

 Yoshihiko Inami, CEO	Vario Secure Inc. (4494)
	

Company Information

Exchange	TSE Standard
Industry	Information and Communications
CEO	Yoshihiko Inami
Address	Sumitomo Corporation Nishiki-cho Bldg., 5F, 1-6, Kanda-Nishiki-cho, Chiyoda-ku, Tokyo
Year-end	February
Homepage	https://www.variosecure.net/en/

Stock Information

Share Price	Number of shares issued		Total market cap	ROE (Act.)	Trading Unit
¥1,159	3,799,384 shares		¥4,403 million	12.1%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥40.50	3.5%	¥138.23	8.4x	¥1,137.83	1.0x

*The share price is the closing price on April 25. Each number are taken from the brief financial report for the FY Ended February 2022.

Earnings Trends

Fiscal Year	Revenue	Operating Profit	Profit before tax	Profit	EPS	DPS
February 2020 Act.	2,513	789	723	498	133.70	0.00
February 2021 Act.	2,545	764	707	491	131.78	39.44
February 2022 Act.	2,566	751	701	500	132.29	40.44
February 2023 Est.	2,650	785	756	525	138.23	40.50

* Unit: million-yen, yen. Estimates calculated by the company. IFRS applied.

This Bridge Report presents Vario Secure Inc.'s earnings results for the Fiscal Year Ended February 2022 and Growth Strategy etc.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year Ended February 2022 Earnings Results](#)

[3. Fiscal Year Ending February 2023 Earnings Forecasts](#)

[4. Growth Strategy](#)

[5. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

Key Points

- The company offers comprehensive network security services through which their customers can safely use the Internet, under the mission: “To ensure that all enterprises using the Internet can easily and securely carry out their business, we will offer the very best services to Japan and to the world.”
- Their specialties and strengths include (1) an original business model, which offers a one-step solution with the procurement of devices used for security services, the development of key software installed into those devices, installation and setting up of those devices, and monitoring and operation of the devices after installation, (2) a stable earnings model, which is based on a recurring revenue business, whose revenues increase year by year through an increase in the number of companies installing their products with a monthly charging system, and on a low cancellation rate, (3) a strong marketing channel covering the entire country with partnered companies in OEM and partnered companies in resale, and (4) a high share among small and medium sized enterprises, which appraises the ease of installation of their products.
- The revenue for the term ended February 2022 increased 0.8% year on year to 2,566 million yen. While Managed Security Service performed as planned, Integration Service did not progress as planned, as some projects took time to be set up on-site due to the impact of prolonged emergency restrictions, despite the increase in sales. Operating profit declined 1.6% year on year to 751 million yen. Gross profit increased due to sales growth, but was unable to absorb the increase in SG&A expenses due to the rise in material costs, as well as the strengthening of marketing and sales as planned, hiring of personnel to strengthen legal aspects, and the establishment of a security operation center.
- For the term ending February 2023, the company forecasts a 3.2% year on year increase in revenue to 2,650 million yen and a 4.4% year on year rise in operating profit to 785 million yen. A new series of Managed Security Service was launched in March, with the aim to further grow the mainstay business. In addition, with the increase of remote work due to the novel coronavirus pandemic, the company will strengthen security measures on the terminal side and expand its adjacent business of Data Backup Service in case of an emergency. The company aims to increase sales and profit by absorbing investments for strengthening the structure of the security operation center (SOC) and adjacent areas (EDR, etc.), increasing the number of remote marketing staff, and advertising and promotional expenses. The company targets a dividend payout ratio of 30% on an IFRS basis. The dividend forecast for the term ending February 2023 is ¥40.50/share, up ¥0.06/share from the previous term. The expected dividend payout ratio is 29.3% on an IFRS basis.
- The current market growth rate for the company's core services, such as UTM provision and monitoring services, is around 1-2%, and the company's top-line growth is likely to be unchanged for the time being. However, in line with the increasing number of news stories about ransomware and other cyber security issues, the business environment surrounding the company remains favorable, with the number of inquiries and licenses for the company's services (VDaP and EDR), which include not only data backup, but also preparation for viruses and malware that cannot be detected by conventional anti-virus software, is increasing rapidly.

- **The company's collaboration with HEROZ has also been successful in terms of both development and sales, and we look forward to the evaluation and results of the AI traffic forecasting function (beta version), which will be launched in May. In addition, the release of the VSR-n Series, a new series of Integrated Internet Security Services, will also be an important point in advancing the strengthening/coordination of foundational software. We will be keeping a close eye on the progress of these efforts as well as the company's performance in the current term.**

1. Company Overview

[1-1 Corporate History]

In June 2001, Ambisys Inc. — the predecessor of the company — was founded with the business objectives to develop and operate information, communication, and security systems and provide consulting services on them. In May 2002, the company launched the managed security services using the integrated Internet security appliance equipment. In June 2003, the company name was changed to Vario Secure Networks Inc. As an independent Internet security service company, the company steadily expanded its businesses and was listed on the Nippon New Market “Hercules” at the Osaka Securities Exchange in June 2006.

