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January 14, 2021

# **INFINITE GROUP, INC.**

## **(OTC – IMCI)**

**Industry: Cybersecurity**

**Price Target: \$0.65**

# INFINITE GROUP, INC.

## Undervalued Cyber Play Set for Major Gains and Aggressive M&A in 2021

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### INFINITE GROUP, INC. (OTC – IMCI - \$0.1029)

Industry: Cybersecurity

3-6 Month Price Target: \$0.65

#### COMPANY SNAPSHOT

Headquartered in Rochester, NY with a workforce spanning across the United States, IGI works with organizations on all levels of Information Security and Cybersecurity. Through the Company's evolution from 1986 to today, IGI has continued to build on its strong foundation of securing data, systems, and technologies to become a leader in the cybersecurity field.

#### KEY STATISTICS

Price as of 1/13/21	\$0.1029
52 Week High – Low	\$0.28- \$0.0251
Est. Shares Outstanding	29.1M
Market Capitalization	\$3.0M
Average Volume	5,180
Exchange	OTCPK

#### COMPANY INFORMATION

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#### INVESTMENT HIGHLIGHTS

**After years of remaining under the radar, IMCI is poised to emerge as one of the cybersecurity industry's fastest growing companies.** IMCI boasts a core recurring revenue stream from services and a cutting-edge SaaS platform.

**A profitable company, IMCI has commenced the first stage of its roll-up strategy with an objective of consolidating its fragmented segment over the next few years.** We believe the first acquisition could come in 1H21 and revenue could reach the \$35-45M mark by the end of 2022, up from an estimated \$7.1M in 2020.

**The Company benefits greatly from current customers' needs to protect data and vulnerabilities from digital attacks, an industry slated to generate \$289B in business in 2026.** High profile breaches and broad SME vulnerabilities serve as key drivers of demand.

**Even without M&A, IMCI is poised to generate enviable top-line growth.** We forecast revenue could grow from an estimated \$7.1M in 2020 to \$12.3M in 2022, with operating income of roughly \$1.5M.

**Our 3-6-month target is \$0.65 and we envision seeing a price north of \$1.00 later in the year, aided by M&A.** Even at \$0.65, IMCI trades at a significant discount to its peer group, and we believe this spread will narrow substantially as M&A is executed. Given its long history and undervalued status, we believe IMCI may offer the greatest upside of any company in the space.

## COMPANY OVERVIEW

### *The View from 30,000 Feet*

Tracing its roots to 1986, **Infinite Group, Inc. (OTC – IMCI)** is a well-regarded cybersecurity company that has built recurring revenue for its information security-driven professional services and SaaS-based platforms. Historically a profitable cybersecurity firm, IMCI has a strong, diverse channel structure and a core of SMB to mid-sized enterprise customers. While it has built these long-term relationships with key clients and partners, the Company has elected to stay under the radar---until now.

Management has launched two key initiatives primed to drive revenue forward from an estimated \$7.1 million in 2020 toward the \$35-45 million mark by the end of 2022.

In the first initiative, IMCI is filling an unmet need by productizing its suite of cybersecurity services and broadly deploying its flagship, patent-pending SaaS-based platform *Nodeware*<sup>®</sup>. This cutting-edge, affordable, and scalable platform offers Vulnerability Management and Asset Discovery features for customers of all sizes.

In the second initiative, IMCI leadership has commenced an aggressive roll-up strategy to rapidly grow its customer base and gain exposure to varied segments of the cyber market. Given the fragmented nature of the industry dominated by sub-\$50M in revenue private firms seeking liquidity, IMCI's targets are ripe for acquisition. We expect that an acquisition of a firm in the \$3+ million in sales level could close in the first half of 2021, with the potential of additional M&A transactions later this year and in 2022.

### *The Market*

Cybersecurity is the practice of protecting data, systems, networks, and programs from digital attacks. These cyberattacks are typically aimed at accessing, changing, or destroying sensitive information; extorting money from users; or interrupting normal business processes. The global cybersecurity software market is projected to reach \$289 billion by 2026 and a key sub-segment of the industry in which IMCI specializes, Vulnerability Management, is estimated to reach \$13.7 billion in 2026.

Given the frequency of high-profile cyber attacks, this sector is one of the most important industries and one whereby business leaders and business owners realize they must continually fund. The Company's primary target market, SMEs, are particularly vulnerable. It is estimated that 61% of breach victims were small businesses in 2019 – up from 55% in 2018. Perhaps this is reflected by the lack of in-house expertise and difficulty with implementing new regulatory compliance issues and handling complexities such as mobile (WFH) employees. As a result, IMCI is uniquely positioned to aid these customers in providing such diverse services that include a role as virtual Chief Information Security Officer (vCISO).

