



# Intrusion, Inc.

*Q3 about inline. New products and strong growth over the next year for its cybersecurity solutions should drive stock. Raising P/T to \$6.50.*

## COMPANY UPDATE

**Rating: BUY**

Ticker: INTZ

Price: \$3.19

Target: \$6.50  
(from \$6.25)

**Q3 about inline:** Intrusion recently (on November 3) reported its fiscal Q3 2022 (ending September) results. Revenue was \$2.2 million (+21% y-o-y), compared to our estimates of \$2.2 million and consensus of \$2.4 million. EPS was \$(0.15), compared to our estimate of \$(0.19) and consensus of \$(0.20). There was no Q3 guidance.

**Continued Shield growth:** The company's flagship Shield product revenue increased 70% y-o-y and represented ~15% of total revenue in Q3.

**No guidance:** The company again declined to provide 2022 guidance.

**Slightly adjusting estimates:** We are maintaining our 2022 revenue estimates of \$8.4 million, but raising it for EPS to \$(0.74) from \$(0.80).

**New products:** In September, the company launched its new Shield cloud product and end-point solution.

**Focused on cybersecurity:** Intrusion offers businesses of all sizes and industries products and services that leverage across its exclusive threat intelligence database which contains the historical data, known associations, and reputational behavior of over 8.5 billion IP addresses. The company believes it has the largest existing repository of reputation information on known good and bad active IP addresses.

**INTRUSION Shield:** The company's flagship product is INTRUSION Shield which is designed to allow businesses to incorporate a Zero Trust, reputation-based security solution into their existing computing infrastructure. INTRUSION Shield observes traffic flow and instantly blocks known malicious or unknown connections from both entering or exiting a network, making it an ideal solution for protecting against Zero-Day and ransomware attacks.

**Large market potential:** There has been an increasing number of high profile and destructive cyberattacks that have caused significant business disruption and billions of dollars in losses. The rise of cloud computing, workforce and people mobility, and growth in connected devices has created a rapid expansion of endpoints that can be used to access a corporate computer network and system. Attacks such as the May 2021 Colonial Pipeline ransomware cyberattack have shown that destroying or locking data on an enterprise's computer network can cause widespread business and economic disruption even outside of the hacked company.

**Balance sheet:** In Q3, the company had \$7 million in cash and \$10 million in debt. In September (Q3), the company raised \$6 million in stock (1.4 million shares at \$4.29/share). The company plans to raise an additional ~\$10 – 15 million in 2022/23.

**Positive high risks versus rewards:** Overall, concerns outweighed by growth prospects and valuation. We believe the demand for Intrusion's cybersecurity products will grow fueled by continued strong industry growth and increased enterprise demand for cybersecurity products.

**Valuation attractive:** We are maintaining our BUY rating, but raising our 12-month price target to \$6.50 from \$6.25, based on a NPV analysis, representing significant upside from the current share price. We believe this valuation appropriately balances out the company's risks with the company's high growth prospects and large upside opportunities.

### Company Description

Intrusion, based in Plano, TX, is a cybersecurity company protecting companies by leveraging advanced threat intelligence with real-time artificial intelligence to kill cyberattacks as they occur.

United States  
Technology

November 19, 2022

Edward Woo, CFA  
(561) 327-9435  
ewoo@ascendant.com

### Stock Data

Exchange:	NasdaqCM
52-week Range:	1.74 – 5.77
Shares Outstanding (million):	21
Market cap (\$million):	\$67
EV (\$million):	\$70
Debt (\$million):	\$10
Cash (\$million):	\$7
Avg. Daily Trading Vol. (\$million):	\$0.3
Float (million shares):	12
Short Interest (million shares):	0.3
Dividend, annual (yield):	\$0 (NA%)

### Revenues (US\$ million)

	<u>2022E</u> (Cur.)	<u>2022E</u> (Old)	<u>2023E</u> (Cur.)	<u>2023E</u> (Old)
Q1 Mar	1.8A		2.9E	
Q2 Jun	2.1A		3.2E	
Q3 Sep	2.2A	2.2E	3.3E	
Q4 Dec	<u>2.3E</u>		<u>3.7E</u>	
Total	<b>8.4E</b>		<b>13.0E</b>	
EV/Revs	8x		5x	

### Earnings per Share (pro forma)

	<u>2022E</u> (Cur.)	<u>2022E</u> (Old)	<u>2023E</u> (Cur.)	<u>2023E</u> (Old)
Q1 Mar	(0.21)A		(0.15)E	(0.17)E
Q2 Jun	(0.21)A		(0.13)E	(0.15)E
Q3 Sep	(0.15)A	(0.19)E	(0.14)E	(0.15)E
Q4 Dec	<u>(0.17)E</u>	<u>(0.18)E</u>	<u>(0.12)E</u>	<u>(0.14)E</u>
Total	<b>(0.74)E</b>	<b>(0.80)E</b>	<b>(0.55)E</b>	<b>(0.60)E</b>
P/E	N/A		N/A	

### Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

**For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 12.**

**OVERVIEW**

- Intrusion recently (on November 3) reported its fiscal Q3 2022 (ending September) results.
- Revenue was \$2.2 million (+21% y-o-y), compared to our estimates of \$2.2 million and consensus of \$2.4 million.
- EPS was \$(0.15), compared to our estimate of \$(0.19) and consensus of \$(0.20).
- There was no Q3 guidance.
- The company again declined to provide 2022 guidance.
- We are maintaining our 2022 revenue estimates of \$8.4 million, but raising it for EPS to \$(0.74) from \$(0.80).
- We are maintaining our 2023 revenue estimates of \$13.0 million, but raising it for EPS to \$(0.55) from \$(0.60).

**ADDITIONAL DETAILS**

- Gross profit for the quarter was \$1.2 million, compared with our estimate of \$1.5 million.
- Gross margin for the quarter was 55%, versus our expectation of 69% and 62% last year.
- Operating expenses were \$5.0 million, versus our expectation of \$5.1 million.
- Operating loss was \$3.8 million, versus our expectation of a loss of \$3.6 million.
- Net loss was \$2.9 million, versus our expectation of a loss of \$3.8 million.
  