In the ensuing period, the company’s growth slowed down with a higher churn rate from existing customers and the increase in service installation locations stagnating, as a result of the deterioration in corporate profits and the decline in private capital investments triggered by the bankruptcy of Lehman Brothers.

In order to make speedy management decisions and improve corporate value under a dynamic and flexible management system in the constantly changing network security market, the company realized that upfront investments were unavoidable, which might temporarily deteriorate profits. Under such a condition, the company took a decision to delist shares and concentrate on improving corporate value, and in December 2009 duly delisted the shares on Hercules.

After delisting, the company renewed its management structure amid several major shareholder reshuffles, and increased its internal cost awareness, while working to expand its businesses by strengthening the existing sales force and developing new sales agents, as well as continuously conducting R&D to improve the quality of security services. As a result, the company was able to increase corporate value, which was the purpose of delisting, by strengthening its sales structure, creating new businesses, and strengthening the service menu. The company name was changed to its current name, Vario Secure, Inc. in September 2016.

To realise a sustainable growth and corporate value enhancement, the company was convinced of the importance of securing the flexible and diverse financing methods and also that by relisting, the company could further improve social credibility, secure excellent human resources, improve employees’ motivation to work, and aim for appropriate stock price formation and liquidity, the company got listed on the Second Section of the Tokyo Stock Exchange in November 2020. The company got listed on the TSE Standard Market in April 2022.

[1-2 Corporate Philosophy, etc.]

The company’s mission is **“to ensure that all enterprises using the Internet can easily and securely carry out their business, the company will offer the very best services to Japan and to the world.”**

Under this mission, as a company that provides Internet-related security services, it provides comprehensive network security services to assist with the safer use of the Internet by protecting the customers’ networks from attacks from the Internet, intrusions into internal networks, and various threats such as virus infections and data thefts.

[1-3 Market Environment]

(1) Growing demand for cybersecurity

◎ New types of cyber attacks receive increased attention

In August 2021, IPA (Information-technology Promotion Agency, Japan) released the Ten Major Threats to Information Security 2021. The Ten Major Threats to Information Security 2021 were selected by IPA from information security incidents that occurred in 2020 and are considered to have had a significant impact on society. The Ten Major Threats Selection Committee, consisting of

approximately 160 members, including researchers in the information security field and practitioners from companies, deliberated and voted on the threat candidates.

The top threat was "damage by ransomware" as in the previous year, followed by "theft of confidential information by targeted attacks," the same as the previous year. On the other hand, "Zero-day attacks," which target users before the release of a modified program, ranked seventh, indicating that cyber attacks are becoming more diverse.

◎ Ministry of Economy, Trade and Industry of Japan calls employers to strengthen cyber security efforts

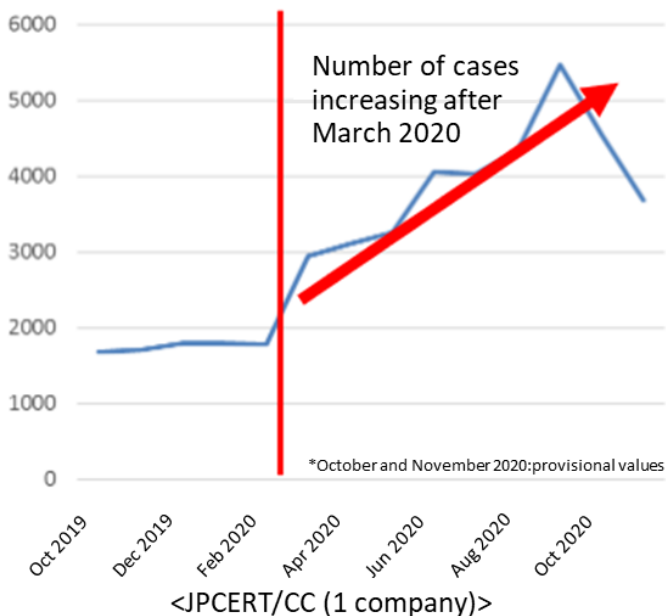
In December 2020, the Ministry of Economy, Trade and Industry (METI) issued a report urging business owners to strengthen cybersecurity efforts in response to the ever-increasing cyberattack entry points as well as the severities of the attacks.

This report identified the following current issues:

- In recent years, the attack entry points in the supply chain used by attackers have been constantly increasing. These include overseas bases of business partners including SMEs and companies expanding overseas, as well as gaps created by the increase in telework due to the spread of the novel coronavirus.
- In addition to demanding ransoms to recover encrypted data, ransomware that uses the so-called “double threats” — threatens to release the data that was stolen in advance before encrypting unless ransom is paid — are rapidly increasing in Japan. This is due to the establishment of an ecosystem which enables attackers to systematically provide ransomware as well as collecting ransoms systematically, allowing them to operate easily without having to be highly skilled.
- With the globalization of businesses, more and more systems that are closely linked with overseas bases are being built; however, as a result of linking the Japanese domestic systems to those of overseas without sufficient measures, the risk of intrusion is increased as this enabled the attackers to construct intrusion routes at overseas bases where security measures are insufficient.

