



Non-consolidated Financial Results for the Nine months Ended November 30, 2022 [IFRS]

January 10, 2023

Company name: Vario Secure Inc.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4494
 URL: <https://www.variosecure.net/>
 Representative: Yoshihiko Inami, CEO
 Contact: Hideko Isoe, Director, General Manager of Administration Headquarters
 Phone: +81-3-5577-3284
 Scheduled date of filing interim securities report: January 11, 2023
 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, 2022 (March 1, 2022 to November 30, 2022)

(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, 2022	1,984	3.2	564	1.7	528	2.2	370	3.6	370	3.6
November 30, 2021	1,923	0.8	555	(7.2)	516	(7.0)	357	(7.2)	357	(7.2)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
November 30, 2022	93.38	90.99
November 30, 2021	94.69	90.81

(2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of November 30, 2022	7,738	5,365	69.3
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
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2022	—	0.00	—	40.44	40.44
Fiscal year ending February 28, 2023	—	0.00	—		
Fiscal year ending February 28, 2023 (Forecast)				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	128.01

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

Basic earnings per share for the fiscal year ending February 28, 2023 is calculated considering the numbers of shares concerning the third-party allotment conducted on September 27, 2022.

* 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, 2022: 4,514,813 shares

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

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

As of November 30, 2022: 470 shares

As of February 28, 2022: 29 shares

3) Average number of shares during the period:

Nine months ended November 30, 2022: 3,969,162 shares

Nine months ended November 30, 2021: 3,779,997 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, 2022, the Japanese economy was expected to recover as a result of the effects of various policies while the country coexisted with COVID-19. However, mounting concerns over the economic outlook prevailed due to soaring energy and commodity prices as well as fluctuations in the financial and capital markets. Overseas, the global trend of monetary tightening continued, and the downturn in overseas economies poses a risk of downward pressure on Japan's economy.

As for the environment in the security services market surrounding the Company, the investment demand for corporate security measures has continued to expand due to increases in state-sponsored cyberattacks, in addition to cybercrimes, as cybersecurity threats became increasingly sophisticated.

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 (0.74%) (Note).

As result of the above, in the financial results on an IFRS basis for the nine months ended November 30, 2022, the Company reported revenue of ¥1,984,805 thousand (a year-on-year increase of 3.2%), operating profit of ¥564,818 thousand (a year-on-year increase of 1.7%), profit before tax of ¥528,180 thousand (a year-on-year increase of 2.2%), and profit of ¥370,632 thousand (a year-on-year increase of 3.6%).

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, 2022 / (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, 2022 was as follows.

Assets

Total assets as of November 30, 2022 were ¥7,738,968 thousand, an increase of ¥616,899 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥513,776 thousand in cash and cash equivalents and ¥128,005 thousand in inventories.

Liabilities

Total liabilities as of November 30, 2022 were ¥2,373,418 thousand, a decrease of ¥425,593 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥1,350,000 thousand in borrowings under non-current liabilities, as well as decreases of ¥1,586,677 thousand in borrowings under current liabilities, ¥54,841 thousand in trade and other payables and ¥43,448 thousand in income taxes payable.

Equity

Total equity as of November 30, 2022 was ¥5,365,550 thousand, an increase of ¥1,042,492 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥370,632 thousand in retained earnings as a result of reporting profit and ¥821,800 thousand in share capital and capital surplus as a result of the issuance of new shares, as well as 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 nine months ended November 30, 2022 were as follows.

Cash and cash equivalents as of November 30, 2022 increased by ¥513,776 thousand from the end of the previous fiscal year to ¥903,622 thousand.

Cash flows from operating activities

Net cash provided by operating activities during the nine months ended November 30, 2022 was ¥258,767 thousand (¥279,557 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥528,180 thousand in profit before tax and ¥114,819 thousand in depreciation and amortization, while major cash outflows included a ¥128,005 thousand increase in inventories, a ¥55,791 thousand decrease in trade and other payables and ¥184,801 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the nine months ended November 30, 2022 was ¥103,600 thousand (¥75,290 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥84,376 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash provided by financing activities during the nine months ended November 30, 2022 was ¥358,615 thousand (¥472,210 thousand was used in the corresponding period of the previous fiscal year). Major cash inflows included ¥815,366 thousand proceeds from the issuance of shares and ¥1,600,000 thousand proceeds from long-term borrowings, while major cash outflows included ¥1,850,000 thousand for repayments of long-term borrowings and ¥153,302 thousand for dividends paid.