- In June, the company appointed Kim Pinson as Chief Financial Officer. Ms. Pinson has over 25 years of experience leading finance and related functions for global software, technology, medical device, healthcare and real estate companies. Ms. Pinson replaced Franklin Byrd who resigned as CFO in May 2022 to pursue other interests.

The company's balance sheet had \$7 million in cash and \$10 million in debt, compared with \$7 million in cash and \$10 million in debt at the end of June. In March, the company raised \$10 million in debt (7% due January 2024 and which was issued half in Q1 and the other half in Q2). In September (Q3), the company raised \$6 million in stock (1.4 million shares at \$4.29/share).

Exhibit 1: Intrusion, Inc. Corporate Overview



## Intrusion | at a glance

*Innovative provider of cyberattack prevention solutions including Zero-Days*

- Long heritage in networking and cybersecurity technology
- Established relationships with DoD and Government agencies
- Owns world’s most extensive advanced threat intelligence database with reputation data on over 8.5 Billion active IPs
- New pioneering cybersecurity solution positions Company for high-growth, high-margin recurring revenues
- Uplisted to the NASDAQ in October 2020
- New visionary leadership team to drive growth

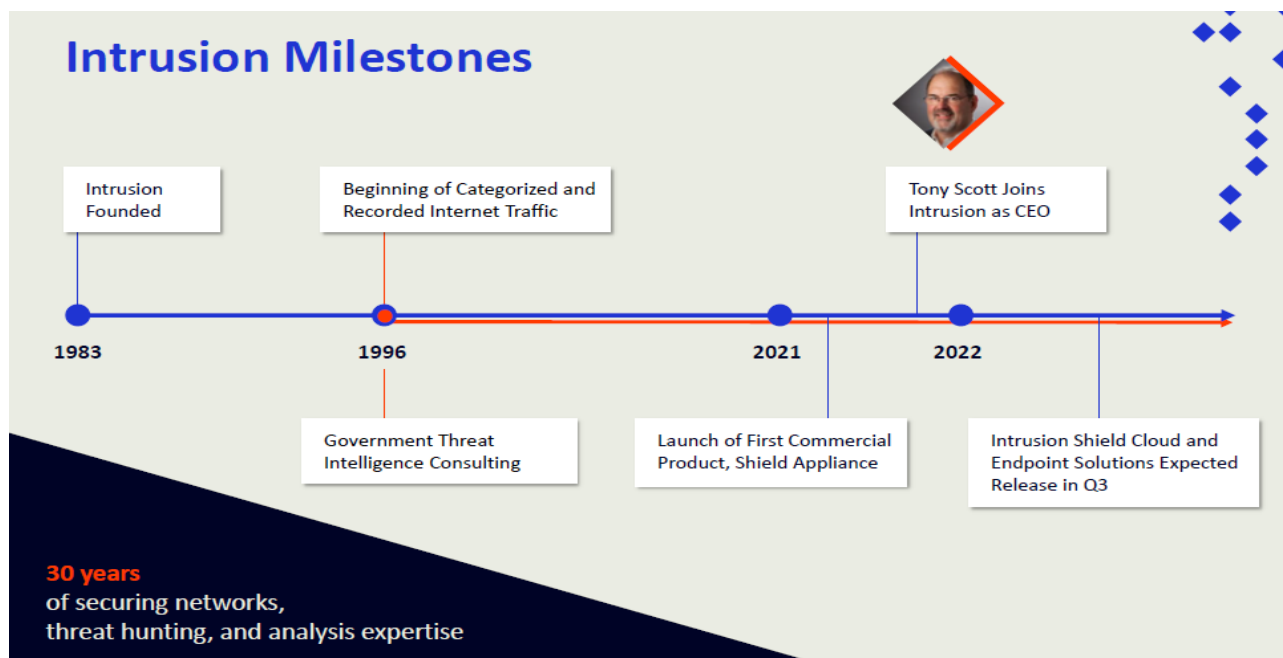
**Nasdaq: INTZ**

**“There are two type of companies: those who have been hacked, and those who don’t yet know they have been hacked.”\***

– John Chambers, Former CEO of Cisco



## Intrusion Milestones



Source: Company reports.

## Exhibit 2: INTRUSION Shield Key Takeaways

Remember

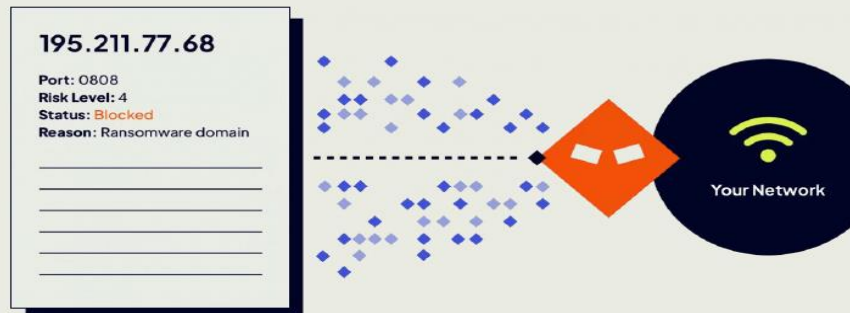
### INTRUSION Shield key takeaways

- Protects against Zero-Day and Malware-Free attacks
- Highly accurate and effective protection against previously unknown threats
- Real-time AI does deep packet inspection on all connections attempting to enter or exit your network
- Delivers Zero-Trust by killing any connection it's unable to validate as good
- Leverages advanced threat intelligence with 2+ decades of reputation history on 8.5+ billion active IP addresses
- 5.1+ billion known good; 3.4+ billion known malicious
- Does not generate time consuming and ineffective alerts



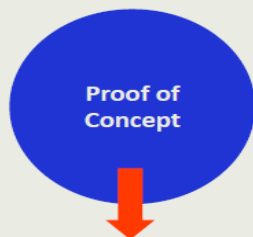
### What we do...

