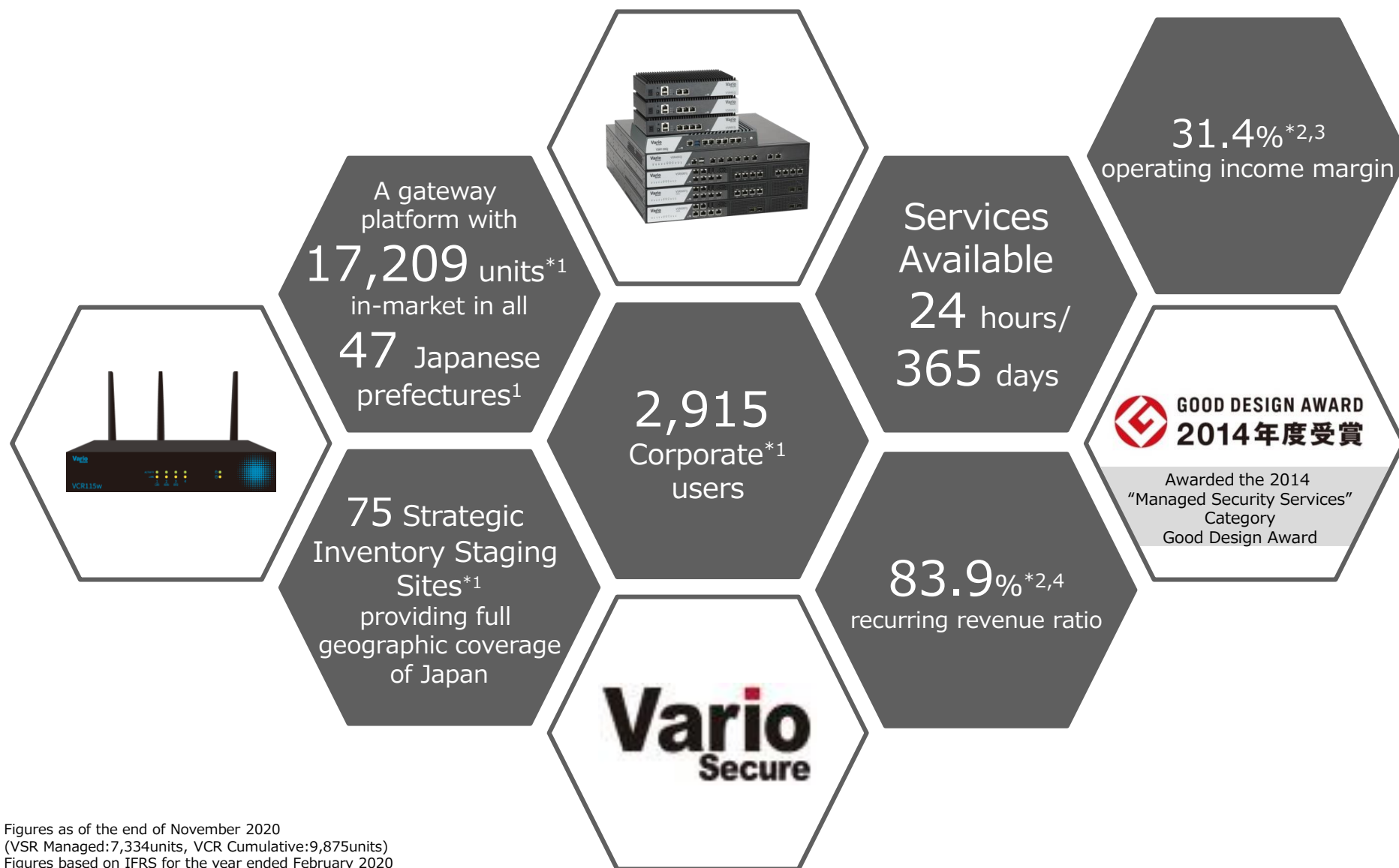


Supplementary Briefing Materials on Financial Results for the Nine Months Ended November 30, 2020

**Vario Secure Inc.
(Code number:4494)**

January 12, 2021

1. Overview of Vario Secure
2. FY2020 Q3 Results(Performance/Topics)
3. FY2020 Full Year Outlook
4. Growth Potential
5. Reference Materials



*1: Figures as of the end of November 2020

(VSR Managed: 7,334 units, VCR Cumulative: 9,875 units)

*2: Figures based on IFRS for the year ended February 2020

*3: Operating income margin = Operating income / Revenue

*4: Recurring revenue ratio = Total revenue of Managed Security Services / Total revenue

1. Overview of Vario Secure



- All services/products are provided in-house: all offerings are overseen end-to-end; from equipment to software development, operation and maintenance
- **Our end-to-end service model** is a challenging moat for competitors: replication by large players would require a fundamental, ground-up retooling; small players lack scale

Vario Model

Development

- ◆ Development of core software
 - ICSA*1-certified proprietary software
- ◆ Equipment procurement
 - Direct outsourcing to Taiwanese factories



End-to-end service

23 features included



GOOD DESIGN AWARD
2014年度受賞



Router

UTM

Network Equipment

Server



Operations and Maintenance

- ◆ Equipment Installation/Configuration
- ◆ Post-installation operation and monitoring
 - Onsite Maintenance
 - Remote Maintenance

A single VSR unit provides a wide range of network security features

*1: ICSA, an independent division of Verizon Communications Inc, tests and certifies security products to provide credible, independent, third-party product assurance

- Benefits of Vario's services made possible through our unique business model

Strengths of the Vario model

① Nationwide response capability (Japan)

Track record in providing operation and maintenance across Japan

② Services available 24 hours a day, 365 days a year

Services available both remotely and on-site

③ Typically arrive on-site within 4 hours of service requests

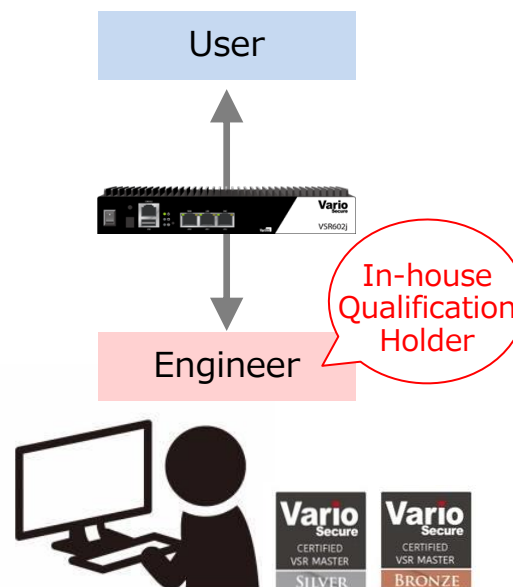
Inventory staged at 75 nationwide locations to ensure rapid on-site response, nationwide*1

<Service performance in the year ended February 2020>

- ◆ Inquiries: 14,548 cases/year
- ◆ Settings changed: 8,419 items/year
- ◆ Onsite Response: 210 incidents/year
- ◆ Goal achieved within 4 hours: 100%

<Rapid resolution of issues>

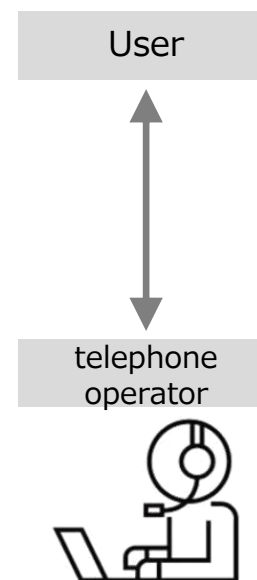
- Engineers directly interact with clients
- +
- Fully remote service capable



