



Intrusion, Inc.

Initiating Coverage with BUY and \$6.00 Target

Strong growth potential for its cybersecurity platforms. We expect high growth over the next several years to be positive for stock.

Initiating with BUY: We are initiating coverage of Intrusion with a BUY rating and a 12-month price target of \$6.00. Intrusion is a cybersecurity company protecting companies by leveraging advanced threat intelligence with real-time artificial intelligence to kill cyberattacks as they occur.

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 newest and 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.

Growth is key: We believe that the biggest potential variable and challenge to our financial model is the ability of the company to successfully develop and market its Shield platform and grow its customers. We have modeled very strong revenue growth next year (+51%) in 2023 after solid growth (+18%) in 2022, primarily driven by growth in customers and new product launches in 2H 2022.

However, challenges exist: Intrusion operates in a highly competitive environment and competes against a wide range of other technology and cybersecurity companies. The cybersecurity technologies that Intrusion competes in are constantly changing and improving, so this requires Intrusion to constantly invest in its technology and products. If Intrusion is unable to keep its products innovative and useful, it may find its products and technologies obsolete.

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. We believe the ~billion dollars market potentials presents high rewards for the risks.

Current valuation attractive: We calculate a 12-month price target for shares of Intrusion to be \$6.00 based on a NPV analysis, representing significant upside from the current share price. We believe this valuation appropriately balances out the company's high 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

July 25, 2022

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COVERAGE INITIATION

Rating: BUY

Ticker: INTZ

Price: \$3.76

Target: \$6.00

Stock Data

Exchange:	NasdaqCM
52-week Range:	1.74 – 7.25
Shares Outstanding (million):	19
Market cap (\$million):	\$71
EV (\$million):	\$70
Debt (\$million):	\$5
Cash (\$million):	\$6
Avg. Daily Trading Vol. (\$million):	\$0.3
Floab (million shares):	11
Short Interest (million shares):	~0.4
Dividend, annual (yield):	\$0 (NA%)

Revenues (US\$ million)

	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>
	(Cur.)	(Cur.)	(Cur.)
Q1 Mar	1.9A	1.8A	2.9E
Q2 Jun	2.0A	2.1E	3.2E
Q3 Sep	1.8A	2.2E	3.3E
Q4 Dec	<u>1.6A</u>	<u>2.5E</u>	<u>3.7E</u>
Total	7.3A	8.6E	13.0E
EV/Revs	9.6x	8.1x	5.4x

Earnings per Share (pro forma)

	<u>2021A</u>	<u>2022E</u>	<u>2023E</u>
	(Cur.)	(Cur.)	(Cur.)
Q1 Mar	(0.22)A	(0.21)A	(0.17)E
Q2 Jun	(0.28)A	(0.19)E	(0.15)E
Q3 Sep	(0.34)A	(0.19)E	(0.15)E
Q4 Dec	<u>(0.20)A</u>	<u>(0.18)E</u>	<u>(0.14)E</u>
Total	(1.05)A	(0.78)E	(0.60)E
P/E	N/A	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 30.

Exhibit 1: Intrusion, Inc. Stock Price (5-Years)



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

INVESTMENT THESIS

We are initiating coverage of Intrusion with a BUY rating and a 12-month price target of \$6.00.

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. The company markets and distributes its solutions through a direct sales force and value-added resellers. Its end-user customers include U.S. federal government entities, state and local government entities, and companies ranging in size from mid-market to large enterprises.

The company's newest and flagship product is INTRUSION Shield which is offered as software on a subscription basis (a.k.a. software as a service ("SaaS")). 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. After many years of gathering intelligence and providing its INTRUSION TraceCop and Savant solutions exclusively to government entities, the company released its first commercial product in 2021, the INTRUSION Shield.

INTRUSION Shield was 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.

Exhibit 2: 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



Source: Company reports.

The company has 3 main product solutions - INTRUSION Shield, INTRUSION TraceCop, and INTRUSION Savant. TraceCop is currently responsible for the majority of revenues (~86% of 2021 revenues while Shield was ~8%). However, the company expects Shield to grow faster in the near and long term as the company focuses on this product.

INTRUSION Shield is the company's newest cybersecurity solution and was released in Q1 2021. Shield is a reputation-based Security-as-a-Service ("SaaS") solution that inspects and kills dangerous network (in and outbound) connections. Shield evaluates every packet and analyzes the IP addresses (source and destination), as well as domain information and the ports utilized and combined with other threat intelligence data reports and blocks malicious connections. The company is in development to expand the INTRUSION Shield product offerings, including a hardware-less, cloud-based product, which is scheduled for rollout out in 2H 2022.

INTRUSION TraceCop is a big data tool with extensive IP intelligence canvassing the entire Internet. It contains what the company believes to be the largest existing repository of reputation information on known good and bad active IP addresses. The data contains approximately one billion historically registered domain names and registration context and tens of billions of historic DNS resolutions of Fully Qualified Domain Names (FQDNs or hostnames) on each of these domains. All this makes it a very effective network forensics and cybersecurity analysis tool.

Exhibit 3: 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



Source: Company reports.

Today, the cybersecurity threat landscape and environment is more dangerous, more wide open, and challenging than ever. Hacks and breaches are increasingly complex, executed by well trained groups of professionals or governments, and often executed over multiple steps over a long time periods.

Increasingly, hackers are well-trained, possess significant technological skills, and are highly deliberate in their attacks. These hackers have disrupted and stolen or held hostage financial and operational data across a wide range of industries, governments, and organizations. There has been an increasing number of high profile and destructive attacks 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 (such as laptops, tablets, and phones) that can be used to access a corporate computer network and system. Attacks such as the May 2021 Colonial Pipeline (an American oil pipeline system that carries gasoline and jet fuel mainly in the Southeastern United States) 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 (in this case widespread fuel shortages for weeks across the Southeast U.S.).

Exhibit 4: Cybersecurity Market Opportunities

State of cybersecurity

The world's biggest threat is cyber

Companies are attacked every 39 seconds⁽¹⁾

- 62% of organizational cybersecurity teams are understaffed⁽²⁾
- 78% lack confidence in their company's cybersecurity posture, prompting 91% to increase 2021 budgets⁽³⁾
- 93.6% of malware observed was polymorphic to help avoid detection⁽⁴⁾
- 93% of SecOps teams cannot address all security alerts in same day; 83% claim staff has alert fatigue⁽⁵⁾

Source: Company reports.

Intrusion had about flat revenues in Q1 as revenue was -1% (y-o-y), and was +12% from Q4 2021. In its Q1 2022 report (on May 12, 2022), the company reported revenues of \$1.8 million and net loss was \$4.1 million. Q1 EPS was \$(0.21), compared with Q1 2021 EPS of \$(0.22).

The company does not provide specific quarterly financial guidance, but we believe that the company should continue to have high growth on an annual basis as it expands its products, customers, and technologies in 2022/23. Intrusion is constantly improving and expanding its product and services offering. The company has a number of new products solutions reaching demo capability in Q2 and ready to launch in the second half of 2022. These include Shield Cloud (cloud-based shield product), INTRUSION Shield Endpoint, and a high availability, high throughput version of the Shield appliance.

We have modeled strong revenue growth next year (+51%) in 2023 after a solid growth (+18%) in 2022 (due to new product launches in 2H 2022), primarily driven by growth in customers in its cybersecurity businesses. For 2022, we expect revenues of \$8.6 million (+18% y-o-y) and for 2023, we expect revenue of \$13.0 million (+51% y-o-y).

