



## Non-consolidated Financial Results for the Three Months Ended May 31, 2022 [IFRS]

July 11, 2022

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

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Scheduled date of filing interim securities report: July 12, 2022

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 Three Months Ended May 31, 2022 (March 1, 2022 to May 31, 2022)

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

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
Three Months Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
May 31, 2022	670	3.4	199	7.9	182	6.7	126	7.0	126	7.0
May 31, 2021	647	3.1	184	(13.4)	171	(13.9)	118	(14.4)	118	(14.4)

	Basic earnings per share	Diluted earnings per share
Three Months Ended	Yen	Yen
May 31, 2022	33.29	32.22
May 31, 2021	31.37	29.90

### (2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of May 31, 2022	7,060	4,296	60.9
As of February 28, 2022	7,122	4,323	60.7

## 2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended February 28, 2022	Yen —	Yen 0.00	Yen —	Yen 40.44	Yen 40.44
Fiscal year ending February 28, 2023	—				
Fiscal year ending February 28, 2023 (Forecast)	—	0.00	—	40.50	40.50

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

## 3. Non-consolidated Financial Results 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

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 May 31, 2022: 3,800,373 shares

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

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

As of May 31, 2022: 470 shares

As of February 28, 2022: 29 shares

3) Average number of shares during the period:

Three Months Ended May 31, 2022: 3,799,955 shares

Three Months Ended May 31, 2021: 3,768,531 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.

## Table of Contents

1. Qualitative Information on Interim Financial Results for the Period under Review .....	1
(1) Explanation of Business Results.....	1
(2) Explanation of Financial Position.....	1
(3) Analysis of Cash Flows .....	2
(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information .....	2
2. Interim Condensed Non-consolidated Financial Statements and Primary Notes .....	3
(1) Interim Condensed Non-consolidated Statements of Financial Position.....	3
(2) Interim Condensed Non-consolidated Statements of Profit or Loss and Comprehensive Income .....	5
(3) Interim Condensed Non-consolidated Statements of Changes in Equity .....	6
(4) Interim Condensed Non-consolidated Statements of Cash Flows.....	7
(5) Notes to Interim Condensed Non-consolidated Financial Statements.....	8

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

### (1) Explanation of Business Results

During the three months ended May 31, 2022, expectations for the Japanese economy to return to normal were rising as the spread of COVID-19 showed signs of settling down. Meanwhile, the outlook overseas was mired by concerns over economic instability given surging resource prices worldwide due to the prolonged Russia-Ukraine situation and fluctuations in the financial markets of countries around the world.

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. As a successor model to our in-house developed network security equipment VSR (Vario Secure Router), we released the scalable model “VSR n series” with the aim towards linking it with services of other companies.

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, 2023, it is difficult to rationally calculate the effect on the Company’s performance for the fiscal year ending February 28, 2024 onward, and the Company will continue to monitor the situation.

In such an environment, the Company reported revenue exceeding that of the corresponding period of the previous fiscal year, and each level of profit under operating profit also increased year on year, due to the recurring revenue from Managed Security Services and a low cancellation rate (0.82%) (Note).

As result of the above, in the financial results on an IFRS basis for the three months ended May 31, 2022, the Company reported revenue of ¥670,074 thousand (a year-on-year increase of 3.4%), operating profit of ¥199,487 thousand (a year-on-year increase of 7.9%), profit before tax of ¥182,889 thousand (a year-on-year increase of 6.7%), and profit of ¥126,486 thousand (a year-on-year increase of 7.0%).

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

Note:  $\text{Cancellation rate (monetary basis)} = \text{Cancellation amount for the Three Months Ended May 31, 2022} / (\text{Monthly revenue at the beginning of each fiscal year} \times 3)$

### (2) Explanation of Financial Position

The financial position on an IFRS basis as of May 31, 2022 was as follows.

#### Assets

Total assets as of May 31, 2022 were ¥7,060,939 thousand, a decrease of ¥61,130 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥40,924 thousand in inventories and a decrease of ¥131,011 thousand in cash and cash equivalents.

#### Liabilities

Total liabilities as of May 31, 2022 were ¥2,764,232 thousand, a decrease of ¥34,778 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥46,897 thousand in other current liabilities, as well as decreases of ¥38,149 thousand in trade and other payables and ¥40,820 thousand in income taxes payable.

### Equity

Total equity as of May 31, 2022 was ¥4,296,706 thousand, a decrease of ¥26,351 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥126,486 thousand in retained earnings as a result of reporting profit, and a decrease in retained earnings as a result of reporting dividends of ¥153,647 thousand.

### (3) Analysis of Cash Flows

Cash flows on an IFRS basis for the Three Months Ended May 31, 2022 were as follows.

Cash and cash equivalents as of May 31, 2022 decreased by ¥131,011 thousand from the end of the previous fiscal year to ¥258,834 thousand.

#### Cash flows from operating activities

Net cash provided by operating activities during the three months ended May 31, 2022 was ¥63,704 thousand (¥48,661 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥182,889 thousand in profit before tax and ¥38,013 thousand in depreciation and amortization, while major cash outflows included a ¥40,924 thousand increase in inventories, a ¥37,599 thousand decrease in trade and other payables and ¥84,989 thousand in income taxes paid.

#### Cash flows from investing activities

Net cash used in investing activities during the three months ended May 31, 2022 was ¥35,187 thousand (¥31,197 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥31,408 thousand for the purchase of intangible assets.