- ◆ Identify threats relevant to the customer's environment right now
- ◆ Block malicious connections automatically – and without alerts
- ◆ Analyze BOTH incoming and outgoing traffic making it an ideal Zero-Day solution



### Go-To-Market

Utilize proof of concept to demonstrate Intrusion Shield's value proposition



**Integrate Intrusion Shield with the customer's existing networks to detect malware and identify any nefarious IP addresses visited.**

#### Observe Mode

- ◆ After 5 days the customer can see what has been observed on the network.
- ◆ Provide reporting every day to demonstrate what Intrusion Shield has killed and why.
- ◆ Explains what would have been blocked if the customer were in protect mode.

#### Protect Mode

- ◆ After 5 additional days, the customer can see all the traffic that Intrusion Shield blocked.
- ◆ In protect mode, Intrusion Shield is stopping ransomware attacks that would otherwise sit on the network and observe browsing activity.
- ◆ Prevents bad actors from outbound communication that would shut down the customer's network.

Source: Company reports.

**Exhibit 3: Cybersecurity Market Opportunities**

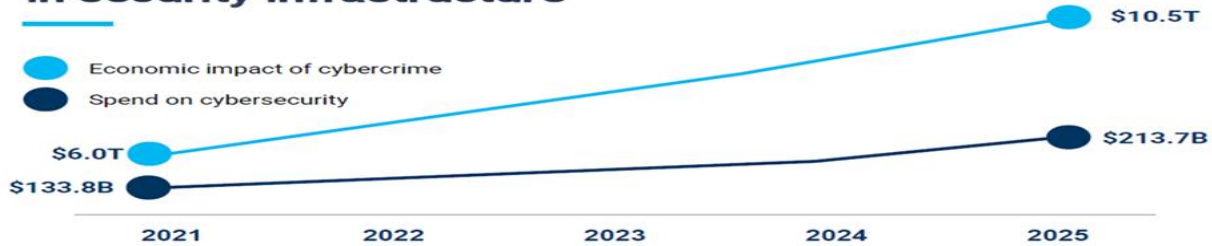
**WHY NOW**

**Why are we seeing so many headlines?**

- 61% of successful attacks use a Zero-Day\*
- 34% of successful attacks use malware-free techniques\*
- Traditional cybersecurity products are ineffective against Zero-Day and Malware-Free attacks
  - Most cybersecurity products work from a known bad or signature basis



**Cyberattacks increasing despite growing investment in security infrastructure**



Source: Spend: Gartner  
Impact: Cybersecurity Ventures

Source: Company reports.

**Exhibit 4: INTRUSION Shield Software Platform**

**DIFFERENTIATION**

**Introducing Zero-Trust INTRUSION Shield**

- **INTRUSION Shield** implements Zero-Trust in a natural and bidirectional way by only allowing known good connections to proceed delivering effective protection from Zero-Day and Malware-Free attacks
- **INTRUSION Shield's** use of patented technologies along with threat intelligence database with 2+ decades of history on active IPs and real-time AI deep packet inspection allow only trusted connections to flow
- **INTRUSION Shield** is a Zero Trust Network Access (ZTNA) solution that kills malicious connections accurately and without creating alerts



Source: Company reports.

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## Exhibit 5: Recent New Products (Cloud and Endpoint) Launched (both in September 2022)

### Product Pipeline

Several new Intrusion Shield products are expected to go to market in the second half of 2022, including a cloud-based product and an Intrusion Shield endpoint product



#### Cloud Based Product

- ◆ Reached full demo capabilities in the second quarter of 2022.
- ◆ This product will allow cloud downloads to be protected by Intrusion Shield technology without the requirement for dedicated hardware.
- ◆ Finalizing product launch activities.
- ◆ General availability release of the product remains on track for the third quarter 2022.



#### Endpoint Solution

- ◆ Reached full demo capabilities in the second quarter of 2022.
- ◆ This product will support Windows, iOS, MacOS, and Android clients upon release.
- ◆ Early beta feedback is positive.
- ◆ General availability release remains on track for the third quarter 2022.

Source: Company reports.

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## Exhibit 6: Intrusion Investment Highlights

### Reasons to Invest in Intrusion

- 1 New management team brings **emphasis on profitable growth and vision**
- 2 Intrusion's **proprietary database** has historically been under-monetized
- 3 **New cloud and end-point solutions** significantly expands total addressable market
- 4 Transition to **recurring revenue model**, focused on new solutions and enterprise business
- 5 **Long-term roadmap** with several releases building on core technology assets

Source: Company reports.

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#### Exhibit 7: Company Strategic Update (as of January 2022)

The key tenets of the strategy update included:

- Broadening Shield product offering to include cloud and endpoint solutions in the second half of 2022 in addition to high availability/high throughput solutions to satisfy evolving customer needs.
- Focused messaging and marketing efforts to highlight how INTRUSION's Shield products increase the value and effectiveness of existing cybersecurity technologies that an organization already may have in place.
- Repositioning and rightsizing sales and marketing resources to align with Shield's growth opportunities.
- Improved go-to-market strategy focused on strategic partners, VARs, MSPs, and MSSPs.
- Planning capital fund raise to deliver on new market and product opportunities.
- Commitment to investing in and expanding INTRUSION's existing government business with existing and new customers.

Source: Company reports.