As shown in the graph below, since March 2020 when the novel coronavirus began spreading, the number of consultations concerning those unexpected events that would quickly spiral out of control without immediate counteractions has been increasing.

Number of incident-related consultations to JPCERT/CC (per month)



(From the Ministry of Economy, Trade and Industry’s “Warning to Managers Concerning the Recent Cyberattacks (Summary Edition)”

Based on these, the report urges corporate managers to act on the following responses and initiatives:

- The severity of damage caused by cyberattacks is increasingly more serious and the damages are also more complex: management needs to be involved even more than previously.
- Responding to the damages caused by ransomware attacks is an important issue directly related to corporate trust, and sweeping management leadership is required from proactive prevention to postvention.

Under these conditions, the security service market is seeing an increase in demand.

The security service market requires advanced security measures, but companies that find it difficult to operate and manage in-house security measures tend to outsource operations and monitoring to security vendors, leading to an increase in the service usage.

The market size is expected to expand from 223.7 billion yen in the fiscal 2019 to about 322.2 billion yen in the fiscal 2025, with an average annual growth rate of 6.3% (from the company’s securities report. Source: Fuji Chimera Research Institute, Inc. “2020 Network Security Business Survey Overview (Market Edition)” published on November 17, 2020).

(2) IT personnel shortage

The METI ran a trial calculation of the output gap in IT human resources due primarily to the expansion of IT investment by companies using AI.

According to the report, if the productivity growth rate is 0.7%, the shortage in the number of IT workers in 2030 is estimated at 787,000 in the high-level scenario (3-9% growth in IT demand), 449,000 in the medium level scenario (2-5% of the same), and 164,000 in the low-level scenario (1%). Even if productivity were to rise to 2.4%, the high-level scenario still predicts a shortfall of 438,000 people.

Under these circumstances, it is difficult for companies to secure sufficient IT human resources within their companies, therefore a steady increase is expected for the demand for “managed service” that provide not only the functions but also combine the operation management as one when using IT systems.

* Gap in demand for IT personnel in 2030 (number of workers)

Productivity Growth Rate	Low-level scenario	Medium-level scenario	High-level scenario
In case of 0.7%	164,000	449,000	787,000
In case of 2.4%	-72,000	161,000	438,000

*Created by Investment Bridge based on the Ministry of Economy, Trade and Industry’s “Survey on Supply and Demand of IT Human Resource (Summary)” (April 2019).

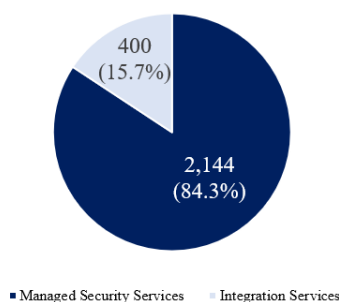
[1-4 Business Contents]

(1) Service category

The company provides two security services: Managed Security Services and Integration Services (segment: single segment of Internet security service business).

These services cover every step in the security framework: construction, identification, defense, detection, response, and recovery.

Service components(FY Feb. 2021, unit:million yen)



① Managed Security Services

In addition to the integrated Internet security service using VSR and the data backup service (VDaP), since the term ended February 2021, the company has been offering Vario EDR service that helps detect and respond to cyberattacks at lower operational costs, and Vario-NSS, which detects abnormal terminals and provides vulnerability management.

<Integrated Internet Security Service Using VSR>

Overview

This service provides comprehensive network security that protects corporate networks from the attacks from the Internet, intrusions into internal networks, and threats such as virus infections and data thefts, and enables customers to use the Internet safely.

The company’s integrated Internet security service uses VSR (Vario Secure Router) — a network security device developed by the company which integrates various security functions such as firewalls, IDS (intrusion detection system), and ADS (automatic defense system) into one unit — which is installed between the Internet and customers’ internal networks, and acts as a filter to remove threats such as attacks, intrusions, and viruses.

VSR is automatically managed and monitored by a proprietary operational monitoring system run by the company’s data center, and operational information statistics and various alerts are processed in real time without human interventions.

Statistics and alerts are provided in real time to user company administrators over the Internet via a reporting function called, the Control Panel. In addition, the company has established a 24/7 support center, and a maintenance network covering all 47 prefectures in Japan and an operation support system such as changing the equipment settings.

Since they are manufactured at several factories in Taiwan while the core software is developed in-house, it is more cost-effective than purchasing hardware and adding services, and this is one of the reasons contributing to VSR’s high operating income margin.



