



Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2024 [IFRS]

April 10, 2024

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

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

Representative: Yasufumi Kajiura, CEO

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

Phone: +81-3-5577-3284

Scheduled date of Annual General Meeting of Shareholders: May 29, 2024

Scheduled date of commencing dividend payments: Not applicable

Scheduled date of filing annual securities report: May 29, 2024

Availability of supplementary briefing material on financial results: Available

Schedule of financial results briefing session: Scheduled (for institutional investors, analysts and individual investors)

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

1. Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2024 (March 1, 2023 to February 29, 2024)

(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	%
Fiscal year ended February 29, 2024	2,640	0.2	520	(10.4)	509	(6.1)	347	(9.3)	347	(9.3)
February 28, 2023	2,634	2.6	581	(22.7)	542	(22.7)	383	(23.4)	383	(23.4)

	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 29, 2024	76.96	76.12	6.4	6.6	19.7
February 28, 2023	93.41	91.18	7.9	7.3	22.1

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

Fiscal year ended February 29, 2024: ¥- million

Fiscal year ended February 28, 2023: ¥- 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 29, 2024	7,649	5,548	72.5	1,227.87
As of February 28, 2023	7,826	5,378	68.7	1,191.32

(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 29, 2024	414	(173)	(458)	822
February 28, 2023	522	(138)	266	1,039

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to total equity
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
February 28, 2023	-	0.00	-	40.50	40.50	182	43.4	3.5
Fiscal year ended	-	0.00	-	0.00	0.00	-	-	-
February 29, 2024	-	0.00	-	0.00	0.00	-	-	-
Fiscal year ending	-	0.00	-	0.00	0.00		-	
February 28, 2025 (Forecast)	-	0.00	-	0.00	0.00		-	

3. Non-consolidated Financial forecast for the Fiscal Year Ending February 28, 2025 (March 1, 2024 to February 28, 2025)

(% 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	2,753	4.3	485	(6.9)	474	(6.7)	336	(3.2)	74.47

* 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 29, 2024: 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 February 29, 2024: 1,519 shares

As of February 28, 2023: 470 shares

3) Average number of shares during the period:

Fiscal year ended February 29, 2024: 4,516,414 shares

Fiscal year ended February 28, 2023: 4,103,601 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 29, 2024, the Japanese economy was expected to continue its gradual recovery partly due to the effects of various policies as the employment and earning environment improved. However, there are also numerous concerns regarding issues such as soaring commodity prices, the situation in the Middle East, and fluctuations in the financial and capital markets, which pose a risk of downward pressure on the economy.

As for the environment in the security services market surrounding the Company, the number of cybersecurity threats is rising year by year. In recent years, there have been constant ransomware attacks (ransom-demanding-type viruses) targeting organizations such as companies and medical institutions both in and out of Japan, some of which have even led to cases where people's lives and social economy were affected. In March 2023, Emotet was confirmed to have become active again. Everyone in Japan now faces a threat of cyberattacks.

Under such an environment, in order to assist primarily small and medium-sized businesses in implementing security measures, the Company has set "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" as goals under its medium-term management plan. To achieve these goals, starting this fiscal year, it has acquired human resources, strengthened its service planning and business development, and invested in business segments such as software development.

During the fiscal year ended February 29, 2024, the Company launched operation outsourcing services for updating firmware on networking devices and Wi-Fi access points, rapidly identifying network problems, and maintaining sound office LAN environments. Furthermore, the Company expanded its lineup of services that meet companies' needs by providing a service for diagnosing vulnerabilities within their security environments.

Under such circumstances, the Company reported stable Managed Security Services revenue due to recurring revenue, along with a low cancellation rate (0.70%) (Note). Revenue for the Vario Managed EDR service in particular, which detects signs of cyberattacks as an endpoint security measure, continued to show high growth.

On the other hand, one-shot revenue model Integrated service was below the previous fiscal year due to the sluggish sales in integrated security equipment (UTM).

With respect to expenses, in the first fiscal year of the medium-term management plan, selling and administrative expenses rose as a result of active investment (including human resource hiring and service development) while the cost of sales decreased compared to the previous fiscal year mainly due to the reversal of provisions.

As a result of the above, in the financial results on an IFRS basis for the fiscal year ended February 29, 2024, the Company reported revenue of ¥2,640,423 thousand (a year-on-year increase of 0.2%), operating profit of ¥520,791 thousand (a year-on-year decrease of 10.4%), profit before tax of ¥509,156 thousand (a year-on-year decrease of 6.1%), and profit of ¥347,604 thousand (a year-on-year decrease of 9.3%).