The company's balance sheet has \$6 million in cash and \$5 million in debt as of March 2022. In March, the company raised \$10 million in debt. We believe the company has enough cash through 2022, but we believe it will need to raise new capital in early 2023.

Our investment thesis factors in an uncertain business and financial execution for its cybersecurity products, a very competitive industry, uncertain macro environment, volatile and weak financial markets, and balance sheet and investment uncertainties which is offset by the very large potential upside opportunities created from successful commercialization and growth. We believe that the current valuation for Intrusion has already factored in many of its risks (principally its ability to grow revenues, customers, and profitability) but is under valuing its overall growth and product prospects, resulting in a positive risk versus reward scenario for an investment in Intrusion.

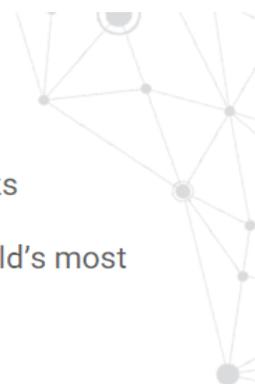
We believe the current valuation is attractive.

Based on our expectations and assumptions and our NPV analysis, we calculate a 12-month price target for shares of Intrusion to be \$6.00, representing significant upside from current share price. We believe this valuation appropriately balances out the company's high risks with the company's high growth prospects and large upside opportunities. We acknowledge that Intrusion is still at an early stage in its product development, commercialization, and growth, but we believe key sales, customers, and financial milestones over the next year should be positive catalysts for the stock.

Exhibit 5: Intrusion Investment Highlights

Why invest?

- Huge global need for solution to Zero-Day and Malware-Free attacks
- INTRUSION Shield is a highly differentiated solution leveraging world's most advanced threat intelligence to solve this problem
- New leadership team with proven success in cybersecurity
- Capitalize on multi-billion-dollar global market opportunity
- SaaS model drives high growth, high margins & free cash flow



Ground floor opportunity to participate in eliminating cybercrime!

Source: Company reports.

INVESTMENT RISKS

Growth and Commercialization Risks

In order for Intrusion to increase the financial growth and profitability of its main cybersecurity (Shield) software business, the company will need to increase awareness to its target markets (enterprise and government) and to demonstrate superiority (more effective, ease of use, lower costs, and/or better technologies) of its cybersecurity software technologies and services. The markets for cybersecurity technology software are characterized by high competition, frequent technological developments and innovations, new product and services, and evolving technology industry standards. This will require Intrusion to develop its technologies, services, expertise and reputation, and continue to improve the effectiveness and ease of use of its software technologies and services. While the market opportunities are large, there are always significant risks to grow (add new customers) and commercialize new products (grow or maintain revenue per customers).

Customer Concentration

Intrusion is heavily reliant on government entities for the majority of its revenue. In 2021, 71% of total revenues was from a variety of U.S. government entities (through direct sales and indirectly through system integrators and resellers). Specifically, these sales are attributable to seven U.S. Government customers. A reduction in sales to U.S. government entities could have a material adverse effect on its business and operating results if they are not replaced. Government clients present risks in addition to those for enterprise customers, including potential disruption due to delays in or interruptions to budgets, appropriations, and spending programs, delays in approving a federal budget, and political considerations. The company is trying to diversify its customer base with the release of its first commercial product in 2021, the INTRUSION Shield but this still only currently represents ~10% of total revenue.

Competition

Intrusion operates in a highly competitive environment and competes against a wide range of other technology and cybersecurity software and services companies that are attempting to replicate or have better technologies and operations than its main cybersecurity technologies and products. Although Intrusion believes that its products and services are superior to competing products and technologies, there are always the possibility of new entrants or difficulties with existing competition. Intrusion competes primarily with very large technology companies but also many new and well capitalized entrants in cybersecurity and software technologies. Many of these competitors are much larger, have greater resources, very large customer base, and proprietary technology; which could result in lower projected sales and customers for Intrusion and at higher costs, reduced margins, and lowered profitability for the company.

Technology Risks

Technologies are constantly changing and improving due to new technologies and changing business and consumer demands, particularly as hackers are always looking for ways to exploit computer systems for their malicious intents. This requires a company like Intrusion to constantly invest in its technology and products. This is much more the case for Intrusion since the company is small and focused on cybersecurity which has rapidly changing technologies. Technologies and products are always being introduced and being established and there are numerous various viable business platforms being developed, as new hacks and cyberattacks are occurring all the time. If Intrusion is unable to keep its products innovative and useful, it may find its technologies and products obsolete.

Coronavirus and Economic Uncertainties

General technology spending tends to be correlated with economic activity and income levels due to their discretionary nature, so major deterioration in economic conditions tends to result in an overall decline in consumer and enterprise spending. This was demonstrated during the 2008 and 2009 Great Recession and global economic slowdown. While enterprise and consumer spending levels and economic conditions have rebounded since and have been strong the past several years, the global macroeconomic environment can change significantly quickly as was shown with the start of the pandemic in March 2020. Since then, due to huge government stimulus the U.S. economy is now very strong. However, the pandemic has still negatively impacted many businesses

and has been a huge disruption to the U.S. (and global) economy. Further economic disruptions and weakness may result in depressed enterprise and consumer spending levels; this may have a negative impact on Intrusion and its customers.

Capital Markets Risks

We believe Intrusion has enough cash to fund its operations through 2022, but will need to raise capital in early 2023. The company is still incurring losses and we believe that it will be at least a couple of years before the company can be cash flow self-sufficient from operations. Many early stage technology companies fund their operations from the sale of equity or debt capital until their products or services reach commercial success. Early stage technology companies valuations tend to fluctuate widely, particularly in the past year with the large and weak volatility in the stock markets. There is always the chance that market interests and valuations for companies in this industry (or the total stock market) can decline significantly or to decline even more from current weak levels. The share price volatility in the past year (with a stock price range of \$1.74 – 7.25) in Intrusion's share price may make capital raising much more difficult and expensive.

SEC Investigation

In August 2021, the company received a notification from the Securities and Exchange Commission (SEC), Division of Enforcement, that it was conducting an investigation into the company and has requested certain documents and information. In November 2021, the SEC served a subpoena on the company in connection with this investigation. The SEC has not disclosed the nature of its investigation and has not formally charged the company against any wrongdoing. The company does not believe it has done anything wrong and is continuing to comply with the requests and cooperating with the investigation. However, there are no assurances as to the outcome of this investigation or its potential impact on the company or its operational or financial results.

VALUATION

We are initiating coverage of Intrusion with a BUY rating and a 12-month price target of \$6.00, which is based on a NPV analysis. The company currently generates revenue but also losses as it invests to grow its businesses so traditional valuation metrics are not useful. We believe a more accurate valuation should take into consideration the potential value of its various businesses (sum of the parts). We do acknowledge that this valuation is complex and requires a large number of forward assumptions that we have to estimate that may be imprecise and may vary significantly from actual results. This is particularly so for a company like Intrusion which is still in early high growth phase with its main cybersecurity business.

However, we believe our assumptions are fair and provide a reasonable basis for our valuation analysis. Our analysis considers future estimated profits from each of its major business segments (based on estimated future profits and discounted this back to a current value), though Intrusion is currently focused only on its INTRUSION Shield and other cybersecurity business. We apply a high discount rate to capture the high uncertainties associated generally with early stage companies. We then added up the values (including current net cash), and allocated the value based on current share count. Based on our NPV analysis, we arrived at our 12-month price target of \$6.00, which we believe appropriately balances out the company's risks with its high growth prospects.