### *Forecasts*

We forecast total sales of \$7.1 million and EPS of \$0.05 for the full year 2020, dominated by \$4.9 million in revenue related to its core information security-based managed services business, with the balance generated by the cybersecurity services and products categories. Even without M&A, IMCI is poised to have a huge 2021. Our model projects enviable revenue growth of 32%, with sales reaching the \$9.4 million mark, and growth led

by cyber service and product revenue, versus managed services. The evolution of the revenue mix toward cyber also favorably impacts gross and operating profitability. These estimates indicate IMCI can achieve gross margin and operating margin in excess of 49% and 9%, respectively. If IMCI can achieve this forecast, the Company would record operating profit of nearly \$1 million for the year!

For 2022, our pro formas suggest revenue of \$12.3 million, a jump of around 31%. Once again, we project margin expansion to the tune of 53.5% and 16.9% for gross and operating margin. As with 2021, sales and marketing expenses are staged higher and reflect investment in the cyber arena. EPS of \$0.05, or \$1.59 million.

### *Roll-Up Impact*

Management has already identified targets, lending confidence that IMCI may close a deal sometime in the first half of the year. Our operating forecasts above reflect organic growth only while we assigned a rise in shares outstanding in our model to represent fundraisings for the roll-ups. We will adjust the figures accordingly as deals are closed. At this stage, we project that in 2021, IMCI will raise around \$3 million and close at least one acquisition in the \$3 - \$10 million range. Looking ahead, we would not be surprised to see more than one deal close in 2022. As a result, we envision IMCI approaching \$35-45 million as it exits 2022.

Moreover, the gains from executing the acquisition of private companies and folding them into the public vehicle should dramatically increase IMCI's valuation metrics and thus its overall valuation. For example, instead of the projected price/sales metric of 2x used to calculate our current near-term price target, IMCI's valuation should earn a boost to the 3.0x-5.0x mark. A back-of-the-envelope calculation suggests that for every \$5 million in revenue added, IMCI should enjoy an increase of \$15 - \$25 million within 6-12 months of closing, depending upon the target and associated financials.

### *Ridiculously Low Price and Valuation Set to Soar*

As illustrated by the peer group median valuations in Table III, IMCI trades at a ridiculously heavy discount to the group. We attribute this inaccurate discount to IMCI's "quiet period" and subsequent lack of investor awareness, from which it is now emerging. **Even without accounting for M&A, and assuming that a meaningful discount could still be assessed, our 3-6 month price target of \$0.65 suggests a price/revenue multiple of a mere 2x our 2021E forecast. Considering that the current market cap is \$2.5 million and sales for 2021 are projected to be \$7.1 million, substantial room to move higher exists. Plus, as growth is achieved, along with M&A, investor awareness should occur and could quickly take the stock to well beyond the \$1.00 mark this year, which would still reflect a major discount to the median price/revenue multiple of the peer group.**

## **CYBERSECURITY: A PRIMER**

Cybersecurity is the practice of protecting data, systems, networks, and programs from digital attacks. These cyberattacks are typically aimed at accessing, changing, or destroying sensitive information; extorting money from users; or interrupting normal business processes. Implementing effective cybersecurity measures is particularly challenging today because there are more devices than people, and attackers are becoming more innovative and global in nature.

A successful cybersecurity approach has multiple layers of protection spread across the landscape of computers, networks, programs, or data that one intends to keep safe. In an organization, the people, processes, and technology must all complement one another to create an effective defense from cyber attacks. Technology is essential to giving organizations and individuals the computer security tools needed to protect themselves from cyber attacks. Three main entities must be protected: endpoint devices like computers, smart devices, and routers; networks; and the cloud.

*One of Tech’s Most Important Sectors*

Extensive digitization across enterprises has made all organizations vulnerable to cyber threats and information breaches, prompting substantial investment in cybersecurity solutions. Recent breaches (or hacks) at major firms such as **SolarWinds (NASDAQ – SLW)** and **FireEye (NASDAQ – FEYE)** have shed light on the vulnerability of critical government agencies as well as businesses of all sizes. It is no surprise then that the demand for cybersecurity services and SaaS platforms are at an all-time high.

The global cybersecurity software market is projected to reach \$289 billion by 2026 and a key sub-segment of the industry, Vulnerability Management, is estimated to reach \$13.7 billion in 2026. Considering that the U.S. represents roughly one-third of the entire cybersecurity market, both the demand and need for effective solutions across all organizations and segments have made such offerings one of the most important sectors today.



*Image 1: Cybersecurity Market*  
Source: Fortune Business Insights



When one drills these figures down further, the numbers speak for themselves.

- Cyber-crime damage costs to hit \$6 trillion annually by 2021
- Unpatched vulnerabilities are the source of 60% of data breaches
- Security infrastructure is the 4th highest revenue generating solution in the channel
- 50% of small to mid-sized businesses have experienced a cyber-attack
- Cost of data breach averages \$3.8 million

Focused and targeted attacks have boosted demand for Managed Security Services (MSS), such as those offered by IMCI. MSS are increasingly required as part of key security frameworks as the need for 3rd party perspective through Virtual Chief Information Security Officers (vCISO) to manage outcomes increases. As the WFH numbers rise, the increase in the use of Mobile and IoT Devices requires policies, procedures, and management to ensure remote security and data integrity. Separately, the shortage of in-house cyber-resources and pressure to adopt new technologies drive demand to partner with MSS and vCISO providers.