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 fiscal year ended February 29, 2024 / (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 29, 2024 was as follows.

Assets

Total assets as of February 29, 2024 were ¥7,649,933 thousand, a decrease of ¥176,256 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥68,761 thousand in property, plant and equipment and ¥47,607 thousand in intangible assets, as well as decreases of ¥217,659 thousand in cash and cash equivalents and ¥70,920 thousand in inventories.

Liabilities

Total liabilities as of February 29, 2024 were ¥2,101,770 thousand, a decrease of ¥345,447 thousand from the end of the previous fiscal year. This was primarily due to decreases of ¥44,260 thousand in provisions under current liabilities, ¥200,000 thousand in borrowings under non-current liabilities, and ¥118,072 thousand in other non-current liabilities.

Equity

Total equity as of February 29, 2024 was ¥5,548,163 thousand, an increase of ¥169,190 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥347,604 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) Overview of Cash Flows for the Fiscal Year under Review

Cash flows on an IFRS basis for the fiscal year ended February 29, 2024 were as follows.

Cash and cash equivalents as of February 29, 2024 decreased by ¥217,659 thousand from the end of the previous fiscal year to ¥822,301 thousand.

Cash flows from operating activities

Net cash provided by operating activities was ¥414,903 thousand (¥522,291 thousand was provided in the previous fiscal year). Major cash inflows included ¥509,156 thousand in profit before tax, ¥185,257 thousand in depreciation and amortization, and a ¥70,920 thousand decrease in inventories, while major cash outflows included a ¥44,260 thousand decrease in provision, a ¥118,072 thousand decrease in other non-current liabilities, and ¥181,763 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥173,907 thousand (¥138,668 thousand was used in the previous fiscal year). Major cash outflows included ¥107,719 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥458,654 thousand (¥266,496 thousand was provided in the previous fiscal year). Major cash outflows included ¥200,000 thousand for repayments of long-term borrowings and ¥182,764 thousand for dividends paid.

(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 expanding the Company’s sales channels, the Company plan to develop new distributors in addition to conventional ones, utilize various marketing measures to cultivate prospective customers, and promote direct sales.

With these measures, regarding the financial results forecast for the fiscal year ending February 29, 2024, the Company expects revenue of ¥2,753 million (a year-on-year increase of 4.3%), operating profit of ¥485 million (a year-on-year decrease of 6.9%), profit before tax of ¥474 million (a year-on-year decrease of 6.7%), and profit of ¥336 million (a year-on-year decrease of 3.2%), 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.

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, 2023	As of February 29, 2024
Assets		
Current assets		
Cash and cash equivalents	1,039,961	822,301
Trade and other receivables	443,904	458,218
Inventories	260,283	189,362
Other current assets	181,143	138,874
Total current assets	1,925,292	1,608,758
Non-current assets		
Property, plant and equipment	158,905	227,667
Goodwill	5,054,613	5,054,613
Intangible assets	296,075	343,683
Other financial assets	63,384	63,384
Deferred tax assets	166,352	153,667
Other non-current assets	161,566	198,159
Total non-current assets	5,900,898	6,041,175
Total assets	7,826,190	7,649,933

(Thousand yen)

	As of February 28, 2023	As of February 29, 2024
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	200,000	200,000
Trade and other payables	81,751	106,604
Income taxes payable	105,254	66,297
Provisions	94,858	50,597
Other current liabilities	350,810	352,911
Total current liabilities	832,674	776,410
Non-current liabilities		
Borrowings	1,300,000	1,100,000
Lease liabilities	-	28,841
Provisions	18,432	18,481
Other non-current liabilities	296,110	178,037
Total non-current liabilities	1,614,542	1,325,359
Total liabilities	2,447,217	2,101,770
Equity		
Share capital	749,758	750,868
Capital surplus	2,048,261	2,051,600
Retained earnings	2,581,039	2,745,780
Treasury shares	(85)	(85)
Total equity	5,378,973	5,548,163
Total liabilities and equity	7,826,190	7,649,933

(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, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Revenue	2,634,377	2,640,423
Cost of sales	1,243,543	1,176,785
Gross profit	1,390,833	1,463,638
Selling, general and administrative expenses	810,922	943,015
Other income	1,527	169
Other expenses	139	1
Operating profit	581,299	520,791
Finance income	5	8
Finance costs	38,911	11,643
Profit before tax	542,394	509,156
Income tax expense	159,077	161,552
Profit	383,316	347,604
Earnings per share		
Basic earnings per share (yen)	93.41	76.96
Diluted earnings per share (yen)	91.18	76.12

