



INFINITE GROUP, INC.

Pending Deal Leads to Higher Valuation, Positioning, NASDAQ Uplisting

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INFINITE GROUP, INC. (OTCQB – IMCI - \$0.15)

Industry: Cybersecurity

Price Target: \$0.65

COMPANY SNAPSHOT

Headquartered in Pittsford, NY with a workforce spanning across the United States, IGI works with organizations on all levels of Information Security and Cybersecurity. IGI is also the OEM of the Nodeware® vulnerability management solution, an award-winning SaaS platform that continuously scans networks to identify critical vulnerabilities. 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. IMCI is set to close on the acquisition of cybersecurity competitor Pratum, Inc. during 2Q22.

KEY STATISTICS

Price as of 4/5/22	\$0.15
52 Week High – Low	\$0.3398- \$0.066
Est. Shares Outstanding	32.7M
Market Capitalization	\$4.9M
Average Volume	15,327
Exchange	OTCQB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

A recent IMCI filing provides greater insight into IMCI's pending equity offering and the upcoming closing of the Pratum acquisition. We believe this deal leads to an enhanced valuation and positioning for IMCI.

Pratum Acquisition to Add Revenue, Customers. In Iowa-based Pratum, a \$4.4M in sales cyber services player, IMCI is acquiring a complementary services suite provided to a large client base that represents a diverse set of industry clients, ripe for cross-sale opportunities. Pratum brings a Security Operations Center and monitoring software that enhances IGI's portfolio of offerings. We believe this deal could evolve into a Midwest hub for IMCI as it strengthens IMCI's limited Midwest sales exposure.

Equity Offering, Followed by Pratum Deal Closing. IMCI is set to raise up to \$15M in an equity offering with \$8.5M in proceeds to be paid to Pratum, representing a 1.9x price/sales valuation. The \$15M equity offering is expected to close in 2Q22, with the Pratum deal to close shortly thereafter.

Pro Forma Price Target Could Be Above \$1. For IMCI as a stand-alone, our \$0.65 target represents 2.9x 2021 sales, a huge discount to the 11.1x figure afforded IMCI's peer group for 2022. We believe that on a pro forma combined entity revenue basis, and depending upon the post-offering share count, the discount could narrow to 5x 2022E sales. Thus, a pro forma price target could exceed the \$1 mark.

More Milestones Ahead. Following the closings above, we foresee a 2022 NASDAQ uplist pathway and new M&A for IMCI serving as future price appreciation catalysts.

KEY POINTS

The Stand-Alone IMCI...

IMCI sells its cybersecurity software and services through channel partners, which include a growing list of direct channel partners, Telarus, TDSYNNEX, Ingram Micro, and Staples, and through their direct cybersecurity services teams. Cybersecurity services include Chief Information Security Team as a Service (CISOTaaS™), penetration testing services (PenLogic™), security assessments, incident response and others, and are provided through channel partners and direct to end customers. However, its crown jewel remains the patented SaaS-based vulnerability management solution *Nodeware® solution*, an award-winning SaaS platform that continuously scans networks to identify critical vulnerabilities. We have seen several new announcements that show how IMCI has made critical inroads with larger, nationally focused MSPs and integrators, which we see as a catalyst for rapid growth.

Nodeware continues to represent a rising contribution to the Company's cyber-specific services/solutions to overall revenue, with additional growth expected in 2022/2023. The growing deployment of the cutting-edge *Nodeware* platform targets small-medium sized businesses and enterprises, a market traditionally left alone by its Fortune 2000 focused competitors. This growth fosters greater focus on more profitable SaaS-based and other solutions for the Company going forward. Revenue for the year ending 2021 was \$7.2M, with gross margin of 37.8%, essentially in line with our forecasts. Given the heavy 2021 investment in senior sales and marketing personnel, we believe that 2022 will result in a meaningful rise in total revenue and gross margin expansion.

...Pending Pratum Acquisition Elevates IMCI's Standing and Opportunities

We believe the pending (likely 2Q22) Pratum, Inc. acquisition serves as a favorable complement to IMCI's overall business and opens the door for considerable cross-sale opportunities. Founded in 2008, Pratum is an information security services firm that helps guide organizations in IT risk management, and compliance. In order to best serve its clients, Pratum's services are delivered by customized and dedicated service teams.