VS





Typical model

Mainly onsite via call center

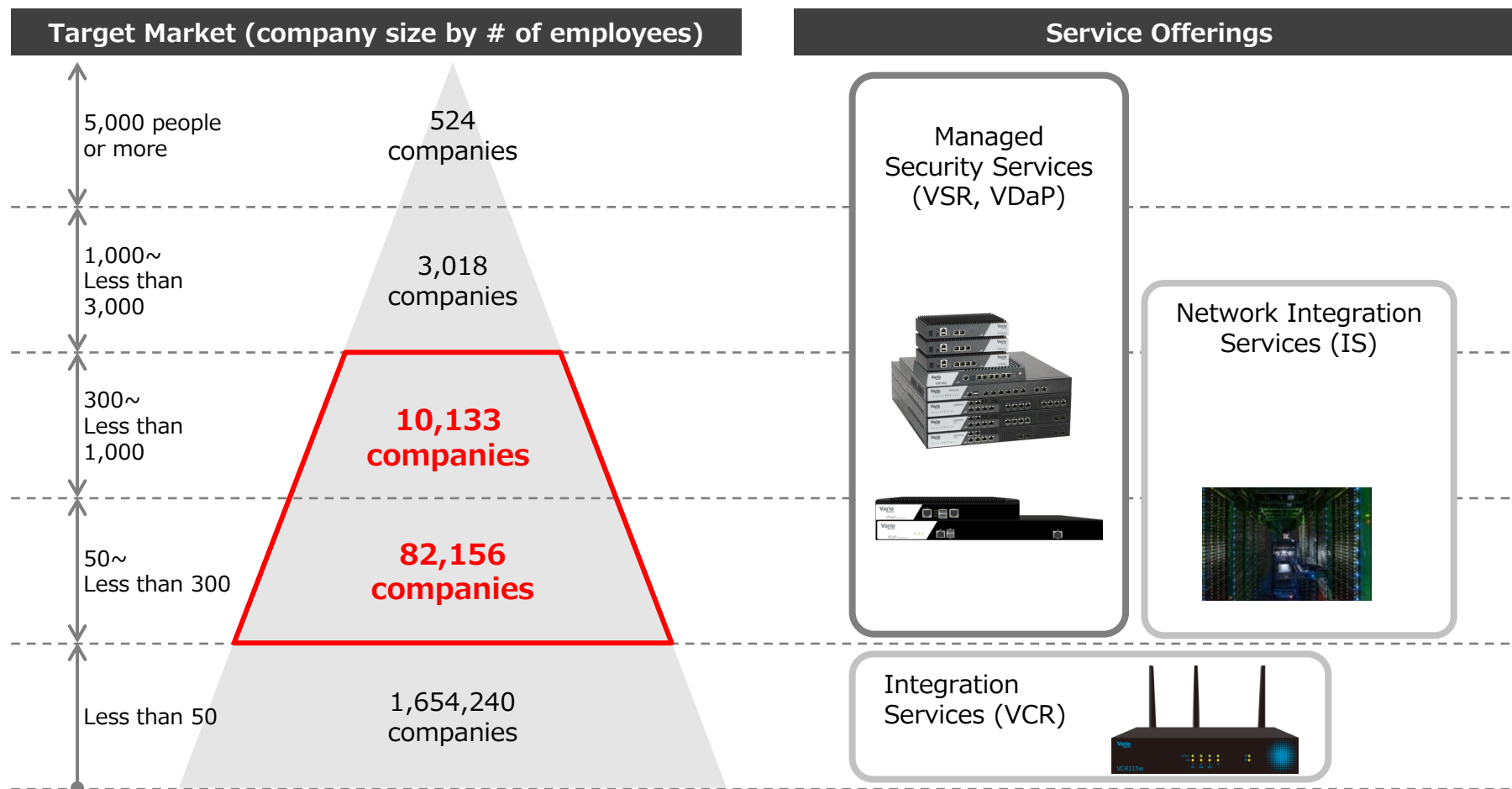


*1: As of end November 2020

- We provide our clients with products and services that ensure online security while also streamlining workflows

Service Category	Managed Security Services	Integration Services
Service Overview	<ul style="list-style-type: none"> • Network engineering, installation, operation and maintenance services • Support services available across Japan 24 hours a day/365 days a year 	<ul style="list-style-type: none"> • Equipment sales and network installation
Revenue Model	Recurring Revenue (monthly fees)	One-time Revenue
Service Description	<p>① Integrated Internet security services</p> <div>  <p>VSR — VarioSecure Router dedicated managed security service equipment</p> </div>	<p>① Sales of integrated security equipment for SME</p> <div>  <p>VCR — VarioCommunicating Router Integrated Security Equipment well suited to SME needs</p> </div>
	<p>② Data Backup Service</p> <div>  <p>VDaP — Vario Data Protect dedicated data backup service equipment</p> </div>	<p>② Network Integration Services (IS)</p> <ul style="list-style-type: none"> • Procurement of network hardware, network construction 

- Our services meet a broad range of needs and are most suited for small and midsized enterprises



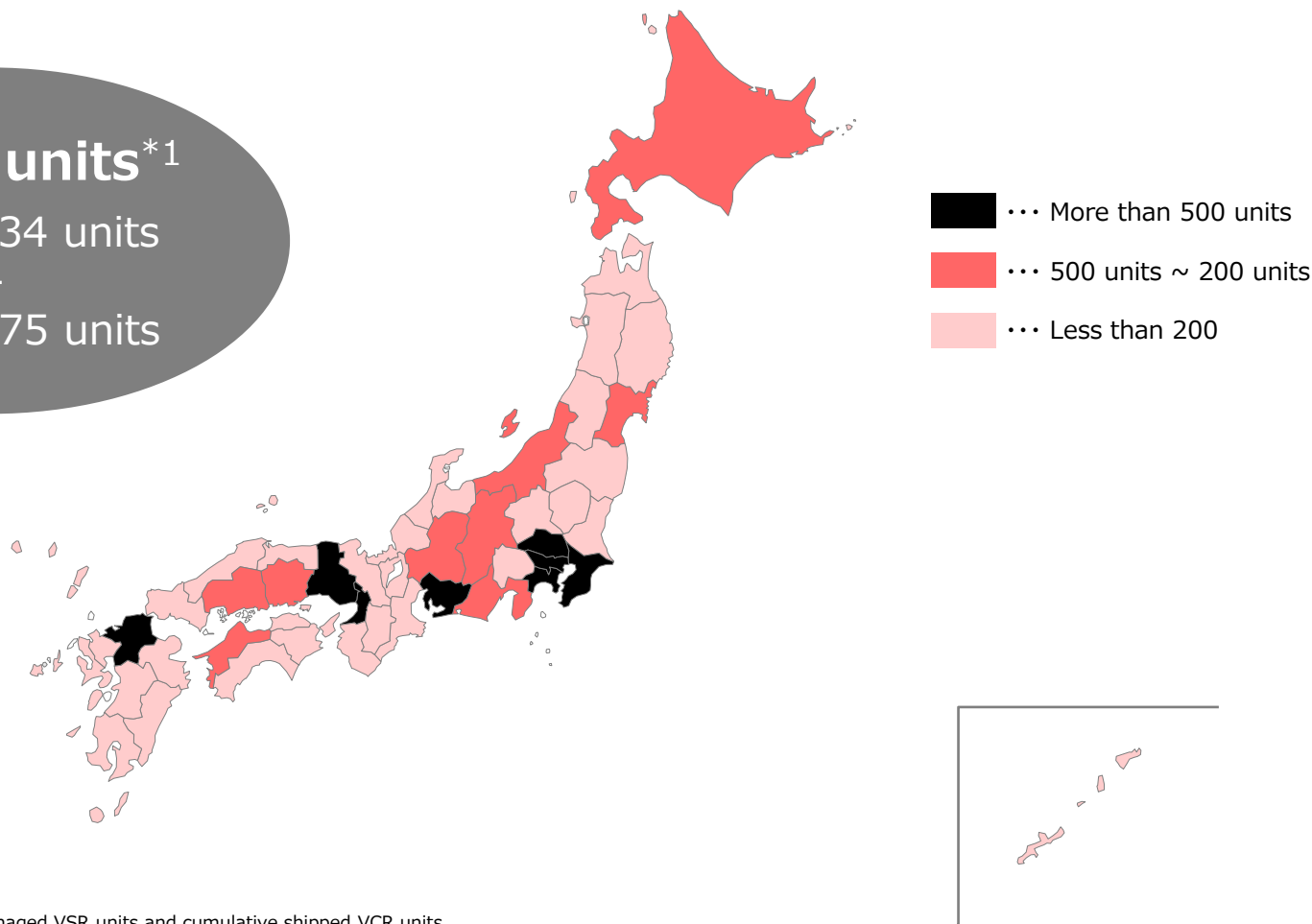
Source: Statistics Bureau, Ministry of Internal Affairs and Communications "2016 Economic Census : Activity Report (confirmed report)"

