

<Company Research and Analysis Report>

Geolocation Technology 4018 FSE Q-Board

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<Introduction of Geolocation Technology>

- Geolocation Technology develops, maintains, and manages IP address database, which is the only domestic company to provide services such as corporate web-marketing support and preventing unauthorized access. It also provides brokerage services for IP addresses, for which demand has been extremely strong in recent years.
 - In September 2021, the Company listed on the Fukuoka Stock Exchange (FSE) Q-Board market.
 - *The listing on the FSE has increased public recognition in addition to the trust of existing customers, steadily expanding the Company's growth potential as well as its customer base. We believe that from a somewhat long-term perspective we will also be considering listing on the Tokyo Stock Exchange.
 - The Company's services also help detect fraud in rapidly growing financial transactions and respond to server crimes. In recent years, orders from major financial institutions, the National Police Agency, and other government agencies have been increasing in addition to ordinary business companies.
 - IP Geolocation Business is a significant pillar of our business.
 - *The Company's maintains and manages SURFPOINT™ database, which was developed independently so that it can retrieve and extract more than 100 types of data, such as location information, organizational attributes, and line information, into IP addresses (addresses on the Internet) assigned to information devices on the network.
 - *IP Geolocation business is provided to customers through SaaS (providing software through the cloud) or API (interfaces for using services).
 - *IP Geolocation business is being promoted around the following 4 domains.
 - ① Area targeting: Making use of location information judged from IP addresses, it can be used for the distribution of Internet ads in accordance with location information and for "Internet-based election activities".
 - ② BtoB marketing: Analysis of site visitation organization and active use of "first party data" (e.g., support for company analysis and sales activities based on acquired data).
 - ③ Regional development: By providing a contactless browser-based "digital stamp rally tool" that does not require an app download, it can be used to promote tourism and attract visitors to local events.
 - ④ Fraud detection: It helps detect fraud, such as internet fraud and rumors, and prevent damage from cybercrime.
 - * In order to operate its IP Geolocation business more effectively, the Company has acquired patents in Japan and the U.S. for its "IP address geolocation system."
 - Another business pillar is IP Address Transfer Business.
 - *This is a service that acts as an intermediary between corporations and other organizations that have unused IP addresses and companies that need them.
- Note: The conventional IP address uses the protocol "IPv4" (communication protocol) and can manage approximately 4.3 billion types of IP addresses worldwide. However, in recent years, due to the explosion of Internet demand, there has been an explosion in "inventory exhaustion" of usable IP addresses. Therefore, a new protocol called "IPv6" is available, but its popularization is only moderate at present.

*Attention Points: The Company's business can be said to be "Only 1," and it meets the demands of the present age.

- 1.The domains in which IP address databases can be used are expected to expand further in the future.
- 2.Orders from listed companies and government agencies will increase the Company's credibility and name recognition, which will encourage further growth.

<Main business line>

■ [IP Geolocation \(Geo-Location\) Business](#)

Only in Japan, the Company maintains and manages SURFPOINT™, a IP address database owned by Geolocation Technology, and provides services that help companies with web-marketing support, detect and prevent unauthorized access, and revitalize local communities by promoting tourism and event attraction.

*SURFPOINT is a technology that combines 9 billion trials using artificial intelligence (AI) with the expertise of full-time investigators (nettracers). It links more than 100 data items and is updated daily by NetTrackers.

●Principal service

*The main service is "Doko-Doko JP": an API-style distribution platform that allows SURFPOINT to be used on websites and applications. This is a form of distribution platform. It is incorporated into services in a variety of ways, including area targeting, which recognizes users' location information from IP addresses, expanding access analysis tools such as Google analytics, and utilizing them for RegTech.

*"Doko-Doko Ad": A display advertising distribution service that can be targeted by determining "location," "business," "weather," and "line type" from the user's IP address. It is useful for local governments and stores that want to limit their advertising delivery destinations, businesses that want to approach designated industry companies and prospective customers, Internet elections, etc.

*"Raku-Raku Log Analysis": A ASP/SaaS type access analysis tool that allows users to analyze deeper user information and business tree logs by simple operation. Its proprietary analytics program also supports access analysis of historical logs and real-time reports to help you acquire customers in your marketing strategies and websites. You can also customize the addition of analysis elements.