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#### Exhibit 8: Q3 2022 and Recent Highlights (as of November 3, 2022)

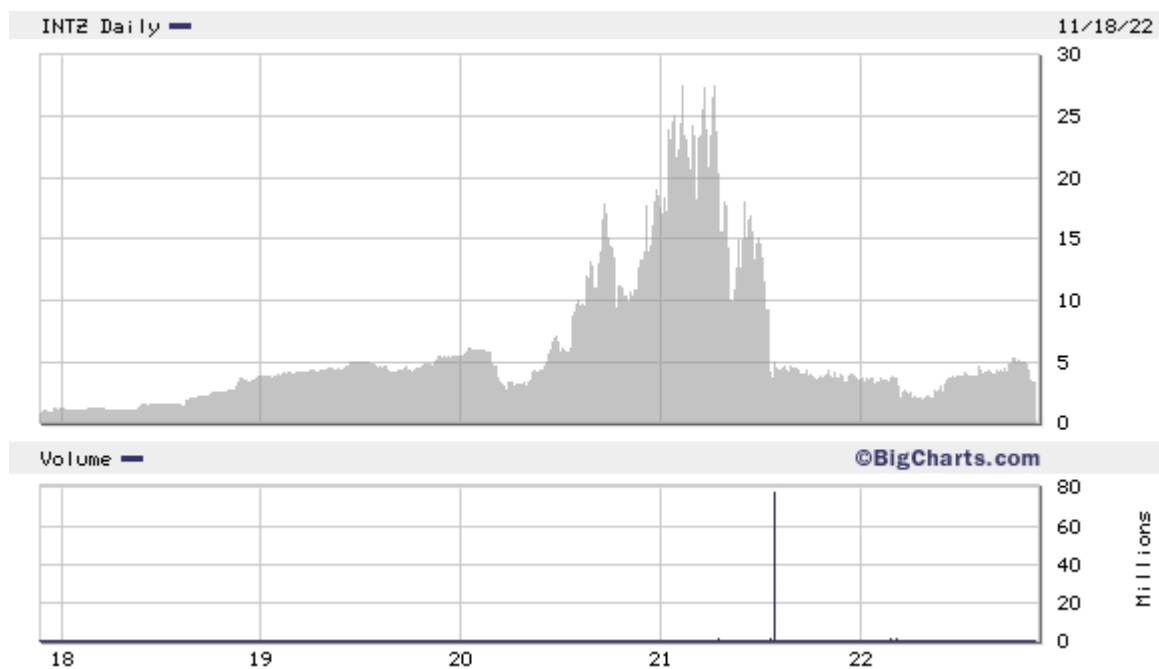
##### **Recent Financial & Business Highlights:**

- Third quarter revenue of \$2.2 million was up \$0.1 million or 7% sequentially and up \$0.4 million or 21% year-over-year.
- **Intrusion Shield** revenue increased 70% year-over-year and represented approximately 15% of total revenue in the quarter.
- New Shield Cloud and Shield Endpoint products reach general availability in the third quarter.
- The Company continued to improve its financial flexibility by entering into a Securities Purchase Agreement raising \$4 million during the third quarter.

Source: Company reports.

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### Exhibit 9: Intrusion, Inc. Stock Price (5-Years)



Source: <https://bigcharts.marketwatch.com/>

### Exhibit 10: Consensus Expectations (as of November 3, 2022)

	Revenue (mils)			EPS	
	2022E	2023E		2022E	2023E
Q1 Mar	\$1.8A		Q1 Mar	\$(0.21)A	
Q2 Jun	\$2.1A		Q2 Jun	\$(0.21)A	
Q3 Sep	\$2.4E		Q3 Sep	\$(0.20)E	
Q4 Dec	\$2.6E		Q4 Dec	\$(0.18)E	
Total	\$9.0E	\$13.9E	Total	\$(0.81)E	\$(0.51)E

\*Quarterly estimates may not add to annual estimates due to variations in contributing estimates and rounding.