- Our VSR and VCR offerings are widely adopted across Japan

Vario products are present in all 47 Japanese prefectures

17,209 units^{*1}

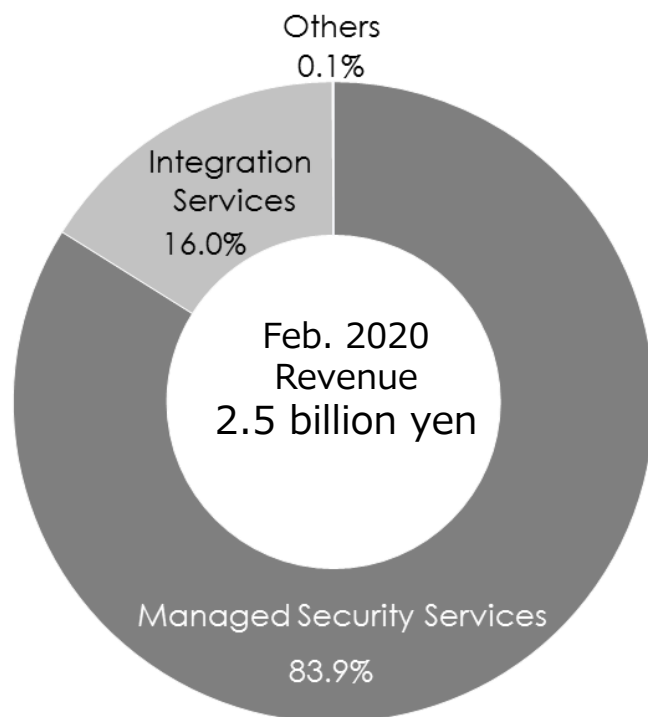
VSR: 7,334 units
+
VCR: 9,875 units



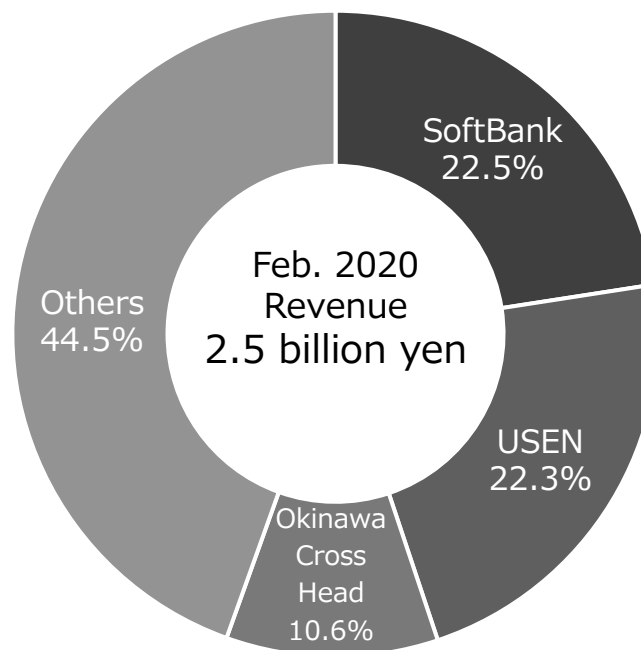
*1: As of November 30, 2020, managed VSR units and cumulative shipped VCR units

- Managed security services (maintenance + operation services) accounted for 83.9% of sales revenue
- 44.8% of our sales were through 2 telecommunication carrier groups

Sales revenue by service



Sales revenue by major partner



- We enjoy high revenue stability thanks to strong loyalty (high renewal incidence) in a recurring revenue business model

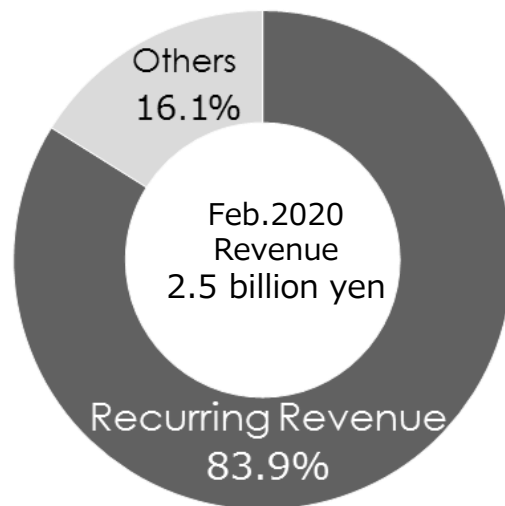
Managed Security Services Monthly Pricing Model

- ◆ The user pays monthly fees based on their service plan



Sales Revenue by Type

- ◆ The vast majority of revenue is recurring*1



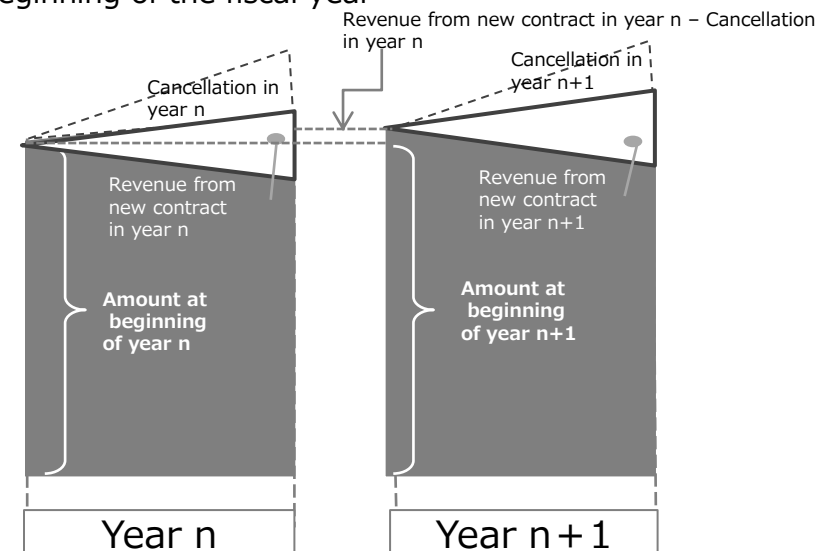
*1: Recurring revenue ratio = Total revenue of Managed Security Services / Total revenue

*2: Churn rate (monetary basis) =
annual value of revenues lost to cancellations

Most recent 3 year (Feb. 2018 ~ Feb. 2020) average Month 1 Revenue *12

Revenues Highly Stable

- ◆ Churn rate is extremely low at 0.9%*2, making it possible to forecast base revenue at the beginning of the fiscal year



2. FY2020 Q3 Results (Performance/Topics)



Performance summary (9 months cumulative)

- Revenue increased 1.5% year on year (YoY) to ¥1.9 billion
- Operating profit decreased 3.1% YoY to ¥598 million, increased 5.1% YoY to ¥649 million excluding listing preparation costs

Unit in Mil. Yen	FY2019		FY2020			
	Q3YTD	Rev.%	Q3YTD	Rev.%	YoY	YoY%
Revenue	1,880	100.0%	1,907	100.0%	27	1.5%
Gross profit	1,188	63.2%	1,193	62.5%	4	0.4%
SG&A and others*1	570	30.4%	594	31.2%	23	4.1%
Operating profit	618	32.9%	598	31.4%	-19	-3.1%
Profit	393	20.9%	385	20.2%	-7	-2.0%

Ref : excluding listing preparation costs

SG&A and others*	570	30.4%	543	28.5%	-27	-4.8%
Operating profit	618	32.9%	649	34.1%	31	5.1%
Profit	393	20.9%	414	21.7%	20	5.2%

*1 : SG&A and others = SG&A + Other income/expense

IFRS

Performance summary (9 months cumulative)

- EPS decreased ¥2.13 year-on-year (YoY) to ¥103.52
(increased ¥5.54 to ¥111.19 excluding listing preparation costs)
- ROIC decreased 0.39pt YoY to 6.93% (increased 0.06pt to 7.39% excl. listing costs)
- Debt equity ratio decreased 19.72pt YoY to 59.11%
(decreased 20.16pt to 58.67% excl. listing costs)

	FY2019 Q3YTD	FY2020 Q3YTD
EPS(Yen)*1	105.65	103.52
ROIC(%)*2	7.32%	6.93%
D/E ratio*3	78.83%	59.11%

Ref : excluding listing preparation costs

EPS(Yen)*1	105.65	111.19
ROIC(%)*2	7.32%	7.39%
D/E ratio*3	78.83%	58.67%

IFRS

*1 : EPS(Earnings Per Share)=Net Income ÷ Weighted Average Shares Outstanding

*2 : ROIC(Return on Invested Capital)=NOPLAT (Net Operation Profit Less adjusted Tax)÷IC(Invested Capital, debt+equity)×100

*3 : D/E ratio=Debt/Equity Debt=Short Term Debt+Long Term Debt

Revenue by service (9 months cumulative)

- MSS (Managed Security Services)
Revenue increased 1.9% year-on-year (YoY) to ¥1.6 billion
Revenue (recurring revenue model) ratio increased 0.3pt to 84.3%
- IS (Integration Services)
Revenue decreased 0.4% YoY to ¥299 million mainly due to the impact of COVID-19
(Deferred revenue increased ¥24 million from the end of February 2020 to ¥466 million)

FY2019			FY2020			
Unit in Mil. Yen	Q3YTD	Rev.%*1	Q3YTD	Rev.%*1	YoY	YoY%
Revenue	1,880	100.0%	1,907	100.0%	27	1.5%
MSS	1,578	84.0%	1,608	84.3%	29	1.9%
IS	300	16.0%	299	15.7%	-1	-0.4%
Others	1	0.1%		0.0%	-1	-100%

IFRS

*1 : Revenue % = Each service revenue/Total revenue

- Planned debt repayment improved both Net D/E ratio & Net D/EBITDA ratio
- Deferred revenue increased ¥24 million from the end of February 2020 to ¥466 million
- Equity ratio increased 6.5pt to 54.6% due to continuous earnings accumulation
- No long-term aged account receivables as of November 30, 2020

Unit in Mil. Yen	FY 2019		FY2020		
	As of Feb 29, 2020	Total assets ratio	As of Nov 30, 2020	Total assets ratio	Increase (Decrease)
Goodwill	5,054	71.4%	5,054	72.6%	0
Goodwill/Equity ratio*1	1.483x		1.329x		
Borrowings	2,521	35.6%	2,248	32.3%	-273
Net D/E ratio*2	0.554		0.471		
Net D/EBITDA ratio*3	2.138x		1.959x		
Deferred revenue	442	6.3%	466	6.7%	24
Total equity	3,408	48.1%	3,803	54.6%	395
Total assets	7,081	100.0%	6,966	100.0%	-114