(Source: the company’s website)

Merits

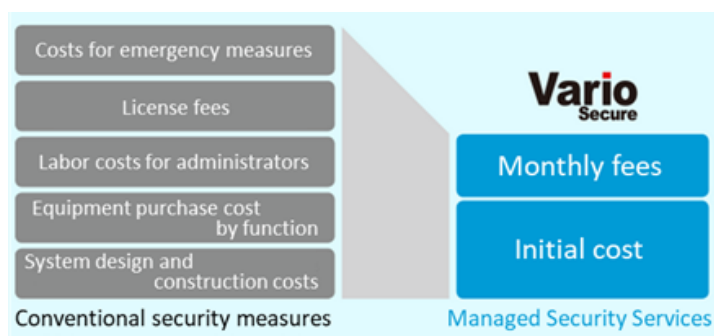
Previously, to introduce the security system such as above, it was necessary to install various security devices in-house and maintain them, making it more difficult for many companies to introduce sufficient network security measures because they required highly skilled engineers and high investments.

In addition, even after the introduction of the security system, monitoring, quick response to alerts, software updates, inquiries in the event of trouble, etc. required a great deal of effort and time, and the operational burden was extremely large.

In contrast, the company’s Managed Security Services, which provides the one-stop solution from initial introduction to operation and maintenance of VSR, a unique in-house product, provides significant benefits to customers in the following respects:

As VSR boasts 23 different security features per unit, it eliminates the need to purchase equipment and instead provides the security system via the rental equipment.
A monthly fee is set for each security feature, allowing customers to choose the options they need from a variety of security features.
By simply paying the initial cost incurred only at the start of the contract and monthly fees, it is possible to outsource most of the man-hours required for the operation of network security, such as using the control panel, changing settings, updating software, and local maintenance through monitoring and business trip support, reducing the burden of work.
In addition to inquiries from customers (end-users) to the company or distributors, the company actively detects and supports problems through remote monitoring. Operation and maintenance are remotely handled as much as possible by the company’s engineers, making it possible to respond more quickly compared to general on-site responses via call centers.
To deal with hardware failures, the company deploys inventory at warehouses of subcontractors throughout the country, and aims to replace the equipment within the target timeframe of four hours.

The ease of introduction and the clarity of the menu are highly evaluated by mid-tier enterprises and MSEs.



(Source: materials provided by the company)

Customers

Most of their customers are mid-sized and small businesses who would struggle to employ IT managers with expertise on their own. As of the end of February 2022, 2,871 companies use the services and are operating at 7,307 locations nationwide (number of VSR-installed locations).

It has a high market share amongst the mid-tier enterprises and SMEs.

<Data Backup Service (VDaP)>

The company provides a backup service that combines VDaP, where backup data are stored on a device, and the storage in a data center. After temporarily backing up corporate digital data to VDaP, data are automatically transferred to the data center to further increase the fault resistance.

In addition, since the latest and past data are kept as version-managed backup data, it is easy to select and recover the necessary digital data by providing an interface for the customers that are easy to use when recovering data.

Utilizing its experiences in monitoring and operating services for integrated Internet security service using VSR, the company also provides the service that efficiently covers the whole country by utilizing the system for installing equipment and responding to failures.

<Vario EDR Service>

Vario EDR Service visualizes cyberattacks that try to penetrate through antivirus measures and avoid security incidents before they happen. It adopts highly accurate detection methods using AI and machine learning, and against the high-risk incidents, it would conduct automatic isolation of terminals and initiate investigations by security specialists.

<Vario-NSS>

As the shortage of IT personnel in companies becomes more serious, the company will support the efficient operation of internal systems and promote the concept of "Information System as a Service." Vario-NSS automatically scans terminals connected to the corporate network by simply installing a dedicated terminal in the network for asset management, visualizes terminal information, and understands vulnerability response. This enables it to respond to terminals with security risks early and monitor unauthorized terminals, reducing the burden and risk on the IT asset management which tends to rely on personal operations. Through continuous updates, it can not only manage Windows terminals, but also centrally manage Red Hat Linux terminals which are widely used for internal servers, etc. reducing the burden on personnel in the information systems departments at customer companies.

② Integration Services

This consists of sales of Vario Communicate Router (VCR), an integrated security device (UTM) for small and medium-sized enterprises, and Network Integration Services (IS) for procurement and construction of network equipment.

<Sales of integrated security equipment VCR for small and medium-sized enterprises>

The company sells VCR, a security appliance device, in response to the growing security awareness among smaller businesses and clinics with fewer than 50 employees, due to regulatory changes such as revisions of the Basic Act on Cybersecurity among others.

Unlike Managed Security Services, UTM products are imported as their own brands from overseas manufacturers and sold to end-users through distributors specializing in small and medium-sized enterprises.

Throughout the warranty period, the manufacturers provide support on sold equipment and hardware failures, through the company’s and/or distributors’ support desk.