Source: Company report, Refinitiv, and Ascendant Capital Markets estimates



## FINANCIAL MODEL

### Intrusion Inc.

Income Statement (\$ mils)	2018	2019	Mar-20	Jun-20	Sep-20	Dec-20	2020	Mar-21	Jun-21	Sep-21	Dec-21	2021	Mar-22	Jun-22	Sep-22	Dec-22	2022	Mar-23	Jun-23	Sep-23	Dec-23	2023
Fiscal Year End: December 31	FY-A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
<b>Total Revenue</b>	<b>10.3</b>	<b>13.6</b>	<b>1.8</b>	<b>1.7</b>	<b>1.6</b>	<b>1.6</b>	<b>6.6</b>	<b>1.9</b>	<b>2.0</b>	<b>1.8</b>	<b>1.6</b>	<b>7.3</b>	<b>1.8</b>	<b>2.1</b>	<b>2.2</b>	<b>2.3</b>	<b>8.4</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.7</b>	<b>13.0</b>
Cost of Revenues	3.8	5.3	0.7	0.7	0.7	0.7	2.7	0.6	0.7	0.7	0.6	2.6	0.7	0.7	1.0	0.8	3.1	0.8	0.9	0.9	0.9	3.4
Gross Profit	6.4	8.3	1.0	1.0	0.9	0.9	3.9	1.2	1.2	1.1	1.1	4.7	1.2	1.4	1.2	1.5	5.3	2.1	2.3	2.4	2.8	9.6
Sales and marketing	1.6	1.3	0.5	0.5	0.9	1.9	3.8	2.7	3.7	3.8	1.8	11.9	1.5	1.8	1.7	1.6	6.6	1.7	1.7	1.8	1.8	7.0
Research & development	1.2	1.3	0.8	0.9	1.1	1.1	3.8	1.5	1.5	1.9	1.5	6.3	1.7	1.5	1.5	1.6	6.2	1.7	1.5	1.6	1.6	6.5
General and administrative	1.1	1.2	0.3	0.3	0.4	1.9	2.8	1.0	1.7	1.6	1.6	5.9	2.1	2.0	1.9	1.6	7.6	1.7	1.7	1.8	1.8	7.0
Depreciation and amortization							0.0					0.0					0.0	0.0	0.0	0.0	0.0	0.0
Restructuring and other							0.0					0.0					0.0					0.0
Total operating expenses	4.0	3.8	1.5	1.7	2.3	4.9	10.4	5.1	6.9	7.2	4.9	24.2	5.2	5.4	5.0	4.9	20.5	5.1	5.0	5.2	5.3	20.5
<b>Operating income (loss)</b>	<b>2.5</b>	<b>4.5</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>(1.4)</b>	<b>(3.9)</b>	<b>(6.5)</b>	<b>(3.9)</b>	<b>(5.7)</b>	<b>(6.1)</b>	<b>(3.8)</b>	<b>(19.5)</b>	<b>(4.0)</b>	<b>(4.0)</b>	<b>(3.8)</b>	<b>(3.4)</b>	<b>(15.2)</b>	<b>(3.0)</b>	<b>(2.7)</b>	<b>(2.7)</b>	<b>(2.5)</b>	<b>(10.9)</b>
Interest income (expense)	(0.2)	(0.0)	0.0	(0.0)	(0.0)	0.0	0.0	0.0	0.1	0.0	(0.0)	0.1	(0.1)	(0.5)	0.9	(0.2)	0.1	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)
Other income (expense)	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)		(0.1)		0.6			0.6		0.4	(0.0)	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Income before income taxes	2.1	4.3	(0.5)	(0.7)	(1.4)	(3.9)	(6.6)	(3.9)	(5.0)	(6.1)	(3.9)	(18.8)	(4.1)	(4.1)	(2.9)	(3.7)	(14.7)	(3.3)	(2.9)	(3.0)	(2.7)	(11.9)
Income taxes							0.0					0.0					0.0	0.0	0.0	0.0	0.0	0.0
Net income (loss)	2.1	4.3	(0.5)	(0.7)	(1.4)	(3.9)	(6.6)	(3.9)	(5.0)	(6.1)	(3.9)	(18.8)	(4.1)	(4.1)	(2.9)	(3.7)	(14.7)	(3.3)	(2.9)	(3.0)	(2.7)	(11.9)
Nonrecurring/noncash adjustments							0.0					0.0					0.0					0.0
<b>Net income (pro forma)</b>	<b>2.1</b>	<b>4.3</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>(1.4)</b>	<b>(3.9)</b>	<b>(6.6)</b>	<b>(3.9)</b>	<b>(5.0)</b>	<b>(6.1)</b>	<b>(3.9)</b>	<b>(18.8)</b>	<b>(4.1)</b>	<b>(4.1)</b>	<b>(2.9)</b>	<b>(3.7)</b>	<b>(14.7)</b>	<b>(3.3)</b>	<b>(2.9)</b>	<b>(3.0)</b>	<b>(2.7)</b>	<b>(11.9)</b>
EBITDA	2.6	4.7	(0.4)	(0.6)	(1.3)	(3.7)	(6.0)	(3.6)	(4.7)	(5.8)	(3.3)	(17.5)	(3.2)	(3.2)	(3.3)	(2.9)	(12.6)	(2.5)	(2.1)	(2.2)	(1.9)	(8.7)
Shares, Basic	13.0	13.5	13.7	13.8	14.5	16.8	14.7	17.5	17.6	17.9	18.9	18.0	19.1	19.4	19.8	21.2	19.9	21.4	21.6	21.8	22.0	21.7
Shares, Diluted	15.1	15.4	13.7	13.8	14.5	16.8	14.7	17.5	17.6	17.9	18.9	18.0	19.1	19.4	19.8	21.2	19.9	21.4	21.6	21.8	22.0	21.7
EPS Basic (pro forma)	\$0.16	\$0.32	(\$0.04)	(\$0.05)	(\$0.10)	(\$0.23)	(\$0.45)	(\$0.22)	(\$0.28)	(\$0.34)	(\$0.20)	(\$1.05)	(\$0.21)	(\$0.21)	(\$0.15)	(\$0.17)	(\$0.74)	(\$0.15)	(\$0.13)	(\$0.14)	(\$0.12)	(\$0.55)
EPS Diluted (pro forma)	\$0.14	\$0.28	(\$0.04)	(\$0.05)	(\$0.10)	(\$0.23)	(\$0.45)	(\$0.22)	(\$0.28)	(\$0.34)	(\$0.20)	(\$1.05)	(\$0.21)	(\$0.21)	(\$0.15)	(\$0.17)	(\$0.74)	(\$0.15)	(\$0.13)	(\$0.14)	(\$0.12)	(\$0.55)
<b>Margins</b>																						
Gross margin	63%	61%	58%	61%	59%	58%	59%	66%	63%	62%	65%	64%	64%	68%	55%	65%	63%	72%	73%	74%	75%	74%
Sales and marketing	16%	10%	28%	29%	56%	123%	58%	145%	186%	208%	110%	164%	79%	88%	78%	71%	79%	60%	55%	54%	44%	54%
Research & development	12%	10%	42%	55%	68%	67%	57%	79%	78%	102%	89%	87%	90%	72%	66%	71%	74%	59%	49%	49%	44%	50%
General and administrative	11%	9%	14%	20%	24%	117%	43%	53%	87%	88%	99%	81%	112%	100%	84%	71%	91%	59%	54%	54%	49%	54%
Operating margin	24%	33%	-26%	-43%	-89%	-249%	-99%	-211%	-288%	-336%	-233%	-268%	-217%	-192%	-174%	-148%	-181%	-106%	-85%	-83%	-67%	-84%
Tax rate, GAAP	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net margin	21%	32%	-28%	-45%	-90%	-249%	-100%	-211%	-253%	-335%	-234%	-258%	-221%	-198%	-133%	-158%	-175%	-114%	-92%	-90%	-73%	-91%
<b>Y/Y % change</b>																						
Total Revenue		33%					-51%	3%	18%	15%	4%	10%	-1%	5%	21%	41%	16%	56%	53%	50%	60%	55%
Gross margin		29%					-53%	17%	22%	21%	16%	19%	-4%	13%	6%	41%	13%	75%	65%	103%	85%	82%
Sales and marketing		-19%					194%	427%	653%	327%	-7%	212%	-46%	-50%	-55%	-9%	-44%	18%	-5%	4%	10%	6%
Research & development		6%					189%	95%	69%	72%	39%	67%	12%	-3%	-22%	12%	-1%	2%	4%	11%	-1%	4%
General and administrative		6%					138%	280%	420%	322%	-12%	109%	112%	21%	16%	1%	29%	-18%	-17%	-4%	10%	-8%
Operating income (loss)		82%					-245%	729%	691%	334%	-2%	199%	2%	-30%	-37%	-11%	-22%	-24%	-32%	-29%	-28%	-28%
Net income (loss)		101%					-252%	684%	562%	329%	-2%	185%	4%	-18%	-52%	-5%	-22%	-19%	-28%	2%	-26%	-19%
EPS Diluted (pro forma)		98%					-259%	512%	418%	246%	-13%	133%	-5%	-25%	-57%	-15%	-29%	-28%	-36%	-8%	-29%	-26%

Source: Company reports and Ascendant Capital Markets estimates.

