	**$ 9,367**	**$ 9,463**
SHARES OUT	355	370	2,811	**2,815**	**2,825**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Annual Income Statement
FY2018A – FY2021E
(in thousands)

	FY18 A	FY19 A	**FY20 E**	**FY21 E**
Sale of software	$ 174	$ 189	**$ 144**	**$ 100**
Software-as-a-service (SaaS)	749	860	**936**	**1,215**
Software maintenance services	995	1,011	**1,086**	**1,260**
Professional services	290	450	**4,032**	**7,050**
Third party services	174	26	**0**	**-**
Total Revenues	$ 2,381	$ 2,536	**$ 6,199**	**$ 9,625**
Cost of Revenues per segement				
Sale of software	70	9	**58**	**40**
Software-as-a-service (SAAS)	300	255	**298**	**370**
Software maintenance services	100	87	**177**	**200**
Professional services	120	192	**2,124**	**3,705**
Third party services	152	25	**1**	**-**
Total Cost of sales	742	568	**2,658**	**4,315**
Gross Profit	1,639	1,968	**3,541**	**5,310**
Operating Expenses:				
General and administrative	2,107	2,131	**3,350**	**3,510**
One-time transactions costs	-	-	**461**	**-**
Sales and marketing	998	982	**974**	**1,050**
Depreciation	9	8	**208**	**220**
Total Operating Expenses	3,114	3,121	**4,993**	**4,780**
Operating Income (loss)	(1,475)	(1,153)	**(1,452)**	**530**
Other income (expense)				
Gain on extingusihment of debt	-	-	**287**	**-**
Interest income (expense)	(866)	(981)	**(620)**	**(440)**
Total Other Income (expense)	(866)	(981)	**(333)**	**(440)**
Pre-Tax Income (loss)	(2,340)	(2,133)	**(1,785)**	**90**
Income Tax Expense (Benefit)	-	-	**(188)**	**-**
Net income (loss)	(2,340)	(2,133)	**(1,596)**	**90**
Earning (loss) per share	$ (6.60)	$ (5.76)	**$ (0.66)**	**$ 0.03**
Avg Shares Outstanding	355	370	**2,411**	**2,836**
Adjusted EBITDA	$ (1,159)	$ (707)	**$ (395)**	**$ 850**
Margin Analysis				
Gross margin - Sale of software	59.8%	95.4%	**59.5%**	**60.0%**
Gross margin - SAAS	59.9%	70.3%	**68.2%**	**69.5%**
Gross margin - Maintenance services	89.9%	91.4%	**83.7%**	**84.1%**
Gross margin - Professional services	58.5%	57.3%	**47.3%**	**47.4%**
Gross margin - Third Party services	12.7%	5.2%	**(94.0%)**	**NMF**
Total gross margin	68.8%	77.6%	**57.1%**	**55.2%**
General and administrative	88.5%	84.0%	**54.0%**	**36.5%**
Sales and marketing	41.9%	38.7%	**15.7%**	**10.9%**
Depreciation	0.4%	0.3%	**3.4%**	**2.3%**
Operating margin	(61.9%)	(45.5%)	**(23.4%)**	**5.5%**
Pre-tax margin	(98.3%)	(84.1%)	**(28.8%)**	**0.9%**
Tax rate	0.0%	0.0%	**0.0%**	**0.0%**
YEAR / YEAR GROWTH				
Total Revenues	(9.1%)	6.5%	**144.4%**	**55.3%**

Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Income Statement Model
Quarters 2019A – 2021E
(in thousands)

