



Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2022 [IFRS]

April 13, 2022

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

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Scheduled date of Annual General Meeting of Shareholders: May 25, 2022

Scheduled date of commencing dividend payments: May 26, 2022

Scheduled date of filing annual securities report: May 25, 2022

Availability of supplementary briefing material on financial results: Available

Schedule of financial results briefing session: Scheduled (for institutional investors and analysts)

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

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

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

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
February 28, 2022	2,566	0.8	751	(1.6)	701	(0.9)	500	1.8	500	1.8
February 28, 2021	2,545	1.3	764	(3.1)	707	(2.2)	491	(1.3)	491	(1.3)

	Basic earnings per share	Diluted earnings per share	Return on equity	Profit before tax to total assets	Operating profit to revenue
Fiscal year ended	Yen	Yen	%	%	%
February 28, 2022	132.29	127.12	12.1	9.8	29.3
February 28, 2021	131.78	123.97	13.4	9.9	30.0

Reference: Share of loss (profit) of investments accounted for using equity method

Fiscal year ended February 28, 2022: ¥- million

Fiscal year ended February 28, 2021: ¥- million

(2) Non-consolidated Financial Position

	Total assets	Total equity	Total equity ratio	Total equity per share
	Million yen	Million yen	%	Yen
As of February 28, 2022	7,122	4,323	60.7	1,137.83
As of February 28, 2021	7,216	3,949	54.7	1,048.52

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
February 28, 2022	490	(108)	(586)	389
February 28, 2021	524	(112)	(450)	593

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to total equity
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended February 28, 2021	-	0.00	-	39.44	39.44	148	29.9	4.0
Fiscal year ended February 28, 2022	-	0.00	-	40.44	40.44	153	30.6	3.7
Fiscal year ending February 28, 2023 (Forecast)	-	0.00	-	40.50	40.50	-	29.3	-

3. Non-consolidated Financial forecast for the Fiscal Year Ending February 28, 2023 (March 1, 2022 to February 28, 2023)

(% 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	2,650	3.2	785	4.4	756	7.9	525	4.9	138.23

* 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 shares issued at the end of the period (including treasury shares):

As of February 28, 2022: 3,799,413 shares

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

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

As of February 28, 2022: 29 shares

As of February 28, 2021: - shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2022: 3,783,176 shares

Fiscal year ended February 28, 2021: 3,730,030 shares

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

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

Notes regarding forward-looking statements:

Financial 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 forecasts and other notices on the use of financial forecasts, please refer to “(4) Future Outlook” of “1. Overview of Operating Results, etc.” in the accompanying materials.

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1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

During the fiscal year ended February 28, 2022, the Japanese economy was expected to make a recovery thanks to the effects of various policies, despite continued harsh conditions resulting from restrictions on certain economic activities due to the spread of COVID-19 variants. Meanwhile, the outlook overseas continues to remain uncertain given surging resource prices worldwide, which reflect changes in the Russia-Ukraine situation.

As for the environment in the security services market surrounding the Company, the investment demand for corporate security measures has continued expanding, due to increases in cyberattacks targeting supply chains and the threat of ransomware attacks (ransom-demanding-type viruses) targeting organizations such as general companies and hospitals.

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. The Company has also held various webinars and participated in events to explain the security services and products that the Company can provide.

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 ended 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.

In such an environment, the Company reported stable sales thanks to the recurring revenue from Managed Security Services and a low cancellation rate (0.82%) (Note).

As a result of the above, in the financial results on an IFRS basis for the fiscal year ended February 28, 2022, the Company reported revenue of ¥2,566,735 thousand (a year-on-year increase of 0.8%), operating profit of ¥751,778 thousand (a year-on-year decrease of 1.6%), profit before tax of ¥701,528 thousand (a year-on-year decrease of 0.9%), and profit of ¥500,481 thousand (a year-on-year increase of 1.8%).

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 fiscal year ended February 28, 2022 / (Monthly revenue at the beginning of each fiscal year × 12)

(2) Overview of Financial Position for the Fiscal Year under Review

The financial position on an IFRS basis as of February 28, 2022 was as follows.

Assets

Total assets as of February 28, 2022 was ¥7,122,069 thousand, a decrease of ¥94,095 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥98,361 thousand in inventories and ¥69,320 thousand in intangible assets, as well as decreases of ¥204,084 thousand in cash and cash equivalents and ¥86,505 thousand in property, plant and equipment.

Liabilities

Total liabilities as of February 28, 2022 was ¥2,799,011 thousand, a decrease of ¥467,787 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥1,416,913 thousand in borrowings under current liabilities, as well as decreases of ¥73,887 thousand in lease liabilities and ¥1,786,677 thousand in borrowings under non-current liabilities.