#### *Sample Threats (Some are combined)*

**Phishing:** The most common form of a cyber attack, phishing is the practice of sending fraudulent emails that resemble emails from reputable sources. The aim is to steal sensitive data like credit card numbers and login information.

**Ransomware:** Ransomware is a type of malicious software designed to extort money by blocking access to files or the computer system until the ransom is paid.

**Social Engineering:** Social engineering is a tactic that adversaries use to trick you into revealing sensitive information and is often used in conjunction with malware or other methods.

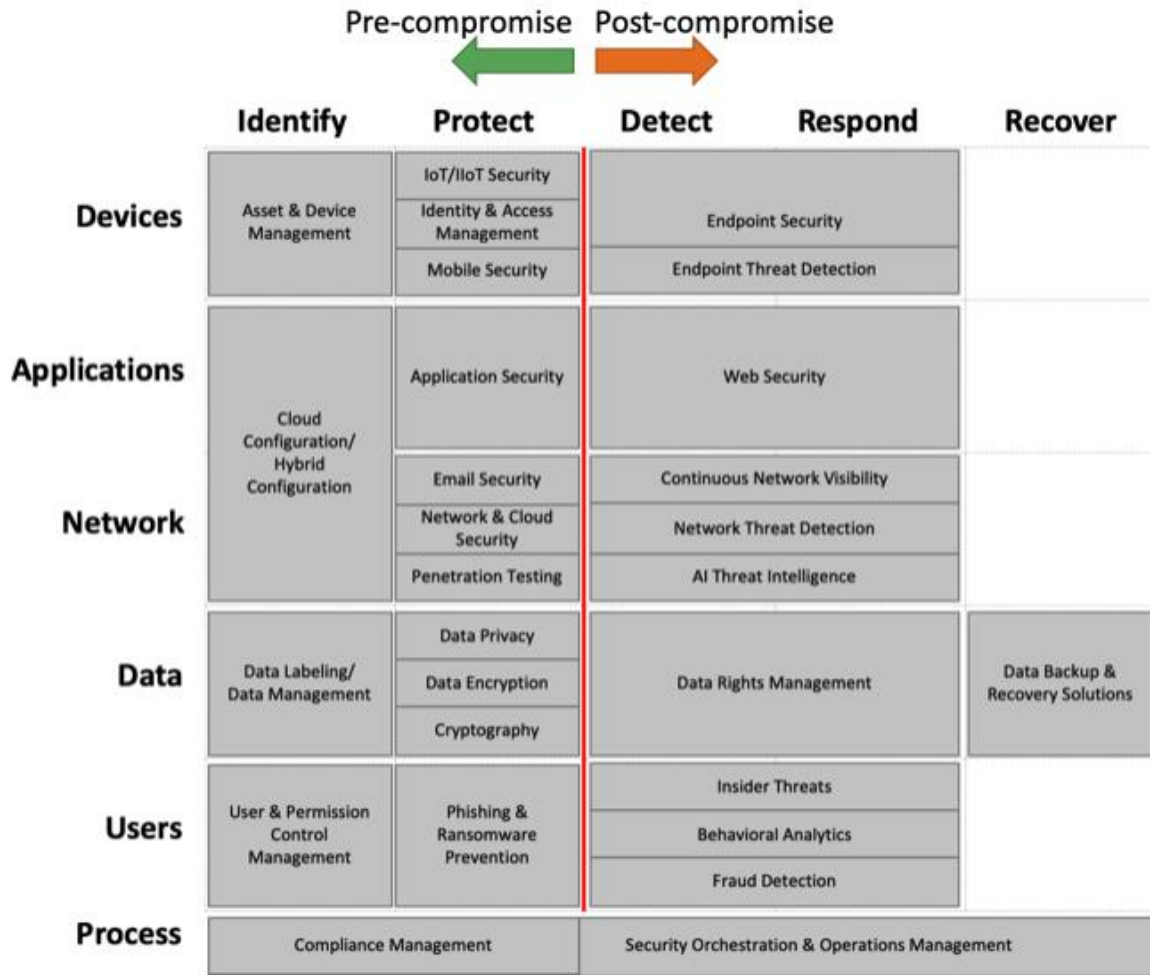
**Cloud Vulnerability:** Threats to the cloud include infiltration to access sensitive data through hacking, insider theft, and can include denial of service attacks (DOS) and/or distributed denial of service attacks (DDOS).

#### *Lay of the Land*

Rather than provide a history of the industry and a list of the leaders, we have elected to illustrate the types of outsourced firms and solutions that operate in this space on behalf of corporations, governments, and SMEs. To that end, we are focused on IMCI's core solutions and its competitors, rather than unrelated segments such as network security, endpoint security, etc. The Company's managed information security services business, which currently represents the largest category of IMCI's business, is in the "Process" segment in the diagram below and competes with **Tenable (NASDAQ – TNB)**, **CrowdStrike (NASDAQ – CRWD)** and **FireEye (NASDAQ – FEYE)**.