	Q1 19 A	Q2 19 A	Q3 19 A	Q4 19 A	FY19 A	Q1 20 A	Q2 20 E	Q3 20 E	Q4 20 E	**FY20 E**	Q1 21 E	Q2 21 E	Q3 21 E	Q4 21 E	**FY21 E**
Sale of software	$ 2	$ 7	$ 171	$ 10	$ 189	$ 94	$ -	$ 25	$ 25	**$ 144**	$ 25	$ 25	$ 25	$ 25	**$ 100**
Software-as-a-service (SaaS)	199	230	214	216	860	226	225	235	250	**936**	265	285	315	350	**1,215**
Software maintenance services	253	253	248	258	1,011	261	260	275	290	**1,086**	295	310	320	335	**1,260**
Professional services	52	143	117	139	450	632	600	1,200	1,600	**4,032**	1,650	1,750	1,800	1,850	**7,050**
Third party services	10	8	6	2	26	0	-	-	-	**0**	-	-	-	-	**-**
Total Revenues	515	641	756	624	$ 2,536	$ 1,214	$ 1,085	$ 1,735	$ 2,165	**$ 6,199**	$ 2,235	$ 2,370	$ 2,460	$ 2,560	**$ 9,625**
Cost of Revenues per segement															
Sale of software	2	1	1	4	9	38	-	10	10	**58**	10	10	10	10	**40**
Software-as-a-service (SAAS)	68	61	68	59	255	73	70	75	80	**298**	85	90	95	100	**370**
Software maintenance services	29	21	18	19	87	47	45	40	45	**177**	45	50	50	55	**200**
Professional services	34	40	56	63	192	289	330	650	855	**2,124**	875	920	945	965	**3,705**
Third party services	10	8	4	2	25	1	-	-	-	**1**	-	-	-	-	**-**
Total Cost of sales	142	130	148	148	568	448	445	775	990	**2,658**	1,015	1,070	1,100	1,130	**4,315**
Gross Profit	373	511	608	477	1,968	766	640	960	1,175	**3,541**	1,220	1,300	1,360	1,430	**5,310**
Operating Expenses:															
General and administrative	539	521	511	561	2,131	865	800	835	850	**3,350**	860	865	885	900	**3,510**
One-time transactions costs	-	-	-	-	-	461	-	-	-	**461**	-	-	-	-	**-**
Sales and marketing	269	222	249	242	982	244	235	245	250	**974**	255	260	265	270	**1,050**
Depreciation	2	2	2	2	8	28	60	60	60	**208**	55	55	55	55	**220**
Total Operating Expenses	810	745	761	805	3,121	1,598	1,095	1,140	1,160	**4,993**	1,170	1,180	1,205	1,225	**4,780**
Operating Income (loss)	(437)	(234)	(154)	(328)	(1,153)	(832)	(455)	(180)	15	**(1,452)**	50	120	155	205	**530**
Other income (expense)															
Gain on extingusihment of debt	-	-	-	-	-	287	-	-	-	**287**	-	-	-	-	**-**
Interest income (expense)	(233)	(239)	(245)	(263)	(981)	(290)	(110)	(110)	(110)	**(620)**	(110)	(110)	(110)	(110)	**(440)**
Total Other Income (expense)	(233)	(239)	(245)	(263)	(981)	(3)	(110)	(110)	(110)	**(333)**	(110)	(110)	(110)	(110)	**(440)**
Pre-Tax Income (loss)	(670)	(474)	(399)	(591)	(2,133)	(835)	(565)	(290)	(95)	**(1,785)**	(60)	10	45	95	**90**
Income Tax Expense (Benefit)	-	-	-	-	-	(188)	-	-	-	**(188)**	-	-	-	-	**-**
Net income (loss)	(670)	(474)	(399)	(591)	(2,133)	(646)	(565)	(290)	(95)	**(1,596)**	(60)	10	45	95	**90**
Earning (loss) per share	$ (1.81)	$ (1.28)	$ (1.08)	$ (1.60)	$ (5.76)	$ (0.54)	$ (0.20)	$ (0.10)	$ (0.03)	**$ (0.66)**	$ (0.02)	$ 0.00	$ 0.02	$ 0.03	**$ 0.03**
Avg Shares Outstanding	370	370	370	371	370	1,186	2,815	2,820	2,825	**2,411**	2,830	2,835	2,840	2,840	**2,836**
Adjusted EBITDA	$ (215)	$ (90)	$ (93)	$ (310)	$ (707)	$ (180)	$ (320)	$ (45)	$ 150	**$ (395)**	$ 130	$ 200	$ 235	$ 285	**$ 850**
Margin Analysis															
Gross margin - Sale of software	(5.5%)	83.6%	99.1%	56.6%	95.4%	59.3%	NMF	60.0%	60.0%	**59.5%**	60.0%	60.0%	60.0%	60.0%	**60.0%**
Gross margin - SAAS	66.0%	73.7%	68.4%	72.7%	70.3%	67.9%	68.9%	68.1%	68.0%	**68.2%**	67.9%	68.4%	69.8%	71.4%	**69.5%**
Gross margin - Maintenance services	88.4%	91.9%	92.8%	92.4%	91.4%	82.2%	82.7%	85.5%	84.5%	**83.7%**	84.7%	83.9%	84.4%	83.6%	**84.1%**
Gross margin - Professional services	35.2%	72.1%	51.8%	54.8%	57.3%	54.2%	45.0%	45.8%	46.6%	**47.3%**	47.0%	47.4%	47.5%	47.8%	**47.4%**
Gross margin - Third Party services	1.0%	0.8%	19.4%	5.0%	5.2%	(94.0%)	NMF	NMF	NMF	**(94.0%)**	NMF	NMF	NMF	NMF	**NMF**
Total gross margin	72.4%	79.7%	80.5%	76.4%	77.6%	63.1%	59.0%	55.3%	54.3%	**57.1%**	54.6%	54.9%	55.3%	55.9%	**55.2%**
General and administrative	104.6%	81.3%	67.6%	89.8%	84.0%	71.3%	73.7%	48.1%	39.3%	**54.0%**	38.5%	36.5%	36.0%	35.2%	**36.5%**
Sales and marketing	52.1%	34.6%	32.9%	38.8%	38.7%	20.1%	21.7%	14.1%	11.5%	**15.7%**	11.4%	11.0%	10.8%	10.5%	**10.9%**
Depreciation	0.4%	0.3%	0.3%	0.3%	0.3%	2.3%	5.5%	3.5%	2.8%	**3.4%**	2.5%	2.3%	2.2%	2.1%	**2.3%**
Operating margin	(84.7%)	(36.6%)	(20.3%)	(52.5%)	(45.5%)	(68.5%)	(41.9%)	(10.4%)	0.7%	**(23.4%)**	2.2%	5.1%	6.3%	8.0%	**5.5%**
Pre-tax margin	(130.0%)	(73.9%)	(52.8%)	(94.7%)	(84.1%)	(68.8%)	(52.1%)	(16.7%)	(4.4%)	**(28.8%)**	(2.7%)	0.4%	1.8%	3.7%	**0.9%**
Tax rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	**0.0%**	0.0%	0.0%	0.0%	0.0%	**0.0%**
YEAR / YEAR GROWTH															
Total Revenues	(1.9%)	16.5%	12.3%	(1.4%)	6.5%	135.5%	69.4%	129.6%	246.7%	**144.4%**	84.2%	118.4%	41.8%	18.2%	**55.3%**