On October 9, 2020, the company's stock was uplisted to the Nasdaq Capital Market (from OTCQB). The company's stock has traded in a volatile range of \$1.74 – 7.25 over the past year, and \$1.74 - 29.90 since its uplisting. The stock closed at \$3.44 on 12/31/21 and is now (as of 7/22/22) at \$3.76, a +9% return (YTD).

Exhibit 6: Intrusion Stock Price (since uplisting to Nasdaq Capital Market on October 9, 2020)



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

We believe this stock price volatility is likely due to the high general stock price volatility with small/microcap technology stocks so far in 2022. We believe that there are near term catalysts that can drive the stock (particularly for key sales, customers, and growth milestones expected in 2022). As the company is likely to make significant progress (and growth) in its businesses over the next several years, we believe this will result in much improved visibility into future cash flows and higher share price. We believe the company has a steady balance sheet with enough cash through 2022, but that it will need to raise capital in early 2023 to achieve its strategic goals.

We expect valuations for Intrusion to improve as visibility into cash flow generation becomes clearer, resulting in significant upside to the current share price. We also want to note that investor's interest in technology companies (particularly with cybersecurity and software companies) are still very high with many companies in this area attributed high valuations due to the large market and growth opportunities.

Exhibit 7: Company Valuation (DCF) (in millions)

Product	Calculated NPV	Discount Rate	Estimated Annual Profits
INTRUSION Cybersecurity products	\$ 113	13.3%	15
Total	\$ 113		
Net cash	\$ 1		
Current Value for existing shareholders	\$ 114		
Shares Outstanding (mils)	19		
Estimated Value per share	\$ 6.00		

Source: Ascendant Capital Markets estimates

COMPANY

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. The company markets and distributes its solutions through a direct sales force and value-added resellers. Its end-user customers include U.S. federal government entities, state and local government entities, and companies ranging in size from mid-market to large enterprises.

The company's newest and flagship product is INTRUSION Shield which is offered as software on a subscription basis (a.k.a. software as a service ("SaaS")). 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. After many years of gathering intelligence and providing its INTRUSION TraceCop and Savant solutions exclusively to government entities, the company released its first commercial product in 2021, the INTRUSION Shield.

Intrusion was organized in Texas in September 1983 and reincorporated in Delaware in October 1995. For more than 15 years, the company provided local area networking equipment and was known as Optical Data Systems or ODS Networks. In June 2000, the company changed its name from ODS Networks, Inc. to Intrusion.com, Inc., and NASDAQ ticker symbol from ODSI to INTZ to reflect its focus on intrusion detection solutions. In November 2001, the company changed its name from Intrusion.com, Inc. to Intrusion Inc. On October 9, 2020, the company's stock was uplisted to the Nasdaq Capital Market (from OTCQB). As of December 31, 2021, the company had 60 employees.

Exhibit 8: Intrusion Management Team

Experienced leadership

Extensive cybersecurity expertise



Tony Scott
President & CEO



Joe Head
CTO



Name of Officer	Age	Position(s)	Officer Since
Anthony Scott	69	President, Chief Executive Officer, and Director	2021
T. Joe Head	65	Chief Technical Officer	2003

Intrusion, Inc. Appoints Kim Pinson as Chief Financial Officer

06/27/2022

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Pinson brings extensive financial expertise in the Technology/Software sector to Intrusion

PLANO, TX / ACCESSWIRE / June 27, 2022 / Intrusion, Inc. (NASDAQ:INTZ), a leader in cyberattack prevention solutions, including zero-days, today announced the appointment of Kim Pinson as Chief Financial Officer, effective June 27, 2022.

Ms. Pinson has over 25 years of experience leading finance and related functions for global software, technology, medical device, healthcare and real estate companies. Prior to joining Intrusion, Ms. Pinson was CFO for NetFortris, a managed IT and UCaaS provider, EndoStim, an early-stage medical device company, and United Orthopedic Group, an orthopedic bracing and healthcare services company. She has also held senior finance leadership roles at Quadrem, Xtria, Novo Networks, and Centex. Ms. Pinson's earlier career began at Grant Thornton in audit, she has a BBA from the University of Texas at Dallas, and she is a licensed certified public accountant.

Source: Company reports.

PRODUCT

Intrusion is a cybersecurity company offering its customers access to its exclusive threat intelligence database containing the historical data, known associations, and reputational behavior of over 8.5 billion IP addresses. After years of gathering global internet intelligence and working exclusively with government entities, the company released its first commercial product INTRUSION Shield in Q1 2021.

The company has 3 main product solutions - INTRUSION Shield, INTRUSION TraceCop, and INTRUSION Savant. TraceCop is currently responsible for the majority of revenues (~86% of 2021 revenues while Shield was ~8%). However, the company expects Shield to grow faster in the near and long term as the company focuses on this product.

INTRUSION Shield is the company's newest cybersecurity solution and was released in Q1 2021. Shield is a reputation-based Security-as-a-Service ("SaaS") solution that inspects and kills dangerous network (in and outbound) connections. Shield evaluates every packet and analyzes the IP addresses (source and destination), as well as domain information and the ports utilized and combined with other threat intelligence data reports and blocks malicious connections. Many breaches today are caused by Zero day and malware free compromises that may not trigger alarms in a traditional firewall or endpoint solution. Shield's capabilities are designed to continuously evolve as the threats and landscape change over time. The company is in development to expand the INTRUSION Shield product offerings, including a hardware-less, cloud-based product, which is scheduled for rollout out in 2H 2022.

INTRUSION TraceCop is a big data tool with extensive IP intelligence canvassing the entire Internet. It contains what the company believes to be the largest existing repository of reputation information on known good and bad active IP addresses. TraceCop contains an inventory of network selectors and enrichments useful to support forensic investigations. The data contains approximately one billion historically registered domain names and registration context and tens of billions of historic DNS resolutions of Fully Qualified Domain Names (FQDNs or hostnames) on each of these domains. TraceCop also contains a history of threat and reputation for each hostname and IP address over time. All this makes it a very effective network forensics and cybersecurity analysis tool.

INTRUSION Savant is a network monitoring solution that leverages the rich data available in TraceCop to identify suspicious traffic in real-time. Savant uses several original patents to uniquely characterize and record all network flows. Savant is a network reconnaissance and attack analysis tool used by forensic analysts in the DoD, Federal Government and corporations with in-house threat research teams. For example, Savant users can create various automated rules to inspect packets matching (or not) certain criteria such as creating a rule to ensure the Source MAC address field in the Ethernet header and Source IP address from the IP header are always the same, failing which could indicate MAC or IP Spoofing in progress.

Exhibit 9: 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



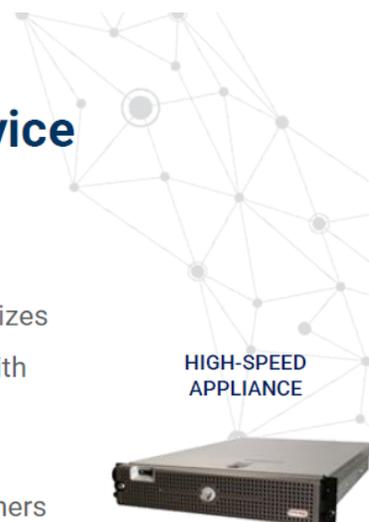
Source: Company reports.

