

October 21, 2021

GENIANS, INC. (KOSDAQ: A263860)

Founded in 2005 and based in South Korea, Genians is an information security software company that provides Network Access Control (NAC), Endpoint Detection & Response (EDR), and Cybersecurity Awareness solutions for global organizations. The company serves more than 1,600 customers, including Fortune 500 companies in a range of industries, government and military entities, and educational institutions.

COMPANY HIGHLIGHTS

- * Genians: Strong prospects for information security provider
- * A leader in the Korean Network Access Control market, Genians is expanding its offerings to include newer Endpoint Detection & Response and Cybersecurity Awareness products.
- * Genians is also expanding globally. Its Korea-based sales force focuses on the Asia-Pacific region and the Middle East, while its U.S.-based team focuses on cloud services and device platform intelligence (DPI) in North America, Latin America, and Europe.
- * The company has been profitable since inception and, in our view, has the resources to fund its product and geographic expansion plans.
- * The shares currently trade at a significant discount to a group of software peers, which we attribute to a period of slower top-line growth and operating margins that have been pressured by investments in next-generation technology. However, we expect the valuation gap to narrow as Genians executes on its growth strategy.
- * Based on our P/E analysis, we arrive at a fair value estimate of 11,145 KRW per share, above current levels near 8,350 KRW.

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KEY STATISTICS

Key Stock Statistics

Recent price, KRW (10/19/21)	8,350.00
52 week high/low (KRW)	9,750- 5,120
Shares outstanding (M)	8.6
Market cap (M, KRW)	71,450
Dividend	NA
Yield	NA

Sector Overview

Sector	Information Technology
Sector % of S&P 500	27.6%

Financials

Cash & Mkt Securities (\$M, KRW)	22,645
Debt (\$M, KRW)	252
Working Capital (\$M, KRW)	22,700
Current Ratio	4.7
Total Debt/Equity (%)	1
Payout ratio	NA
Revenue (\$M, KRW) TTM	27,289
Net Income (\$M, KRW) TTM	5,341
Net Margin	19.6%

Risk

Beta	1.34
Inst. ownership	0%

Valuation

P/E forward EPS	16.2
Price/Sales (TTM)	2.6
Price/Book (TTM)	2.1

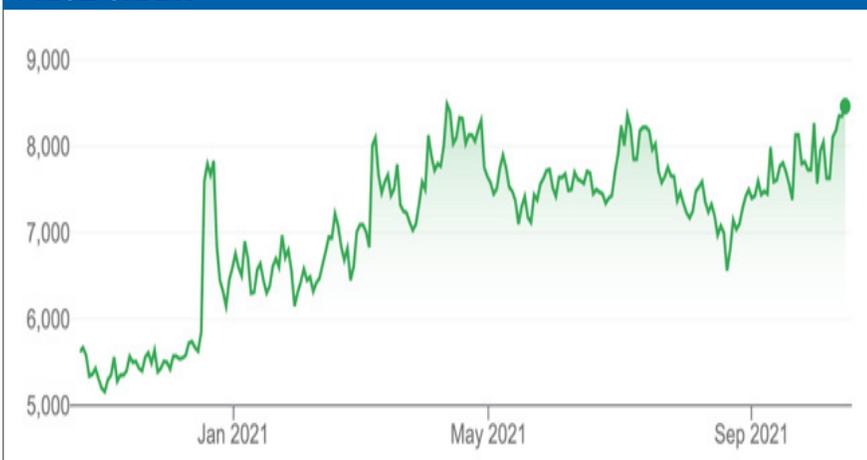
Top Holders

Miri Capital Management LLC
Premier Partners LLC
Dream Asset Management Co LTD

Management

CEO	Mr. Dong-Bum Lee
COO	Mr. Dong-Seok Lee
CTO	Mr. Kye-Yeon Kim
Company website	www.genians.com

PRICE CHART



COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

INVESTMENT THESIS

Founded in 2005 and based in South Korea, Genians is an information security software company that provides Network Access Control (NAC), Endpoint Detection & Response (EDR), and Cybersecurity Awareness solutions for global organizations. The company serves more than 1,600 customers, including Fortune 500 companies in a range of industries, government and military entities, and educational institutions. Genians established a U.S.-based subsidiary in 2016 and listed its stock on the KOSDAQ in 2017.

Genians participates in the Korean information security industry, which had 2020 sales of approximately 11.9 trillion Korean won (KRW) (US\$10 billion), up 6.4% from 2019 according to a national industry survey. We estimate that the cyber-security subindustry represents approximately one-third of this market, and is poised to grow at a faster rate, driven by the increased use of online education and digital services (due to COVID-19 and new cybersecurity threats). Globally, Gartner estimates \$150 billion in spending on information security in 2021.