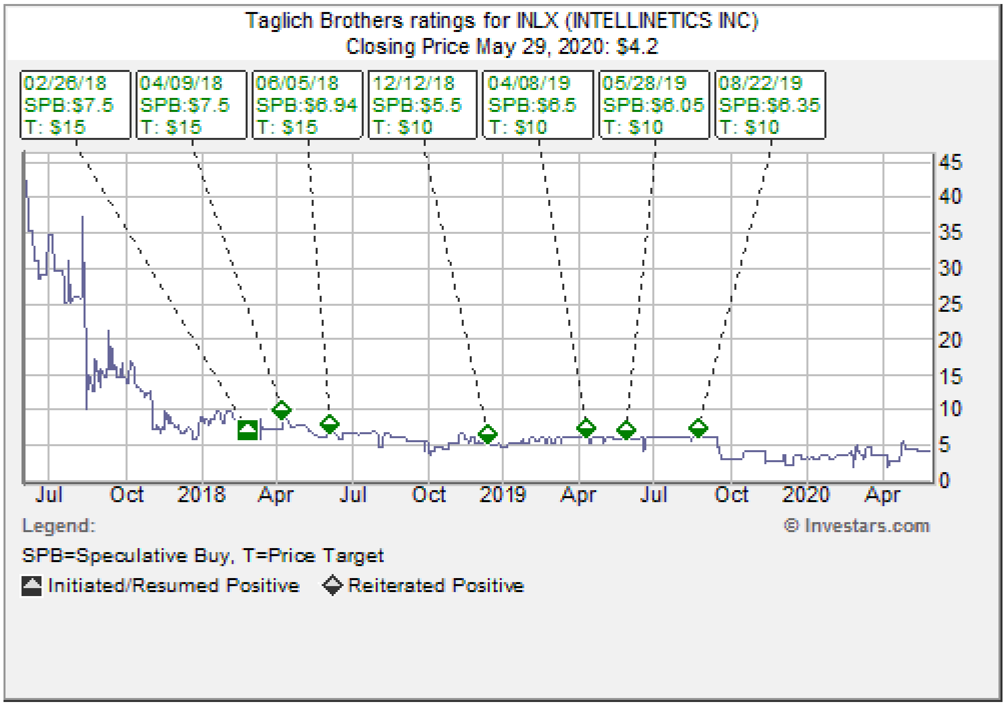
Source: Company reports and Taglich Brothers estimates

