



Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2023 [IFRS]

April 12, 2023

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, 2023

Scheduled date of commencing dividend payments: May 26, 2023

Scheduled date of filing annual securities report: May 25, 2023

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, 2023 (March 1, 2022 to February 28, 2023)

(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, 2023	2,634	2.6	581	(22.7)	542	(22.7)	383	(23.4)	383	(23.4)
February 28, 2022	2,566	0.8	751	(1.6)	701	(0.9)	500	1.8	500	1.8

	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, 2023	93.41	91.18	7.9	7.3	22.1
February 28, 2022	132.29	127.12	12.1	9.8	29.3

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

Fiscal year ended February 28, 2023: ¥- million

Fiscal year ended February 28, 2022: ¥- 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, 2023	7,826	5,378	68.7	1,191.32
As of February 28, 2022	7,122	4,323	60.7	1,137.83

(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, 2023	522	(138)	266	1,039
February 28, 2022	490	(108)	(586)	389

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, 2022	-	0.00	-	40.44	40.44	153	30.6	3.7
Fiscal year ended February 28, 2023	-	0.00	-	40.50	40.50	182	43.4	3.5
Fiscal year ending February 28, 2024 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Non-consolidated Financial forecast for the Fiscal Year Ending February 29, 2024 (March 1, 2023 to February 29, 2024)

(% 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	2,685	1.9	456	(21.4)	444	(18.0)	308	(19.5)	68.30

* 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, 2023: 4,515,613 shares

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

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

As of February 28, 2023: 470 shares

As of February 28, 2022: 29 shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2023: 4,103,601 shares

Fiscal year ended February 28, 2022: 3,783,176 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, 2023, the Japanese economy was expected to recover partly due to the effects of various policies while the country coexisted with COVID-19. However, mounting concerns over the impact from soaring commodity prices on consumer spending prevailed. In addition, as the global trend of monetary tightening has continued, 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, corporate security measures are essential due to increases in state-sponsored cyberattacks, in addition to cybercrimes, as cybersecurity threats became increasingly sophisticated.

In such an environment, for the fiscal year ended February 28, 2023, the Company reported steady sales of Vario Managed EDR, which detects signs of cyberattacks as an endpoint security measure. For data backup services (VDaP) that protect the information assets of corporations and various institutions from the growing threat of ransomware attacks (ransom-demanding-type viruses), the Company promoted services to medical institutions, in order to support the development of a secure and safe business environment 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 ended February 28, 2023, it is difficult to rationally calculate the effect on the Company's performance for the fiscal year ending February 29, 2024 onward, and the Company will continue to monitor the situation.

In such an environment, the Company reported stable revenue related to Managed Security Services due to the recurring revenue from Managed Security Services and a low cancellation rate (0.70%) (Note). Meanwhile, sales of VCR (Vario Communicate Router), an integrated security equipment (UTM) for small and medium-sized businesses in Integration Services, were sluggish due to an unexpectedly intensified competitive environment. Although the Company took measures by introducing a new model with new services, sales have yet to recover as of February 28, 2023. Accordingly, the Company reported ¥94,858 thousand in provisions for minimum purchase guarantees related to contracts with a supplier and ¥64,963 thousand in loss on valuation of VCR inventories, in cost of sales.

As a result of the above, in the financial results on an IFRS basis for the fiscal year ended February 28, 2023, the Company reported revenue of ¥2,634,377 thousand (a year-on-year increase of 2.6%), operating profit of ¥581,299 thousand (a year-on-year decrease of 22.7%), profit before tax of ¥542,394 thousand (a year-on-year decrease of 22.7%), and profit of ¥383,316 thousand (a year-on-year decrease of 23.4%).

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, 2023 / (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, 2023 was as follows.

Assets

Total assets as of February 28, 2023 were ¥7,826,190 thousand, an increase of ¥704,120 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥650,114 thousand in cash and cash equivalents and ¥53,341 thousand in intangible assets.