*"Teku-Teku Stamp": A browsers-type digital stamp tool that does not require app installation for the purpose of promoting tourism, roundtrips, and promotions at events. The sponsor's dashboard allows participants to check their "age and gender" and "residence" as well as "stamp acquisition history." It also allows for "participant behavior analysis" that is difficult with analog stamp plies. At the request of the sponsor, in addition to the tools, flyers, prizes, and other items necessary for the event can be provided in a lump sum. Until the end of June 2023, the Company held the Man Hall Card Digital Stamp Plary, which allows anyone to participate anywhere in the country.

*"IP Hiroba": A service that searches a user's region and Internet connection environment information by IP address or domain name. In addition to information searches linked to simple IP addresses, they are also used in the selection of segments in advertising targeting, investigations of sources of transmission of viruses, and initial investigations of an increasing number of cybercrimes.

*Services for Investigation Organizations: the Company collects important data on cybercrime countermeasures and provide and support to investigative agencies, as well as provide training curriculums for investigative agencies related to cybercrime technologies and knowledge. In August 2022, it participated in the general competitive bidding of the National Police Agency and concluded a contract for the "Cyber Technology Senka Culture Contracting Culture."

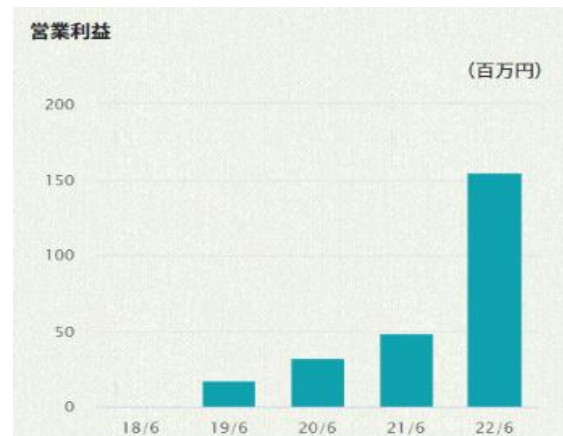
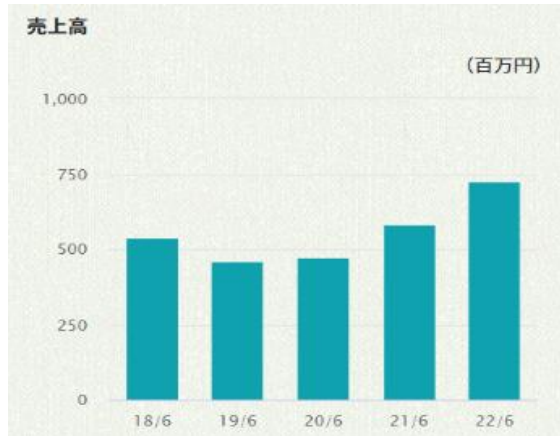
■ [IP Address Relocation Business](#)

This is a matching service that brokers businesses that want to transfer their IPv4 addresses.

*IP service business is used very often when expanding business, and can be matched with foreign partners. This is a service that is particularly in demand in modern times, when IPv4 continues to be exhausted. The existence of intermediaries prevents the occurrence of problems associated with the transfer. Of course, SURFPOINT will also be renewed after the transfer.

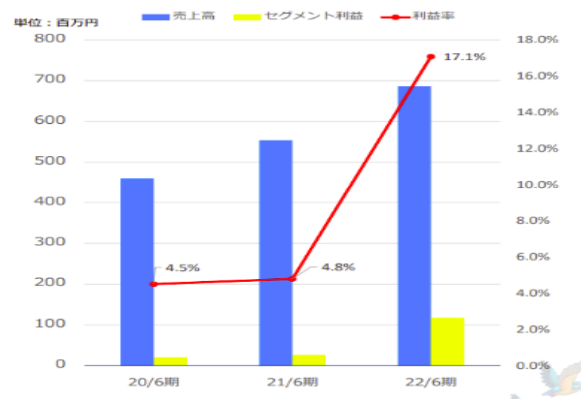
<Recent performance trends>

- In FY6/2022, profits grew significantly, reaching record highs.
- Revenue for FY6/2023 is expected to remain solid.