**Intrusion Inc.**

Balance Sheet (\$ mils)	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	
Fiscal Year End: December 31	Q4A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4E	Q1E	Q2E	Q3E	Q4E	
<b>Assets</b>																			
Cash and cash equivalents	1.7	3.3	3.2	2.9	1.5	16.7	13.1	9.3	7.2	4.1	6.1	7.0	6.9	3.1	5.1	2.5	(0.8)	(3.0)	
Short term investments													0.0	0.0	0.0	0.0	0.0	0.0	
Accounts receivable, net	2.0	1.6	1.0	1.1	1.0	1.2	1.3	1.7	1.0	1.0	1.2	1.3	0.9	1.3	1.6	1.8	1.8	2.1	
Deferred income taxes													0.0	0.0	0.0	0.0	0.0	0.0	
Prepaid expenses and other	0.1	0.2	0.2	0.4	0.6	0.4	0.7	0.5	0.6	0.4	0.6	0.8	2.9	3.0	0.7	0.8	0.8	0.9	
Total current assets	3.7	5.1	4.4	4.3	3.2	18.3	15.1	11.5	8.8	5.5	7.9	9.1	10.7	7.4	7.4	5.0	1.8	0.0	
Property and equipment, net	0.2	0.3	0.3	0.3	0.4	0.5	0.6	1.1	1.2	1.1	1.1	1.3	1.7	2.0	2.0	2.2	3.1	3.2	
Intangibles, net													0.0	0.0	0.0	0.0	0.0	0.0	
Deferred income tax													0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.2	1.4	1.4	1.3	1.2	1.1	1.2	1.3	2.7	2.7	2.4	2.2	1.9	1.9	1.9	1.9	1.9	1.9	
Total assets	4.1	6.8	6.1	5.9	4.8	19.9	16.8	13.8	12.8	9.2	11.4	12.5	14.4	11.3	11.3	9.2	6.9	5.1	
<b>Liabilities and stockholders' equity</b>																			
Accounts payable	0.2	1.1	1.1	1.2	1.4	0.4	0.9	1.4	0.7	0.7	0.8	0.5	1.2	1.2	1.7	1.9	2.0	2.2	
Accrued expenses	2.0	0.1	0.1	0.1	0.6	0.7	0.7	0.9	1.0	0.5	0.9	0.9	1.1	1.2	1.7	1.9	2.0	2.2	
Deferred revenue	1.0	0.5	0.3	0.2	0.1	0.2	0.1	1.2	0.8	0.6	0.3	1.3	0.9	0.9	0.9	0.9	0.9	0.9	
Deferred income tax													0.0	0.0	0.0	0.0	0.0	0.0	
Other	0.1	0.3	0.3	0.3	0.3	0.5	0.6	0.8	1.4	1.6	1.7	1.0	1.0	1.0	1.0	1.0	1.0	1.0	
Short term debt				0.3	0.4	0.4	0.4				2.9	6.8	9.6	9.6	9.6	9.6	9.6	9.6	
Total current liabilities	3.3	1.9	1.7	1.9	2.2	2.1	2.7	4.2	4.0	3.4	6.6	10.5	13.7	13.8	14.9	15.2	15.4	15.9	
Deferred income taxes													0.0	0.0	0.0	0.0	0.0	0.0	
Other long term liabilities	0.1	1.3	1.3	1.2	1.1	1.9	1.7	1.7	2.0	1.9	1.8	1.0	0.4	0.4	2.2	2.2	2.2	2.2	
Deferred revenue													0.0	0.0	0.0	0.0	0.0	0.0	
Long term debt	1.8			0.3	0.2	0.2	0.2				1.8	2.9	0.8	0.8	0.8	0.8	0.8	0.8	
Total other liabilities	1.9	1.3	1.3	1.5	1.3	2.1	2.0	1.7	2.0	1.9	3.5	3.9	1.2	1.2	3.0	3.0	3.0	3.0	
Preferred stock	1.8	1.8	1.7	1.7										0.0	0.0	0.0	0.0	0.0	
Common stock	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.7	1.1	1.6	2.0	2.5	
Additional paid-in capital	56.6	56.8	56.9	56.9	58.9	77.2	77.6	78.4	83.2	84.2	85.7	86.6	90.8	90.8	90.8	90.8	90.8	90.8	
Retained earnings	(59.2)	(54.8)	(55.2)	(56.0)	(57.4)	(61.3)	(65.2)	(70.1)	(76.2)	(80.1)	(84.2)	(88.2)	(91.1)	(94.8)	(98.1)	(101.0)	(103.9)	(106.7)	
Other	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	
Accumulated other comprehensive in	(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)	(0.0)	(0.0)	(0.0)	
Total stockholders' equity	(1.1)	3.6	3.2	2.5	1.3	15.7	12.1	8.0	6.8	3.9	1.3	(1.9)	(0.5)	(3.8)	(6.6)	(9.0)	(11.6)	(13.8)	
Total stockholders' equity and liabili	4.1	6.8	6.1	5.9	4.8	19.9	16.8	13.8	12.8	9.2	11.4	12.5	14.4	11.3	11.3	9.2	6.9	5.1	