Other cybersecurity professional services fall across the segments outlined below in a variety of ways that enable IMCI to support both pre- and post-compromise engagements. *Nodeware*<sup>®</sup> and other Vulnerability Management tends to fall into the Devices, Applications, and Network categories enabling firms to understand their pre-compromise infrastructure and vectors of exposure. Firms in the Vulnerability Management segment include **Rapid7 (NASDAQ – RPD)**, **Qualys (NASDAQ – QLYS)**, and others. These competitors and their valuations

can be found on Table II, later in this report. As outlined in the next section, we believe that IMCI offers a number of competitive advantages over these other, larger players. Advantages such as pricing, SME channel focus, consultative approach, vendor agnosticism, SaaS approach, 24x7 support are key in garnering market share.



Adapted From: Understanding the Cyber Security Vendor Landscape by Sounil Yu

Image 2: Cybersecurity Diagram  
 Source: Sounil Yu

## THE INFINITE DIFFERENCE

### *Quiet Cyber Firm Set to Roar*

Tracing its roots to 1986, Infinite Group, Inc. is a well-regarded cybersecurity company that has built recurring revenue for its information security-driven professional services and SaaS-based platforms. Historically a profitable cybersecurity firm, IMCI has a strong, diverse channel structure and a core of SMB to mid-sized enterprise customers. As evidenced by Nodeware's performance, IMCI develops cybersecurity solutions that address customers' technology and financial needs and fill technology gaps while driving recurring revenue which can raise multiples and value to the Company.

With new initiatives in place, including the commencement of an aggressive mid-market roll-up, this quiet New York-based firm is poised to be very active with a meaningful jump in awareness by new customers and investors alike. IMCI's offerings help manage and control risk with its unique combination of software development and cybersecurity managed services.

IMCI has decades of experience in the cyber arena and has developed a recognizable brand and pedigree and boasts an enviable channel approach, which has served as a feeder for business and can be leveraged further with the migration toward productizing services and offering a disruptive, cutting-edge SaaS platform.

**Master Agency:** Telarus, the largest telecom master agent in North America. Telarus offers access to over 5,000 agents across North America with access to 25,000+ customers.

**Distribution:** SYNEX is a \$20B distribution firm that represents over 5,500 and 25,000 MSSPs and MSPs in North America

**B2B:** Staples, \$16B office supply and technology firm emphasizing its tech services to SMEs, provides IMCI with access to over 75,000 companies through direct-to-business segment.

**Direct Sales:** Leveraging its vendor agnosticism with complementary products and services, IMCI continues to recruit and build its channel partners, including MSPs, VARs, etc.

### *Why IMCI is Successful*

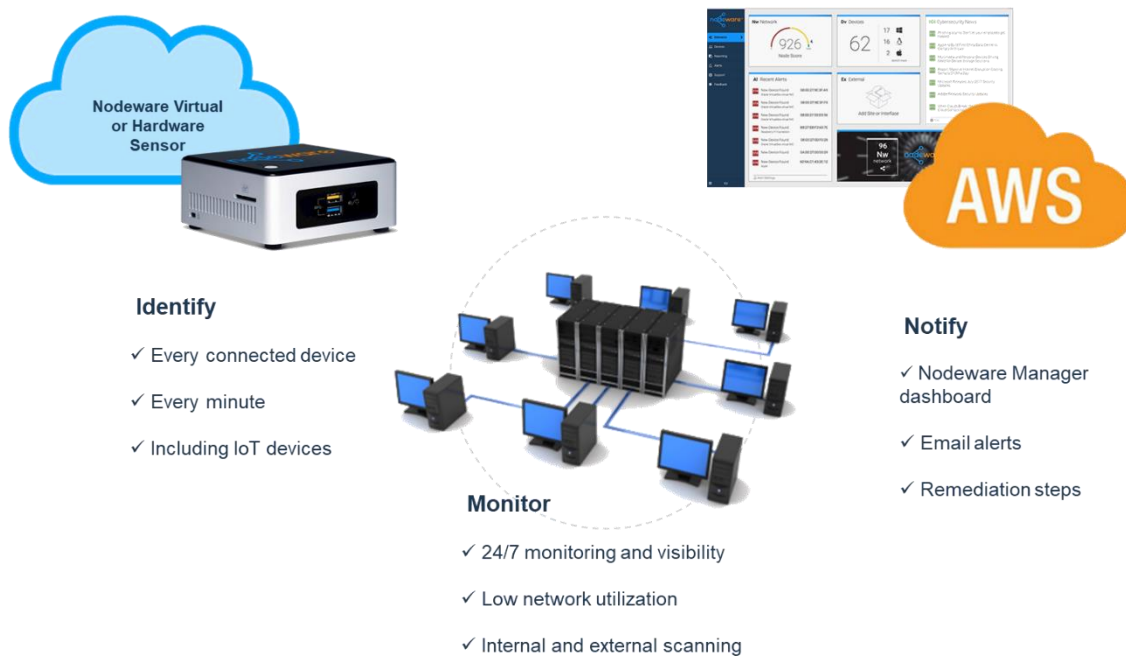
IMCI's decades of experience and comprehensive solutions enable the Company to handle all types of cyber engagements across industry sectors. Its consultative approach has proven to shorten sales cycle and helps create deep, long-term relationships with partners and customers. Moreover, through productization, IMCI has transformed complex services and platforms into easy to use, affordable, effective solutions. In our view, this achievement is one of the key differentiators between IMCI and many of its competitors and serves as a driver in winning new business.