<Network Integration Services (IS)>

Their engineers cover the whole areas of designing, procuring, and building the network according to the needs of end-users, and are working to expand the business into the wider corporate network areas.

As with the VCR sales, the manufacturers provide support on sold equipment and hardware failures, through the company’s and/or distributors’ support desk.

(2) Revenue model

Managed Security Services provide one-stop service from the introduction of network security to management, operation, and maintenance, and is a stacked recurring business model that collects initial costs and fixed monthly costs from users.

There is a one-time charge for the Integration Services, associated with the sale of VCRs and the procurement and construction of network equipment.

(3) Sales channels

Sales are mainly indirect sales through distributors.

The company has signed contracts with distributors such as telecommunications carriers, Internet service providers, data center operators, etc., who are looking to provide added value to customers by attaching Vario Secure services, and has built a sales network covering the whole country. The company has established a system that can continuously create opportunities.

The company’s distributors are divided into the original equipment manufacturers (OEM partners) and the reselling partners. An OEM partner is a partner that provides security services under the distributor’s own brand and enters contracts directly with the customers (end users). As of the FY Ended February 2022, the company has signed agreements with 31 companies with 2,642 end user companies.

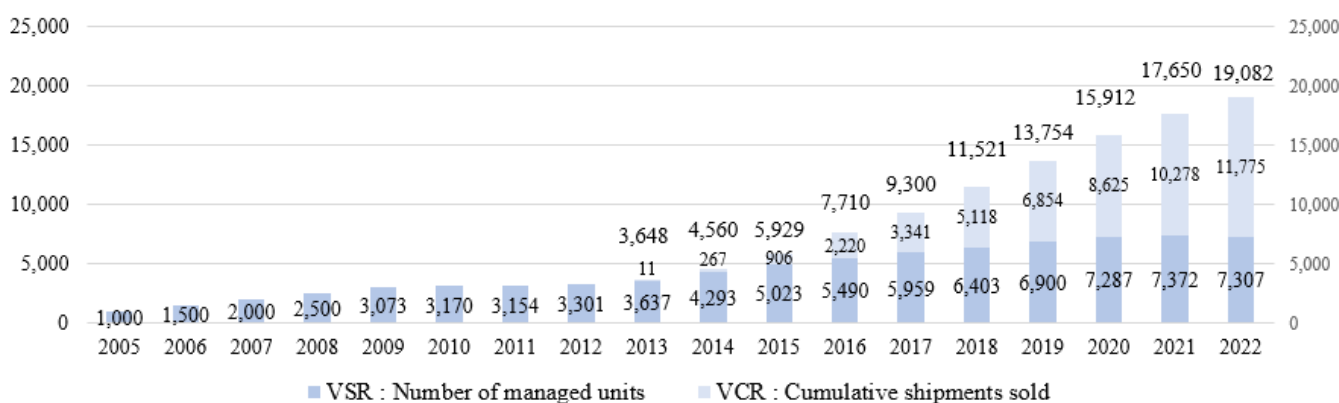
A reselling partner is a partner that develops customers (end users) and engages in sales activities as an agent of Vario Secure, through which Vario Secure remains as the contracting entity with customers. As of the FY Ended February 2022, the company has signed agreements with 60 companies with 109 end user companies.

In addition to the above, to promote sales activities, Vario Secure as a security expert provides sales representatives who directly explain technical aspects to customers on behalf of distributors, and provides one-stop support from introduction to installation of services.

(4) Numbers of VSR and VCR installations

As of the end of February 2022, there were 7,307 VSR managed units and the VCR cumulative shipments were 11,775 units. It is installed in all 47 prefectures nationwide.

VSR and VCR Installation Trends



[1-5 Characteristics and Strengths]