Pratum provides cybersecurity consulting services, security audits and assessments, and SOC/XDR threat detection services, which are a strategic fit for IGI. Pratum also provides vCISO services, digital forensics, and complementary incident response infrastructure and consulting services. Importantly, Pratum serves an expansive client portfolio that includes clients nationwide and overseas, ranging from small businesses to multinational corporations across industries. Clients range from small businesses to multinational corporations, and span various industries including technology, manufacturing, healthcare, financial services, banking, utilities, government, retail, and education. Together, IMCI and Pratum can offer best-in-class software and services to a broad base of clients nationwide. IMCI can open up new channels for Pratum to fuel growth the subsidiary. Pratum generated \$4.4M in revenue for 2021 with gross margin of around 30%, given the greater concentration of service versus product revenue. Still, Pratum did record \$155K in operating income. Thus, the deal should prove to quickly be accretive for IMCI, once closed.

IMCI + Pratum = Enhanced Positioning, Improved Valuation

From the big picture perspective, the Pratum transaction represents the first of what we believe will be a series of transactions of cybersecurity firms that offer competitive advantages in products or marketing yet have not

reached scale. Moreover, this transaction should enable IMCI to leverage synergies, resulting in increased performance and cost efficiencies. Given its Midwest locale, it is logical to project that this deal is also strategic geographically, as Pratum offers business, revenue and future opportunity in the Midwest, which is not a big current regional source of business for IMCI

The terms of the definitive agreement between IMCI and Pratum call for a purchase price of \$8.5M, with \$500,000 deposited at closing with an escrow agent to be held in escrow for a period of six months. The transaction is expected to close shortly after the closing of a recently filed \$15M equity unit (one share, one warrant) offering by IMCI. Given the roughly 1.9x price/sales valuation for Pratum we view the \$8.5M purchase price as an attractive transaction for IMCI and its shareholders. It is expected that Pratum will keep its name and operate as a wholly owned subsidiary of IMCI. At present, we believe that the deal will close sometime in mid-2Q22.

In our view, the planned \$15M funding, coupled with the Pratum acquisition closing should lead to a substantial increase in valuation and set the stage for a pathway to a NASDAQ listing for IMCI, along with the potential for future transactions. As illustrated in the peer table below, the median price/sales multiple on current year revenue is 11.1x. Our current price target of \$0.65 reflects just IMCI proper---and represents a paltry 2.9x P/S multiple on just 2021 results, or a market value of around \$21M.

For 2022, we preliminary forecast pro forma revenue of \$13.9M, which reflects a 20% increase in sales from the full-year 2021 revenue for IMCI and Pratum. (Analyst Note: Since the deal would not be closed until later this quarter, IMCI would only be able to book 6+ months of Pratum revenue this year and 12 months in 2023.) Using the \$13.9M pro forma figure as a baseline, we believe that the valuation discount afforded IMCI would narrow from 2.8x to 5.0x, still a more than 50% drop from the valuation afforded the peer group. While it is difficult to project the price of IMCI for its offering, we believe that our pro forma price target could exceed the \$1 mark, thereby reflecting a normalized industry price/sales valuation.

Company Name	Symbol	Price (4/5/22)	Mkt Cap (mil)	FY22E Revs (mil)	FY23E Revs (mil)	22E - 23E Revs Growth	2022E Price/Revs	2023E Price/Revs
CrowdStrike	CRWD	\$219.96	\$50,760	\$2,150	\$2,910	35.3%	23.6	17.4
CyberArk	CYBR	\$173.35	\$6,494	\$590	\$713	20.8%	11.0	9.1
Palo Alto	PANW	\$621.14	\$61,173	\$5,460	\$6,660	22.0%	11.2	9.2
Qualys	QLYS	\$140.09	\$5,468	\$484	\$560	15.7%	11.3	9.8
Rapid7	RPD	\$111.74	\$6,490	\$641	\$834	30.1%	10.1	7.8
Tenable	TENB	\$57.86	\$6,352	\$668	\$802	20.1%	9.5	7.9
Average			\$22,790	\$1,666	\$2,080	24%		
Median							11.1	9.1

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

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*.

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