(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 November 30, 2022
Assets		
Current assets		
Cash and cash equivalents	389,846	903,622
Trade and other receivables	464,748	449,912
Inventories	218,104	346,109
Other current assets	176,377	185,285
Total current assets	1,249,077	1,884,930
Non-current assets		
Property, plant and equipment	206,726	152,545
Goodwill	5,054,613	5,054,613
Intangible assets	242,733	286,646
Other financial assets	63,384	63,384
Deferred tax assets	131,673	119,408
Other non-current assets	173,860	177,439
Total non-current assets	5,872,992	5,854,037
Total assets	7,122,069	7,738,968

	(Thousand yen)	
	As of February 28, 2022	As of November 30, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	1,786,677	200,000
Trade and other payables	134,211	79,369
Income taxes payable	93,513	50,064
Other current liabilities	389,580	347,798
Total current liabilities	2,403,981	677,233
Non-current liabilities		
Borrowings	-	1,350,000
Lease liabilities	28,837	-
Provisions	18,384	18,420
Other non-current liabilities	347,807	327,764
Total non-current liabilities	395,029	1,696,185
Total liabilities	2,799,011	2,373,418
Equity		
Share capital	330,018	749,558
Capital surplus	1,641,719	2,047,722
Retained earnings	2,351,369	2,568,355
Treasury shares	(49)	(85)
Total equity	4,323,058	5,365,550
Total liabilities and equity	7,122,069	7,738,968

(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, 2021 (from March 1, 2021 to November 30, 2021)	For the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022)
Revenue	1,923,815	1,984,805
Cost of sales	727,100	803,607
Gross profit	1,196,715	1,181,198
Selling, general and administrative expenses	641,207	617,883
Other income	87	1,503
Other expenses	194	0
Operating profit	555,400	564,818
Finance income	2	1
Finance costs	38,533	36,639
Profit before tax	516,870	528,180
Income tax expense	158,952	157,547
Profit	357,917	370,632
Earnings per share		
Basic earnings per share (yen)	94.69	93.38
Diluted earnings per share (yen)	90.81	90.99

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

		(Thousand yen)
	For the nine months ended November 30, 2021 (from March 1, 2021 to November 30, 2021)	For the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022)
Profit	357,917	370,632
Other comprehensive income	-	-
Comprehensive income	357,917	370,632

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

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

For the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 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	-	-	370,632	-	370,632
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	370,632	-	370,632
Issuance of new shares	418,190	403,610	-	-	821,800
Purchase of treasury shares	-	-	-	(36)	(36)
Dividends	-	-	(153,647)	-	(153,647)
Exercise of share acquisition rights	1,350	1,350	-	-	2,700
Share-based remuneration transactions	-	1,042	-	-	1,042
Total transactions with owners	419,540	406,003	(153,647)	(36)	671,859
As of November 30, 2022	749,558	2,047,722	2,568,355	(85)	5,365,550

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

		(Thousand yen)
	For the nine months ended November 30, 2021 (from March 1, 2021 to November 30, 2021)	For the nine months ended November 30, 2022 (from March 1, 2022 to November 30, 2022)
Cash flows from operating activities		
Profit before tax	516,870	528,180
Depreciation and amortization	93,914	114,819
Finance income	(2)	(1)
Finance costs	38,533	36,639
Decrease (increase) in inventories	(40,345)	(128,005)
Decrease (increase) in trade and other receivables	4,095	14,835
Decrease (increase) in other current assets	(62,951)	(8,372)
Decrease (increase) in other non-current assets	2,613	(3,568)
Increase (decrease) in trade and other payables	14,894	(55,791)
Increase (decrease) in other current liabilities	(36,970)	(16,122)
Increase (decrease) in other non-current liabilities	(19,282)	(20,042)
Other	2,662	(7,304)
Subtotal	514,032	455,266
Interest received	2	1
Interest paid	(12,582)	(11,698)
Income taxes paid	(221,893)	(184,801)
Cash flows from operating activities	279,557	258,767
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,295)	(19,223)
Purchase of intangible assets	(65,995)	(84,376)
Cash flows from investing activities	(75,290)	(103,600)
Cash flows from financing activities		
Proceeds from issuance of shares	-	815,366
Proceeds from exercise of share acquisition rights	10,540	2,700
Proceeds from long-term borrowings	-	1,600,000
Repayments of long-term borrowings	(300,000)	(1,850,000)
Repayments of lease liabilities	(33,937)	(55,362)
Purchase of treasury shares	(49)	(36)
Dividends paid	(148,013)	(153,302)
Other	(750)	(749)
Cash flows from financing activities	(472,210)	358,615
Net increase (decrease) in cash and cash equivalents	(267,943)	513,781
Cash and cash equivalents at the beginning of the period	593,930	389,846
Net effect of currency translation on cash and cash equivalents	(129)	(5)
Cash and cash equivalents at the end of the period	325,858	903,622

(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