



Non-consolidated Financial Results for the Nine Months Ended November 30, 2021 [IFRS]

January 12, 2022

Company name: Vario Secure Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4494
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 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on interim financial results: Available
 Schedule of interim financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Non-consolidated Financial Results for the Nine Months Ended November 30, 2021 (March 1, 2021 to November 30, 2021)

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
Nine Months Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
November 30, 2021	1,923	0.8	555	(7.2)	516	(7.0)	357	(7.2)	357	(7.2)
November 30, 2020	1,907	1.5	598	(3.1)	556	(2.1)	385	(2.0)	385	(2.0)

	Basic earnings per share	Diluted earnings per share
Nine Months Ended	Yen	Yen
November 30, 2021	94.69	90.81
November 30, 2020	103.52	97.07

(2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of November 30, 2021	7,011	4,175	59.6
As of February 28, 2021	7,216	3,949	54.7

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2021	—	0.00	—	39.44	39.44
Fiscal year ending February 28, 2022	—	0.00	—		
Fiscal year ending February 28, 2022 (Forecast)				40.44	40.44

Note: Revision to the forecast for dividends announced most recently: None

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 to February 28, 2022)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	2,649	4.1	782	2.4	732	3.4	507	3.3	134.79

Note: Revision to the financial results forecast announced most recently: None

* Notes:

(1) Changes in accounting policies and changes in accounting estimates

- 1) Changes in accounting policies required by IFRS: None
- 2) Changes in accounting policies other than those in 1) above: None
- 3) Changes in accounting estimates: None

(2) Number of shares issued (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

As of November 30, 2021: 3,791,013 shares

As of February 28, 2021: 3,766,620 shares

2) Total number of treasury shares at the end of the period:

As of November 30, 2021: 29 shares

As of February 28, 2021: - shares

3) Average number of shares during the period:

Nine Months Ended November 30, 2021: 3,779,997 shares

Nine Months Ended November 30, 2020: 3,726,600 shares

* These interim financial results are not subject to interim review by certified public accountants or audit firms

* Explanation of the proper use of financial results forecast and other notes

Notes regarding forward-looking statements:

Financial results forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially for various reasons. For the assumptions underlying the financial results forecasts and other notices on the use of financial results forecasts, please refer to “(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information” of “1. Qualitative Information on Interim Financial Results for the Period under Review” in the accompanying materials.

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1. Qualitative Information on Interim Financial Results for the Period under Review

(1) Explanation of Business Results

During the nine months ended November 30, 2021, the Japanese economy was expected to make a recovery, due partly to the effects of various policies and improvements in overseas economies amidst a trend toward normalization of economic and social activities, as a result of an increase in vaccinations for preventing the spread of COVID-19. However, partly due to confirmation of the existence of a new variant, the outlook of the Japanese economy continues to remain uncertain.

As for the environment in the security services market surrounding the Company, the investment demand for corporate security measures has continued expanding due to diversifying cyberattacks and attacks targeting the teleworking environment, which has becoming increasingly common as a measure to prevent the prolonged spread of COVID-19.

Furthermore, amidst major changes in the corporate system network environment as a result of an increase in teleworking due to the impact of COVID-19 and other factors, there has been a tendency for companies that have difficulty operating and managing their security to outsource operations and monitoring to security vendors, which has led to a steady expansion of the market, as a whole.

In such an environment, the Company has expanded sales promotion of Vario Managed EDR, which detects signs of cyberattacks as an endpoint security measure, and data backup services (VDaP) that protect corporate information assets from the growing threat of ransomware attacks (ransom-demanding-type viruses), in addition to conventional gateway security, in order to support the development of a secure and safe business environment through multilayered defense against an increasing array of threats.

In addition, regarding the procurement of materials, the Company may be affected by a global shortage of semiconductors. At the moment, although the Company expects the effect of such a shortage to be minimal for the fiscal year ending February 28, 2022, it is difficult to rationally calculate the effect on the Company's performance for the fiscal year ending February 28, 2023 onward, and the Company will continue to monitor the situation.

As a result of the above, although Integration Services were affected by the prolonged declaration of a state of emergency, the Company reported stable sales, exceeding those of the corresponding period of the previous fiscal year, thanks to the recurring revenue from Managed Security Services and a low cancellation rate (0.78%) (Note). Each level of profit declined year on year, due to an increase in cost of sales in conjunction with the increased revenue, construction costs of a security operation center, and investments for future growth such as recruitment aimed at strengthening of sales and management departments.