With its strength in Vulnerability Management and Asset Discovery, IMCI has a history of helping customers recover from significant cyber incidents. The Company's broad capabilities have not gone unnoticed as IMCI has won awards for its cybersecurity solutions and solutions for more than 20 years. These include core cybersecurity services including incident response, compliance, risk assessment, and vCISO. In fact, IMCI achieved 100%



engagement renewal for vCISO services during 2020, despite the COVID-19 pandemic. Separately, its role as the cybersecurity overlay to firms providing complementary services is a competitive advantage. Such collaboration leads to a strengthening of the joint relationship without any fear of replacing existing organizational resources.

## Revolutionary Vulnerability Monitoring & Management



*Image 3: Nodeware® Functionality*  
 Source: Infinite Group, Inc.

Going forward, IMCI is leveraging the success of its *Nodeware®* platform, which has patents pending. To date, *Nodeware®* boasts:



- 160,000,000+ worldwide inventory scans
- 60,000,000+ vulnerability scans
- 2,000,000+ critical vulnerabilities reported to users

*Nodeware®* is a cutting edge, purpose-built SaaS vulnerability management and asset discovery solution that identifies, monitors, and notifies customers via alerts. Importantly, this platform offers continuous fingerprinting, scanning, and reporting. Moreover, as a flexible, scalable SaaS offering, the pricing is designed to attract the SME and untapped SMB markets, which tend to be the most vulnerable and allow for future services upsell as well. As a result, IMCI can

sell it as a stand-alone or as part of a cyber services engagement and can be integrated with 3rd party security platforms to foster an even broader reach.

*Why IMCI Will Achieve Future Success*

- IMCI leverages its approach to products and services to further penetrate its channel partners and obtain new customers, especially in the SMB segment
- Options for fully-outsourced, managed services, or stand-alone offerings to all industries and sized companies
- IMCI supports companies to meet increasing compliance to regulations at the state, national, and international levels
- Customers seeking an industry leader, not current fragmented supplier situation
- Smaller providers ripe for consolidation
- Strength in Vulnerability Management SaaS can outperform competition as most are complex, expensive, not 24/7
- IMCI poised to acquire or consolidate firms in similar categories (vCISO, Vulnerability Management) or related areas such as Intrusion Detection in 2021/2022

Category	Example of IGI Offering/Asset	Competitor	IGI Key Differentiator(s)	IGI Result
Vulnerability Management	Nodeware	Tenable, Saint	Efficiency, ease of use, continuous scanning, cloud SaaS offering	Market adoption by untapped SMB market, Channel GTM
Cybersecurity Services Portfolio	Baseline Security Assessment or Penetration Testing	AT&T, GreyCastle	Fully managed vs only software license provided	Greater value leads to shorter sales cycle and higher margin
Managed Cybersecurity Services	vCISO & MDR programs	CrowdStrike, FireEye	Delivery team, approach, level of customer care, SME market focus, Channel	Recurring revenue, constant monitoring, long term relationships

*Image 4: IMCI vs Competition*

Source: Infinite Group, Inc.

As illustrated above, IMCI's solutions offer inherent advantages over leading players in the market, which help drive demand and revenue. By leveraging its hybrid position as both a cutting-edge cybersecurity SaaS platform OEM and a respected cybersecurity services provider with solid existing recurring revenue streams and projected revenue growth, IMCI offers a unique proposition to both prospective cyber company sellers as well as investors.

## **THE IMCI LEADERSHIP TEAM**

### **James Villa, Chief Executive Officer**

Jim serves as Chief Executive Officer and is on the Board of Directors of IGI. Jim has over 30 years of professional experience investing, raising capital, and consulting with a variety of public and privately held organizations.

### **Andrew Hoyen, President and Chief Operating Officer**

Andrew serves as President & COO and is on the Board of Directors of IGI. He brings over 25 years of experience from a variety of executive roles at Fortune 100 companies like Eastman Kodak, Carestream, and Toyota.

### **Rich Glickman, Vice-President, Finance and Chief Accounting Officer**

Rich's background in finance and accounting spans over 30 years at various private and publicly held companies. His primary responsibilities include accounting, financial reporting, financial analyses, and various special projects.

### **Chad Walter, Vice-President, Sales and Marketing**

Chad brings over 25 years of leadership in cybersecurity sales, marketing, and business development to his role at IGI. His vast knowledge of all the areas related to technology and cybersecurity provide the leadership necessary to drive outcomes.

### **Tyler Ward, Vice-President, Cybersecurity**

Tyler brings over 12 years of cybersecurity background from a technical perspective where he honed his craft in the military (USAF), government agencies, and private sector. Tyler is responsible for IGI's technical and implementation teams that support our security business.