*1 : Goodwill/Equity ratio = Goodwill/Equity

*2 : Net D/E ratio=Net Debt/Equity Net Debt=(Short Term Debt+Long Term Debt)—Cash and Cash Equivalents

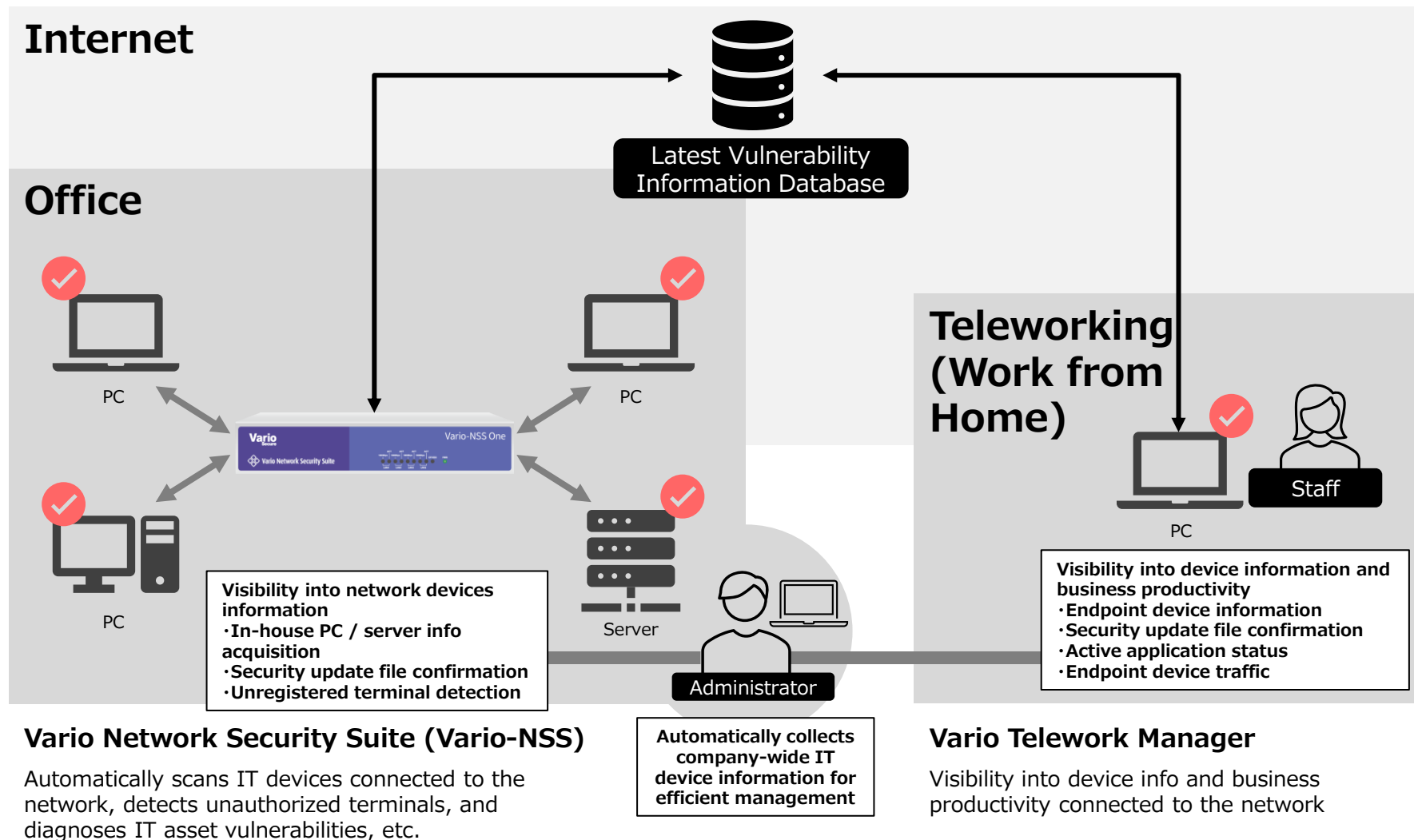
*3 : Net D/EBITDA = Net Debt / EBITDA EBITDA(Earnings Before Interest, Taxes, Depreciation, and Amortization)

IFRS

- Cash flows from Operating activities decreased ¥387 million mainly due to an increase in inventory replacement (new product) and an increase in corporate income tax due to the impact of large deals in FY 2019 (increase in contract liabilities)
- Cash flows used in Investing activities decreased ¥33 million mainly due to the impact of business acquisition in FY 2019

Unit in Mil. Yen	FY 2019 Q3YTD	FY 2020 Q3YTD	YoY
Cash flows from operating activities	648	260	-387
Profit before tax	568	556	-12
Decrease (increase) in inventories	113	-15	-129
Income taxes paid	-200	-296	-96
Others	167	16	-151
Cash flows from investing activities	-117	-84	33
Payments for purchases of assets	-81	-84	-3
Payments for acquisition of business	-35		36
Cash flows from financing activities	-351	-352	-2
Repayments of long-term borrowings	-300	-300	0
Repayments of lease liabilities and others	-51	-52	-2
Cash and cash equivalents at the end of the period	467	455	-12

- Vario-NSS provides support to mitigate the increase in workload and the shortage of IT human resources



Additional Feature to Managed Security Services

Introducing new features to "Vario Telework Manager"

In addition to existing functions, user login, logout date and time, OS Windows update history, new functions such as software display, group extraction function, etc. have been introduced to visualize the telework status.

Vario Telework Manager



Renewal Mail Security Service

Renewal of mail security services "Vario Attach & Upload" and "Vario Mail Confirmation"

Enhanced prevention of erroneous email transmission, BCC rule function, and email processing report as standard equipment. In addition, reporting function visualizes detailed operational information. Each function supports multiple devices and various work styles.

Vario Mail Security



Renewal ICSA Certification



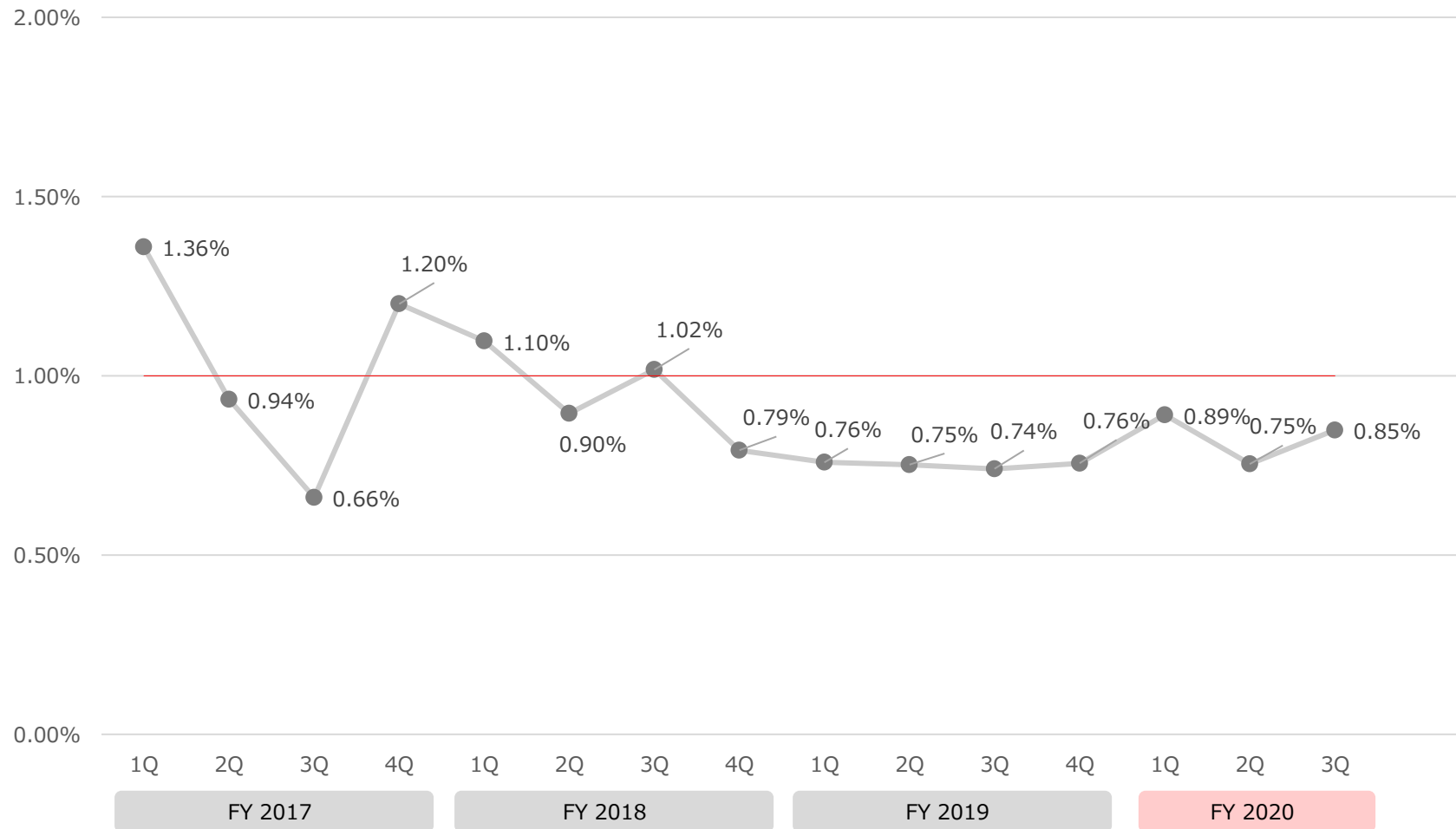
VarioSecure was the first Japanese company to obtain firewall certification in 2003. Since then, our product has been continuously certified for 18 years.