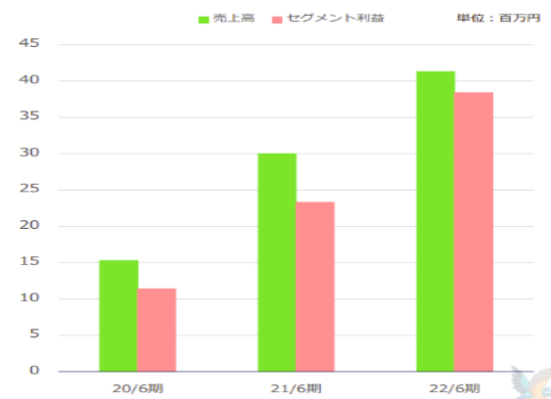


*Results by Operating Segment

IP Geolocation Business



IP Transfer Business



- Figures for FY6/2022 (Full-year and Non-Consolidated)

*The service that allows users to use the "SURFPOINT" database linked to various information on IP addresses on Web has led to an increase in sales by increasing the unit price per customer, despite some cancellations by inexpensive customers. In addition, orders for services, Web production, and various types of contract development, mainly for local governments, increased significantly from the previous fiscal year, contributing to an increase in revenues.

→As a result, net sales and operating income were almost in line with the full-year forecast, which was revised substantially upward at the time of the announcement of the third quarter (3Q) results, as shown below.

Sales up 24.7% YoY and 98.7% versus full-year forecast
 Operating profit up 212.1% YoY, 102.5% versus full-year forecast
 IP Geolocation business margin was 17.1% (4.8% in the previous fiscal year)

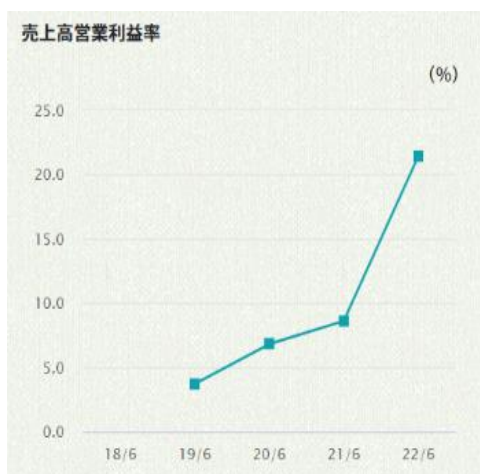
*In IP Geolocation business, the percentage of public sector customers rose sharply to 18% (8% in the previous fiscal year). Projects from local governments, the National Police Agency, and other organizations are expected to continue on an increasing trend.

*In IP Address Relocation Business, the Group accumulated several small-scale projects through aggressive sales, and also achieved a significant 64.9% increase in segment income compared with the previous fiscal year due to the impact of large-scale projects.

- Full-year results for FY6/2022 and full-year company forecasts for FY6/2023 are as follows.

(Figures are rounded down to the nearest million yen) as of August 12, 2022

	Results for FY6/2022 (YoY change)	Forecasts for FY6/2023 (YoY change)
Net sales	727 (+24.7%)	823(+13.1%)
Operating income	155(+212.1%)	153(△ 1.6%)
Ordinary income	145(+191.3%)	153(+ 5.2%)
Net income	99(+181.5%)	105(+ 6.1%)
Annual dividend (forecast)	10 yen (including listing commemorative dividend of 5 yen)	5 yen



- Significant growth in profit and profit margins

In FY6/2022, the Company's operating income increased by about 3.1 times (compared with the previous fiscal year), and the operating profit margin rose to 21.4%, which was below 10% in the previous fiscal year (see the figure on the left), resulting in dramatic growth.

The biggest thing we saw was our listing on the Fukuoka Stock Exchange Q-Board in the medium term (September 2021). As a result of this listing, not only did it gain more credit from its established customers, but we cannot overlook the fact that the Company has begun to see the spread of a new customer base as a result of the dramatic increase in the Company's name recognition.