Exhibit 10: INTRUSION Shield SaaS Business Model

Go-To-Market

INTRUSION Shield: Security-as-a-Service (SaaS)

- No up-front contract payments; affordable for businesses of all sizes
- *INTRUSION Shield* appliance drop-shipped direct to customers with software pre-installed
- Available as month-to-month or multi-year commitments
- Leverage direct sales force and growing network of channel partners
- Wide global reach through indirect channel



Source: Company reports.

Market Opportunity

Cybersecurity threats have been around as long as computers have been around. But it was not until the 1980s that hacking (unauthorized access) really exploded as a threat. In the 1980s, for the first time computers were readily available to the general public at affordable prices, so almost anyone could buy a computer and experiment with and to perform hacking.

Today, the cybersecurity threat landscape and environment is more dangerous, more wide open, and challenging than ever. Hacks and breaches are increasingly complex, executed by well trained groups of professionals or governments, and often executed over multiple steps over a long time periods. The typical threat lifecycle starts with an initial exploit to enter a system, historically using malware, but increasingly using malware-free or fileless methods, to penetrate endpoints (end devices that sit on the edge of the network such as computers, phones, and tablets) and establish an entry point into the corporate computer network and perimeter. Once inside, hackers can move across the corporate computer network environment to collect credentials and escalate privileges enabling them to access more sensitive data or areas of the computer network to encrypt, destroy, steal sensitive data, or generally disrupt business operations.

Increasingly, hackers are well-trained, possess significant technological skills, and are highly deliberate in their attacks. These hackers range from militaries and intelligence services of nations to sophisticated criminal organizations who are motivated by financial, political, or other gains. These hackers have disrupted and stolen or held hostage financial and operational data across a wide range of industries, governments, and organizations. There has been an increasing number of high profile and destructive attacks that have caused significant business disruption and billions of dollars in losses. For example, cyber risk modeling firm Cyence Inc. estimated that the overall global economic costs incurred from the 2017 WannaCry attack were between \$4 - 8 billion.

The rise of cloud computing, workforce and people mobility, and growth in connected devices has created a rapid expansion of endpoints (such as laptops, tablets, and phones) that can be used to access a corporate computer network and system. According to a 2019 Cisco white paper, the number of connected devices is expected to be 29 billion by 2022, up from 18 billion in 2017. As a result, devices, software and hardware applications, and data are highly distributed and diverse, creating many wide open areas and potential access points and weakness for hackers to exploit. Using endpoints to enter a computer network, hackers can gain access to corporate networks and storage of valuable and sensitive data (financial, operational, confidential, and personal information). Attacks such as the May 2021 Colonial Pipeline (an American oil pipeline system that carries gasoline and jet fuel mainly in the Southeastern United States) 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 (in this case widespread fuel shortages for weeks across the Southeast U.S.).

There are typically six key reasons for hackers to hack websites or computer network and systems:

- (1) financial gains through the theft of credit card information or by defrauding companies and individuals.
- (2) corporate espionage.
- (3) to gain notoriety or fame for their hacking talents and accomplishments.
- (4) state-sponsored hacking that aims to steal business and national intelligence information.
- (5) politically motivated hackers (or hacktivists) who aim to raise public attention by leaking sensitive information, such as Anonymous, LulzSec, and WikiLeaks.
- (6) to disrupt businesses and people that the hackers do not agree with, have issues with, or to seek revenge for some reasons.

Hacking

Hacking is usually defined as the act of compromising computers, digital devices (phones and tablets), and networks through unauthorized access to an account or computer system. Hacking is not always a malicious act or done with hostile intent, but it is typically associated with illegal activity and data theft by cyber criminals for financial or personal gains.

Malware

Malware is an abbreviation of “malicious software.” This is software that is designed to gain access to, disrupt, or damage a computer or network system without the knowledge or approval of the owner. According to Norton, over 25 million new types of malware have been registered since the beginning of 2022 alone.

Trojan Horse

A Trojan horse is a type of malicious code or software (malware) that looks legitimate but is really not and can take over control of computer hardware, software, or networks. A Trojan acts like a real bona fide application or file to trick you. It tries to trick you into loading and executing the malware on your device or system. Once installed, a Trojan can perform the action it was designed for and bypass your computer security. A Trojan is usually designed to damage, disrupt, steal, or in general inflict some other harmful action on your data or network.

Phishing

Phishing is a cybercrime in which a target (computer or device user) are contacted by email, telephone, or text message by someone posing as a legitimate business or institution to lure individuals into providing sensitive data such as personal information, banking information, credit card numbers, and logins and passwords. The information is then used to illegally access accounts and can result in identity theft and financial loss.

Ransomware

The idea behind ransomware, a form of malicious software (malware), is simple: Lock and encrypt a victim’s computer or device data, then demand a ransom (usually cash or bitcoin payments) to restore access. Usually, the victim are locked out of their systems and must pay the cybercriminal a ransom within a set amount of time or risk losing the data forever.

Zero-Day Attack

A zero-day attack occurs when hackers take advantage of a computer hardware, software, or network vulnerability that companies and IT developers do not know about. For example, you may have a broken window in your garage, but you do not know that it is broken. And until you learn about it and fix it, criminals and strangers can take advantage of the situation and enter your garage without your knowledge. The name “zero-day attack” is due to the fact that developers are unaware of the weak point until after the attack occurs so they have known about the vulnerability for zero days.

Exhibit 11: Cybersecurity Risks

Three Cybersecurity Challenges

Every Enterprise Needs to Address

Sophisticated Threat Actors

\$8 Trillion
cost of cybercrime to global business by 2020

1,425%
ROI for exploit kits and ransomware schemes

55 days
median time between intrusion and detection

Cybersecurity Skills Gap

3.5 Million
estimated number of unfilled cybersecurity jobs worldwide by 2021

53%
organizations that have a shortage of cybersecurity skills

350,000
open cybersecurity positions in the United States

Attackers Target Data

3 Billion
number of accounts with PII and passwords compromised in an online data breach

500 Million
guest records compromised in massive attack on major hotel chain

21.5 Million
data records lost after attackers targeted central databases in a government agency

Top 10 threats of the future

Phishing attacks

Negligent insiders

APT attacks

Cyber attacks

Zero Day attacks

Known software vulnerabilities

Malicious insiders

Social engineering

Denial of Service attacks

Brute force attacks

Source: HIMSS Cybersecurity Survey 2015

Cyber Security Risks In 2022

Did you know... The **costs of cybercrime** are estimated to reach **\$10 trillion by 2025?**

Forecast show:

8 **Cyber-Physical Systems** will exceed **\$8 Billion by 2025**

85% of all data breaches involve **human interaction**

60% of organizations experienced a **cyberattack in the last two years**

37% say **they report further** in the company

In **2022**, **security** and **risk management leaders** will be responsible for addressing the following **trends to help protect modern organizations** against new and emerging threats:



Source: Trustwave, HIMSS Cybersecurity Survey 2015, Ayesha Raheem from Pixabay, rickscloud.com.

The market for network and data protection security solutions is very competitive and subject to frequent introductions of new and better technologies as existing technologies are always subject to change and risks of obsolescence. There is competition for improved price and performance, conformity to existing and emerging industry standards, interoperability with other enterprise hardware and software and cybersecurity, management and security capabilities, performance, price, ease of use, scalability, reliability, flexibility, features and technical support.