As a result, in the financial results on an IFRS basis for the nine months ended November 30, 2021, the Company reported revenue of ¥1,923,815 thousand (a year-on-year increase of 0.8%), operating profit of ¥555,400 thousand (a year-on-year decrease of 7.2%), profit before tax of ¥516,870 thousand (a year-on-year decrease of 7.0%), and profit of ¥357,917 thousand (a year-on-year decrease of 7.2%).

The results by segment are not stated, as the Company's segments comprise the single segment of Internet Security Services.

Note: Cancellation rate (monetary basis) = Cancellation amount for the nine months ended November 30, 2021 / (Monthly revenue at the beginning of each fiscal year × 9)

(2) Explanation of Financial Position

The financial position on an IFRS basis as of November 30, 2021 was as follows.

Assets

Total assets as of November 30, 2021 were ¥7,011,662 thousand, a decrease of ¥204,503 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥62,951 thousand in other current assets and a decrease of ¥268,072 thousand in cash and cash equivalents.

Liabilities

Total liabilities as of November 30, 2021 were ¥2,835,939 thousand, a decrease of ¥430,859 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥1,509,801 thousand in borrowings under current liabilities, as well as decreases of ¥55,362 thousand in lease liabilities and ¥1,786,677 thousand in borrowings under non-current liabilities.

Equity

Total equity as of November 30, 2021 was ¥4,175,723 thousand, an increase of ¥226,356 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥357,917 thousand in retained earnings as a result of reporting profit, and a decrease in retained earnings as a result of reporting dividends of ¥148,555 thousand.

(3) Analysis of Cash Flows

Cash flows on an IFRS basis for the nine months ended November 30, 2021 were as follows.

Cash and cash equivalents as of November 30, 2021 decreased by ¥268,072 thousand from the end of the previous fiscal year to ¥325,858 thousand.

Cash flows from operating activities

Net cash provided by operating activities during the nine months ended November 30, 2021 was ¥279,557 thousand (¥260,969 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥516,870 thousand in profit before tax and ¥93,914 thousand in depreciation and amortization, while major cash outflows included a ¥40,345 thousand increase in inventories, a ¥62,951 thousand increase in other current assets, and ¥221,893 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the nine months ended November 30, 2021 was ¥75,290 thousand (¥84,749 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥65,995 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities during the nine months ended November 30, 2021 was ¥472,210 thousand (¥352,849 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥300,000 thousand for repayments of long-term borrowings, ¥148,013 thousand for dividends paid, and ¥33,937 thousand for repayments of lease liabilities.

(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information

Financial results forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and actual results may differ substantially for various reasons. The impact of COVID-19 on the Company's performance is minimal. Therefore, regarding the financial results forecast for the fiscal year ending February 28, 2022, the forecast announced on April 12, 2021 will remain unchanged, and timely disclosures will be provided, if management determines that it is necessary to revise the earnings forecast, in light of business trends going forward.

2. Interim Condensed Non-consolidated Financial Statements and Primary Notes

(1) Interim Condensed Non-consolidated Statements of Financial Position

(Thousand yen)

	As of February 28, 2021	As of November 30, 2021
Assets		
Current assets		
Cash and cash equivalents	593,930	325,858
Trade and other receivables	461,320	457,224
Inventories	119,743	160,088
Other current assets	144,196	207,147
Total current assets	1,319,190	1,150,319
Non-current assets		
Property, plant and equipment	293,232	228,051
Goodwill	5,054,613	5,054,613
Intangible assets	173,412	223,270
Other financial assets	63,384	63,384
Deferred tax assets	139,881	122,185
Other non-current assets	172,450	169,837
Total non-current assets	5,896,974	5,861,343
Total assets	7,216,165	7,011,662

	(Thousand yen)	
	As of February 28, 2021	As of November 30, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	369,763	1,879,564
Trade and other payables	108,005	126,201
Income taxes payable	120,432	37,518
Other current liabilities	394,476	379,819
Total current liabilities	992,678	2,423,104
Non-current liabilities		
Borrowings	1,786,677	-
Lease liabilities	102,725	47,362
Provisions	18,336	18,372
Other non-current liabilities	366,380	347,098
Total non-current liabilities	2,274,119	412,834
Total liabilities	3,266,798	2,835,939
Equity		
Share capital	320,072	327,840
Capital surplus	1,629,850	1,639,125
Retained earnings	1,999,444	2,208,806
Treasury shares	-	(49)
Total equity	3,949,366	4,175,723
Total liabilities and equity	7,216,165	7,011,662

(2) Interim Condensed Non-consolidated Statements of Profit or Loss and Comprehensive Income
Interim Condensed Non-consolidated Statements of Profit or Loss
Nine Months Ended November 30