In particular, the name value and creditworthiness of the prefecture in Shizuoka, where the Company is headquartered, are increasing, and the circle of "credit performance" within the prefecture is expected to continue expanding, including Mishima City, where the Company has been contracted for the operation of digital stamp rails and other services for some time.

In addition, we think similar developments will eventually be seen in Osaka, Fukuoka, and Okinawa prefectures, where the Company is based. The Company's business is "Only 1" and, accordingly, in order to expand awareness and understanding of the content of each service, it seems important to increase name recognition.

- Transactions with the National Police Agency are expanding

In addition, in FY6/2022, the Company participated in a general competitive bid by the National Police Agency and won a bid for an Access Point Search System License (a renewal contract for a location information search system license awarded on March 16, 2021), and also participated in a general competitive bid by the National Police Agency and concluded a contract for a contract for a server technology specialist course of education.

As a result, the pipeline with the National Police Agency has become broader, and the range of services provided appears to be steadily expanding. In the future, the use of the National Police Agency's IP address database is expected to expand further, and the track record of transactions with the National Police Agency is also effective in enhancing the extent's brand power.

- Planning to increase personnel in this fiscal year to expand business

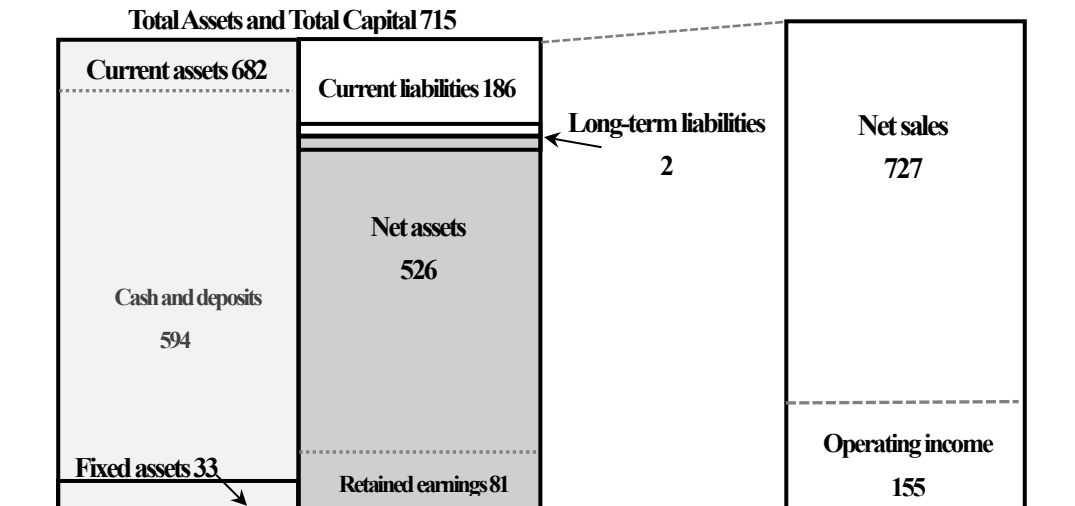
For FY6/2023 (this fiscal year), the Company forecasts a continuous increase in sales at the beginning of the fiscal year, but a slight decrease in profits at the operating income stage. In the fiscal year under review, various services are expected to remain steady, and in particular, the number of customers and sales of "Doko-Doko JP" and "Teku-Teku Stamp" are expected to increase.

However, in the current fiscal year, it plans to increase the number of personnel in development, sales, and back-office divisions in order to further expand its business. Considering the accompanying increase in recruitment activity expenses and personnel expenses, the Company forecasts a slight decrease in profits at the operating income level. Incidentally, in the previous fiscal year, the forecasts were revised upward during the fiscal year. First of all, we need to pay attention to the contents of this fiscal year's 1Q.

