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Non-consolidated Financial Results for the Nine Months Ended November 30, 2023 [IFRS]

January 11, 2024

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: January 12, 2024

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, 2023 (March 1, 2023 to November 30, 2023)

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

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine Months Ended										
November 30, 2023	1,974	(0.5)	436	(22.7)	427	(19.0)	288	(22.1)	288	(22.1)
November 30, 2022	1,984	3.2	564	1.7	528	2.2	370	3.6	370	3.6

	Basic earnings per share	Diluted earnings per share
Nine Months Ended	Yen	Yen
November 30, 2023	63.90	63.09
November 30, 2022	93.38	90.99

(2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of November 30, 2023	7,661	5,488	71.6
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
Fiscal year ended February 28, 2023	Yen —	Yen 0.00	Yen —	Yen 40.50	Yen 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 November 30, 2023: 4,520,053 shares

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

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

As of November 30, 2023: 1,519 shares

As of February 28, 2023: 470 shares

3) Average number of shares during the period:

Nine months Ended November 30, 2023: 4,515,712 shares

Nine months Ended November 30, 2022: 3,969,162 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, 2023, the Japanese economy was expected to continue its gradual recovery as the earning and employment environment improved. However, there are mounting concerns over the impact of soaring commodity prices and fluctuations in the financial and capital markets. Furthermore, 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 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 monitoring of the Vario Managed EDR service, which detects signs of cyberattacks as an endpoint security measure, and the extensive support we offer in terms of operations, such as incident investigation, have been highly evaluated, and revenue grew significantly. In addition, due to the growing number of cyberattacks that target medical institutions and other organizations in recent years, together with the increased use of cloud services for medical information systems, the Ministry of Health, Labour and Welfare issued "Guidelines for Safety Control of Medical Information Systems Version 6.0" on May 31, 2023. The Company's data backup (VDaP) has drawn attention from medical institutions, and its revenue expanded steadily.

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." By strengthening its human resources foundation, the Company is promoting the cultivation of new sales channels and the development of new services.

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 (0.67%) (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 nine months ended November 30, 2023, the Company reported revenue of ¥1,974,518 thousand (a year-on-year decrease of 0.5%), operating profit of ¥436,473 thousand (a year-on-year decrease of 22.7%), profit before tax of ¥427,605 thousand (a year-on-year decrease of 19.0%), and profit of ¥288,571 thousand (a year-on-year decrease of 22.1%).

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, 2023 / (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, 2023 was as follows.

Assets

Total assets as of November 30, 2023 were ¥7,661,110 thousand, a decrease of ¥165,080 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥77,437 thousand in property, plant and equipment, ¥46,220 thousand in intangible assets, and ¥43,158 thousand in other non-current assets, as well as a decrease of ¥305,022 thousand in cash and cash equivalents.

Liabilities

Total liabilities as of November 30, 2023 were ¥2,172,186 thousand, a decrease of ¥275,031 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥47,345 thousand in lease liabilities under non-current liabilities, as well as decreases of ¥81,605 thousand in income taxes payable, ¥150,000 thousand in borrowings under non-current liabilities, and ¥88,780 thousand in other non-current liabilities.

Equity

Total equity as of November 30, 2023 was ¥5,488,924 thousand, an increase of ¥109,951 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥288,571 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 nine months ended November 30, 2023 were as follows.

Cash and cash equivalents as of November 30, 2023 decreased by ¥305,022 thousand from the end of the previous fiscal year to ¥734,938 thousand.

Cash flows from operating activities

Net cash provided by operating activities during the nine months ended November 30, 2023 was ¥226,942 thousand (¥258,767 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥427,605 thousand in profit before tax and ¥138,118 thousand in depreciation and amortization, while major cash outflows included increases of ¥31,047 thousand in trade and other receivables, ¥43,158 thousand in other non-current assets, a decrease of ¥88,780 thousand in other non-current liabilities, and ¥181,763 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the nine months ended November 30, 2023 was ¥132,960 thousand (¥103,600 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥91,315 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities during the nine months ended November 30, 2023 was ¥399,004 thousand (¥358,615 thousand was provided in the corresponding period of the previous fiscal year). Major cash outflows included ¥150,000 thousand for repayments of long-term borrowings and ¥182,701 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 November 30, 2023
Assets		
Current assets		
Cash and cash equivalents	1,039,961	734,938
Trade and other receivables	443,904	474,952
Inventories	260,283	253,998
Other current assets	181,143	156,747
Total current assets	1,925,292	1,620,636
Non-current assets		
Property, plant and equipment	158,905	236,343
Goodwill	5,054,613	5,054,613
Intangible assets	296,075	342,295
Other financial assets	63,384	63,384
Deferred tax assets	166,352	139,111
Other non-current assets	161,566	204,724
Total non-current assets	5,900,898	6,040,473
Total assets	7,826,190	7,661,110