#### Cash flows from financing activities

Net cash used in financing activities during the three months ended May 31, 2022 was ¥159,529 thousand (¥204,934 thousand was used in the corresponding period of the previous fiscal year). Major cash inflows included a net increase in short-term borrowings of ¥100,000 thousand, while major cash outflows included ¥100,000 thousand for repayments of long-term borrowings, ¥141,304 thousand for dividends paid, and ¥18,418 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, 2023, the forecast announced on April 13, 2022 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, 2022	As of May 31, 2022
Assets		
Current assets		
Cash and cash equivalents	389,846	258,834
Trade and other receivables	464,748	476,485
Inventories	218,104	259,029
Other current assets	176,377	195,457
Total current assets	1,249,077	1,189,806
Non-current assets		
Property, plant and equipment	206,726	186,097
Goodwill	5,054,613	5,054,613
Intangible assets	242,733	259,987
Other financial assets	63,384	63,384
Deferred tax assets	131,673	123,200
Other non-current assets	173,860	183,849
Total non-current assets	5,872,992	5,871,132
Total assets	7,122,069	7,060,939

	(Thousand yen)	
	As of February 28, 2022	As of May 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	1,786,677	1,793,489
Trade and other payables	134,211	96,061
Income taxes payable	93,513	52,693
Other current liabilities	389,580	436,477
Total current liabilities	2,403,981	2,378,721
Non-current liabilities		
Lease liabilities	28,837	11,546
Provisions	18,384	18,396
Other non-current liabilities	347,807	355,568
Total non-current liabilities	395,029	385,510
Total liabilities	2,799,011	2,764,232
Equity		
Share capital	330,018	330,258
Capital surplus	1,641,719	1,642,325
Retained earnings	2,351,369	2,324,209
Treasury shares	(49)	(85)
Total equity	4,323,058	4,296,706
Total liabilities and equity	7,122,069	7,060,939

(2) Interim Condensed Non-consolidated Statements of Profit or Loss and Comprehensive Income  
Interim Condensed Non-consolidated Statements of Profit or Loss  
Three Months Ended May 31

	(Thousand yen)	
	For the Three Months Ended May 31, 2021 (from March 1, 2021 to May 31, 2021)	For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)
Revenue	647,882	670,074
Cost of sales	248,775	259,418
Gross profit	399,107	410,656
Selling, general and administrative expenses	214,340	212,623
Other income	34	1,455
Other expenses	0	0
Operating profit	184,801	199,487
Finance costs	13,457	16,598
Profit before tax	171,343	182,889
Income tax expense	53,113	56,402
Profit	118,229	126,486
Earnings per share		
Basic earnings per share (yen)	31.37	33.29
Diluted earnings per share (yen)	29.90	32.22

Interim Condensed Non-consolidated Statements of Comprehensive Income  
Three Months Ended May 31

	(Thousand yen)	
	For the Three Months Ended May 31, 2021 (from March 1, 2021 to May 31, 2021)	For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)
Profit	118,229	126,486
Other comprehensive income	-	-
Comprehensive income	118,229	126,486

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

For the Three Months Ended May 31, 2021 (from March 1, 2021 to May 31, 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	-	-	118,229	-	118,229
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	118,229	-	118,229
Purchase of treasury shares	-	-	-	(49)	(49)
Dividends	-	-	(148,555)	-	(148,555)
Exercise of share acquisition rights	1,205	1,205	-	-	2,410
Share-based remuneration transactions	-	6,129	-	-	6,129
Total transactions with owners	1,205	7,334	(148,555)	(49)	(140,065)
As of May 31, 2021	321,277	1,637,184	1,969,118	(49)	3,927,531

For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2022	330,018	1,641,719	2,351,369	(49)	4,323,058
Profit	-	-	126,486	-	126,486
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	126,486	-	126,486
Purchase of treasury shares	-	-	-	(36)	(36)
Dividends	-	-	(153,647)	-	(153,647)
Exercise of share acquisition rights	240	240	-	-	480
Share-based remuneration transactions	-	365	-	-	365
Total transactions with owners	240	605	(153,647)	(36)	(152,838)
As of May 31, 2022	330,258	1,642,325	2,324,209	(85)	4,296,706

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

		(Thousand yen)
	For the Three Months Ended May 31, 2021 (from March 1, 2021 to May 31, 2021)	For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)
Cash flows from operating activities		
Profit before tax	171,343	182,889
Depreciation and amortization	32,543	38,013
Finance costs	13,457	16,598
Decrease (increase) in inventories	(26,613)	(40,924)
Decrease (increase) in trade and other receivables	8,633	(11,736)
Decrease (increase) in other current assets	(19,389)	(19,190)
Decrease (increase) in other non-current assets	(2,771)	(9,988)
Increase (decrease) in trade and other payables	(6,762)	(37,599)
Increase (decrease) in other current liabilities	(8,634)	35,660
Increase (decrease) in other non-current liabilities	(3,777)	7,760
Other	2,259	(8,956)
Subtotal	160,288	152,525
Interest paid	(4,504)	(3,831)
Income taxes paid	(107,122)	(84,989)
Cash flows from operating activities	48,661	63,704
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,674)	(3,779)
Purchase of intangible assets	(24,523)	(31,408)
Cash flows from investing activities	(31,197)	(35,187)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	2,410	480
Net increase (decrease) in short-term borrowings	-	100,000
Repayments of long-term borrowings	(100,000)	(100,000)
Repayments of lease liabilities	(17,366)	(18,418)
Purchase of treasury shares	(49)	(36)
Dividends paid	(89,678)	(141,304)
Other	(249)	(249)
Cash flows from financing activities	(204,934)	(159,529)
Net increase (decrease) in cash and cash equivalents	(187,470)	(131,011)
Cash and cash equivalents at the beginning of the period	593,930	389,846
Net effect of currency translation on cash and cash equivalents	0	0
Cash and cash equivalents at the end of the period	406,460	258,834

(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.