Genians has been profitable since its inception in 2005, reflecting its focus on Network Access Control solutions (NAC). Frost & Sullivan estimates that the global NAC market grew to \$1.4 billion in 2020, and projects 10.4% compound annual growth, to \$2.2 billion, between 2019 and 2024. We expect this growth to be driven by the increasing connectivity of devices; the growth of internet of things (IoT) solutions, which link these devices; and the increase in remote work and cloud-based digital transformation. Cybersecurity Ventures estimates that 6 billion people will be connected to the internet by 2022, tripling the number connected in 2015, and that many users will have multiple devices. In 2020, Genians boosted its share of the Korean NAC public procurement market to 72% by incorporating technologies such as next-gen fingerprinting, which underpins its Device Platform Intelligence (DPI) capabilities, and the industry's first cloud-based solution.

In our view, Genians' record of consistent profitability reflects its commitment to R&D: roughly two-thirds of its employees are engineers. The company also outsources production and thus has little production facility overhead. Genians has been awarded ISO/IEC 27001 certification for Information Security Management Systems (ISMS), a worldwide standard for best compliance practices in information security and data protection. In 2021, Genians was named for the third consecutive year as a "representative vendor" in Gartner's Global Market Guide for Network Access Control.

As growth in the NAC market has slowed in recent years, Genians has invested profits from its NAC business into new technologies, partnerships, and acquisitions that should help to drive future growth. In 2017, it launched a second product, Endpoint Detection & Response (EDR), which will help it to compete in

IoT, 5G, and cloud-based applications. The EDR platform enables customers to collect, correlate and control data across an entire network environment, and provides comprehensive defense against ever-evolving cybersecurity threats.

EDR, a terminal-based intelligent threat detection and response solution, detects and stops abnormal device and network behavior caused by errant settings, user violations, security vulnerabilities, or cyberattacks. According to Gartner, the global EDR market grew at a compound annual rate of 45% in 2015-2020, to \$1.6 billion, as enterprises have confronted more sophisticated cybersecurity threats that have outpaced traditional antivirus software. EDR solutions reached the market in 2014. Genians' EDR solution was the first such solution in Korea and the first registrant in Korea's Public Procurement Services department.

As of the middle of 2021, Genians had the most cumulative EDR customers in Korea, with 72, and the number of EDR supply nodes utilizing the service had increased by 57%, year-over-year. The number of server nodes had increased from 10,000 in 2017-2018 to more than 110,000 in 2020. In our view, EDR adoption has been fostered by increases in telecommuting, as companies increasingly seek to strengthen network security amid greater remote connectivity, particularly among financial institutions and public institutions, including government offices. We expect continued growth for the product as part of an integrated, subscription-based solution with NAC and other offerings.

Genians is in the early stages of global expansion and has thus far established 33 partnerships in 32 countries. Its Korea-based sales force focuses on on-premise activities in the Asia-Pacific region and the Middle East, while its U.S.-based team focuses on cloud services and device platform intelligence (DPI) in North America, Latin America, and Europe. In the first half of 2021, Korea accounted for 98% of sales, while exports accounted for 2%. The company is also diversifying its sales channels, notably through the Amazon Web Services Marketplace. In August 2021, Genians also announced a partnership with CyberDist Africa that will expand its NAC presence in Africa, where only 22% of the population had internet access as of 2017, according to the World Bank; however, the 2018 Digital Economy Africa Initiative aims to connect all government agencies, businesses, and individuals in Africa by 2030.

The global EDR market is fiercely competitive, and includes companies such as IBM, Palo Alto, FireEye, and Cisco. In some cases, the larger companies have entered the market by acquiring small EDR providers. However, the Korean market has remained favorable to domestically based companies, and Genians has

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
GENIANS INC	KOSDAQ: A263860	8350*	9750*	5120*	71450*	53	8	15	21.6	1.34	NA
HUNESION CO LTD	KOSDAQ: A290270	5890*	9970*	5070*	55738*	10	35	89	16.7	1.03	0.7
AHNLAB INC	KOSDAQ: A053800	73900*	105300*	60100*	641879*	18	7	-3	34.6	0.59	1.2
ESTSOFT CORP	KOSDAQ: A047560	13650*	19250*	7900*	139096*	59	21	NM	20.0	0.59	NA
RAONSECURE CO LTD	KOSDAQ: A042510	4995*	6700*	3200*	193140*	47	22	NM	NM	1.31	NA

* Stock Statistics in KRW

achieved solid contract wins in Korea over larger competitors. We believe that this will help the company to establish “proof of concept” on a product suite that can ultimately be rolled out globally.