(Thousand yen)

	As of February 28, 2023	As of November 30, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	200,000	200,000
Trade and other payables	81,751	94,042
Income taxes payable	105,254	23,649
Provisions	94,858	91,235
Other current liabilities	350,810	340,114
Total current liabilities	832,674	749,042
Non-current liabilities		
Borrowings	1,300,000	1,150,000
Lease liabilities	-	47,345
Provisions	18,432	18,469
Other non-current liabilities	296,110	207,329
Total non-current liabilities	1,614,542	1,423,143
Total liabilities	2,447,217	2,172,186
Equity		
Share capital	749,758	750,868
Capital surplus	2,048,261	2,051,393
Retained earnings	2,581,039	2,686,748
Treasury shares	(85)	(85)
Total equity	5,378,973	5,488,924
Total liabilities and equity	7,826,190	7,661,110

(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, 2022 (from March 1, 2022 to November 30, 2022)	For the Nine Months Ended November 30, 2023 (from March 1, 2023 to November 30, 2023)
Revenue	1,984,805	1,974,518
Cost of sales	803,607	832,089
Gross profit	1,181,198	1,142,428
Selling, general and administrative expenses	617,883	706,073
Other income	1,503	119
Other expenses	0	1
Operating profit	564,818	436,473
Finance income	1	4
Finance costs	36,639	8,872
Profit before tax	528,180	427,605
Income tax expense	157,547	139,033
Profit	370,632	288,571
Earnings per share		
Basic earnings per share (yen)	93.38	63.90
Diluted earnings per share (yen)	90.99	63.09

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

	(Thousand yen)	
	For the Nine Months Ended November 30, 2022 (from March 1, 2022 to November 30, 2022)	For the Nine Months Ended November 30, 2023 (from March 1, 2023 to November 30, 2023)
Profit	370,632	288,571
Other comprehensive income	-	-
Comprehensive income	370,632	288,571

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

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
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	<u>749,558</u>	<u>2,047,722</u>	<u>2,568,355</u>	<u>(85)</u>	<u>5,365,550</u>

For the Nine Months Ended November 30, 2023 (from March 1, 2023 to November 30, 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	-	-	288,571	-	288,571
Total comprehensive income	-	-	288,571	-	288,571
Dividends	-	-	(182,863)	-	(182,863)
Exercise of share acquisition rights	1,110	1,110	-	-	2,220
Share-based remuneration transactions	-	2,022	-	-	2,022
Total transactions with owners	1,110	3,132	(182,863)	-	(178,620)
As of November 30, 2023	<u>750,868</u>	<u>2,051,393</u>	<u>2,686,748</u>	<u>(85)</u>	<u>5,488,924</u>

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

	(Thousand yen)	
	For the Nine Months Ended November 30, 2022 (from March 1, 2022 to November 30, 2022)	For the Nine Months Ended November 30, 2023 (from March 1, 2023 to November 30, 2023)
Cash flows from operating activities		
Profit before tax	528,180	427,605
Depreciation and amortization	114,819	138,118
Increase in provision	-	(3,622)
Finance income	(1)	(4)
Finance costs	36,639	8,872
Decrease (increase) in inventories	(128,005)	6,284
Decrease (increase) in trade and other receivables	14,835	(31,047)
Decrease (increase) in other current assets	(8,372)	24,360
Decrease (increase) in other non-current assets	(3,568)	(43,158)
Increase (decrease) in trade and other payables	(55,791)	11,245
Increase (decrease) in other current liabilities	(16,122)	(22,736)
Increase (decrease) in other non-current liabilities	(20,042)	(88,780)
Other	(7,304)	(10,014)
Subtotal	455,266	417,122
Interest received	1	4
Interest paid	(11,698)	(8,421)
Income taxes paid	(184,801)	(181,763)
Cash flows from operating activities	258,767	226,942
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,223)	(41,645)
Purchase of intangible assets	(84,376)	(91,315)
Cash flows from investing activities	(103,600)	(132,960)
Cash flows from financing activities		
Proceeds from issuance of shares	815,366	-
Proceeds from exercise of share acquisition rights	2,700	2,220
Proceeds from long-term borrowings	1,600,000	-
Repayments of long-term borrowings	(1,850,000)	(150,000)
Repayments of lease liabilities	(55,362)	(68,522)
Purchase of treasury shares	(36)	-
Dividends paid	(153,302)	(182,701)
Other	(749)	-
Cash flows from financing activities	358,615	(399,004)
Net increase (decrease) in cash and cash equivalents	513,781	(305,022)
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	903,622	734,938

(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.