Equity

Total equity as of February 28, 2022 was ¥4,323,058 thousand, an increase of ¥373,691 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥500,481 thousand in retained earnings as a result of reporting profit, and a decrease of ¥148,555 thousand in retained earnings as a result of reporting dividends.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash flows on an IFRS basis for the fiscal year ended February 28, 2022 were as follows.

Cash and cash equivalents as of February 28, 2022 decreased by ¥204,084 thousand from the end of the previous fiscal year to ¥389,846 thousand.

Cash flows from operating activities

Net cash provided by operating activities was ¥490,210 thousand (¥524,227 thousand was provided in the previous fiscal year). Major cash inflows included ¥701,528 thousand in profit before tax and ¥125,453 thousand in depreciation and amortization, while major cash outflows included a ¥98,361 thousand increase in inventories, a ¥32,026 thousand increase in other current assets, and ¥221,894 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥108,288 thousand (¥112,209 thousand was used in the previous fiscal year). Major cash outflows included ¥95,433 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥586,139 thousand (¥450,320 thousand was used in the previous fiscal year). Major cash outflows included ¥400,000 thousand for repayments of long-term borrowings, ¥148,113 thousand for dividends paid, and ¥51,871 thousand for repayments of lease liabilities.

(4) Future Outlook

As for the future outlook, despite concerns regarding the faltering economy due to a re-expansion of the number of new COVID-19 cases and prolongation of the pandemic, the product market of security services is expected to expand steadily, going forward.

The Company aims to grow its revenue through measures such as expanding its area of operations to corporate IT infrastructure and remote-work bases based on gateway security, which is the Company's core business, reinforcing corporate backup service offerings, developing new distributors, and introducing new services that utilize AI with HEROZ, Inc., the Company's capital and business alliance partner.

In such an environment, regarding the financial forecast for the fiscal year ending February 28, 2023, the Company expects revenue of ¥2,650 million (a year-on-year increase of 3.2%), operating profit of ¥785 million (a year-on-year increase of 4.4%), profit before tax of ¥756 million (a year-on-year increase of 7.9%), and profit of ¥525 million (a year-on-year increase of 4.9%).

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.

2. Basic Approach to the Selection of Accounting Standards

The Company has adopted the International Financial Reporting Standards (IFRS) from the fiscal year ended February 28, 2019, in order to increase the international comparability of its financial information, and to improve convenience.

3. Non-consolidated Financial Statements and Primary Notes in accordance with International Financial Reporting Standards

(1) Non-consolidated Statements of Financial Position

(Thousand yen)

	As of February 28, 2021	As of February 28, 2022
Assets		
Current assets		
Cash and cash equivalents	593,930	389,846
Trade and other receivables	461,320	464,748
Inventories	119,743	218,104
Other current assets	144,196	176,377
Total current assets	1,319,190	1,249,077
Non-current assets		
Property, plant and equipment	293,232	206,726
Goodwill	5,054,613	5,054,613
Intangible assets	173,412	242,733
Other financial assets	63,384	63,384
Deferred tax assets	139,881	131,673
Other non-current assets	172,450	173,860
Total non-current assets	5,896,974	5,872,992
Total assets	7,216,165	7,122,069

	(Thousand yen)	
	As of February 28, 2021	As of February 28, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	369,763	1,786,677
Trade and other payables	108,005	134,211
Income taxes payable	120,432	93,513
Other current liabilities	394,476	389,580
Total current liabilities	992,678	2,403,981
Non-current liabilities		
Borrowings	1,786,677	-
Lease liabilities	102,725	28,837
Provisions	18,336	18,384
Other non-current liabilities	366,380	347,807
Total non-current liabilities	2,274,119	395,029
Total liabilities	3,266,798	2,799,011
Equity		
Share capital	320,072	330,018
Capital surplus	1,629,850	1,641,719
Retained earnings	1,999,444	2,351,369
Treasury shares	-	(49)
Total equity	3,949,366	4,323,058
Total liabilities and equity	7,216,165	7,122,069

(2) Non-consolidated Statements of Profit or Loss and Comprehensive Income

Non-consolidated Statements of Profit or Loss

	(Thousand yen)	
	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)
Revenue	2,545,189	2,566,735
Cost of sales	984,890	969,412
Gross profit	1,560,298	1,597,323
Selling, general and administrative expenses	796,109	845,355
Other income	126	113
Other expenses	-	302
Operating profit	764,315	751,778
Finance income	6	4
Finance costs	56,385	50,255
Profit before tax	707,935	701,528
Income tax expense	216,400	201,047
Profit	491,534	500,481
Earnings per share		
Basic earnings per share (yen)	131.78	132.29
Diluted earnings per share (yen)	123.97	127.12