* ICSA, an independent division of Verizon Communications Inc, tests and certifies security products to provide credible, independent, third-party product assurance.



Churn Rate of Managed Security Services (Integrated Internet security services)

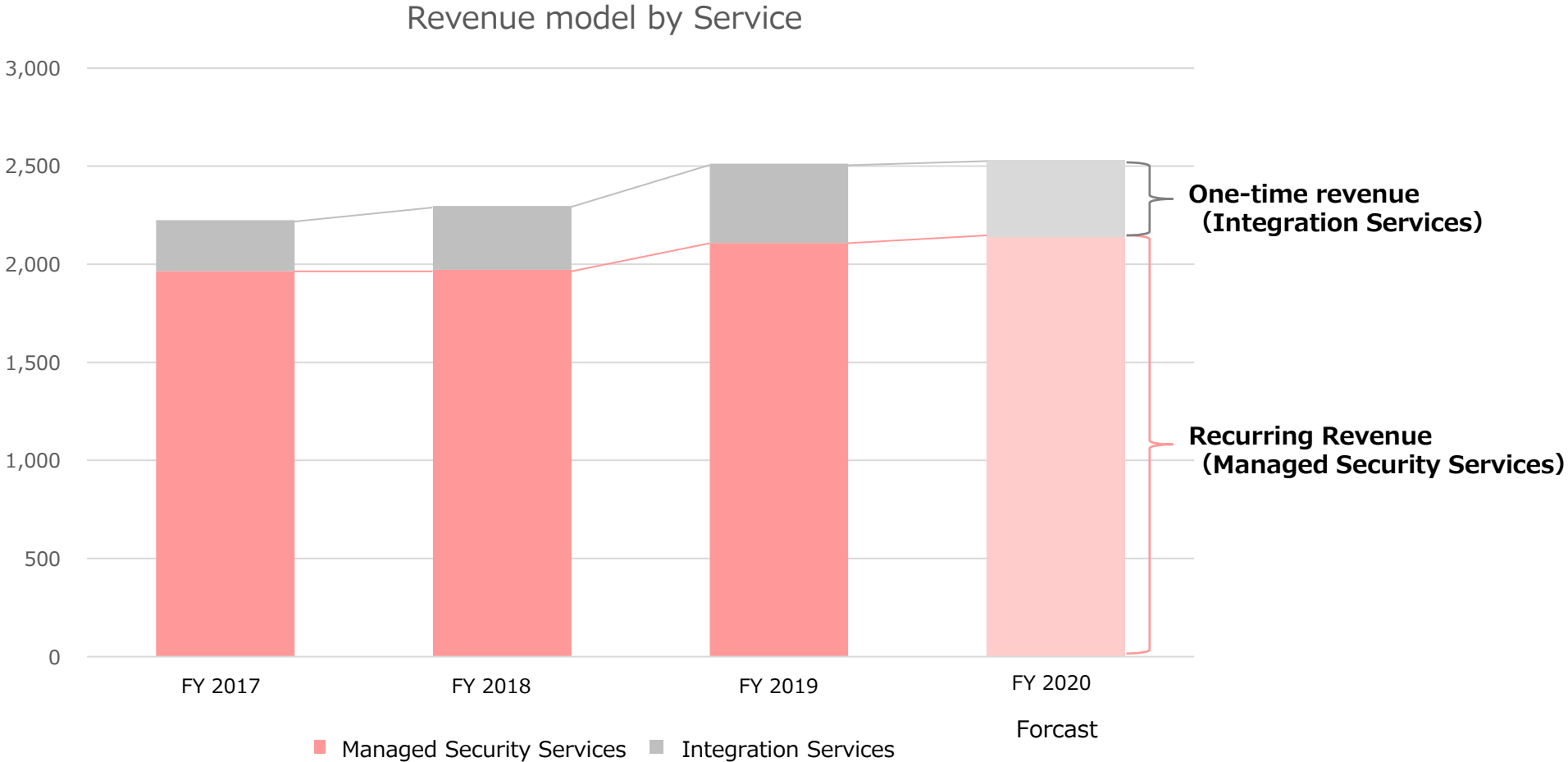
■ Quarterly change in Churn Rate of Integrated Internet Security Services



Churn rate (monetary basis) = quarterly value of revenues lost to cancellations/Base Sales Month 1 Revenue *3



■ Steady performance by Recurring Revenue Model of Managed Security Services



- Listed on the Second Section of the Tokyo Stock Exchange on November 30, 2020



3 . FY2020 Full Year Outlook



FY2020 Performance outlook (Full year)

- Revenue increases 0.7% year on year (YOY) to ¥2.5 billion
- Operating profit decreases 3.6% YoY to ¥760 million
(Operating profit increases 0.4% to ¥811 million excluding listing preparation costs)
- Net income decreases 1.7% YoY to ¥489 million
(Net income increases 2.7% to ¥525 million excl. listing costs)

Unit in Mil. Yen	FY2019		FY2020			
	Actual	Rev.%	Outlook	Rev.%	YoY	YoY%
Revenue	2,513	100.0%	2,530	100.0%	16	0.7%
Gross profit	1,549	61.6%	1,583	62.6%	34	2.2%
SG&A and others*1	759	30.2%	822	32.5%	62	8.2%
Operating profit	789	31.4%	760	30.1%	-28	-3.6%
Profit	498	19.8%	489	19.4%	-8	-1.7%

Ref : excluding listing preparation costs

SG&A and others*1	740	29.5%	771	30.5%	31	4.2%
Operating profit	808	32.2%	811	32.1%	3	0.4%
Profit	511	20.4%	525	20.8%	14	2.7%

*1 : SG&A and others = SG&A + Other income/expenses

IFRS

- EPS decreases ¥2.22 year-on-year (YoY) to ¥131.48
(increases ¥2.54 to ¥154.69 excluding listing preparation costs)
- ROIC decreases 0.54pt YoY to 8.80% (decreases 0.37pt to 9.19% excl. listing costs)
- Debt equity ratio decreases 18.79pt YoY to 55.18%
(decreases 19.87pt to 53.81% excl. listing costs)

	FY2019 Actual	FY2020 Outlook
EPS(Yen)*1	133.70	131.48
ROIC(%)*2	9.34%	8.80%
D/E ratio*3	73.97%	55.18%

Ref : excluding listing preparation costs

EPS(Yen)*1	152.15	154.69
ROIC(%)*2	9.56%	9.19%
D/E ratio*3	73.68%	53.81%

IFRS

*1 : EPS(Earnings Per Share)=Net Income ÷ Weighted Average Shares Outstanding

*2 : ROIC(Return on Invested Capital)=NOPLAT (Net Operation Profit Less adjusted Tax)÷IC(Invested Capital, debt+equity)×100

*3 : D/E ratio=Debt/Equity Debt=Short Term Debt+Long Term Debt

Revenue outlook by service (Full-year)

■ MSS(Managed Security Services)

Revenue increases 1.5% year-on-year (YoY) to ¥2.1 billion

Revenue (recurring revenue model) ratio increases 0.7pt to 84.6%

75.1% progress rate from full-year outlook

■ IS(Integration Services)

Revenue decreases 3.4% YoY to ¥389 million mainly due to the impact of the COVID-19

76.8% progress rate from full-year outlook

FY2019					FY2020					
Unit in Mil. Yen	Actual	Rev.% *1	Q3YTD	Prog.	Outlook	Rev.% *1	YoY	YoY%	Q3YTD	Prog.
Revenue	2,513	100.0 %	1,880	74.8%	2,530	100.0%	16	0.7%	1,907	75.4%
MSS	2,108	83.9 %	1,578	74.9%	2,140	84.6%	31	1.5%	1,608	75.1%
IS	403	16.0 %	300	74.5%	389	15.4%	-13	-3.4%	299	76.8%
Others	1	0.1%	1	100.0%			-1	-100%		