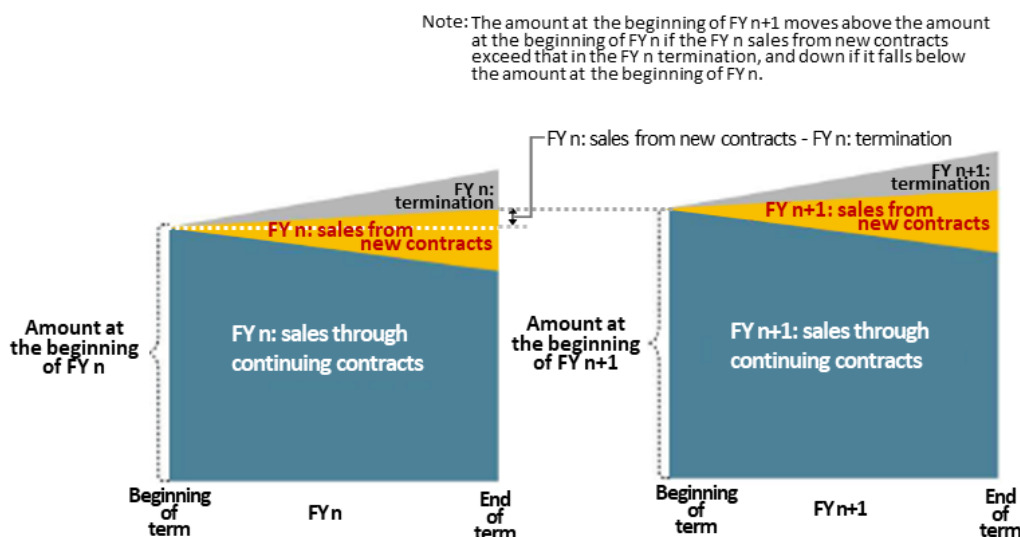
(1) Unique business model

The company provides one-stop service for (1) procurement of equipment used in security services, (2) development of core software to be installed on equipment, (3) installation/setting of equipment, and (4) monitoring and operation after installation of equipment. There is no need for end-users to individually consider equipment selection and operation services, and they can quickly start using the service. In addition, since the service is provided as one-stop, the company can easily investigate the cause of a problem and respond. Support is available 24/7, allowing end-users to quickly receive support for inquiries and troubles. The company aims to reach customers within four hours if it deems that equipment needs replacing, and in the term ended February 2021, it almost achieved the target at 99%.

(2) Stable revenue model

As mentioned above, Managed Security Services are recurring business in which profits accumulate year by year due to the increase in the number of companies introduced by monthly billing, and as of the end of February 2022, Managed Security Services were provided at approximately 7,300 locations (number of VSR-installed locations) in all 47 prefectures nationwide. In the term ended February 2022, Managed Security Services accounted for 84.4% of the company’s total sales revenue. With a low churn rate of 0.82% (in the term ended February 2022), a stable earnings model has been built, and it is possible to forecast revenues at a relatively early stage in the fiscal year.

[Recurring Revenue Model]



(Source: material provided by the company)

(3) Strong sales channels

As mentioned above, it has built strong sales channels with 31 OEM partners and 60 reselling partners, covering the whole country. It is an important asset for efficient sales for the company, which mainly targets small and medium-sized enterprises. In addition, since there are many OEM partners in the telecommunication industry and the company’s services are incorporated as an option in the menu of the operating company, it is easy for users to select and introduce when the Internet connections are newly installed or altered, leading to a high order rate.

(4) High market share

With its easy implementation of high-level security services as well as the operation and management, the company is the market leader in all following categories by employee number: 300 to 999, 100 to 299, and 0-99 in the Firewall/UTM* operational monitoring service market.

BRIDGE REPORT



* Firewall/UTM operational monitoring service market: Sales Amount and Market Share by Employee Size (FY2020)

	0 – 99 employees	100 – 299 employees	300 – 999 employees
No. 1	Vario Secure 30.3%	Vario Secure 25.3%	Vario Secure 22.1%
No. 2	Company A 14.8%	Company A 14.9%	Company A 9.0%
No. 3	Company B 13.3%	Company B 9.3%	Company B 8.7%

* Created by Investment Bridge based on the company's financial results briefing materials (source: ITR "ITR Market View: Gateway Security-Based SOC Service Market 2021")

* UTM: Unified Threat Management. A network security measure operated by combining multiple security functions into one.

2. Fiscal Year Ended February 2022 Earnings Results

(1) Overview of business results

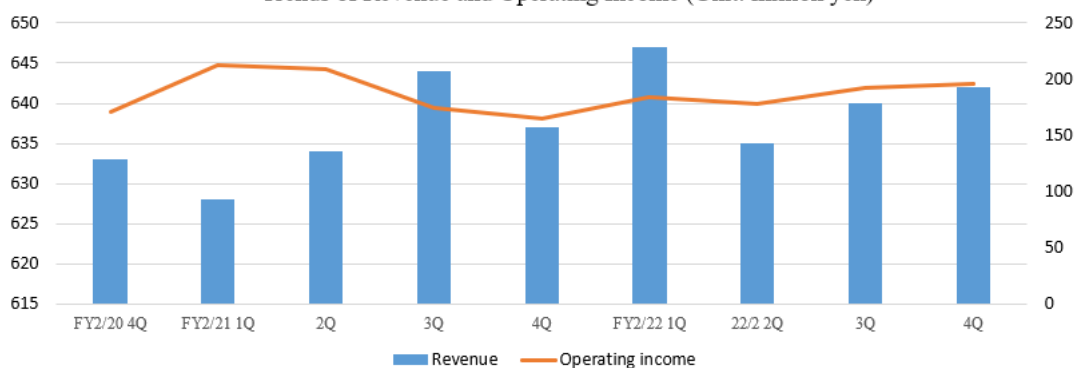
	FY 2/21	Ratio to sales	FY 2/22	Ratio to sales	YoY	Ratio to forecast
Revenue	2,545	100.0%	2,566	100.0%	+0.8%	-3.1%
Gross profit	1,560	61.3%	1,597	62.2%	+2.4%	-
SG&A and others	796	31.3%	845	32.9%	+6.2%	-
Operating profit	764	30.0%	751	29.3%	-1.6%	-3.9%
Profit before tax	707	27.8%	701	27.3%	-0.9%	-4.2%
Profit	491	19.3%	500	19.5%	+1.8%	-1.5%

*Unit: million yen

Increase in revenue and decrease in profit. Sales and Profit both fell short of forecasts.