Non-consolidated Statements of Comprehensive Income

	(Thousand yen)	
	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)
Profit	491,534	500,481
Other comprehensive income	-	-
Comprehensive income	491,534	500,481

(3) Non-consolidated Statements of Changes in Equity

(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	-	-	491,534	-	491,534
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	491,534	-	491,534
Exercise of share acquisition rights	10,072	10,072	-	-	20,145
Share-based remuneration transactions	-	28,792	-	-	28,792
Total transactions with owners	10,072	38,865	-	-	48,937
As of February 28, 2021	320,072	1,629,850	1,999,444	-	3,949,366
Profit	-	-	500,481	-	500,481
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	500,481	-	500,481
Purchase of treasury shares	-	-	-	(49)	(49)
Dividends	-	-	(148,555)	-	(148,555)
Exercise of share acquisition rights	7,447	7,447	-	-	14,895
Share-based remuneration transactions	2,498	4,421	-	-	6,919
Total transactions with owners	9,945	11,869	(148,555)	(49)	(126,789)
As of February 28, 2022	330,018	1,641,719	2,351,369	(49)	4,323,058

(4) Non-consolidated Statements of Cash Flows

	(Thousand yen)	
	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)
Cash flows from operating activities		
Profit before tax	707,935	701,528
Depreciation and amortization	117,672	125,453
Finance income	(6)	(4)
Finance costs	56,385	50,255
Decrease (increase) in inventories	(14,710)	(98,361)
Decrease (increase) in trade and other receivables	(20,824)	(3,428)
Decrease (increase) in other current assets	(19,871)	(32,026)
Decrease (increase) in other non-current assets	7,653	(1,409)
Increase (decrease) in trade and other payables	(15,332)	26,224
Increase (decrease) in other current liabilities	(75,785)	(27,249)
Increase (decrease) in other non-current liabilities	70,616	(18,573)
Other	25,553	6,673
Subtotal	839,286	729,080
Interest received	6	4
Interest paid	(19,019)	(16,980)
Income taxes paid	(296,045)	(221,894)
Cash flows from operating activities	524,227	490,210
Cash flows from investing activities		
Purchase of property, plant and equipment	(14,808)	(12,854)
Purchase of intangible assets	(97,401)	(95,433)
Cash flows from investing activities	(112,209)	(108,288)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	20,145	14,895
Repayments of long-term borrowings	(400,000)	(400,000)
Repayments of lease liabilities	(69,465)	(51,871)
Purchase of treasury shares	-	(49)
Dividends paid	-	(148,113)
Other	(1,000)	(1,000)
Cash flows from financing activities	(450,320)	(586,139)
Net increase (decrease) in cash and cash equivalents	(38,303)	(204,217)
Cash and cash equivalents at the beginning of the period	632,229	593,930
Net effect of currency translation on cash and cash equivalents	5	133
Cash and cash equivalents at the end of the period	593,930	389,846

(5) Notes to Non-consolidated Financial Statements

Notes on going concern assumption

Not applicable

Changes in accounting policies

Not applicable

Changes in accounting estimates

Not applicable

Additional information

Although COVID-19 has had an impact on delivery operations for Integration Services, the impact has been extremely limited as of the end of the fiscal year ended February 28, 2022. The Company has made accounting estimates based on currently available information, under the assumption that such impact will be extremely limited going forward, as well.

Due to the continued high level of uncertainty regarding the impact of COVID-19, if the above assumption changes as a result of a re-expansion of the number of COVID-19 cases and prolongation of the pandemic, it may impact our future financial position and operating results.

Segment information

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

Per share information

	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)
Equity per share	1,048.52 yen	1,137.83 yen
Basic earnings per share	131.78 yen	132.29 yen
Diluted earnings per share	123.97 yen	127.12 yen

Note: The bases for calculating basic earnings per share and diluted earnings per share are as follows.

	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)
Basic earnings per share		
Profit (thousand yen)	491,534	500,481
Amount not attributable to common shareholders (thousand yen)	—	—
Profit related to common shares (thousand yen)	491,534	500,481
Average number of common shares during the period (shares)	3,730,030	3,783,176
Diluted earnings per share		
Adjustments of profit (thousand yen)	—	—
Increase in the number of common shares (shares)	234,801	153,916
[including share acquisition rights (shares)]	[234,801]	[153,916]
Overview of dilutive shares not included in the calculation of diluted earnings per share, as they have no dilutive effect	—	—

Significant subsequent events

Not applicable