



## Non-consolidated Financial Results for the Six Months Ended August 31, 2023 [IFRS]

October 10, 2023

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

URL: <https://www.variosecurer.net/>

Representative: Yasufumi Kajiura, CEO

Contact: Hideko Isoe, Director, General Manager of Administration Headquarters

Phone: +81-3-5577-3284

Scheduled date of filing interim securities report: October 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: Scheduled (for institutional investors and analysts)

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

### 1. Non-consolidated Financial Results for the Six Months Ended August 31, 2023 (March 1, 2023 to August 31, 2023)

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

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
Six Months Ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
August 31, 2023	1,306	(2.3)	290	(24.6)	285	(19.7)	190	(22.3)	190	(22.3)
August 31, 2022	1,337	4.2	385	6.3	355	5.3	245	5.1	245	5.1

	Basic earnings per share	Diluted earnings per share
Six Months Ended	Yen	Yen
August 31, 2023	42.21	41.55
August 31, 2022	64.56	62.74

### (2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of August 31, 2023	7,744	5,388	69.6
As of February 28, 2023	7,826	5,378	68.7

## 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, 2023	—	0.00	—	40.50	40.50
Fiscal year ending February 29, 2024	—	0.00			
Fiscal year ending February 29, 2024 (Forecast)			—	0.00	0.00

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

## 3. Non-consolidated Financial Results 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

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 August 31, 2023: 4,515,613 shares

As of February 28, 2023: 4,515,613 shares

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

As of August 31, 2023: 1,519 shares

As of February 28, 2023: 470 shares

3) Average number of shares during the period:

Six Months Ended August 31, 2023: 4,515,137 shares

Six Months Ended August 31, 2022: 3,800,441 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 six months ended August 31, 2023, the Japanese economy was expected to continue its gradual recovery partly due to the effects of various policies as the earning and employment environment improved. However, there are mounting concerns over the impact of soaring commodity and energy prices. In addition, the global trend of monetary tightening has caused a downturn in overseas economies that poses a risk of downward pressure on Japan's economy.

As for the environment in the security services market surrounding the Company, the number of cyberattacks targeting supply chains is rising, and the threat of ransomware attacks (ransom-demanding-type viruses) targeting organizations such as general companies and hospitals is growing. Security measures have become essential due to the use of cloud services by companies and corporate promotion of DX.

In such an environment, the Company has supported the development of a secure and safe business environment through multilayered defense against an increasing array of threats with various services such as Vario Managed EDR, which detects signs of cyberattacks as an endpoint security measure, data backup (VDaP) that protect corporate information assets from the growing threat of ransomware attacks (ransom-demanding-type viruses), managed LAN/Wi-Fi that monitor the operating status of communications devices within companies and protect communication environments from vulnerabilities, in addition to conventional gateway security.

From this fiscal year to the fiscal year ending February 28, 2026, in accordance with the medium-term management plan, the Company has announced and is working to realize plans for acquiring human resources, strengthening its service planning and business development, and investing in business segments such as software development, with the aim of "expanding the fields supported by managed services and making managed services more competitive," "entering growing security markets," and "strengthening new sales systems different from the existing sales network."

Under such circumstances, the Company reported revenue exceeding that of the corresponding period of the previous fiscal year due to the recurring revenue from Managed Security Services, a low cancellation rate (0.73%) (Note), and an increase in the number of Vario Managed EDR licenses. Sales of integrated security equipment (UTM) were sluggish, causing revenue in Integration Services to decline year on year. The Company has recorded hiring expenses and advertising expenses in relation to business investments under the medium-term management plan. As a result, each level of profit decreased year on year.

As result of the above, in the financial results on an IFRS basis for the six months ended August 31, 2023, the Company reported revenue of ¥1,306,037 thousand (a year-on-year decrease of 2.3%), operating profit of ¥290,874 thousand (a year-on-year decrease of 24.6%), profit before tax of ¥285,071 thousand (a year-on-year decrease of 19.7%), and profit of ¥190,598 thousand (a year-on-year decrease of 22.3%).