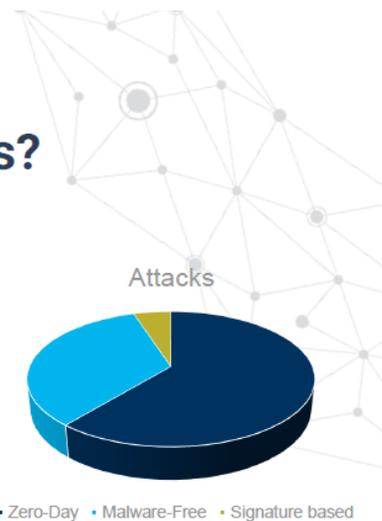
Intrusion’s principal competitors in the data mining and advanced persistent threat market include Niksun, NetScout, FireEye, and Darktrace. However, the company has little direct competitors for TraceCop, though there are many competitors that perform only a small portion of the functions that TraceCop performs. Intrusion has been collecting the TraceCop data for over 20 years, and believes that none of its competitors will have the ability to provide and reference this extremely valuable historical data. In its newest market segment, data mining and advanced persistent threat detection, Intrusion compete with companies and open source technologies in the firewall, intrusion detection and prevention, anti-virus, network analysis, endpoint protection, and insider threat prevention areas of cybersecurity technology.

Exhibit 12: Cybersecurity Market Opportunities

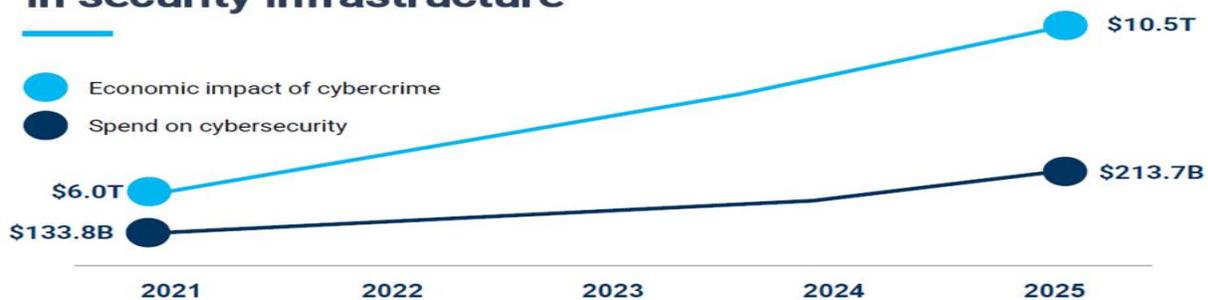
WHY NOW

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.

INTRUSION Shield was 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.

The company expect that its current INTRUSION Shield solution, as well as upcoming expanded offerings, will be novel and unique in the industry because of its proprietary threat-enriched big data. These solutions should complement its customer’s existing cybersecurity processes and third-party solutions.

Exhibit 13: INTRUSION Shield Benefits

Shield benefits ^

- Prevent bad actors from attacking your business by blocking their connections.
- Block malicious connections in real-time without generating alerts.

[LEARN MORE →](#)

Real-time AI that kills threats instantly v

Advanced threat intelligence v

Shield benefits v

Real-time AI that kills threats instantly v

Advanced threat intelligence ^

- Our advanced threat intelligence has been recording, categorizing, and indexing internet traffic for over 2 decades to create the richest database of IP source information.

[LEARN MORE →](#)

Shield benefits v

Real-time AI that kills threats instantly ^

- The engine crawls the network to gather publicly available information for newly discovered IP addresses, domains and more.
- Examines the traffic in real-time, performing packet inspection to make Kill/Pass decisions.

[LEARN MORE →](#)

Advanced threat intelligence v

Source: Company reports.

Exhibit 14: INTRUSION Shield Process

INTRUSION Shield – Fast and Effective



Reputation refresh

The engine crawls the network to gather publicly available information for newly discovered IP addresses, domains, BGP AS and more.



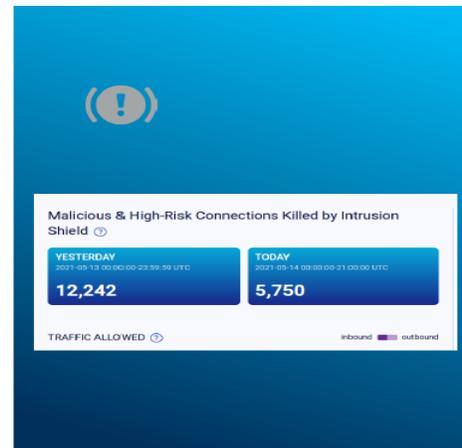
Real-time deep packet inspection

This is performed on every packet to identify and kill nefarious activity as the packet passes through with near zero latency.

MITIGATE RISK

INTRUSION Shield does not create useless alerts

- ✓ Get a daily, board-ready report of *Shield* killed connections
- ✓ Eliminate countless hours spent researching alerts for potential threats
- ✓ Spend time efficiently with a prioritized list of known bad devices in need of remediation without risk of network exposure



AN ADDED LAYER OF PROTECTION

INTRUSION Shield in your network



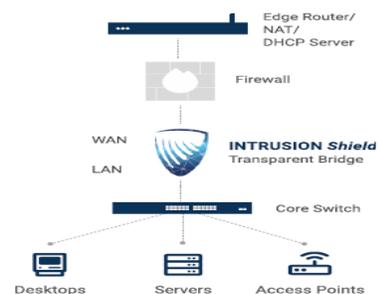
Installs within minutes

Shield installs within minutes – starts protecting your network from threats living in your devices within minutes.



Integrates into existing network

Shield is an added layer of protection that works in tandem without reconfiguring your network.

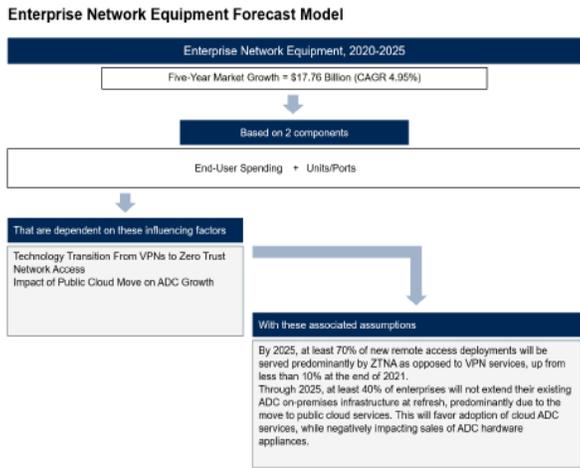


Source: Company reports.

Exhibit 15: INTRUSION Shield Market Opportunity

Large and growing global TAM

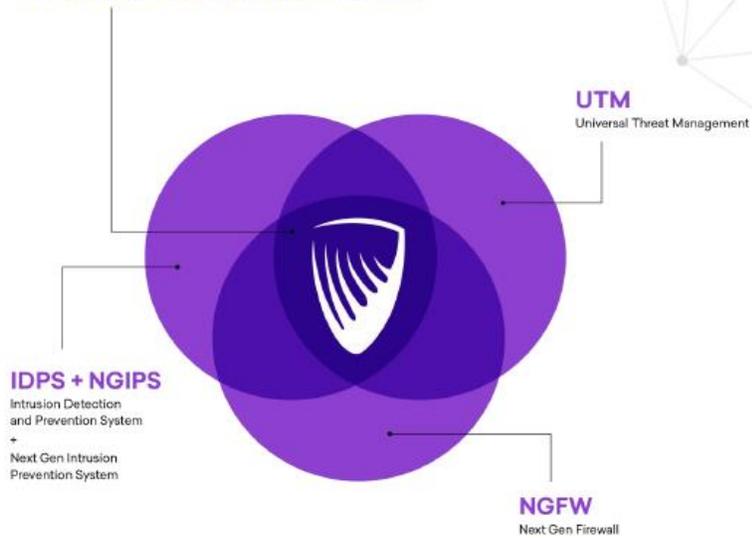
Zero-Trust Network Access (ZTNA)



Key takeaway: By 2025, at least 70% of new remote access deployments will be served predominantly by ZTNA as opposed to VPN services, up from less than 10% at the end of 2021.