Non-consolidated Statements of Comprehensive Income

	(Thousand yen)	
	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Profit	383,316	347,604
Other comprehensive income	-	-
Comprehensive income	383,316	347,604

(3) Non-consolidated Statements of Changes in Equity

	(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	—	—	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
Profit	—	—	347,604	—	347,604
Total comprehensive income	—	—	347,604	—	347,604
Dividends	—	—	(182,863)	—	(182,863)
Exercise of share acquisition rights	1,110	1,110	—	—	2,220
Share-based remuneration transactions	—	2,229	—	—	2,229
Total transactions with owners	1,110	3,339	(182,863)	—	(178,414)
As of February 29, 2024	750,868	2,051,600	2,745,780	(85)	5,548,163

(4) Non-consolidated Statements of Cash Flows

	(Thousand yen)	
	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Cash flows from operating activities		
Profit before tax	542,394	509,156
Depreciation and amortization	177,443	185,257
Increase in provision	94,858	(44,260)
Finance income	(5)	(8)
Finance costs	38,911	11,643
Decrease (increase) in inventories	(42,178)	70,920
Decrease (increase) in trade and other receivables	20,843	(14,313)
Decrease (increase) in other current assets	(4,266)	42,208
Decrease (increase) in other non-current assets	12,303	(36,593)
Increase (decrease) in trade and other payables	(53,409)	24,903
Increase (decrease) in other current liabilities	(18,598)	(18,766)
Increase (decrease) in other non-current liabilities	(51,697)	(118,072)
Other	3,991	(4,366)
Subtotal	720,589	607,708
Interest received	5	8
Interest paid	(14,779)	(11,049)
Income taxes paid	(183,524)	(181,763)
Cash flows from operating activities	522,291	414,903
Cash flows from investing activities		
Purchase of property, plant and equipment	(26,255)	(66,188)
Purchase of intangible assets	(112,413)	(107,719)
Cash flows from investing activities	(138,668)	(173,907)
Cash flows from financing activities		
Proceeds from issuance of shares	815,366	-
Proceeds from exercise of share acquisition rights	3,100	2,220
Proceeds from long-term borrowings	1,600,000	-
Repayments of long-term borrowings	(1,900,000)	(200,000)
Repayments of lease liabilities	(97,770)	(78,110)
Purchase of treasury shares	(36)	-
Dividends paid	(153,412)	(182,764)
Other	(749)	-
Cash flows from financing activities	266,496	(458,654)
Net increase (decrease) in cash and cash equivalents	650,120	(217,659)
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	1,039,961	822,301

(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

Not applicable

Segment information

(1) Overview of reporting segments

This information is omitted, as the Company's segments comprise the single segment of Internet Security Services.

(2) Revenue information regarding goods and services

Revenue from external customers for each goods and services are as follows.

	(Thousand yen)	
	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Revenue		
Managed Security Services revenue	2,240,442	2,308,116
Integration Services revenue	393,935	332,307
Revenue from contract with customers	<u>2,634,377</u>	<u>2,640,423</u>
Other revenue	—	—
Revenue from external customers	<u><u>2,634,377</u></u>	<u><u>2,640,423</u></u>

(3) Geographical information

Revenue

This information is omitted since the Company's business is operated only in Japan, thus there are no revenue recognized in overseas.

Non-current assets

Not applicable since no non-current assets are located other than in Japan.

(4) Major customer information

Revenue from external customers which is 10% or more than the total revenue are as follows.

	(Thousand yen)	
	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
USEN ICT Solutions CORPORATION	711,354	797,465
SoftBank Corp.	605,994	584,728

Per share information

	For the fiscal year ended February 28, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Equity per share	1,191.32 yen	1,227.87 yen
Basic earnings per share	93.41 yen	76.96 yen
Diluted earnings per share	91.18 yen	76.12 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, 2023 (from March 1, 2022 to February 28, 2023)	For the fiscal year ended February 29, 2024 (from March 1, 2023 to February 29, 2024)
Basic earnings per share		
Profit (thousand yen)	383,316	347,604
Amount not attributable to common shareholders (thousand yen)	—	—
Profit related to common shares (thousand yen)	383,316	347,604
Average number of common shares during the period (shares)	4,103,601	4,516,414
Diluted earnings per share		
Adjustments of profit (thousand yen)	—	—
Increase in the number of common shares (shares)	100,220	49,937
[including share acquisition rights (shares)]	[100,220]	[49,937]
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