	(Thousand yen)	
	For the Nine Months Ended November 30, 2020 (from March 1, 2020 to November 30, 2020)	For the Nine Months Ended November 30, 2021 (from March 1, 2021 to November 30, 2021)
Revenue	1,907,646	1,923,815
Cost of sales	714,552	727,100
Gross profit	1,193,094	1,196,715
Selling, general and administrative expenses	594,452	641,207
Other income	99	87
Other expenses	-	194
Operating profit	598,742	555,400
Finance income	147	2
Finance costs	42,826	38,533
Profit before tax	556,062	516,870
Income tax expense	170,280	158,952
Profit	385,782	357,917
Earnings per share		
Basic earnings per share (yen)	103.52	94.69
Diluted earnings per share (yen)	97.07	90.81

Interim Condensed Non-consolidated Statements of Comprehensive Income
Nine Months Ended November 30

	(Thousand yen)	
	For the Nine Months Ended November 30, 2020 (from March 1, 2020 to November 30, 2020)	For the Nine Months Ended November 30, 2021 (from March 1, 2021 to November 30, 2021)
Profit	385,782	357,917
Other comprehensive income	-	-
Comprehensive income	385,782	357,917

(3) Interim Condensed Non-consolidated Statements of Changes in Equity

For the Nine Months Ended November 30, 2020 (from March 1, 2020 to November 30, 2020)

	(Thousand yen)				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2020	310,000	1,590,985	1,507,909	-	3,408,894
Profit	-	-	385,782	-	385,782
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	385,782	-	385,782
Share-based remuneration transactions	-	8,895	-	-	8,895
Total transactions with owners	-	8,895	-	-	8,895
As of November 30, 2020	310,000	1,599,880	1,893,691	-	3,803,571

For the Nine Months Ended November 30, 2021 (from March 1, 2021 to November 30, 2021)

	(Thousand yen)				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2021	320,072	1,629,850	1,999,444	-	3,949,366
Profit	-	-	357,917	-	357,917
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	357,917	-	357,917
Purchase of treasury shares	-	-	-	(49)	(49)
Dividends	-	-	(148,555)	-	(148,555)
Exercise of share acquisition rights	5,270	5,270	-	-	10,540
Share-based remuneration transactions	2,498	4,005	-	-	6,503
Total transactions with owners	7,768	9,275	(148,555)	(49)	(131,561)
As of November 30, 2021	327,840	1,639,125	2,208,806	(49)	4,175,723

(4) Interim Condensed Non-consolidated Statements of Cash Flows

	(Thousand yen)	
	For the Nine Months Ended November 30, 2020 (from March 1, 2020 to November 30, 2020)	For the Nine Months Ended November 30, 2021 (from March 1, 2021 to November 30, 2021)
Cash flows from operating activities		
Profit before tax	556,062	516,870
Depreciation and amortization	87,547	93,914
Finance income	(147)	(2)
Finance costs	42,826	38,533
Decrease (increase) in inventories	(15,440)	(40,345)
Decrease (increase) in trade and other receivables	(33,364)	4,095
Decrease (increase) in other current assets	(25,962)	(62,951)
Decrease (increase) in other non-current assets	3,666	2,613
Increase (decrease) in trade and other payables	(5,227)	14,894
Increase (decrease) in other current liabilities	(51,649)	(36,970)
Increase (decrease) in other non-current liabilities	11,772	(19,282)
Other	1,562	2,662
Subtotal	571,645	514,032
Interest received	2	2
Interest paid	(14,633)	(12,582)
Income taxes paid	(296,045)	(221,893)
Cash flows from operating activities	260,969	279,557
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,962)	(9,295)
Purchase of intangible assets	(73,787)	(65,995)
Cash flows from investing activities	(84,749)	(75,290)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	-	10,540
Repayments of long-term borrowings	(300,000)	(300,000)
Repayments of lease liabilities	(52,099)	(33,937)
Purchase of treasury shares	-	(49)
Dividends paid	-	(148,013)
Other	(750)	(750)
Cash flows from financing activities	(352,849)	(472,210)
Net increase (decrease) in cash and cash equivalents	(176,629)	(267,943)
Cash and cash equivalents at the beginning of the period	632,229	593,930
Net effect of currency translation on cash and cash equivalents	(69)	(129)
Cash and cash equivalents at the end of the period	455,530	325,858

(5) Notes to Interim Condensed Non-consolidated Financial Statements

Notes on going concern assumption

Not applicable

Changes in accounting policies

Not applicable

Changes in accounting estimates

Not applicable

Segment information

This information is omitted, as the Company's segments comprise the single segment of Internet Security Services.