### **Rich Popper, Vice-President, Business Development**

Rich brings over 30 years of experience in technology in executive roles that encompass business & channel development, operations, M&A and software product management.

## FINANCIALS SNAPSHOT

For the past few years, IMCI has elected to stay under the radar while it built long term relationships with key clients and partners, along with a recurring revenue model for its SaaS-based software platforms, such as *Nodeware®* along with case studies of its platform. While 2020 results will still reflect this status, it is clear that the Company will be a markedly different company in 2021 and beyond.

### 2020 Financials

For the first 9 months of 2020, IMCI recorded \$5.4 million with a gross profit margin of 40.7%, and modest operating profit of around \$29,000. Due to items below the operating line, IMCI reported a loss of around **(\$187,000)**, or **(\$0.01)** per share. It should be noted that the Company's balance sheet included roughly \$2 million in Non-Current Liabilities. However, we believe this figure will improve substantially, due to the forgiveness of a PPP loan during 4Q20 in the amount of around \$960,000. As a result, IMCI headed into 2021 in decent shape from the balance sheet perspective.

Operationally, we forecast total sales of \$7.1 million for the full year 2020, dominated by \$4.9 million in revenue related to its core information security-based managed services business, with the balance generated by the cybersecurity services and products categories. Gross profit margin of 42% and essentially break-even status on an operating basis are also projected. Aided by the forgiveness of the PPP, we believe IMCI could end the year with net profit of \$698,000, or \$0.05 per share in earnings.

**Table I. Infinite Group, Inc.  
 Segment Revenue Forecast  
 (\$, 000)**

	<u>FY20E</u>	<u>FY21E</u>	<u>FY22E</u>
Managed Services	\$4,900	\$4,900	\$4,900
Cybersecurity Services	\$2,100	\$3,900	\$5,200
Cybersecurity Software	\$100	\$600	\$2,200
<b>Total Revenue</b>	<b>\$7,100</b>	<b>\$9,400</b>	<b>\$12,300</b>

Sources: IMCI and Goldman Small Cap Research

### 2021: Major Change Begins

As illustrated in Table I, 2021 is the start of major top-line growth for the Company on both an organic and inorganic basis. At present, our forecasts reflect organic revenue ONLY; however, once acquisition(s) close we will adjust our estimates accordingly.

For 2021, we project enviable revenue growth of 32%, with sales reaching the \$9.4 million mark, and growth led by cyber service and product revenue. IMCI is unique in the sub-\$100 million in revenue segment in that it can

benefit from recurring managed services revenue to aid cash flow and enable the Company to leverage resources to promote and expand its cyber portfolio with new and existing customers. The evolution of the revenue mix toward cyber also favorably impacts gross and operating profitability. Our 2021 estimates indicate IMCI can achieve gross margin and operating margin in excess of 49% and 9%, respectively. If IMCI can achieve this forecast, the Company would record operating profit of nearly \$1 million for the year! Against this backdrop, we project EPS of \$0.02 for 2021 as well. It should be noted that the increase in shares outstanding reflects a small funding for acquisitions. Given that it would be driven by operations versus items below the operating line in 2020, it should be awarded a substantial increase in valuation.

For 2022, our pro formas suggest revenue of \$12.3 million, a jump of around 31%. Once again, we project margin expansion to the tune of 53.5% and 16.9% for gross and operating margin. As with 2021, sales and marketing expenses are staged higher and reflect investment in the cyber arena. EPS of \$0.05, or \$1.59 million, include a low 15% tax rate and once again a share count increase to reflect another raise to aid in the aggressive M&A roll-up strategy.

#### *The Roll-Up*

As noted above, given the fragmented nature of the industry dominated by sub-\$50M in revenue private firms seeking liquidity, IMCI's targets are ripe for acquisition. Our operating forecasts reflect organic growth only while we assigned a rise in shares outstanding to represent fundraisings for the roll-ups. We will adjust the figures accordingly as deals are closed. At this stage, we project that in 2021, IMCI will raise around \$3 million and close at least one acquisition in the \$3 - \$10 million range. Looking ahead, we would not be surprised to see more than one deal close in 2022. As a result, we envision IMCI approaching \$35-45 million as it exits 2022. The gains from executing private companies and folding them into the public vehicle should dramatically increase IMCI's overall valuation. A back-of-the-envelope metric suggests that for every \$5 million in revenue added, IMCI should enjoy an increase of \$15 - \$25 million within 6-12 months of closing, depending upon the target and associated financials.

#### *The Valuation*

Tables II and III below represent two peer groups in the cybersecurity industry. Table II reflects Growth, or the top tier in the space. IMCI does compete directly to a degree and tangentially with this group. Since the size of these firms is so much greater than IMCI it is not appropriate to assign a similar price/sales metric to IMCI. Still, given the status of the firms as they relate to the Company, we felt it was necessary to illustrate. Moreover, we believe that IMCI could break into this group in the next 5 years if its aggressive roll-up strategy hits on all cylinders.



