

GENIANS, INC. (KOSDAQ: A263860)

Founded in 2005 and based in South Korea, Genians is an information security software company that provides a fundamental cyber-security platform for building a trusted path to secure access for any connecting devices by leveraging its Device Platform Intelligence (DPI), Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI) solutions. Since 2005, the company has served more than 1,600 customers, including Fortune 500 companies and organizations including government, military, critical infrastructure, finance, healthcare and educational entities.

COMPANY HIGHLIGHTS

- * Genians: Strong prospects for information security provider
- * A leader in the Korean Network Access Control (NAC) market, Genians is expanding its offerings to include newer Endpoint Detection & Response (EDR) and Policy Inspector (GPI) cybersecurity awareness products.
- * In our view, Genians is well positioned to leverage its NAC market position by investing in both internal R&D and external M&A opportunities. We expect the company to emerge as an integrated cyber-security platform provider that can participate in the nascent Internet of Things (IoT) and cloud-based environments. In addition, the company has been profitable since inception and, in our view, has the resources to fund its product and geographic expansion plans.
- * Although domestic market sales have accounted for most of its revenues to date, 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.

(continued on next page)

KEY STATISTICS

Key Stock Statistics

Recent price, KRW (5/5/22)	9,720.00
Fair Value Estimate (KRW)	17,886.00
52 week high/low (KRW)	14,500- 6,500
Shares outstanding (M)	8.8
Market cap (M, KRW)	85,973
Dividend	NA
Yield	NA

Sector Overview

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

Financials

Cash & Mkt Securities (\$M, KRW)	19,801
Debt (\$M, KRW)	224
Working Capital (\$M, KRW)	22,960
Current Ratio	3.2
Total Debt/Equity (%)	1
Payout ratio	NA
Revenue (\$M, KRW) TTM	31,917
Net Income (\$M, KRW) TTM	6,174
Net Margin	19.3%

Risk

Beta	1.34
Inst. ownership	NA

Valuation

P/E forward EPS	13.6
Price/Sales (TTM)	2.7
Price/Book (TTM)	2.2

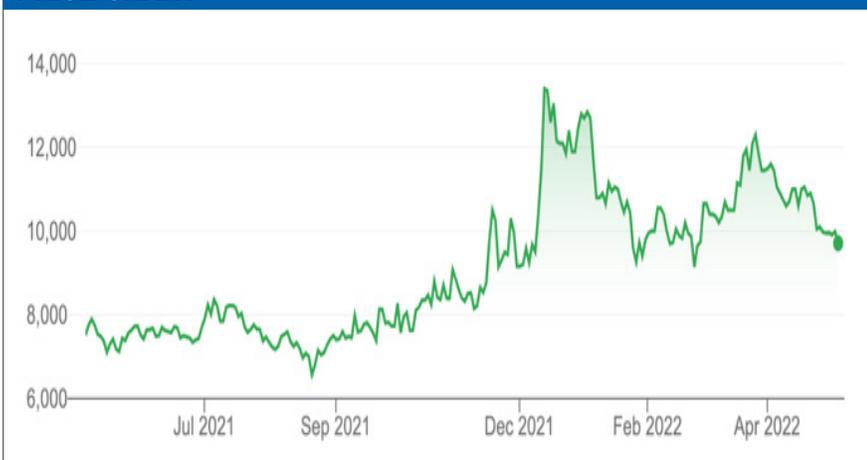
Top Holders

Miri Capital Management LLC
Premier Partners LLC

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.

- * The shares currently trade at a significant discount to a group of software peers, and we think that recent acceleration of revenue and profit growth are not yet fully appreciated by investors. We note that during the middle of the previous decade, the company produced slower top-line growth and compressed operating margins due to investments in next-generation technology. We expect the valuation gap to narrow as Genians executes its growth strategy.
- * Based on our forward P/E analysis, we arrive at a fair value estimate of 17,886 KRW per share, above its current level near 10,000 KRW.

INVESTMENT THESIS

Founded in 2005 and based in South Korea, Genians is an information security software product and services company that provides Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspection (GPI) security diagnosis 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.