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 Six months Ended August 31, 2023 / (Monthly revenue at the beginning of each fiscal year × 6)

### (2) Explanation of Financial Position

The financial position on an IFRS basis as of August 31, 2023 was as follows.

#### Assets

Total assets as of August 31, 2023 were ¥7,744,104 thousand, a decrease of ¥82,086 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥31,292 thousand in inventories, ¥92,355 thousand in property, plant and equipment and ¥33,863 thousand in intangible assets, as well as a decrease of ¥246,205 thousand in cash and cash equivalents.

#### Liabilities

Total liabilities as of August 31, 2023 were ¥2,355,580 thousand, a decrease of ¥91,637 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥65,815 thousand in lease liabilities under non-current liabilities, as well as decreases of ¥100,000 thousand in borrowings under non-current liabilities and ¥62,666 thousand in other non-current liabilities.

### Equity

Total equity as of August 31, 2023 was ¥5,388,523 thousand, an increase of ¥9,550 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥190,598 thousand in retained earnings as a result of reporting profit, as well as a decrease in retained earnings as a result of reporting dividends of ¥182,863 thousand.

### (3) Analysis of Cash Flows

Cash flows on an IFRS basis for the six months ended August 31, 2023 were as follows.

Cash and cash equivalents as of August 31, 2023 decreased by ¥246,205 thousand from the end of the previous fiscal year to ¥793,755 thousand.

#### Cash flows from operating activities

Net cash provided by operating activities during the six months ended August 31, 2023 was ¥176,219 thousand (¥201,648 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥285,071 thousand in profit before tax, ¥91,791 thousand in depreciation and amortization, while major cash outflows included increases of ¥31,292 thousand in inventories, ¥19,224 thousand in trade and other receivables, a decrease of ¥62,666 thousand in other non-current liabilities, and ¥88,103 thousand in income taxes paid.

#### Cash flows from investing activities

Net cash used in investing activities during the six months ended August 31, 2023 was ¥90,745 thousand (¥63,249 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥64,392 thousand for the purchase of intangible assets.

#### Cash flows from financing activities

Net cash used in financing activities during the six months ended August 31, 2023 was ¥331,679 thousand (¥289,002 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥100,000 thousand for repayments of long-term borrowings and ¥182,623 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 29, 2024, the forecast announced on April 12, 2023 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, 2023	As of August 31, 2023
Assets		
Current assets		
Cash and cash equivalents	1,039,961	793,755
Trade and other receivables	443,904	463,129
Inventories	260,283	291,575
Other current assets	181,143	170,292
Total current assets	1,925,292	1,718,753
Non-current assets		
Property, plant and equipment	158,905	251,260
Goodwill	5,054,613	5,054,613
Intangible assets	296,075	329,938
Other financial assets	63,384	63,384
Deferred tax assets	166,352	147,656
Other non-current assets	161,566	178,496
Total non-current assets	5,900,898	6,025,350
Total assets	7,826,190	7,744,104

	(Thousand yen)	
	As of February 28, 2023	As of August 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	200,000	200,000
Trade and other payables	81,751	90,026
Income taxes payable	105,254	88,401
Provisions	94,858	100,234
Other current liabilities	350,810	359,201
Total current liabilities	832,674	837,864
Non-current liabilities		
Borrowings	1,300,000	1,200,000
Lease liabilities	-	65,815
Provisions	18,432	18,456
Other non-current liabilities	296,110	233,443
Total non-current liabilities	1,614,542	1,517,715
Total liabilities	2,447,217	2,355,580
Equity		
Share capital	749,758	749,758
Capital surplus	2,048,261	2,050,077
Retained earnings	2,581,039	2,588,774
Treasury shares	(85)	(85)
Total equity	5,378,973	5,388,523
Total liabilities and equity	7,826,190	7,744,104