Intellinetics Inc.
Cash Flow Statement
FY2018A – FY2021E
(in thousands)

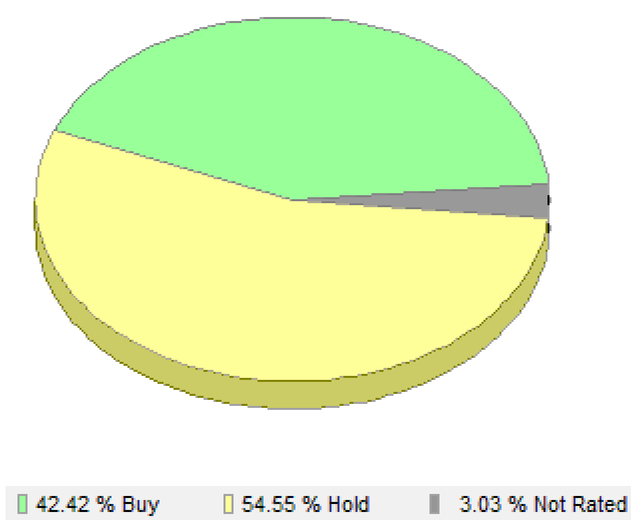
	FY2018A	FY2019A	1Q20A	**FY2020E**	**FY2021E**
Cash Flows from Operating Activities					
Net Income (loss)	$ (2,340)	$ (2,133)	$ (646)	**$ (1,596)**	**$ 90**
Depreciation and amortization	9	8	28	**208**	**220**
Bad debt expense	(7)	28	23	**23**	**-**
Loss on disposal of fixed assets - parts and supplies reserve	-	-	2	**2**	**-**
Amortization of deferred and original issue financing costs	233	184	39	**115**	**115**
Amortization of beneficial conversion option	202	71	12	**12**	**-**
Amortization of debt discount	-	-	9	**90**	**90**
Amorization of orignial issue discount on notes	-	12	17	**17**	**-**
Amortization of right of use asset	-	41	45	**45**	**45**
Stock issued for services	58	88	58	**232**	**235**
Stock options compensation	249	200	12	**60**	**60**
Note conversion expense	-	-	141	**141**	**-**
Warrant issue expense	-	-	237	**237**	**-**
Interest on converted debt	-	-	176	**176**	**-**
Gain on retirement of debt	-	-	(287)	**(287)**	**-**
Cash earnings (burn)	(1,597)	(1,502)	(136)	**(525)**	**855**
Changes In:					
Accounts receivable	167	(222)	295	**(962)**	**(313)**
Accounts receivable, unbilled	-	-	8	**(277)**	**(150)**
Parts and supplies, net	-	-	(12)	**(106)**	**(65)**
Prepaid expenses and other current assets	(0)	24	(82)	**(239)**	**(100)**
Right of use asset	-	(139)	-	**-**	**-**
Accounts payable and accrued expenses	(97)	63	(91)	**679**	**225**
Accrued interest, current and long-term	402	710	20	**20**	**20**
Lease liability	-	101	(44)	**429**	**-**
Deferred compensation	(48)	(48)	(13)	**33**	**25**
Deferred interest expense	-	-	-	**-**	**-**
Contingent consideration	-	-	-	**686**	**(230)**
Deferred revenues	15	30	(90)	**(104)**	**75**
(Increase)/decrease in Working Capital	440	520	(8)	**159**	**(513)**
Net cash Provided by Operations	(1,157)	(982)	(144)	**(366)**	**342**
Cash Flows from Investing Activities					
Purchase of property and equipment	(3)	(5)	(8)	**(20)**	**(15)**
Cash paid to acquire business, net of cash acquired	-	-	(3,889)	**(3,889)**	**-**
Cash Flows from Investing Activities	(3)	(5)	(3,897)	**(3,909)**	**(15)**
Cash Flows from Financing Activities					
Proceeds from issuance of common stock	-	-	3,168	**3,168**	-
Offering costs paid on issuance of common stock	-	-	(308)	**(308)**	
Exercise of stock options	-	-	-	-	-
Payment of deferred financing costs	(131)	-	(176)	**(176)**	-
Issuance of convertible notes	-	-	-	-	-
Proceeds (repayment) from notes payable, net	900	-	2,000	**2,000**	**(400)**
Proceeds (repayment) from notes payable - related party, net	354	303	-	-	-
Net cash provided by Financing	1,124	303	4,684	**4,684**	**(400)**
Net change in Cash	(37)	(684)	643	**409**	**(73)**
Cash Beginning of Period	1,126	1,089	404	**404**	**813**
Cash End of Period	$ 1,089	$ 404	$ 1,047	**$ 813**	**$ 740**