**Table II. IMCI Publicly-Traded Peer Group (Growth)**

Company Name	Symbol	Price (1/13/21)	Mkt Cap (mil)	FY20E Revs (mil)	FY21E Revs (mil)	20E - 21E Revs Growth	2020E Price/Revs	2021E Price/Revs
CrowdStrike	CRWD	\$233.40	\$52,247	\$859	\$1,210	40.9%	60.8	43.2
CyberArk	CYBR	\$159.60	\$6,345	\$448	\$484	8.0%	14.2	13.1
Fireeye	FEYE	\$23.37	\$5,408	\$933	\$987	5.8%	5.8	5.5
Palo Alto	PANW	\$366.02	\$35,738	\$4,120	\$4,850	17.7%	8.7	7.4
Qualys	QLYS	\$121.47	\$4,755	\$363	\$408	12.4%	13.1	11.7
Rapid7	RPD	\$89.24	\$4,674	\$407	\$484	18.9%	11.5	9.7
Tenable	TENB	\$55.11	\$5,700	\$437	\$519	18.8%	13.0	11.0
<b>Average</b>			<b>\$16,410</b>	<b>\$1,081</b>	<b>\$1,277</b>	<b>17%</b>		
<b>Median</b>							<b>13.0</b>	<b>11.0</b>

Sources: www.Yahoo!Finance.com, Company websites, Goldman Small Cap Research

Table III, the Emerging Growth peer group, reflects companies in a similar size to IMCI although they do not compete directly with the Company. Interestingly, IMCI competes more directly with private firms of a similar size which is why this group's members are peers in size, rather than competing businesses. As evidenced by the median valuation of this group as compared with IMCI, the Company trades at a substantial discount. We attribute this inaccurate discount to a lack of investor awareness of IMCI at this time. **Even without accounting for M&A, and assuming that a meaningful discount could still be assessed, our 3–6 month price target of \$0.65 suggests a price/revenue multiple of a mere 2x our 2021E forecast. Clearly, as growth is achieved, along with M&A, investor awareness should occur and could quickly take the stock to well beyond the \$1.00 mark, which would still reflect a major discount to the median price/revenue multiple.**

**Table III. IMCI Publicly-Traded Peer Group (Emerging Growth)**

Company Name	Symbol	Price (1/13/21)	Mkt Cap (mil)	FY20E Revs (mil)	FY21E Revs (mil)	20E - 21E Revs Growth	2020E Price/Revs	2021E Price/Revs
Data443	ATDS	\$0.01	\$5	\$2	\$4.5	125.0%	2.5	1.1
Cipherloc	CLOK	\$0.26	\$7	\$0.0	\$1	2400.0%	180.0	7.2
Ipsidy	IDTY	\$0.19	\$106	\$2	\$5	150.0%	53.0	21.2
Ping	PING	\$29.71	\$2,446	\$249	\$289	16.1%	9.8	8.5
Tufin	TUFN	\$14.68	\$566	\$97	\$109	12.4%	5.8	5.2
<b>Average</b>			<b>\$626</b>	<b>\$70</b>	<b>\$82</b>	<b>541%</b>		
<b>Median</b>							<b>9.8</b>	<b>7.2</b>
				<b>FY20E</b>	<b>FY21E</b>		<b>FY20E</b>	<b>FY21E</b>
IMCI: Today		\$0.10	\$3					
<b>IMCI: 3-6 Mo Tgt</b>		<b>\$0.65</b>	<b>\$19</b>	\$7.1	\$9.4	32%		<b>2.0</b>

Sources: www.Yahoo!Finance.com, OTC Markets, Company websites, Goldman Small Cap Research

## RISK FACTORS

In our view, the Company's biggest risks are related to prospective acquisition(s). These risks include identification and closing timing, pricing, and successful integration, along with cross-sales leverage. Secondary risks include potential access to capital to fund acquisitions and related working capital. Separately, a slower than expected cybersecurity product sales ramp may impair IMCI in achieving its sales objectives due to industry competition. Competitive risks include lower pricing, more effective sales/marketing, or greater efficacy.

The aforementioned risks could come from larger competitors, existing firms, or new entrants. Still, these future concerns are consistent with firms of IMCI's size and standing. Nonetheless, we believe that IMCI's seasoned management team is prepared to overcome these hurdles and generate significant top-line growth in key categories, along with success on the M&A front.

Volatility and liquidity are typical concerns for microcap stocks that trade on the over the counter (OTC) stock market. Although the number of shares outstanding has been little changed in recent quarters, it is also possible that the share count could increase due to future fundraises to expand the Company's business and reach on an organic and inorganic basis. However, an overriding financial benefit as a public company is the favorable access to and the availability of capital to fund product launches, consistent marketing campaigns and other initiatives. Since the proceeds of any future funding would be used in large part to advance major business development and sales, we believe that any dilutive effect from such a funding could be offset by related increases in market value.