*1 : Revenue % = Each service revenue/Total revenue

IFRS

4 . Growth Potential

1. Potential for Continued Market Growth

2. Current Positioning and Growth Trajectory

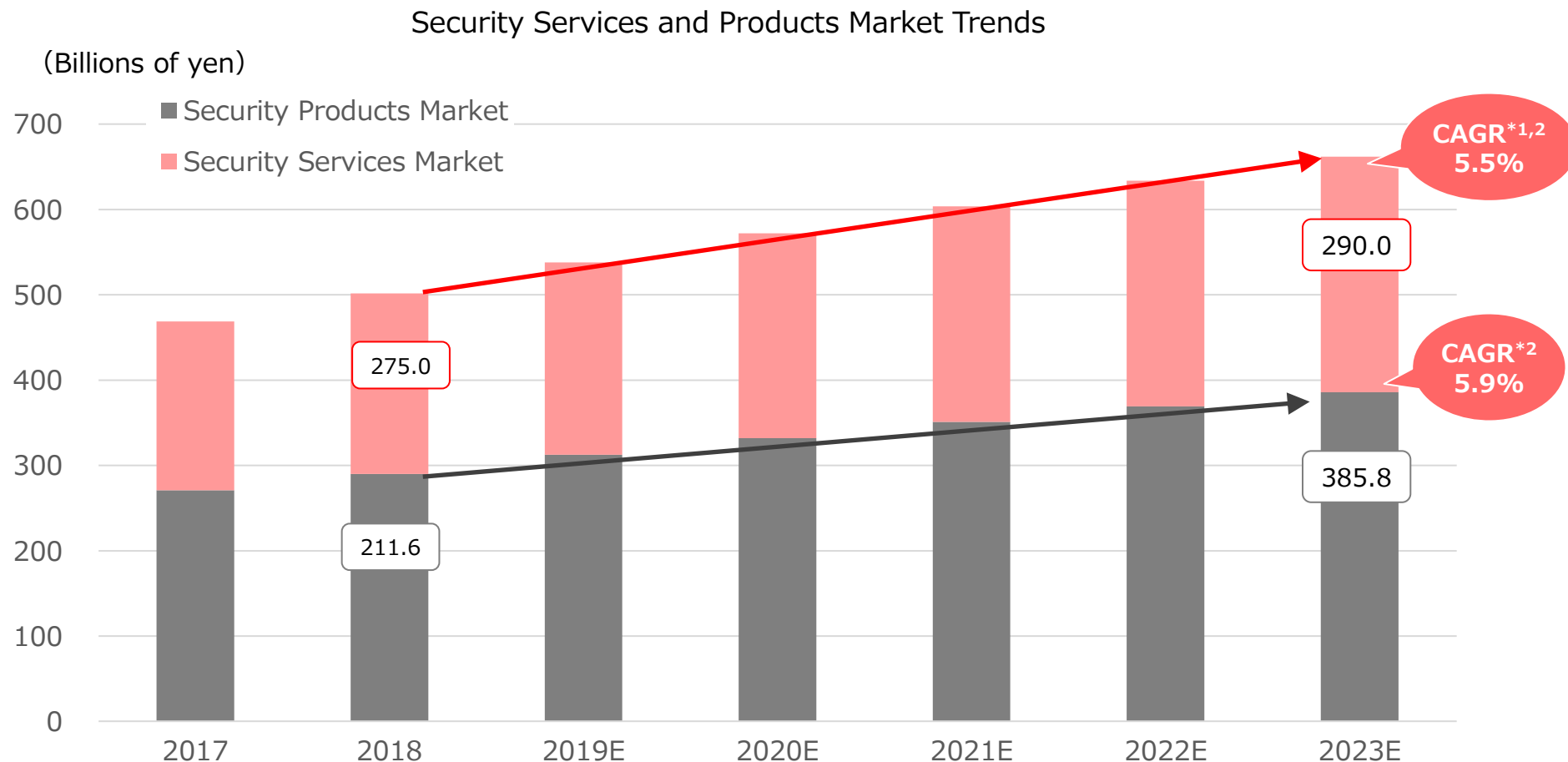
3. Strategies for Sustaining Sales Growth

3 - 1 Enhancing Gateway Security Services

3 - 2 Enhancing VDaP (Managed Security Services)

3 - 3 Information Systems as a Service
(Managed Security Services)

- We anticipate steady, continued growth in the Security Services and Products Markets

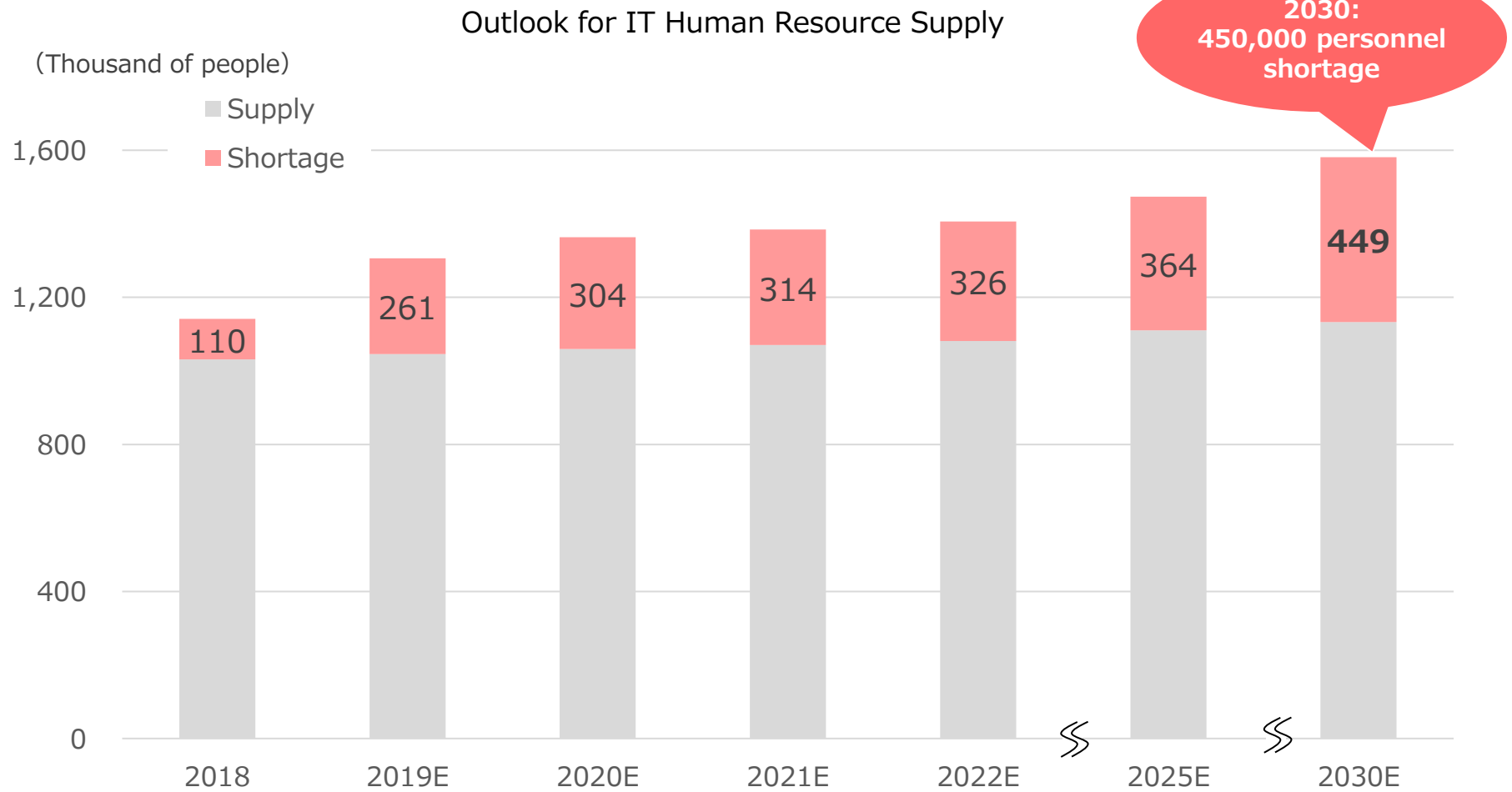


Source: Fuji Chimera Research Institute "2019 Summary of the Network Security Business Survey (market edition)"