Source: Company reports and Taglich Brothers estimates

Price Chart



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	1	5
Hold		
Sell		
Not Rated	1	50

Important Disclosures

As of May 29, 2020, Taglich Brothers, Inc. and/or its affiliates own or have controlling interests in more than 1% of INLX common stock. Michael Taglich, President of Taglich Brothers, Inc. owns or has a controlling interest in 462,567 shares (the number of shares beneficially owned) of INLX common, which includes 32,738 shares of common stock underlying warrants issued and a principal amount of $23,684 in 12% 2019 bridge notes outstanding at April 13, 2020. Robert Taglich, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 313,323 shares (the number of shares beneficially owned) of INLX common, which includes 29,729 shares of common stock underlying warrants issued and a principal amount of $23,684 in 12% 2019 bridge notes outstanding at April 13, 2020. Robert Schroeder, Vice President of Investment Banking at Taglich Brothers, Inc. and Chairman of Intellinetics Inc., owns or has a controlling interest in 67,425 shares (the number of shares beneficially owned) of INLX common, which includes 26,827 shares of common stock underlying warrants issued. Doug Hailey, Director of Investment Banking at Taglich Brothers, Inc., owns or has a controlling interest in 5,211 shares of INLX common stock and 6,640 warrants. Richard Oh, Managing Director of Taglich Brothers, Inc., owns or has a controlling interest in 6,000 shares warrants. Taglich Brothers, Inc., owns or has a controlling interest in 707 shares of common stock and 225 warrants. Other employees at Taglich Brothers, Inc. also own or have controlling interests in 943 shares of INLX that may be acquired upon the exercise of warrants. Taglich Brothers, Inc. had an investment banking relationship with the company mentioned in this report. In March 2013, Taglich Brothers, Inc. served as the placement agent for a common stock offering. In 2014, the company retained Taglich Brothers, Inc. as a placement agent for the sale of convertible notes the transaction. In November and December 2016, and January 2017, Taglich Brothers Inc. served as the placement agent in the sale of 12% convertible notes for the company. In September and November 2017 and September 2018, Taglich Brothers, Inc. served as the placement agent in the sale of 8% convertible notes for the company. In March 2020, Taglich Brothers acted as the placement agent for the sale of common stock and bridge notes for INLX.

All research issued by Taglich Brothers, Inc. is based on public information. In January 2018, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In June 2018, the company began paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports.

General Disclosures

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Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Intel Corporation	(NASDAQ: INTC)	Iron Mountain Incorporated	(NYSE: IRM)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Discontinued – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.