The company 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. According to market research firm IDC, the rate of growth for the market declined from 21.4% in 2015 to 6.3% in 2019. We estimate that the cyber-security subindustry represents approximately one-third of this market, and is poised to grow at a much faster rate, driven by the increased use of online education and digital services (due to COVID-19 and new cybersecurity threats). Globally, Gartner estimated \$150 billion in spending on information security in 2021.

In our view, Genians' record of consistent profitability reflects its commitment to R&D, as 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.

Genians has been profitable since its inception in 2005. Its sales are divided into two primary categories: sales of information security products, and maintenance and technical support

services for these customers. Its product portfolio is led by three products: Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI). To date, the NAC product has been Genians' leading revenue contributor. The product held a 62% market share of the Korean NAC public procurement market in 2021, which was below 2020's 72% level, due to some COVID-19 related delays among its customers. Genians has maintained a leading market share by incorporating technologies such as next-gen fingerprinting, which underpins its Device Platform Intelligence (DPI) capabilities, and the industry's first cloud-based solution into its offerings over time.

Frost & Sullivan estimates that the global NAC market grew to \$1.4 billion in 2020, and project 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 in 2022, triple the number connected in 2015, and that many users will have multiple devices.

However, as growth in the NAC market slowed in recent years, Genians has invested profits from this business into new technologies, partnerships, and acquisitions that should help drive future growth. In 2017, it launched a second product, Endpoint Detection & Response (EDR), which should 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 that are expected to continue to grow, as sophisticated online applications such as the metaverse result in increases in time spent on mobile and networked devices.

EDR uses intelligent threat detection and response solutions to detect and stop 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% from 2015-2020, to \$1.6 billion, as enterprises have confronted more sophisticated cybersecurity threats that have outpaced traditional antivirus software. Genians has cited 300,000 new and variant malicious codes represented by ransomware appearing every day. 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.

(continued on next page)

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	9,720*	14,500*	6,500*	85,973*	29	19	81	13.9	1.34	NA
HUNESION CO LTD	KOSDAQ: A290270	6,130*	9,970*	5,190*	58,009*	0	5	346	3.9	0.92	0.7
AHNLAB INC	KOSDAQ: A053800	113,100*	218,500*	61,500*	982,362*	73	16	127	23.3	0.52	1.0
ESTSOFT CORP	KOSDAQ: A047560	12,500*	20,700*	9,580*	125,680*	29	7	7	15.5	0.75	NA
RAONSECURE CO LTD	KOSDAQ: A042510	3,550*	6,700*	3,220*	137,267*	-16	17	NM	NM	1.37	NA

* Stock Statistics in KRW

As of the end of 2021, Genians had surpassed 100 cumulative EDR customers in Korea, which represents a 50% increase over 2020 and the largest number of customers in the Korea market. According to statistics of the Nara Market Mall by the Public Procurement Service as of December 31, 2021, Genians' EDR had a 79% market share among its four registered EDR products for procurement.

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 and public institutions, including government offices. With increased demand and the entrance of new competition, we expect continued growth for the EDR market, and view Genians' offering as attractive, given its ability to be integrated with NAC and other offerings. Further, as EDR is a subscription-based service, we expect recurring sales to provide a long-term tailwind to the company's revenue growth trajectory.

To date, most of Genians' sales have come from the domestic Korean market. In 2021, that market accounted for 98% of sales, while exports accounted for 2%. Its domestic 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, the Middle East and Europe.

Genians is in the early stages of global expansion and has already established 32 partnerships in 32 countries. Entry into these new markets has been driven by a qualified partner network that has enabled its NAC product to compete against other vendors, driving customer expansion into areas including finance, hospitals and other enterprises. Although sales growth from international channels has been modest to date, which we attribute to market disruptions related to the COVID-19 pandemic, we view Genians' broad partnership base as likely to expand the EDR market, supported by its applicability in cloud and multi-operating system environments in the future.