Where INTRUSION Shield fits

Zero Trust Network Access solution

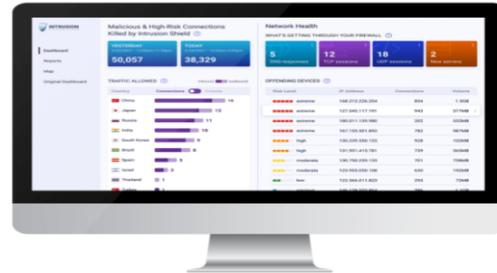


Source: Company reports.

Exhibit 16: INTRUSION Shield Dashboard and Daily Report

Shield delivers a simple and intuitive user experience

- Dashboard overview
 - Current and previous day total killed connections
 - Prioritized list of devices in need of remediation
 - Traffic allowed by country
- Daily report



Shield delivers a simple and intuitive user experience

- Dashboard overview
 - Daily report
 - Executive summary
 - Killed events
 - Permitted destinations
 - Daily observations
- [SEE SAMPLE REPORT ->](#)

--- DAILY REPORT

Malicious or high-risk entities killed by INTRUSION Shield



Executive Summary

This report was generated by **INTRUSION Shield** eufteyomt on 2021-01-23 23:50 and spans the time range
STARTING: 2021-01-13 00:00 UTC
ENDING: 2021-01-22 23:00 UTC
OPERATION MODE: Protect. Threats are being killed.

1. MALICIOUS OR HIGH-RISK ENTITIES KILLED BY INTRUSION SHIELD:



2. PERMITTED DESTINATIONS:



3. CHANGES OBSERVED IN YOUR INFRASTRUCTURE:



Source: Company reports.

Exhibit 17: Key Customers

OUR CUSTOMERS

Top brands have selected *INTRUSION Shield*



"We chose *INTRUSION Shield* because we needed a solution that leveraged AI to stop increasingly sophisticated cyberattacks targeting our company."

— Jamie A. Schnur, Group President-Aftermarket



Top industry recognition

Intrusion Wins 2021
"Most Innovative in Intrusion Detection System"

"Intrusion embodies three major features we judges look for to become winners: understanding tomorrow's threats, today; providing a cost-effective solution; and innovating in unexpected ways that can help stop the next breach."

— Gary S. Milliefsky, Publisher of Cyber Defense Magazine



Independently tested

"Ten Mile Square Technologies assessment of the product as compared to the marketing claims finds that the product in fact does deliver on key representations made."

— Jason Mao, Frank Oelschlagel "Intrusion Product Validation Report"



Source: Company reports.

Intrusion's direct sales force focuses on major account sales, channel partners including distributors, value added resellers (VARs) and integrators; promotes solutions to current and potential customers; and monitors customer requirements. The field sales and technical support force provides training and technical support to its resellers and end users and assists customers in designing cyber secure data networking solutions.

In 2021 and 2020, Intrusion had 38% and 49% of total revenues from sales through indirect sales channels, such as distributors, value-added resellers (VARs), system integrators, original equipment manufacturers (OEMs), and managed service providers. Resellers such as system integrators and VARs sell Intrusion's solutions as stand-alone solutions to end users as well as integrates Intrusion's solutions with products sold by other vendors into network security systems that are sold to end users. Agreements with resellers are non-exclusive, and resellers generally sell other products and solutions that may compete with Intrusion's solutions.

In 2021, sales to U.S. government customers was 71% of revenues versus 86% of revenues in 2020. This shift was due to the introduction of its new INTRUSION Shield solution as a commercial product to non-governmental customers during 2021 (in Q1 2021). Intrusion expects to continue to derive a large portion of revenues from governmental entities in the future, but intends to diversify its revenue base by marketing INTRUSION Shield to more commercial enterprises and businesses.

Exhibit 18: 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.

Intrusion's long-term goal is to become a top provider of cybersecurity software and services to enterprise and governments around the world. Intrusion is constantly improving and expanding its product and services offering.

The company is currently actively working on 3 new products:

1. Shield Cloud (cloud-based shield product) - scheduled for 2H 2022
2. INTRUSION Shield Endpoint - scheduled for 2H 2022
3. a high availability, high throughput version of the Shield appliance - scheduled for 2H 2022

FINANCIALS

Intrusion's fiscal year ends on December 31. We expect its next earnings report (for Q2 2022 ending June) to be in mid-August. In October 2020, the company uplisted its stock listing to the Nasdaq Capital Market from OTCQB.

Exhibit 19: Intrusion Historical Financials

FYE Dec 31						
(in millions except EPS)	2018A	2019A	2020A	2021A	2022E	2023E
Total Revenue	10.3	13.6	6.6	7.3	8.6	13.0
Growth % (y/y)		33%	-52%	10%	18%	51%
Operating income (loss)	2.5	4.5	(6.5)	(19.5)	(14.6)	(11.4)
Net income (pro forma)	2.1	4.3	(6.6)	(18.8)	(15.1)	(12.2)
EPS	\$ 0.14	\$ 0.28	\$ (0.45)	\$ (1.05)	\$ (0.78)	\$ (0.60)
EBITDA	2.6	4.7	(6.0)	(17.5)	(12.3)	(9.2)

Source: Company reports and Ascendant Capital Markets estimates.

Recent Results (fiscal Q1 ending March 2022)

Intrusion had about flat revenues in Q1 as revenue was -1% (y-o-y), and was +12% from Q4 2021. In its Q1 2022 report (on May 12, 2022), the company reported revenues of \$1.8 million and net loss was \$4.1 million. INTRUSION Shield revenue increased 7% sequentially and represented ~12% of total revenue in Q1. Operating expenses were \$5.2 million, about flat with Q4's \$4.9 million but much lower than Q3's \$7.2 million due recent cost cuts in Q4. Q1 EPS was \$(0.21), compared with Q1 2021 EPS of \$(0.22).

The company does not provide specific quarterly financial guidance, but we believe that the company should continue to have high growth on an annual basis as it expands its products, customers, and technologies in 2022/23. The company has a number of new products solutions reaching demo capability in Q2 and ready to launch in the second half of 2022. These include Shield Cloud (cloud-based shield product), INTRUSION Shield Endpoint, and a high availability, high throughput version of the Shield appliance.

We have modeled strong revenue growth next year (+51%) in 2023 after a solid growth (+18%) in 2022 (due to new product launches in 2H 2022), primarily driven by growth in customers in its cybersecurity businesses. For 2022, we expect revenues of \$8.6 million (+18% y-o-y) and net loss of \$15 million and EPS of \$(0.78). For 2023, we expect revenue of \$13.0 million (+51% y-o-y) and net loss of \$12 million and EPS of \$(0.60).

Exhibit 20: Q1 2022 and Recent Corporate Highlights

Recent Financial & Business Highlights:

- First quarter revenue of \$1.8 million was up \$0.2 million sequentially and flat year-over-year.
- **INTRUSION** Shield revenue increased 7% sequentially and represented approximately 12% of total revenue in the quarter.
- New product development remains on track with planned cloud and end-point solutions products reaching demo capability in the second quarter and will be ready to launch in the second half of 2022.
- The Company improved its financial flexibility with the closing of the recent unsecured note offering on March 10, 2022.