Liabilities

Total liabilities as of February 28, 2023 were ¥2,447,217 thousand, a decrease of ¥351,793 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥1,300,000 thousand in borrowings under non-current liabilities and ¥94,858 thousand in provisions, as well as decreases of ¥1,586,677 thousand in borrowings under current liabilities, ¥52,459 thousand in trade and other payables and ¥51,697 thousand in other non-current liabilities.

Equity

Total equity as of February 28, 2023 was ¥5,378,973 thousand, an increase of ¥1,055,914 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥383,316 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 due to a third-party allotment, as well as a decrease in retained earnings as a result of reporting dividends of ¥153,647 thousand.

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

Cash flows on an IFRS basis for the fiscal year ended February 28, 2023 were as follows.

Cash and cash equivalents as of February 28, 2023 increased by ¥650,114 thousand from the end of the previous fiscal year to ¥1,039,961 thousand.

Cash flows from operating activities

Net cash provided by operating activities was ¥522,291 thousand (¥490,210 thousand was provided in the previous fiscal year). Major cash inflows included ¥542,394 thousand in profit before tax, ¥177,443 thousand in depreciation and amortization and a ¥94,858 thousand increase in provisions, while major cash outflows included a ¥53,409 thousand decrease in trade and other payables and ¥183,524 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥138,668 thousand (¥108,288 thousand was used in the previous fiscal year). Major cash outflows included ¥112,413 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash provided by financing activities was ¥266,496 thousand (¥586,139 thousand was used in 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 ¥1,900,000 thousand for repayments of long-term borrowings, ¥153,412 thousand for dividends paid and ¥97,770 thousand for repayments of lease liabilities.

(4) Future Outlook

As for the network security market, the growing use of remote-work and cloud services and the increasing sophistication of cyberattacks have led to a growing demand for security measures that are “intrusion-proof” and provide a multilayered defense “assuming intrusion.” In such an environment, the Company plans to invest aggressively in growth markets and deepen its Managed Security Services, which is one of its strengths, by expanding into a variety of services. In terms of sales channels, in addition to conventional distributor sales, the Company plans to build a direct sales structure through continuous investment in online marketing and inside sales to accelerate customer acquisition.

With these measures, regarding the financial results forecast for the fiscal year ending February 29, 2024, the Company expects revenue of ¥2,685 million (a year-on-year increase of 1.9%), operating profit of ¥456 million (a year-on-year decrease of 21.4%), profit before tax of ¥444 million (a year-on-year decrease of 18.0%), and profit of ¥308 million (a year-on-year decrease of 19.5%), due to business investments such as hiring expenses and personnel expenses for planning new services and strengthening the sales department, as well as marketing costs for the development of new sales channels.

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, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and cash equivalents	389,846	1,039,961
Trade and other receivables	464,748	443,904
Inventories	218,104	260,283
Other current assets	176,377	181,143
Total current assets	1,249,077	1,925,292
Non-current assets		
Property, plant and equipment	206,726	158,905
Goodwill	5,054,613	5,054,613
Intangible assets	242,733	296,075
Other financial assets	63,384	63,384
Deferred tax assets	131,673	166,352
Other non-current assets	173,860	161,566
Total non-current assets	5,872,992	5,900,898
Total assets	7,122,069	7,826,190

	(Thousand yen)	
	As of February 28, 2022	As of February 28, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	1,786,677	200,000
Trade and other payables	134,211	81,751
Income taxes payable	93,513	105,254
Provisions	-	94,858
Other current liabilities	389,580	350,810
Total current liabilities	2,403,981	832,674
Non-current liabilities		
Borrowings	-	1,300,000
Lease liabilities	28,837	-
Provisions	18,384	18,432
Other non-current liabilities	347,807	296,110
Total non-current liabilities	395,029	1,614,542
Total liabilities	2,799,011	2,447,217
Equity		
Share capital	330,018	749,758
Capital surplus	1,641,719	2,048,261
Retained earnings	2,351,369	2,581,039
Treasury shares	(49)	(85)
Total equity	4,323,058	5,378,973
Total liabilities and equity	7,122,069	7,826,190