We are encouraged by progress in markets including Israel, the Middle East and South America, where Genians is working with regional sales partners to increase its NAC market share. In 2021, sales more than doubled in the Middle East and South America, compared with 2020. The company is also winning more customers in U.S. financial institutions and Canadian municipalities. The company is also diversifying its sales channels, notably through the Amazon Web Services Marketplace.

The global EDR market is fiercely competitive, and includes companies such as CrowdStrike, Cybereason, Palo Alto, and FireEye. 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 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.

In our view, Genians is well positioned to participate in competitive markets, given its investments in new products and patented technologies over the past few years, which has yielded

the EDR product, among other future growth drivers. In addition, the company has created a research institute focused on innovation, and we are encouraged by its use of over 70% of its total workforce as technically focused employees.

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 the upward trajectory of government spending.

RECENT DEVELOPMENTS

In 2021, Genians shares rose 93%, compared to a 15% increase for the Kosdaq Small Index. Year-to-date, the stock declined 24%, compared to a 5% drop for the index.

In March 2022, Genians reported full-year 2021 results, which were highlighted by 19% revenue growth to 31.9 billion KRW and 81% EPS growth to 698 KRW. In December 2021, Genians was designated as an "Institute of Excellent Enterprises" for the second half of 2021 by the Ministry of Science, Technology, Information and Communications and the Korea Association for the Advancement of Industry and Technology.

In November 2021, Genians obtained the Cloud Service Security Certification (CASP) from the Korea Internet & Security Agency (KISA), which is a system that objectively and fairly evaluates and certifies the level of product and service security so that public institutions can safely use the private cloud. Genian Cloud NAC has been certified in the standard software as a service (SaaS) rating field and is the first domestic security solution to be certified in the SaaS category.

In October 2021, Genians received the Grand Prize from the Minister of Small and Medium Venture Business in the Third Korea Small and Medium Business Startup Awards.

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. 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

In 2021, total sales increased to 31.9 billion KRW, up 19% from 2020. Product sales accounted for 82.5% of revenues, while maintenance and technical support services accounted for 17.5% of sales. We expect Genians to post revenue of 35.8 billion KRW in 2022 and 40.0 billion KRW in 2023, which would represent growth of approximately 12% in each period. 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.

We anticipate gross margins of 62% in 2022 and 63% in 2023, which would compare favorably to 61% in 2021. 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 been declining from 50% of sales to the lower 40% range in recent years, to continue 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 20% for 2022 and 22% for 2023, up from 19% in 2021.

We forecast EPS of 715 KRW in 2022, up 2% from 2021, which was boosted by several one-time gains on asset sales, and 873 KRW in 2023 (up 22%). 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-High. As of December 31, 2021, the company had 19.8 billion KRW (US\$16 million) in cash and short-term investments, down modestly from 20.4 billion KRW (US\$16.4 million) at the end of 2020.

For the year ended December 31, 2021, net cash inflows from operations were 5.7 billion KRW, up from 3.9 billion KRW in 2020. Net cash used in investing activities was 4.3 billion KRW, up from 2.3 billion KRW in 2020. Net cash used in financing activities was 0.3 billion KRW in 2021, compared with 2.1 billion in 2020.

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.

Prior to 2021, Genians' operating margin had been pressured by investments in new technology. Between 2018 and 2020, operating margins were 11%, 9.2% and 9.7%, respectively. However, in 2021, the operating margin increased to 18.5%, reflecting strong revenue growth of 19%, driven by EDR. While we expect double digit revenue growth to continue over the coming years reflecting expansion of the EDR market, we believe that the challenging environment over the prior three-year period have overshadowed the company's rising sales and continued profitability. Genians has steadily increased sales since 2016, with compound annual growth of approximately 9%. During this period, the gross margin has also expanded each year, with annual growth of 11%.

In addition, total assets and total equity have increased at compound annual rates of 14.5% and 16%, respectively, while liabilities have increased at a 10.5% rate. Total equity was 41.1 billion KRW (US\$33 million) as of December 31, up from 19.7 billion KRW (US\$16.5 million) at the end of 2016.