**Balance Sheet Drivers**

	Dec-18	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	
	Q4A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4A	Q1A	Q2A	Q3A	Q4E	Q1E	Q2E	Q3E	Q4E	
Prepaid as % of total rev	4%	4%	9%	23%	41%	23%	38%	24%	35%	22%	35%	38%	130%	130%	25%	25%	25%	25%	
A/P as % of total rev	8%	32%	59%	70%	89%	26%	48%	69%	41%	44%	44%	25%	53%	53%	60%	60%	60%	60%	
Accrued exp related as % of total rev	78%	2%	5%	3%	0%	40%	37%	44%	53%	32%	49%	42%	51%	51%	60%	60%	60%	60%	
<b>Activity Ratios</b>																			
A/R Days Sales Outstanding	69	41	52	58	58	70	63	77	52	57	58	56	38	50	50	50	50	50	
<b>Book &amp; Cash Value (per share)</b>																			
Book Value per Share (diluted)	(\$0.07)	\$0.23	\$0.23	\$0.18	\$0.09	\$0.93	\$0.69	\$0.45	\$0.38	\$0.21	\$0.07	(\$0.10)	(\$0.03)	(\$0.18)	(\$0.31)	(\$0.42)	(\$0.53)	(\$0.63)	
Cash per Share (diluted)	\$0.11	\$0.22	\$0.23	\$0.21	\$0.10	\$0.99	\$0.75	\$0.53	\$0.40	\$0.22	\$0.32	\$0.36	\$0.35	\$0.14	\$0.24	\$0.12	(\$0.04)	(\$0.14)	
Net cash per Share (diluted)	(\$0.01)	\$0.22	\$0.23	\$0.16	\$0.06	\$0.96	\$0.71	\$0.53	\$0.40	\$0.22	\$0.08	(\$0.14)	(\$0.18)	(\$0.35)	(\$0.25)	(\$0.37)	(\$0.52)	(\$0.61)	

Source: Company reports and Ascendant Capital Markets estimates

**Intrusion Inc.**

Cash Flow Statement (\$ mils)	2018	2019	Mar-20	Jun-20	Sep-20	Dec-20	2020	Mar-21	Jun-21	Sep-21	Dec-21	2021	Mar-22	Jun-22	Sep-22	Dec-22	2022	Mar-23	Jun-23	Sep-23	Dec-23	2023	
Fiscal Year End: December 31	FY-A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3A	Q4A	FY-A	Q1A	Q2A	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E	
<b>Cash flow from operating activities</b>																							
Net income	2.3	4.5	(0.5)	(0.7)	(1.4)	(3.9)	(6.5)	(3.9)	(5.0)	(6.1)	(3.9)	(18.8)	(4.1)	(4.1)	(2.9)	(3.7)	(14.7)	(3.3)	(2.9)	(3.0)	(2.7)	(11.9)	
Depreciation	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.3	0.8	0.3	0.3	0.1	0.1	0.8	0.1	0.1	0.1	0.1	0.4	
Amortization							0.0					0.0					0.0					0.0	
Debt related amortization expense	0.0	0.0					0.0					0.0	0.0	0.4			0.4					0.0	
Stock comp	0.0	0.0	0.0	0.1	0.1	0.1	0.3	0.2	0.8	0.1	0.2	1.3	0.4	0.4	0.4	0.4	1.8	0.4	0.4	0.4	0.4	1.8	
A/R reserves							0.0		0.0			0.0					0.0					0.0	
Deferred income taxes							0.0					0.0				0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Writedowns and impairments						1.1	1.1					0.0					0.0	0.0	0.0	0.0	0.0	0.0	
Other gains/losses							0.0	(0.6)	(0.0)			(0.7)		(0.4)			(0.4)					0.0	
Other	0.1	0.2	0.1	0.1	0.1	0.1	0.3	0.1	0.1	0.0	0.1	0.2	0.1	0.1			0.2					0.0	
<b>Changes in operating assets and liabilities:</b>																							
Accounts receivable	(1.0)	0.4	0.5	(0.0)	0.0	(0.2)	0.3	(0.1)	(0.4)	0.6	0.0	0.2	(0.1)	(0.1)	0.4	(0.4)	(0.3)	(0.3)	(0.2)	(0.1)	(0.2)	(0.8)	
Inventory	0.0						0.0					0.0					0.0					0.0	
Prepaid expenses & other current assets	(0.0)	(0.1)	(0.0)	(0.2)	(0.3)	0.3	(0.3)	(0.4)	0.3	(0.2)	0.3	0.0	(0.3)	(0.1)	(2.1)	(0.2)	(2.7)	2.3	(0.1)	(0.0)	(0.1)	2.1	
Income tax							0.0					0.0					0.0					0.0	
Other assets							0.0					0.0			0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0	
Accounts payable	0.4	(0.5)	(0.1)	0.0	0.2	(0.5)	(0.3)	0.5	0.6	(0.5)	(0.5)	0.0	0.4	(0.2)	0.6	0.1	0.8	0.5	0.2	0.1	0.3	1.0	
Accrued expenses							0.0					0.0			0.2	0.1	0.3	0.5	0.2	0.1	0.3	1.0	
Deferred revenue	0.6	(0.5)	(0.2)	(0.1)	(0.1)	0.1	(0.3)	(0.0)	1.0	(0.3)	(0.3)	0.4	(0.2)	1.0			0.8					0.0	
Other liabilities							0.0					0.0		(0.9)	(0.6)	0.0	(1.5)	1.8	0.0	0.0	0.0	1.8	
<b>Net cash (used in) provided by</b>	<b>2.6</b>	<b>4.3</b>	<b>(0.1)</b>	<b>(0.9)</b>	<b>(1.3)</b>	<b>(2.8)</b>	<b>(5.2)</b>	<b>(3.6)</b>	<b>(3.0)</b>	<b>(6.2)</b>	<b>(3.8)</b>	<b>(16.6)</b>	<b>(3.5)</b>	<b>(3.7)</b>	<b>(3.6)</b>	<b>(3.5)</b>	<b>(14.2)</b>	<b>2.2</b>	<b>(2.3)</b>	<b>(2.4)</b>	<b>(2.0)</b>	<b>(4.5)</b>	
<b>Cash flow from investing activities</b>																							
Purchases of property and equipment	(0.2)	(0.3)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)	(0.2)	(0.6)	(0.2)	(0.0)	(1.1)	(0.2)	(0.3)	(0.2)	(0.3)	(1.0)	(0.2)	(0.3)	(1.0)	(0.2)	(1.6)	
Purchases of short-term investments							0.0					0.0					0.0					0.0	
Acquisitions							0.0	(0.1)				(0.1)					0.0					0.0	
Other							0.0			0.0		0.0			(1.6)		(1.6)					0.0	
<b>Net cash used in investing activities</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(0.2)</b>	<b>(0.7)</b>	<b>(0.2)</b>	<b>(0.0)</b>	<b>(1.1)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(1.8)</b>	<b>(0.3)</b>	<b>(2.6)</b>	<b>(0.2)</b>	<b>(0.3)</b>	<b>(1.0)</b>	<b>(0.2)</b>	<b>(1.6)</b>	
<b>Cash flow from financing activities</b>																							
Issuance of debt	0.2			0.6			0.6					0.0	5.0	4.3	0.7	0.0	10.0	0.0	0.0	0.0	0.0	0.0	
Repayment of debt	(1.3)	(1.9)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.6)	(0.1)	(0.7)	(0.4)	0.4			(0.0)					0.0	
Issuance of stock							18.2			4.8	0.8	5.6	0.9	0.3	(0.4)	0.0	0.8	0.0	0.0	0.0	0.0	0.0	
Proceeds from stock option exercise	0.2	0.2	0.1	0.0	0.1	0.0	0.2	0.2	0.0	0.1		0.2	0.1	0.0			0.1					0.0	
Other							0.0					0.0					5.0					0.0	
Dividends and distributions		(0.7)	(0.1)	(0.0)			(0.1)					0.0					0.0					0.0	
<b>Cash provided by (used in) financing activities</b>	<b>(0.9)</b>	<b>(2.3)</b>	<b>0.1</b>	<b>0.6</b>	<b>0.1</b>	<b>18.2</b>	<b>18.9</b>	<b>0.2</b>	<b>(0.1)</b>	<b>4.3</b>	<b>0.7</b>	<b>5.1</b>	<b>5.6</b>	<b>4.9</b>	<b>5.3</b>	<b>0.0</b>	<b>15.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	
Effect of exchange rate on cash							0.0					0.0					0.0					0.0	
<b>Net increase (decrease) in cash</b>	<b>1.4</b>	<b>1.7</b>	<b>(0.1)</b>	<b>(0.3)</b>	<b>(1.4)</b>	<b>15.2</b>	<b>13.4</b>	<b>(3.6)</b>	<b>(3.7)</b>	<b>(2.2)</b>	<b>(3.1)</b>	<b>(12.6)</b>	<b>2.0</b>	<b>0.9</b>	<b>(0.1)</b>	<b>(3.8)</b>	<b>(1.0)</b>	<b>2.0</b>	<b>(2.6)</b>	<b>(3.3)</b>	<b>(2.2)</b>	<b>(6.0)</b>	
Beginning cash and equivalents	0.2	1.7	3.3	3.2	2.9	1.5	3.3	16.7	13.1	9.3	7.2	16.7	4.1	6.1	7.0	6.9	4.1	3.1	5.1	2.5	(0.8)	3.1	
Ending cash and equivalents	1.7	3.3	3.2	2.9	1.5	16.7	16.7	13.1	9.3	7.2	4.1	4.1	6.1	7.0	6.9	3.1	3.1	5.1	2.5	(0.8)	(3.0)	(3.0)	