Source: Company reports.

We believe that the biggest potential variable and challenge to our financial model is the ability of the company to successfully develop, market, and grow its customers and its Shield cybersecurity platforms. It is these businesses that has the highest potential for growth. If the company can make significant progress towards these goals, then revenue and earnings will likely be able to grow significantly. However, if the company has difficulties in making progress towards these goals, then revenue and profitability may not be achieved or will likely grow at a moderate rate or even not at all.

Exhibit 21: Long-term Business Model

Targeting long-term SaaS business model

- Revenue >> High Growth
- Gross margins >> 65%
- EBITDA margins >> 20%+
- Limited capital expenditures
- Significant free cash flow

Source: Company reports.

The company's balance sheet has \$6 million in cash and \$5 million in debt as of March 2022. In October 2020 (as part of its uplisting), the company raised \$20 million (selling 2.5 million shares at \$8.00/share). 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 the current Q3). The company also has an ATM (at-the-market) stock sale agreement for up to \$50 million. We believe the company has enough cash through 2022, but we believe it will need to raise new capital in early 2023.

Exhibit 22: Intrusion Financial Metrics

Recent Share Price (7/22/22)	\$ 3.76
52-Weeks Share Price (Low - High)	\$1.74 - 7.25
Shares Outstanding	19 million
Market Capitalization	\$71 million
Enterprise Value	\$70 million
Cash (3/31/22)	\$6 million
Debt (3/31/22)	\$5 million
2021A Revenue	\$7 million
2021A Net loss	\$19 million
2021A EPS	\$ (1.05)
2022E Revenue	\$9 million
2022E Net loss	\$15 million
2022E EPS	\$ (0.78)
2023E Revenue	\$13 million
2023E Net loss	\$12 million
2023E EPS	\$ (0.60)

Source: Company reports 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	Q2E	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
Total Revenue	10.3	13.6	1.8	1.7	1.6	1.6	6.6	1.9	2.0	1.8	1.6	7.3	1.8	2.1	2.2	2.5	8.6	2.9	3.2	3.3	3.7	13.0
<u>Cost of Revenues</u>	<u>3.8</u>	<u>5.3</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>2.7</u>	<u>0.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.6</u>	<u>2.6</u>	<u>0.7</u>	<u>0.7</u>	<u>0.7</u>	<u>0.8</u>	<u>2.8</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>	<u>3.5</u>
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	1.5	1.7	5.8	2.0	2.3	2.4	2.8	9.5
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	1.6	1.6	1.7	6.4	1.7	1.7	1.8	1.9	7.1
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	1.7	1.7	1.7	6.8	1.7	1.6	1.6	1.7	6.6
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	1.7	1.7	1.7	7.2	1.7	1.7	1.8	1.9	7.1
Depreciation and amortization							0.0					0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<u>Restructuring and other</u>							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	5.0	5.1	5.1	20.3	5.2	5.1	5.2	5.4	20.8
Operating income (loss)	2.5	4.5	(0.5)	(0.7)	(1.4)	(3.9)	(6.5)	(3.9)	(5.7)	(6.1)	(3.8)	(19.5)	(4.0)	(3.6)	(3.6)	(3.4)	(14.6)	(3.1)	(2.8)	(2.8)	(2.6)	(11.4)
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)	(0.1)	(0.2)	(0.5)	(0.5)	(0.2)	(0.2)	(0.2)	(0.2)	(0.9)
<u>Other income (expense)</u>	<u>(0.1)</u>	<u>(0.1)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.0)</u>	<u>(0.1)</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.6</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
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)	(3.7)	(3.7)	(3.6)	(15.1)	(3.4)	(3.0)	(3.0)	(2.8)	(12.2)
<u>Income taxes</u>							0.0					0.0		0.0	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)	(3.7)	(3.7)	(3.6)	(15.1)	(3.4)	(3.0)	(3.0)	(2.8)	(12.2)
<u>Nonrecurring/noncash adjustments</u>							0.0					0.0					0.0					0.0
Net income (pro forma)	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)	(3.7)	(3.7)	(3.6)	(15.1)	(3.4)	(3.0)	(3.0)	(2.8)	(12.2)
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)	(3.1)	(3.1)	(2.9)	(12.3)	(2.6)	(2.3)	(2.3)	(2.1)	(9.2)
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	19.3	19.5	19.7	19.4	19.9	20.1	20.3	20.5	20.2
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	19.3	19.5	19.7	19.4	19.9	20.1	20.3	20.5	20.2
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)	(\$0.19)	(\$0.19)	(\$0.18)	(\$0.78)	(\$0.17)	(\$0.15)	(\$0.15)	(\$0.14)	(\$0.60)
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)	(\$0.19)	(\$0.19)	(\$0.18)	(\$0.78)	(\$0.17)	(\$0.15)	(\$0.15)	(\$0.14)	(\$0.60)
Margins																						
Gross margin	63%	61%	58%	61%	59%	58%	59%	66%	63%	62%	65%	64%	64%	66%	68%	69%	67%	70%	72%	74%	75%	73%
Sales and marketing	16%	10%	28%	29%	56%	123%	58%	145%	186%	208%	110%	164%	79%	75%	75%	69%	74%	60%	55%	55%	45%	55%
Research & development	12%	10%	42%	55%	68%	67%	57%	79%	78%	102%	89%	87%	90%	80%	79%	69%	79%	60%	50%	50%	45%	51%
General and administrative	11%	9%	14%	20%	24%	117%	43%	53%	87%	88%	99%	81%	112%	80%	79%	69%	83%	60%	55%	55%	50%	55%
Operating margin	24%	33%	-26%	-43%	-89%	-249%	-99%	-211%	-288%	-336%	-233%	-268%	-217%	-169%	-165%	-138%	-169%	-110%	-88%	-86%	-70%	-87%
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%	-174%	-170%	-147%	-175%	-118%	-95%	-93%	-76%	-94%
Y/Y % change																						
Total Revenue		33%					-51%	3%	18%	15%	4%	10%	-1%	8%	20%	50%	18%	56%	50%	50%	50%	51%
Gross margin		29%					-53%	17%	22%	21%	16%	19%	-4%	14%	31%	59%	24%	70%	64%	63%	63%	65%
Sales and marketing		-19%					194%	427%	653%	327%	-7%	212%	-46%	-57%	-57%	-6%	-46%	18%	10%	10%	9%	11%
Research & development		6%					189%	95%	69%	72%	39%	67%	12%	11%	-7%	16%	7%	4%	-6%	-5%	-2%	-2%
General and administrative		6%					138%	280%	420%	322%	-12%	109%	112%	0%	8%	4%	22%	-17%	3%	4%	9%	-1%
Operating income (loss)		82%					-245%	729%	691%	334%	-2%	199%	2%	-37%	-41%	-11%	-25%	-21%	-22%	-22%	-24%	-22%
Net income (loss)		101%					-252%	684%	562%	329%	-2%	185%	4%	-26%	-39%	-6%	-20%	-17%	-18%	-18%	-22%	-19%
EPS Diluted (pro forma)		98%					-259%	512%	418%	246%	-13%	133%	-5%	-32%	-44%	-10%	-26%	-20%	-21%	-21%	-26%	-22%