As of December 31, 2021, Genians had a current ratio of 3.2 and working capital of 23.0 billion KRW (US\$18.1 million), which we think will facilitate access to outside capital and enable the company to implement its expansion plans.

For fiscal year 2021, Genians paid a one-time dividend of 120 won per common share. The company does not pay a regular dividend, and we do not expect it to initiate one in the near term.

MANAGEMENT

Dong-Bum Lee is Genians' CEO and 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. In addition, Mr. Lee, the company's largest shareholder, owns approximately 30% of Genians stock.

As of December 31, 2021, the Genians board consisted of four inside directors and one auditor.

RISKS

Risks to an investment in Genians include the company's participation in a highly competitive industry, as 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. In addition, the company could see international expansion initiatives slowed by continued market disruptions related to the COVID-19 pandemic.

COMPANY DESCRIPTION

Founded in 2005 and based in South Korea, Genians is an information security software company that provides a fundamental cyber-security platform for building a trusted path to secure access for any connecting devices by leveraging its Device Platform Intelligence (DPI), Network Access Control (NAC), Endpoint Detection & Response (EDR), and Genian Policy Inspector (GPI) solutions. Since 2005, the company has served more than 1,600 customers, including Fortune 500 companies and organizations including government, military, critical infrastructure, finance, healthcare and educational entities.

VALUATION

We think that Genians' valuation does not adequately reflect what we see as the company's prospects for expanding its product suite, market share, and geographic reach. The shares currently trade at 13.6-times our 2022 EPS estimate of 715 KRW, well below the average multiple around 28 for a basket of global system software peers. Although the company had lagged the peer group over the prior three years on revenue and EBIT measures, we note that Genians now compares favorably to the peer growth on both measures (14.2% on revenues compared with 12%) and EBIT

growth (35.7% versus 19.4%). Thus, we expect the valuation gap between Genians and its peers to narrow as the company continues to execute and validate its 2021 results.

In addition, Genians' use of outsourcing has allowed the company to operate with low debt; the debt/capital ratio is less than 1%, compared to 20%+ for the peer group. Overall, 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 a potential acquisition candidate for a larger global player.

To value the stock, we apply a P/E multiple of 25 (a modest discount to the global peer average of 28) to our 2022 EPS estimate of 715 KRW and arrive at a fair value estimate of approximately 17,886 KRW. That is well above current levels near 10,000 KRW.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL, KRW)	2019	2020	2021	Q1 2022E	Q2 2022E	Q3 2022E	Q4 2022E	2022E	Q1 2023E	Q2 2023E	Q3 2023E	Q4 2023E	2023E
Revenue	24926	26814	31917	5326	7307	7031	16086	35750	5965	8183	7868	17984	40000
Gross Profit	14715	15815	19339					21986					25059
SG&A	12421	13223	13433					14827					16247
R&D	NA	NA	NA					NA					NA
Operating Income	2295	2592	5907					7158					8812
Interest Expense	NM	NM	NM					NM					NM
Pretax Income	2629	2796	7245					7445					9084
Tax Rate (%)	NA	NA	15					15					15
Net Income	3107	3424	6174					6334					7721
Diluted Shares	9.2	8.9	8.8					8.8					8.8
EPS	336	386	698	103	159	163	291	715	119	179	192	383	873
Dividend	NA	NA	NA					NA					NA
Growth Rates (%)													
Revenue	NA	8	19					12					12
Operating Income	NA	13	128					21					23
Net Income	NA	10	80					3					22
EPS	NA	15	81					2					22
Valuation Analysis													
Price (KRW): High	6670.00	8870.00	14500.00					NA					NA
Price (KRW): Low	4210.00	2365.00	5800.00					NA					NA
PE: High	23.9	26.4	37.6					NA					NA
PE: Low	15.1	7.0	15.0					NA					NA
PS: High	2.5	3.2	4.8					NA					NA
PS: Low	1.6	0.8	1.9					NA					NA
Yield: High	NA	NA	NA					NA					NA
Yield: Low	NA	NA	NA					NA					NA
Financial & Risk Analysis (\$MIL, KRW)													
Cash and Equivalents	17617	20390	19801					NA					NA
Working Capital	21247	24197	22960					NA					NA
Current Ratio	4.3	5.0	3.2					NA					NA
LTDebt/Equity (%)	0	0	0					NA					NA
Total Debt/Equity (%)	1	1	1					NA					NA
Ratio Analysis													
Gross Profit Margin	59%	59%	61%					61%					63%
Operating Margin	9%	10%	19%					20%					22%
Net Margin	12%	13%	19%					18%					19%
Return on Assets (%)	3.6	3.7	7.6					NA					NA
Return on Equity (%)	9.4	10.0	16.2					NA					NA
Op Inc/Int Exp	NM	NM	NM					NM					NM
Div Payout	NA	NA	NA					NA					NA