*1: Total of Security service and security products

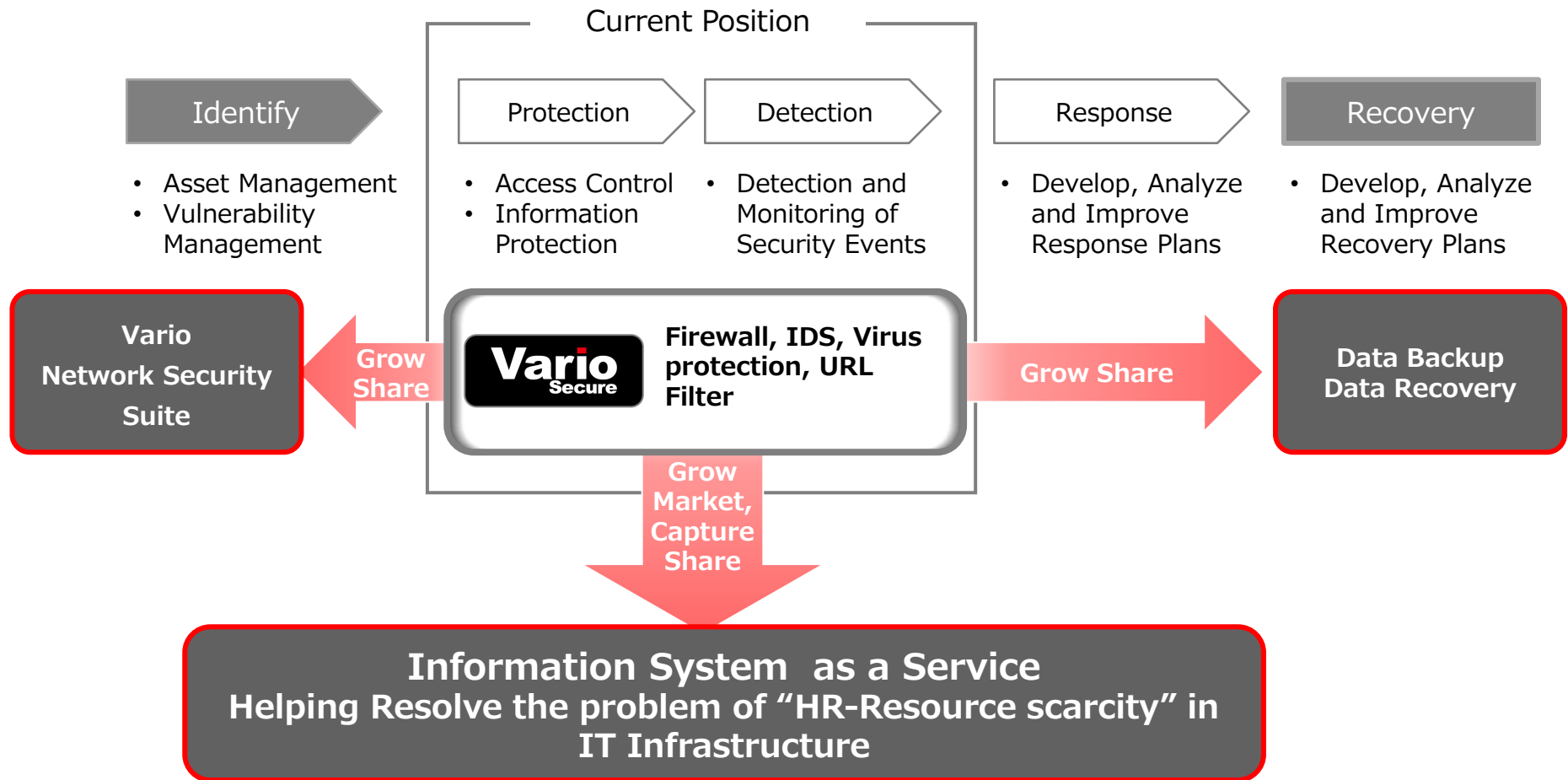
*2: Calculated with data from 2018 to 2023E

- IT human resource shortages will continue pressuring the ability to meet Managed Services needs. Growing diversification of IT needs is expected to compound the problem



Source: Ministry of Economy, Trade and Industry "Survey on IT Human Resource Supply and Demand (Summary)" (April 2019)

- We aim to expand our service offerings to include identification and recovery, thereby encompassing the entirety of enterprise IT infrastructure



- We look to expand our footprint in corporate IT Infrastructure by building on and enhancing our mainstay Gateway Security Business

1

Expanding Gateway Security

Managed Security Services



VSR



Integration Services



VCR

Service Enhancement

Expansion within Corporate Networks Business

2

Enhance VDaP

3

Information System
as a Service

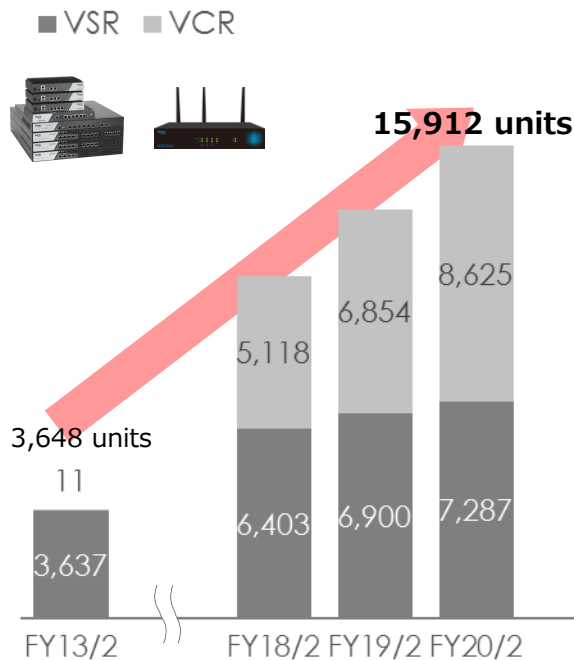
Link with Integration Services

■ Increase our presence in hardware

Strengthen our sales organization/approach and develop new partner relationships

- Strengthen support for regional offices by inside sales teams
- Extending support for large capacity lines to middle-class models
- Development of simplified VCR operation services

VSR, VCR Units in Market*1



Number of business
sites in Japan
5.57 million
locations*2,3

*1: VSR is managed, VCR is cumulative

*2: Statistics Bureau, Ministry of Internal Affairs and Communications "Economic Census for Business Activity 2016"

*3: Penetration rate of our products is 0.3%

■ Focus on growing base sales while working to meet the spike in ad-hoc COVID-19 client needs

- Diversify Remote Access Options and Launch Telework Manager

テレワークに「見える化」と「セキュリティ」をプラス！

Vario Telework Manager

バリオテレワークマネージャー

Vario
Secure

Vario Telework Manager
バリオテレワークマネージャー

お問い合わせ

社員のテレワーク、 しっかり把握できていますか？

テレワーク導入企業の共通課題

- テレワーク社員の「勤務状況把握」
- テレワーク端末の「セキュリティ対策」

経営層、管理職のテレワークに感じる課題

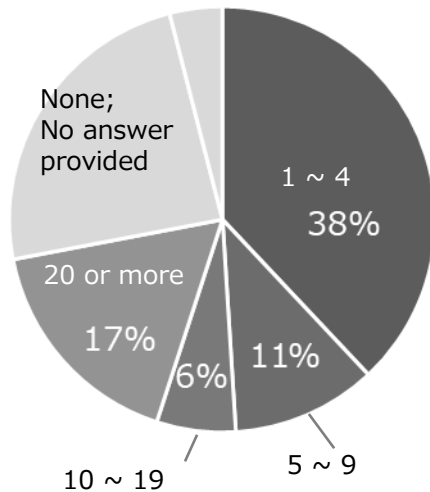
テレワークに関するアンケートから、テレワーク中の社員の勤務状況、PCのセキュリティ対策が様々な企業に共通の課題としてあげられます。

- テレワーク社員の勤務開始、終了が見えない
- 長時間作業や就業時間外業務を把握できない
- 業務の稼働状況を「見える化」したい
- 会社PCのOS更新が随時実行されているか
- 未許可端末が業務利用されていないか
- テレワーク環境の会社PCの管理が難しい

2 Enhancing the VDaP Offering (Managed Security Services)

- Enhance our corporate backup service offerings and develop new distributor relationships
 - The market is expected to continue expanding driven by disaster prevention efforts

Number of security incidents; past 3 years



Enhancing our offerings

- ◆ increasing VDaP capacity — Up to 10 TB
- ◆ disaster recovery — Direct image back-up of virtual environments
- ◆ NAS* server bundle — Provide standalone VDaP software to NAS servers

VDaP [Basic]	VDaP Plus [Advanced]	Professional [Expert]
✓ Cloud Backup	✓ Agentless Technology	✓ BCP
✓ Site to Site	✓ database-ready	✓ Hybrid/Private
✓ Server NAS* ¹	✓ VMware/Hyper V	✓ Recovery Site

Source: JPCERT Coordination Center "Ransomware Threat Trends and Damage Investigation Report" (July 30, 2018)

*1: NAS Network Attached Storage, HDD which directly connects to LAN

- Resolve IT staffing shortages and create value for usage data



User Interface

Benefits:

- ① Better access to the Internet
- ② By usage assessment/analysis create new value