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	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Assets																		
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	2.9	4.6	1.4	(0.1)	(2.7)	(5.8)	(8.0)
Short term investments											0.0	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	1.2	1.2	1.4	1.6	1.8	1.8	2.1
Deferred income taxes											0.0	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	0.7	0.8	0.9	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	4.9	6.6	3.6	2.2	(0.1)	(3.1)	(5.0)
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	1.1	1.2	1.3	1.3	1.4	1.9	2.0
Intangibles, net											0.0	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	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	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Total assets	4.1	6.8	6.1	5.9	4.8	19.9	16.8	13.8	12.8	9.2	11.4	8.4	10.2	7.3	5.9	3.7	1.2	(0.6)
Liabilities and stockholders' equity																		
Accounts payable	0.2	1.1	1.1	1.2	1.4	0.4	0.9	1.4	0.7	0.7	0.8	0.9	1.0	1.1	1.7	1.9	2.0	2.2
Accrued expenses	2.0	0.1	0.1	0.1	0.6		0.7	0.9	1.0	0.5	0.9	1.1	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	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Deferred income tax											0.0	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	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Short term debt				0.3	0.4	0.4	0.4				2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
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	6.9	6.9	7.2	8.3	8.7	8.8	9.3
Deferred income taxes												0.0	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	1.8	1.8	1.8	2.2	2.2	2.2	2.2
Deferred revenue											0.0	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	1.8	6.8	6.8	6.8	6.8	6.8	6.8
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	3.5	8.5	8.5	9.0	9.0	9.0	9.0
Preferred stock	1.8	1.8	1.7	1.7								0.0	0.0	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	0.6	1.0	1.5	1.9	2.3	2.8	3.2
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	85.7	85.7	85.7	85.7	85.7	85.7	85.7
Retained earnings	(59.2)	(54.8)	(55.2)	(56.0)	(57.4)	(61.3)	(65.2)	(70.1)	(76.2)	(80.1)	(84.2)	(87.8)	(91.5)	(95.2)	(98.5)	(101.5)	(104.6)	(107.4)
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	(2.0)	(5.2)	(8.4)	(11.4)	(14.0)	(16.6)	(18.9)
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	8.4	10.2	7.3	5.9	3.7	1.2	(0.6)

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	Q2E	Q3E	Q4E	Q1E	Q2E	Q3E	Q4E
Prepaid as % of total rev	4%	4%	9%	23%	41%	23%	38%	24%	35%	22%	35%	35%	35%	35%	25%	25%	25%	25%
A/P as % of total rev	8%	32%	59%	70%	89%	26%	48%	69%	41%	44%	44%	44%	44%	44%	60%	60%	60%	60%
Accrued exp related as % of total rev	78%	2%	5%	3%	0%	40%	37%	44%	53%	32%	49%	50%	50%	50%	60%	60%	60%	60%
Activity Ratios																		
A/R Days Sales Outstanding	69	41	52	58	58	70	63	77	52	57	58	50	50	50	50	50	50	50
Book & Cash Value (per share)																		
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)	(\$0.27)	(\$0.43)	(\$0.57)	(\$0.69)	(\$0.82)	(\$0.92)
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	\$0.15	\$0.24	\$0.07	(\$0.01)	(\$0.13)	(\$0.28)	(\$0.39)
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	(\$0.09)	(\$0.26)	(\$0.42)	(\$0.49)	(\$0.61)	(\$0.76)	(\$0.86)

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	Q2E	Q3E	Q4E	FY-E	Q1E	Q2E	Q3E	Q4E	FY-E
Cash flow from operating activities																						
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)	(3.7)	(3.7)	(3.6)	(15.1)	(3.4)	(3.0)	(3.0)	(2.8)	(12.2)
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	0.1	0.1	0.1	0.6	0.1	0.1	0.1	0.1	0.4
Amortization							0.0					0.0					0.0					0.0
Debt related amortization exper	0.0	0.0					0.0					0.0	0.0				0.0					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	1.7	0.4	0.4	0.4	0.4	1.7
A/R reserves							0.0		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	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)	0.0					0.0					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					0.0
Changes in operating assets and liabilities:																						
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)	(0.0)	(0.0)	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)	(0.2)	(0.7)
Inventory	0.0						0.0					0.0					0.0					0.0
Prepaid expenses & other curre	(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)	(0.0)	(0.1)	(0.5)	0.2	(0.1)	(0.0)	(0.1)	(0.1)
Income tax							0.0					0.0					0.0					0.0
Other assets							0.0					0.0		0.0	0.0	0.0	0.0	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	0.1	0.0	0.1	0.7	0.6	0.2	0.1	0.3	1.1
Accrued expenses							0.0					0.0		0.2	0.0	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)				(0.2)					0.0
Other liabilities							0.0					0.0		0.0	0.0	0.0	0.0	0.5	0.0	0.0	0.0	0.5
Net cash (used in) provided by	2.6	4.3	(0.1)	(0.9)	(1.3)	(2.8)	(5.2)	(3.6)	(3.0)	(6.2)	(3.8)	(16.6)	(3.5)	(3.0)	(3.2)	(3.1)	(12.7)	(1.3)	(2.4)	(2.5)	(2.1)	(8.3)
Cash flow from investing activities																						
Purchases of property and equi	(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)	(0.2)	(0.2)	(0.2)	(0.6)	(0.2)	(0.2)	(0.6)	(0.2)	(1.1)
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					0.0					0.0
Net cash used in investing activ	(0.2)	(0.3)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)	(0.2)	(0.7)	(0.2)	(0.0)	(1.1)	(0.2)	(0.2)	(0.2)	(0.2)	(0.6)	(0.2)	(0.2)	(0.6)	(0.2)	(1.1)
Cash flow from financing activities																						
Issuance of debt	0.2			0.6			0.6					0.0	5.0	0.0	5.0	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
Issuance of stock							18.2	18.2		4.8	0.8	5.6	0.9	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Proceeds from stock option exe	0.2	0.2	0.1	0.0	0.1	0.0	0.2	0.2	0.0	0.1		0.2	0.1				0.1					0.0
Other							0.0					0.0					0.0					0.0
Dividends and distributions		(0.7)	(0.1)	(0.0)			(0.1)					0.0					0.0					0.0
Cash provided by (used in) fina	(0.9)	(2.3)	0.1	0.6	0.1	18.2	18.9	0.2	(0.1)	4.3	0.7	5.1	5.6	0.0	5.0	0.0	10.6	0.0	0.0	0.0	0.0	0.0
Effect of exchange rate on cash							0.0					0.0					0.0					0.0
Net increase (decrease) in cash	1.4	1.7	(0.1)	(0.3)	(1.4)	15.2	13.4	(3.6)	(3.7)	(2.2)	(3.1)	(12.6)	2.0	(3.1)	1.7	(3.2)	(2.7)	(1.5)	(2.5)	(3.1)	(2.3)	(9.4)
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	2.9	4.6	4.1	1.4	(0.1)	(2.7)	(5.8)	1.4
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	2.9	4.6	1.4	1.4	(0.1)	(2.7)	(5.8)	(8.0)	(8.0)

Source: Company reports and Ascendant Capital Markets estimates

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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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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 July 14, 2022)

Rating	Count	Percent	Investment Banking Services Past 12 months	
			Count	Percent
Buy	41	98%	15	37%
Hold	0	0%	0	0%
Sell	1	2%	0	0%
Total	42	100%	15	36%

Other Important Disclosures

Our analysts use various valuation methodologies including discounted cash flow, price/earnings (P/E), enterprise value/EBITDAS, and P/E to growth rate, among others. Risks to our price targets include failure to achieve financial results, product risk, regulatory risk, general market conditions, and the risk of a change in economic conditions.

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