(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, 2022 (from March 1, 2021 to February 28, 2022)	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)
Revenue	2,566,735	2,634,377
Cost of sales	969,412	1,243,543
Gross profit	1,597,323	1,390,833
Selling, general and administrative expenses	845,355	810,922
Other income	113	1,527
Other expenses	302	139
Operating profit	751,778	581,299
Finance income	4	5
Finance costs	50,255	38,911
Profit before tax	701,528	542,394
Income tax expense	201,047	159,077
Profit	500,481	383,316
Earnings per share		
Basic earnings per share (yen)	132.29	93.41
Diluted earnings per share (yen)	127.12	91.18

Non-consolidated Statements of Comprehensive Income

	(Thousand yen)	
	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)
Profit	500,481	383,316
Other comprehensive income	-	-
Comprehensive income	500,481	383,316

(3) Non-consolidated Statements of Changes in Equity

(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	-	-	500,481	-	500,481
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
Profit	-	-	383,316	-	383,316
Total comprehensive income	-	-	383,316	-	383,316
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	1,550	1,550	-	-	3,100
Share-based remuneration transactions	-	1,380	-	-	1,380
Total transactions with owners	419,740	406,541	(153,647)	(36)	672,597
As of February 28, 2023	749,758	2,048,261	2,581,039	(85)	5,378,973

(4) Non-consolidated Statements of Cash Flows

	(Thousand yen)	
	For the fiscal year ended February 28, 2022 (from March 1, 2021 to February 28, 2022)	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)
Cash flows from operating activities		
Profit before tax	701,528	542,394
Depreciation and amortization	125,453	177,443
Increase in provision	-	94,858
Finance income	(4)	(5)
Finance costs	50,255	38,911
Decrease (increase) in inventories	(98,361)	(42,178)
Decrease (increase) in trade and other receivables	(3,428)	20,843
Decrease (increase) in other current assets	(32,026)	(4,266)
Decrease (increase) in other non-current assets	(1,409)	12,303
Increase (decrease) in trade and other payables	26,224	(53,409)
Increase (decrease) in other current liabilities	(27,249)	(18,598)
Increase (decrease) in other non-current liabilities	(18,573)	(51,697)
Other	6,673	3,991
Subtotal	729,080	720,589
Interest received	4	5
Interest paid	(16,980)	(14,779)
Income taxes paid	(221,894)	(183,524)
Cash flows from operating activities	490,210	522,291
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,854)	(26,255)
Purchase of intangible assets	(95,433)	(112,413)
Cash flows from investing activities	(108,288)	(138,668)
Cash flows from financing activities		
Proceeds from issuance of shares	-	815,366
Proceeds from exercise of share acquisition rights	14,895	3,100
Proceeds from long-term borrowings	-	1,600,000
Repayments of long-term borrowings	(400,000)	(1,900,000)
Repayments of lease liabilities	(51,871)	(97,770)
Purchase of treasury shares	(49)	(36)
Dividends paid	(148,113)	(153,412)
Other	(1,000)	(749)
Cash flows from financing activities	(586,139)	266,496
Net increase (decrease) in cash and cash equivalents	(204,217)	650,120
Cash and cash equivalents at the beginning of the period	593,930	389,846
Net effect of currency translation on cash and cash equivalents	133	(5)
Cash and cash equivalents at the end of the period	389,846	1,039,961

(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, 2023. 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, 2022 (from March 1, 2021 to February 28, 2022)	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)
Equity per share	1,137.83 yen	1,191.32 yen
Basic earnings per share	132.29 yen	93.41 yen
Diluted earnings per share	127.12 yen	91.18 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, 2022 (from March 1, 2021 to February 28, 2022)	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)
Basic earnings per share		
Profit (thousand yen)	500,481	383,316
Amount not attributable to common shareholders (thousand yen)	—	—
Profit related to common shares (thousand yen)	500,481	383,316
Average number of common shares during the period (shares)	3,783,176	4,103,601
Diluted earnings per share		
Adjustments of profit (thousand yen)	—	—
Increase in the number of common shares (shares)	153,916	100,220
[including share acquisition rights (shares)]	[153,916]	[100,220]
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