Sales revenue increased 0.8% YoY to 2,566 million yen. While managed service performed as planned, integration service failed to reach the forecast as some projects took longer to set up on-site due to the prolonged restrictions under the state of emergency, despite the increase in revenue. Operating profit decreased 1.6% YoY to 751 million yen. Gross profit increased due to higher sales, but material costs rose. While enhancing marketing and sales as planned, the company hired personnel to strengthen legal aspects and built a security operation center, and could not absorb the increase in SG&A.

Trends of Revenue and Operating Income (Unit: million yen)



(2) Service trends

	FY 2/21	FY 2/22	YoY
Managed security service	2,144	2,165	+0.9%
Integration service	400	401	+0.3%

*Unit: million yen

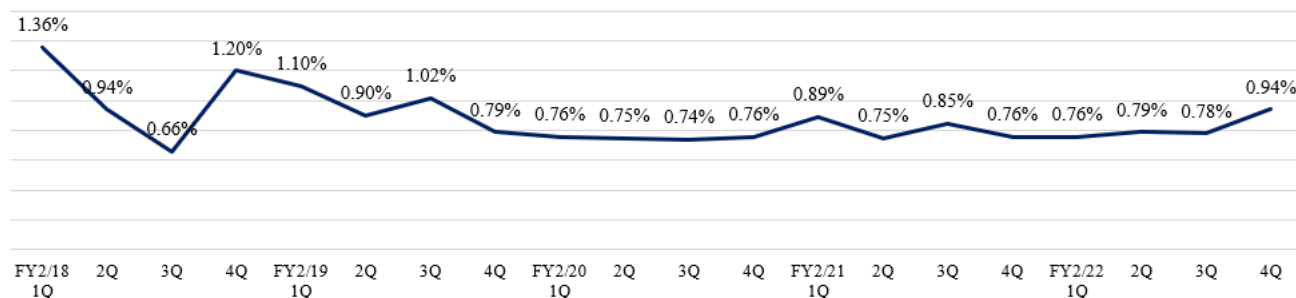
① Managed Security Service

The initially anticipated OEM of EDRs experienced procedural delays due to circumstances on the partner side. However, the number of licenses provided has increased rapidly, tripling from the term ended February 2021. Meanwhile, backup services for countermeasures against ransomware significantly exceeded the forecast performance.

◎ Churn rate

The churn rate remained low.

Churn Rate Trend



*Churn Rate (Monetary Base) = Quarterly cancellation amount / (initial monthly sales revenue in each fiscal year × 3 months)

◎ New services, etc.

- * From the pre-pandemic period, revenue has increased, but the number of cases has decreased. Comparing the VSR shipment models of newly projects before and after the novel coronavirus pandemic, the percentage of shipments of high-end models increased after the novel coronavirus pandemic.
- * OEM of a managed EDR Service, which has attracted attention as a measure to prevent malware, ransomware, and other cyber attacks that can cause information leakage incidents, was launched by USEN ICT Solutions as Secure Endpoint Service (Va).
- * The service is available through the VSR n-series. The new VSR n-series service is a new platform that accelerates "Information System as a Service" and is a scalable model that can be used in conjunction with other companies' services. It has enhanced support for a wider range of areas at a higher-speed.
- * The new VSR operating system, which will be the core of the next-generation managed security platform, was implemented in a virtual environment and preparations were made for providing the service.

② Integration Service

The shortage of semiconductors and parts due to the novel coronavirus pandemic caused delays in the procurement of parts and materials, and delivery dates could not be fixed, resulting in many project cancellations and delays in deliveries. As a result, the business did not perform as planned, but revenue recovered to the level before the novel coronavirus pandemic.

In February 2022, the company launched the VCR 116w, a fully remodeled version of the VCR-Vario Communicate Router, which is a UTM suitable for companies with up to 50 employees. The product is off to a strong start, with significantly faster processing speeds and enhanced security through the standardization of the sandbox function.

(3) Major Initiatives

The following three issues were recognized and addressed.

① Developing new business channels

- *Development of system integrators and network integrators
- *Introduction of projects to agencies
- *High-touch sales (a sales style in which a company directly attends to customers without using an agent)
- *Approach to specific industries (medical care, education, and public services)

BRIDGE REPORT

Situation

The company generated 49 deals (passed on to the sales division) through remote marketing.

The new EDR service has made progress in generating deals (a high probability of closing a deal).