Lastly, we are encouraged by the Korean government’s commitment to national digitization. As part of its “Korean New Deal” initiative, the government plans to spend 49 trillion KRW over the next five years to strengthen cybersecurity and expand digital services. We believe that Genians is well positioned to benefit from this increased government spending.

RECENT DEVELOPMENTS

In 2020, Genians shares rose 31%, compared to a 34% increase for the Kosdaq Small Index. The stock has risen 23% thus far in 2021, compared to a 12% gain for the index.

In August 2021, Genians reported 2Q21 results. Revenue rose 7% from the prior year to 6.5 billion KRW, and EPS jumped to 135 KRW from 22 KRW.

In August 2021, Genians announced plans to extend its NAC market leadership into Africa. The company will work with CyberDist Africa to promote the World Bank’s Digital Economy for Africa Initiative. As noted above, the initiative aims to connect all government agencies, businesses, and individuals in Africa by 2030.

In July 2021, Genians entered into a collaboration with Fortinet to develop solutions that focus on enhancing network security, focused on telecommuting and remote working environments, which have expanded due to the ongoing COVID-19 pandemic.

In June 2021, Genians announced that, for the third consecutive year, it was selected as a representative company in Gartner’s 2021 Network Access Control Market Guide, citing NAC’s role in strengthening security requirements amid increases in connected terminals that participate in network environments.

In March 2021, Genians announced that RAS Infotech, a provider of IT security solutions in the Middle East, India, and Southwest Asia, would be Genians’ sole distributor in the Middle East.

In November 2020, Genians opened a new office in San Jose, California. It expects the new office to boost interest in its Device Platform Intelligence (DPI) offering among cybersecurity vendors and other technology companies in Silicon Valley.

EARNINGS & GROWTH ANALYSIS

We expect Genians to post revenue of 28.7 billion KRW in 2021 and 31.3 billion KRW in 2022, which would represent growth of 7% and 9%, respectively. We expect product sales to represent an increasing portion of total revenue as the company’s EDR and next-generation NAC products gain traction in the market. The company currently generates 80% of revenue from product sales and 20% from maintenance and technical support services.

We anticipate gross margins of 60% in 2021 and 61% in 2022, up from 59% in 2020. We expect gross margins to benefit as user network configurations transition from on-premise to cloud-based environments. We also expect operating expenses, which have averaged approximately 50% of sales in recent years, to decline modestly, thanks to investments in new business lines and synergies from selling NAC and EDR in a single network environment. Our operating margin forecasts are 10% for 2021 and 12% for 2022.

We forecast EPS of 467 KRW in 2021, up 21% from the prior year, and 516 KRW in 2022 (up an additional 11%). We expect 2021 EPS to benefit from one-time gains on asset sales. We note that the company’s net profit has also benefited from tax credits related to its R&D investments and small-cap status, which we expect to continue over the next few years.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on Genians is Medium. As of June 30, 2021, the company had 22.6 billion KRW (US\$19.3 million) in cash and short-term investments, up from 17.7 billion KRW (US\$14.8 million) at the end of 2019.

In 2020, net cash inflows from operations were 3.92 billion KRW, up from 1.83 billion KRW in 2019. Net cash used in investing activities was 2.27 billion KRW, up from 835 million KRW in 2019. Net cash used in financing activities rose to 2.11 billion KRW in 2020 from 1.34 billion KRW in 2019.

As noted above, Genians designs and develops materials for its solution-related servers, which are then produced by outsourcing companies. As a result, the company is able to avoid the cost of operating its own production facilities and to focus instead on R&D. Approximately two-thirds of its employees are R&D-focused engineers.

Genians’ operating margins have declined in recent years due to investments in new technology; however, we believe that these declines have overshadowed the company’s rising sales and continued profitability. Genians has steadily increased sales since 2016, with compound annual growth of approximately 7%. During this period, the gross margin has also expanded each year, with annual growth of 9%. In addition, total assets and total equity have increased at compound annual rates of 13% and 15%, respectively, while liabilities have increased at a 7% rate. Total equity was 36.6 billion KRW (US\$30.8 million) as of June 30, up from 19.7 billion KRW (US\$16.5 million) at the end of 2016.

As of June 30, 2021, Genians had a current ratio of 4.7 and working capital of 22.7 billion KRW (US\$19.3 million), which we think should facilitate access to outside capital and enable the company to implement its expansion plans.