Source: Company reports and Ascendant Capital Markets estimates

## **ANALYST CERTIFICATION**

Each analyst hereby certifies that the views expressed in this report reflect the analyst's personal views about the subject securities or issuers. Each analyst also certifies that no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. The analyst who prepared this report is compensated based upon the overall profitability of Ascendant Capital Markets, LLC, which may, from time to time, include the provision of investment banking, financial advisory and consulting services. Compensation for research is based on effectiveness in generating new ideas for clients, performance of recommendations, accuracy of earnings estimates, and service to clients.

## **Intrusion, Inc.**

- Ascendant Capital Markets, LLC has received compensation for advisory or investment banking services from the company in the past 12 months.

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## **Risks & Considerations**

Risks to attainment of our share price target include balance sheet/liquidity risks, technological changes, customer demand for cybersecurity and software technologies, investor sentiment for investing in technology stocks, consumer and stock market sentiment, industry growth for software and technology companies, competition, changing macroeconomic factors, and changes in government regulations.

### Ascendant Capital Markets, LLC Rating System

**BUY:** We expect the stock to provide a total return of 15% or more within a 12-month period.

**HOLD:** We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

**SELL:** We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

### Ascendant Capital Markets, LLC Rating System

*Prior to January 31, 2014, ASCM used the following rating system:*

**Strong Buy:** We expect the stock to provide a total return of 30% or more within a 12-month period.

**Buy:** We expect the stock to provide a total return of between 10% and 30% within a 12-month period.

**Neutral:** We expect the stock to provide a total return of between minus 10% and plus 10% within a 12-month period.

**Sell:** We expect the stock to provide a total return of minus 10% or worse within a 12-month period.

**Speculative Buy:** This rating is reserved for companies we believe have tremendous potential, but whose stocks are illiquid or whose equity market capitalizations are very small, often in the definition of a nano cap (below \$50 million in market cap). In general, for stocks ranked in this category, we expect the stock to provide a total return of 50% or more within a 12-month period. However, because of the illiquid nature of the stock's trading and/or the nano cap nature of the investment, we caution that these investments may not be suitable for all parties.

Total return is defined as price appreciation plus dividend yield.

### Ascendant Capital Markets, LLC Distribution of Investment Ratings (as of October 7, 2022)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	43	98%	17	40%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	44	100%	17	39%

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