<Recent financial condition>

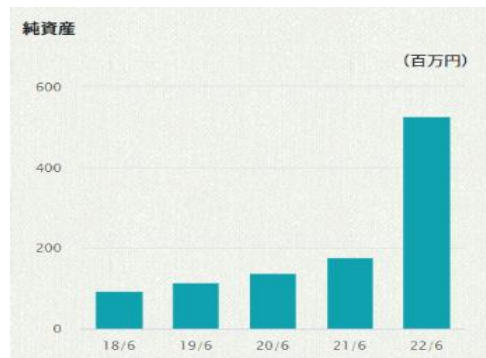
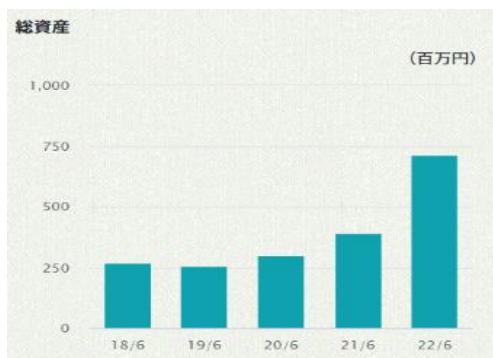
■ Balance Sheet (FY6/2022/million yen)

● Earned surplus turned positive and financial leverage is conservative. Overall, management is considered to be highly safe.



◆ Total assets = 715 (million yen) Shareholders' equity = 522 (million yen)

Financial leverage = 1.36 times shareholders' equity ratio = 73.0% Current ratio = 3.66



◆ Net sales = 727 (million yen), Total assets turnover = 1.017 (%)

Net Income = 99 (million yen), Net Income Ratio = 13.6% ROE=19.0%

◆ Cash Flow/FY6/2022 (Figures in parentheses are for FY6/21) / million yen

Operating CF=101(88: Investing CF=22 (△ 5) Financial CF=198 (△ 7)

Points of Attention

*The current ratio is extremely high, and cash and deposits are abundant. It is expected to be effectively used for various strategic investments in the future.

*The equity ratio is significantly higher than the average for listed companies, and we can say that management is highly secure.

*All operating, investment and financial cash flows are positive. It can be said that the "aggressive stance" is in place.

<Recent stock situation>

■ Stock prices are considered to be undervalued relative to the original growth potential.

*The Company's operating income for FY6/2022 increased 212% year-on-year to 155 million. Looking back, it has achieved high profit growth of 53% in the fiscal year ended June 2021 and 88% in the fiscal year ended June 2020. In FY6/2023, the Company anticipates a 1.6% decrease in operating income from the previous year, but the initial company forecast was much more conservative than the final results.

*Even if operating income for the year ended June 31, 2023 declined as expected, this would be due to costs for business expansion, which would in turn lead to growth potential from the next fiscal year onward. Considering the Company's growth potential in the longer term, I think the current stock price is in a value zone.

*The biggest point is that the Company is looking to list on the Tokyo Stock Exchange in the near future. At least, the listing standards of the TSE Growth Market (over 150 shareholders, over 1000 shares in circulation, over 500 million in market capitalization, and over 25% of shares in circulation) are already considered to be met.

Stock price (Closing price on September 27, 2022): 1,680 yen

●PER (forecast) = 23.14 times ● PBR (result) = 4.79 times

*As an information-services company that continues to grow rapidly, both PER and PBR remain low. Market capitalization as a percentage of total sales (= PSR) is extremely low.

●Dividend yield =0.29%

*For a high-growth company like the Company, the current level of dividend yield is considered reasonable.



*On January 1, 2021, the Company conducted a 2-for-1 stock split of its common stock, and there has been a tendency to try a substantial rise in prices around that time. Since then, there have been some parts dragged by the poor texture of the entire emerging market, and we have continued to develop products that feel a little heavier.

*At the time of the announcement of 3Q in May 2022, the Company announced a substantial upward revision to our full-year results, and there were occasions when it again returned to a level above 2,000 yen. Therefore, if the earnings situation is at the same level as in FY6/2022, the fair value is considered to be approximately 2 thousand to 2.2 thousand, and in the future, if the expectations for higher earnings are high, the highest value of 2,525 yen will be easily perceived.

*For the time being, it will be focusing on whether the 75-day moving average will return to its upward trend. Before that, the 25-day moving average will be shown by the Golden Cross above the 75-day moving average, which is also a key confirmation.

[Disclaimer]

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