DISCLAIMER

Argus Research Co. has received a flat fee from the company discussed in this report as part of a “Sponsored Research” agreement between Argus and the company. No part of Argus Research’s compensation is directly or indirectly related to the content of this assessment or to other opinions expressed in this report. Argus Research provides a suite of Sponsored Research services including but not limited to initial reports with ongoing coverage and updates; proprietary Argus Research earnings estimates; distribution to Argus Research’s clients; a license to enable the company to proactively use and distribute the report ; a press release announcing our initial coverage and updates; and access to the Vickers Research database. The price for this suite of services generally ranges from \$22,000 to \$35,000 depending on the level of services selected. Argus Research receives no part of its compensation in the form of stock or other securities issued by the company discussed in this report, and has no long equity position or short sale position in the company’s stock. Argus Research is not involved in underwriting securities for the subject company, and will receive no proceeds or other financial benefit from any securities offering by the company. Argus Research; its officers, directors, and affiliates; and the author of this report have no financial interest in, or affiliation with, the subject firm. The report is disseminated primarily in electronic form and is made available at approximately the same time to all eligible recipients.

Argus Research Co. (ARC) is an independent investment research provider whose parent company, Argus Investors’ Counsel, Inc. (AIC), is registered with the U.S. Securities and Exchange Commission. Argus Investors’ Counsel is a subsidiary of The Argus Research Group, Inc. Neither The Argus Research Group nor any affiliate is a member of the FINRA or the SIPC. Argus Research is not a registered broker dealer and does not have investment banking operations. The Argus trademark, service mark and logo are the intellectual property of The Argus Research Group, Inc.

The information contained in this research report is produced and copyrighted by Argus Research Co., and any unauthorized use, duplication, redistribution or disclosure is prohibited by law and can result in prosecution. The content of this report may be derived from Argus research reports, notes, or analyses. The opinions and information contained herein have been obtained or derived from sources believed to be reliable, but Argus makes no representation as to their timeliness, accuracy or completeness or for their fitness for any particular purpose. This report is not an offer to sell or a solicitation of an offer to buy any security. The information and material presented in this report are for general information only and do not specifically address individual investment objectives, financial situations or the particular needs of any specific person who may receive this report. Investing in any security or investment strategies discussed may not be suitable for you and it is recommended that you consult an independent investment advisor. Nothing in this report constitutes individual investment, legal or tax advice. Argus may issue or may have issued other reports that are inconsistent with or may reach different conclusions than those represented in this report, and all opinions are reflective of judgments made on the original date of publication. Argus is under no obligation to ensure that other reports are brought to the attention of any recipient of this report. Argus shall accept no liability for any loss arising from the use of this report, nor shall Argus treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance.

Argus has provided independent research since 1934. Argus Investors’ Counsel (AIC), a portfolio management business based in Stamford, Connecticut, is a customer of Argus Research Co. (ARC), based in New York. Argus Investors’ Counsel pays Argus Research Co. for research used in the management of the AIC core equity strategy and model portfolio and UIT products, and has the same access to Argus Research Co. reports as other customers. However, clients and prospective clients should note that Argus Investors’ Counsel and Argus Research Co., as units of The Argus Research Group, have certain employees in common, including those with both research and portfolio management responsibilities, and that Argus Research Co. employees participate in the management and marketing of the AIC core equity strategy and UIT and model portfolio products.