Genians does not pay a dividend, and we do not expect it to initiate one in the near term.

MANAGEMENT & RISKS

Dong-Bum Lee is Genian’s CEO and is also a director of the company. Mr. Lee served as a director of Oullim Information Technology Co., Ltd. from March 1998 to December 2004. He graduated from Sungkyunkwan University, with a major in Information Engineering, in August 1995.

As of June 30, 2021, the Genians board consisted of five members, including one independent, non-executive director. In addition, CEO Dong-Bum Lee, the company’s largest shareholder, owns approximately 30% of Genians stock.

The company operates in a highly competitive industry. It faces competition from large global players such as IBM, Palo Alto, and Cisco, as well as risks as it expands into new markets outside of Korea. The company’s technology must also keep pace with increasingly sophisticated cybersecurity threats.

COMPANY DESCRIPTION

Founded in 2005 and based in South Korea, Genians is an information security software company that provides Network Access Control (NAC), Endpoint Detection & Response (EDR), and Cybersecurity Awareness solutions for global organizations. The company serves more than 1,600 customers, including Fortune 500 companies in a range of industries, government and military entities, and educational institutions.

VALUATION

We think that Genians' valuation does not adequately reflect the company's prospects for expanding its product suite, market share, and geographic reach. The shares currently trade at 13.7-times trailing 12-month EPS (through June 30, 2021), well below the average multiple of 32 for a basket of software peers. Although the company has lagged the peer group over the past three years on revenue growth (7.4% versus 10.9%) and EBIT growth (7.2% versus 19.7%), we note that EBIT has been limited by investments in next-

gen technologies, which we expect to boost revenue significantly in the coming years. Excluding these investments, operating margins in the core business are close to 20%. We note that Genians' EBIT margin was approximately 18.5% as recently as 2017-2018. The company's average gross margin of 60% is also above the peer average of 51%, reflecting its use of outsourced production. The use of outsourcing has also allowed the company to operate with low debt; the debt/capital ratio is less than 1%, compared to 20%+ for the peer group. In all, we view the company's operational and financial growth profile as compelling, and expect the valuation gap with peers to narrow over time. Given ongoing consolidation in the cybersecurity industry, we believe that Genians could also be an acquisition candidate for a larger global player.

To value the stock, we apply a P/E multiple of 24, below the global peer average of 32, to our 2022 EPS estimate of 516 KRW. We then discount this total back one year at 10% to arrive at a fair value estimate of approximately 11,145 KRW, above current levels near 8,350 KRW.

Steve Silver

INCOME STATEMENT

Growth Analysis (\$MIL, KRW)	2019	2020	Q1 2021A	Q2 2021A	Q3 2021E	Q4 2021E	2021E	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E
Revenue	24926	26814	4739	6524	6774	10663	28700	5150	7100	7400	11650	31300
Gross Profit	14715	15815					17230					19095
SG&A	12421	8290					9000					9650
R&D	NA	4933					5300					5700
Operating Income	2295	2592					2930					3746
Interest Expense	NM	NM					NM					NM
Pretax Income	2629	2796					3893					4078
Tax Rate (%)	NA	NA					NA					NA
Net Income	3107	3424					4016					4438
Diluted Shares	9.2	8.9					8.6					8.6
EPS	336	386	59	137	24	247	467	24	128	62	302	516
Dividend	NA	NA					NA					NA
Growth Rates (%)												
Revenue	NA	8					7					9
Operating Income	NA	13					13					28
Net Income	NA	10					17					11
EPS	NA	15					21					10
Valuation Analysis												
Price (KRW): High	6670.00	8870.00					NA					NA
Price (KRW): Low	4210.00	2365.00					NA					NA
PE: High	23.9	26.4					NA					NA
PE: Low	15.1	7.0					NA					NA
PS: High	2.5	3.2					NA					NA
PS: Low	1.6	0.8					NA					NA
Yield: High	NA	NA					NA					NA
Yield: Low	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL, KRW)												
Cash and Equivalents	17617	20390					NA					NA
Working Capital	21247	24197					NA					NA
Current Ratio	4.3	5.0					NA					NA
LTDebt/Equity (%)	0	0					NA					NA
Total Debt/Equity (%)	1	1					NA					NA
Ratio Analysis												
Gross Profit Margin	59%	59%					60%					61%
Operating Margin	9%	10%					10%					12%
Net Margin	12%	13%					14%					14%
Return on Assets (%)	3.6	3.7					NA					NA
Return on Equity (%)	9.4	10.0					NA					NA
Op Inc/Int Exp	NM	NM					NM					NM
Div Payout	NA	NA					NA					NA

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