## CONCLUSION

After years of remaining under the radar, IMCI is poised to emerge as one of the cybersecurity industry's fastest growing companies. IMCI boasts a core recurring revenue stream from services and a cutting-edge SaaS platform. A profitable company, IMCI has commenced the first stage of its roll-up strategy with an objective of consolidating its fragmented segment over the next few years. We believe the first acquisition could come in 1H21 and revenue could reach the \$35-45M mark by the end of 2022, up from an estimated \$7.1M in 2020.

The Company benefits greatly from current and customers' needs to protect data and vulnerabilities from digital attacks, an industry slated to generate \$289B in business in 2026. High profile breaches and broad SME vulnerabilities serve as key drivers of demand. Even without M&A, IMCI is poised to generate enviable top-line growth. We forecast revenue could grow from an estimated \$7.1M in 2020 to \$12.3M in 2022, with operating income of roughly \$1.5M.

Our 3-6-month target is \$0.65 and we envision seeing a price north of \$1.00 later in the year, aided by M&A. Even at \$0.65, IMCI trades at a significant discount to its peer group, and we believe this spread will narrow substantially as M&A is executed. Given its long history and undervalued status, we believe IMCI may offer the greatest upside of any company in the space.

**Table IV. Infinite Group, Inc.**  
Pro Forma Income Statement  
(\$,000)

	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
<b>TOTAL REVENUE</b>	<b>\$7,100</b>	<b>\$9,400</b>	<b>\$12,300</b>
<b>Cost of Sales</b>	<b>\$4,118</b>	<b>\$4,747</b>	<b>\$5,720</b>
<b>Gross Profit</b>	<b>\$2,982</b>	<b>\$4,653</b>	<b>\$6,581</b>
<i>Gross Margin</i>	42.0%	49.5%	53.5%
General & Administrative	\$1,650	\$1,700	\$2,200
Selling Expenses	\$1,325	\$2,050	\$2,300
<b>Total Operating Expenses</b>	<b>\$2,975</b>	<b>\$3,750</b>	<b>\$4,500</b>
<b>Operating Income</b>	<b>\$7</b>	<b>\$903</b>	<b>\$2,081</b>
<i>Operating Income Margin</i>	<i>N/A</i>	9.6%	16.9%
Interest income	\$1	\$0	\$5
Interest expense:			
Related parties	(\$62)	(\$65)	(\$65)
Other	(\$215)	(\$150)	(\$150)
Total Interest expense	(\$276)	(\$215)	(\$215)
Other income	\$967	\$0	\$0
Total Other Income (Expense)	\$691	(\$215)	(\$210)
<b>Pre-Tax Income (Loss)</b>	<b>\$698</b>	<b>\$688</b>	<b>\$1,871</b>
Income Taxes	\$0	\$0	\$281
<i>Tax Rate</i>	<i>N/A</i>	<i>N/A</i>	15.0%
<b>Net Income</b>	<b>\$698</b>	<b>\$688</b>	<b>\$1,590</b>
<b>Diluted Earnings Per Share</b>	<b>\$0.02</b>	<b>\$0.02</b>	<b>\$0.05</b>
Wtd. Est. Shares Outstanding	29,062	31,000	34,000

Sources: IMCI, OTC Markets, and Goldman Small Cap Research

**Table V. Infinite Group, Inc.**

Balance Sheet: 9/30/20

(\$ USD, 000)

<b>Current Assets</b>	
Cash & Equivalents	\$207
Accts Rec, net of allowances	\$930
Prepaid exp and other curr assets	\$104
<b>Total Current Assets</b>	<b>\$1,241</b>
<b>Non-Current Assets</b>	
Right of use lease, net	\$140
Property and Equip, net	\$11
Software, net	\$322
Deposits	\$7
<b>Total Non Current Assets</b>	<b>\$480</b>
<b>TOTAL ASSETS</b>	<b>\$1,721</b>
<b>Current Liabilities</b>	
Accounts payable	\$269
Accrued payroll	\$508
Accrued interest payable	\$623
Accrued retirement	\$262
Deferred revenue	\$340
Accrued expenses-other	\$83
Operating lease liab-short term	\$79
Curr mat of LT obligations	\$695
Curr mat of LT obl-related parties	\$529
Notes payable	\$263
Notes payable-related parties	\$20
<b>Total Current Liabilities</b>	<b>\$3,671</b>
<b>Non-Current Liabilities</b>	
PPP	\$957
Other	\$658
Related parties	\$360
Operating lease liab-long term	\$63
<b>TOTAL LIABILITIES</b>	<b>\$5,710</b>
<b>SHAREHOLDER'S EQUITY</b>	
Common Stock	29
Add'l paid-in capital	30,744
Accumulated deficit	(\$34,762)
<b>TOTAL EQUITY</b>	<b>(\$3,989)</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$1,721</b>

Sources: IMCI and Goldman Small Cap Research



## RECENT TRADING HISTORY FOR IMCI

(Source: [www.BigCharts.com](http://www.BigCharts.com))



## SENIOR ANALYST: ROBERT GOLDMAN

Rob Goldman founded Goldman Small Cap Research in 2009 and has over 25 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

## ANALYST CERTIFICATION

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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