Usage Assessment/Analysis/Evaluation

Gateway

VSR, VCR

Backup

VDaP,
Blueshift

Device Exploration

Vario Network
Finder

Device Monitoring

Vario System
Monitoring

Vulnerability Management

Vario
Vulnerability
Tracker

Remote Work

Vario Telework
Manager
EDR

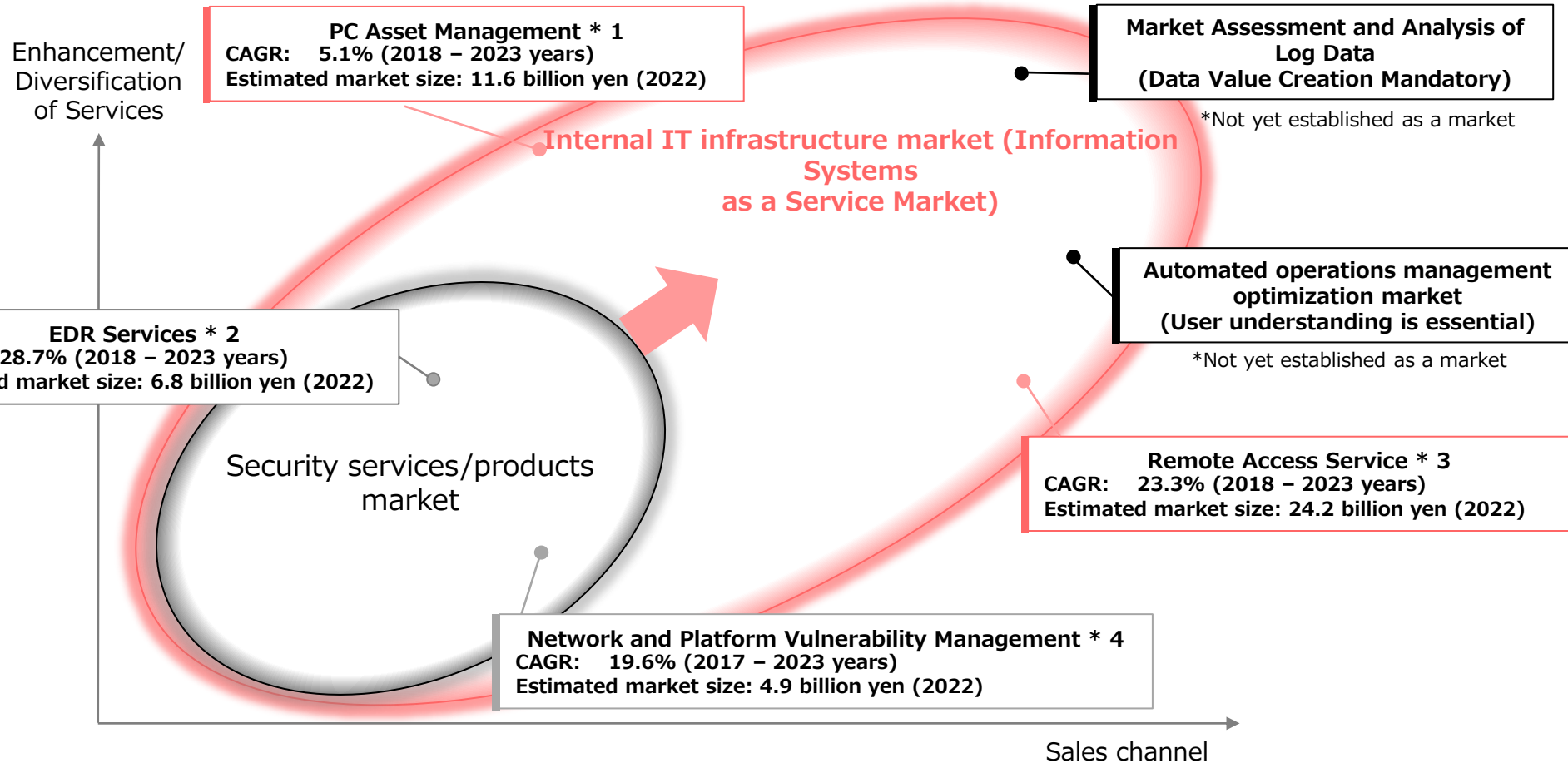
Expanding

We will broaden the scope of our support for information systems.

Benefits:

- ① operational efficiency
- ② Eliminate the shortage of human resources

- We look to grow our focus beyond Security services/products market to take aim at the internal IT infrastructure market



*1: ITR Co., Ltd. "Domestic PC Asset Management Market Trends and Forecasts" (September 2019)

*2: ITR Co., Ltd. "EDR Services Market Trends and Forecasts" (October 2019)

*3: Mick Institute of Economics "Current Status and Outlook of Remote Access & DaaS Market to Support 'work style reform' 2018 Edition"

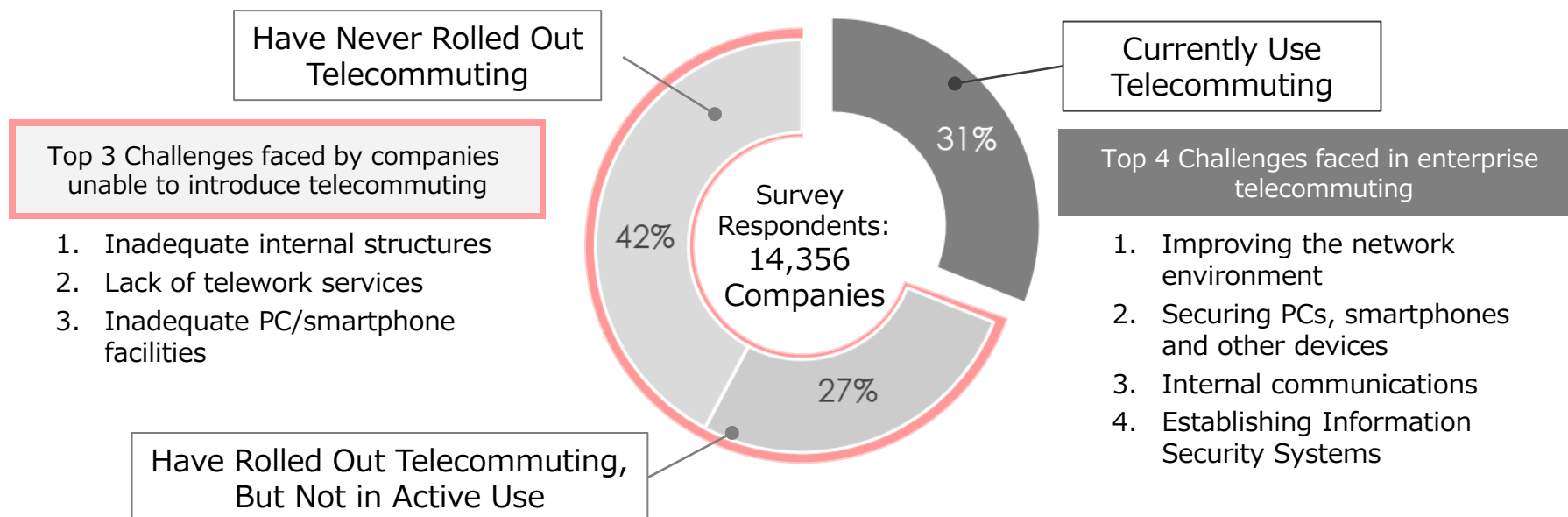
*4: ITR Co., Ltd. "Network and Platform Vulnerability Management Market Size Trend and Forecast" (January 2019)

5. Reference Materials



- Based on increased demand for incremental internet lines and our company's remote VPN services in the 1st quarter, we expect solution needs arising from the accelerated work style reform resulted from the COVID-19 pandemic to remain high until the full-scale roll out of 5G in April 2022

Implementation status of remote work



Source: Tokyo Shoko Research, Ltd.; 6th "Questionnaire on the new coronavirus" Survey;
Results of a survey conducted by the Tokyo Chamber of Commerce and Industry "Emergency Questionnaire on the State of Telework"

- Since our business have been carried out by telecommuting widely, we will continue to carry out our business without any changes.

◆ Our business status

Business division	Status
Managed Security Services (VSR, VDaP)	Normal
Integration Services (VCR, IS)	Normal Individual consultation regarding items that require on-site work
Sales Support	Normal Individual consultation for projects that require customer visits
General Administration (Billing, Payment etc)	Normal

If stronger administrative instructions are issued in the future, we will post specific details on our website and our staff will contact you.

Quotes from our website

<https://www.variosecure.net/news/?p=2358>



To focus on providing services both inside and outside Japan so that all companies that use the Internet can carry out their businesses safely and comfortably.

Vario
Secure

- Statements contained herein that relate to the future operating performance of Vario Secure are forward-looking statements. Forward-looking statements may include – but are not limited to – words such as “believe”, “anticipate”, “plan”, “strategy”, “expect”, “outlook”, “forecast”, “predict”, “possibility” and similar words that describe future operating activities, business performance, events or conditions. Forward-looking statements are based on judgments made by our management based on information that is available to it as of the date those statements were made. As such, these forward-looking statements are subject to various risks and uncertainties and actual business results may vary substantially from the forecasts expressed or implied in forward-looking statements. Forward-looking statements involve inherent known and unknown risks, uncertainties and contingencies because they relate to events and depend on circumstances that may or may not occur in the future and may cause the actual results, performance or achievements of Vario Secure to be materially different from those expressed or implied by such forward looking statements.
- Vario Secure expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based after the date of disclosure or to update or to keep current any other information contained in this material.
- The information on companies other than Vario Secure and the information created by third parties described in this material are taken from public information or information provided by third parties, and their data, indicators, analysis, etc. We have not independently verified the accuracy, appropriateness, etc., and we are not responsible for it.