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

		(Thousand yen)
	For the Six Months Ended August 31, 2022 (from March 1, 2022 to August 31, 2022)	For the Six Months Ended August 31, 2023 (from March 1, 2023 to August 31, 2023)
Revenue	1,337,217	1,306,037
Cost of sales	539,240	532,946
Gross profit	797,977	773,091
Selling, general and administrative expenses	413,515	482,290
Other income	1,478	75
Other expenses	0	1
Operating profit	385,940	290,874
Finance income	1	4
Finance costs	30,804	5,807
Profit before tax	355,137	285,071
Income tax expense	109,770	94,473
Profit	245,367	190,598
Earnings per share		
Basic earnings per share (yen)	64.56	42.21
Diluted earnings per share (yen)	62.74	41.55

Interim Condensed Non-consolidated Statements of Comprehensive Income  
Six Months Ended August 31

		(Thousand yen)
	For the Six Months Ended August 31, 2022 (from March 1, 2022 to August 31, 2022)	For the Six Months Ended August 31, 2023 (from March 1, 2023 to August 31, 2023)
Profit	245,367	190,598
Other comprehensive income	-	-
Comprehensive income	245,367	190,598

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

For the Six Months Ended August 31, 2022 (from March 1, 2022 to August 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	-	-	245,367	-	245,367
Total comprehensive income	-	-	245,367	-	245,367
Purchase of treasury shares	-	-	-	(36)	(36)
Dividends	-	-	(153,647)	-	(153,647)
Exercise of share acquisition rights	800	800	-	-	1,600
Share-based remuneration transactions	-	703	-	-	703
Total transactions with owners	800	1,503	(153,647)	(36)	(151,379)
As of August 31, 2022	330,818	1,643,223	2,443,089	(85)	4,417,045

For the Six Months Ended August 31, 2023 (from March 1, 2023 to August 31, 2023)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2023	749,758	2,048,261	2,581,039	(85)	5,378,973
Profit	-	-	190,598	-	190,598
Total comprehensive income	-	-	190,598	-	190,598
Dividends	-	-	(182,863)	-	(182,863)
Share-based remuneration transactions	-	1,815	-	-	1,815
Total transactions with owners	-	1,815	(182,863)	-	(181,047)
As of August 31, 2023	749,758	2,050,077	2,588,774	(85)	5,388,523

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

		(Thousand yen)
	For the Six Months Ended August 31, 2022 (from March 1, 2022 to August 31, 2022)	For the Six Months Ended August 31, 2023 (from March 1, 2023 to August 31, 2023)
Cash flows from operating activities		
Profit before tax	355,137	285,071
Depreciation and amortization	76,181	91,791
Increase in provision	-	5,376
Finance income	(1)	(4)
Finance costs	30,804	5,807
Decrease (increase) in inventories	(62,188)	(31,292)
Decrease (increase) in trade and other receivables	(25,319)	(19,224)
Decrease (increase) in other current assets	(64,096)	10,828
Decrease (increase) in other non-current assets	(16,924)	(16,929)
Increase (decrease) in trade and other payables	(10,967)	8,775
Increase (decrease) in other current liabilities	10,479	(4,759)
Increase (decrease) in other non-current liabilities	8,591	(62,666)
Other	(6,411)	(2,785)
Subtotal	295,283	269,987
Interest received	1	4
Interest paid	(8,691)	(5,669)
Income taxes paid	(84,944)	(88,103)
Cash flows from operating activities	201,648	176,219
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,566)	(26,352)
Purchase of intangible assets	(56,682)	(64,392)
Cash flows from investing activities	(63,249)	(90,745)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	1,600	-
Net increase (decrease) in short-term borrowings	100,000	-
Proceeds from long-term borrowings	1,600,000	-
Repayments of long-term borrowings	(1,800,000)	(100,000)
Repayments of lease liabilities	(36,872)	(49,055)
Purchase of treasury shares	(36)	-
Dividends paid	(153,193)	(182,623)
Other	(499)	-
Cash flows from financing activities	(289,002)	(331,679)
Net increase (decrease) in cash and cash equivalents	(150,603)	(246,205)
Cash and cash equivalents at the beginning of the period	389,846	1,039,961
Net effect of currency translation on cash and cash equivalents	(5)	-
Cash and cash equivalents at the end of the period	239,237	793,755

(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.