Progress was made in approaching specific industries (medical care) by finding OEM partners in Kyushu.

The company attracted hospital-related customers through a VDaP webinar on anti-ransomware measures for the medical industry.

② Improvement of service recognition

*Improvement in service recognition among end users

*Popularization of the name of the service

Situation

Amid the need for companies to adopt telework, a total of 12 webinars focused on security risks and cyber-attack countermeasures were held and attracted 353 participants..

In addition, the company participated in two external webinars and one external event.

③ Enrichment of contents

*Proactive provision of video content

*Overhaul of the website

Situation

Post-event webinars and video guidance on service use cases were launched to deepen the understanding of the service for a wide range of customers. As a result, the average time spent on the site increased 2.6 times and direct return rate improved 16.4%.

(4) Financial position and cash flows**◎ Main Balance Sheet**

	End of FY 2/21	End of FY 2/22	Increase/ decrease		End of FY 2/21	End of FY 2/22	Increase/ decrease
Current Assets	1,319	1,249	-70	Current Liabilities	992	2,403	+1,411
Cash and Cash Equivalents	593	389	-204	ST Interest Bearing Liabilities	369	1,786	+1,416
Trade and Other Receivables	461	464	+3	Trade and Other Payables	108	134	+26
Non-current Assets	5,896	5,872	-23	Noncurrent Liabilities	2,274	395	-1,879
Tangible Assets	293	206	-86	LT Interest Bearing Liabilities	1,889	28	-1,860
Goodwill	5,054	5,054	0	Total Liabilities	3,266	2,799	-467
Intangible Assets	173	242	+69	Total Equity	3,949	4,323	+373
Total Assets	7,216	7,122	-94	Retained Earnings	1,999	2,351	+351
				Total Liabilities and Net Assets	7,216	7,122	-94
				Balance of Interest-bearing Liabilities	2,259	1,815	-443

*Unit: million yen. Borrowings include lease liabilities.

Balance of interest-bearing liabilities decreased by 443 million yen from the end of the previous term. Net D/E ratio decreased 7.3% from the end of the previous term to 32.3%. Equity ratio increased by 6 points to 60.7% due to decrease in liabilities and increase in retained earnings.

Repayment of interest-bearing liabilities and financial soundness improvement are progressing as planned.

◎ Cash Flows

	FY 2/21	FY 2/22	Increase/decrease
Operating Cash Flow	524	490	-34
Investing Cash Flow	-112	-108	+3
Free Cash Flow	412	381	-30
Financing Cash Flow	-450	-586	-135
Balance of Cash and Equivalents	593	389	-204

*Unit: million yen

The surpluses of operating CF and free CF decreased.

The cash position fell below from the end of the previous term.

3. Fiscal Year Ending February 2023 Earnings Forecasts

(1) Earnings forecasts

	FY 2/22	Ratio to sales	FY 2/23 Est.	Ratio to sales	YoY
Revenue	2,566	100.0%	2,650	100.0%	+3.2%
Gross profit	1,597	62.2%	1,612	60.8%	+0.9%
Operating profit	751	29.3%	785	29.6%	+4.4%
Profit before tax	701	27.3%	756	28.5%	+7.8%
Profit	500	19.5%	525	19.8%	+4.9%

*Unit: million yen

Increase in revenue and profit estimated.

Revenue is estimated to be 2,650 million yen, up 3.2% from the previous term and operating profit is projected to be 785 million yen, up 4.4% from the previous term.

A new series of Managed Security Service was launched in March, with the aim to further grow the mainstay business. In addition, with the increase of remote work due to the novel coronavirus pandemic, the company will strengthen security measures on the terminal side and expand its adjacent business of Data Backup Service in case of an emergency. The company aims to increase sales and profit by absorbing investments for strengthening the structure of the security operation center (SOC) and adjacent areas (EDR, etc.), increasing the number of remote marketing staff, and advertising and promotional expenses.

The company targets a dividend payout ratio of 30% on an IFRS basis. The dividend forecast for the term ending February 2023 is ¥40.50/share, up ¥0.06/share from the previous term. The expected dividend payout ratio is 29.3% on an IFRS basis.

(2) Main initiatives

To strengthen core businesses and expand operations in adjacent businesses.

① To grow the mainstay business

The company will grow its Managed Security Service by strengthening its support (quality, efficiency, and speed) and service capabilities.

Specifically, the newly released n Series will provide additional functions that are in high demand by customers, and the UI will be substantially revamped.

In addition, the company will promote automation through VSR-Config and is considering offering bundled services jointly with HEROZ, with which it has formed an alliance.

Through these efforts, the company aims to add value and differentiate itself from its competitors.

② Business expansion into adjacent businesses

The company will expand business not only in VSR (Internet Gateway), but also in adjacent areas where needs are growing, such as VDaP, EDR (EPP), and V-NSS.

It will accelerate the speed of its business expansion by further focusing on initiatives that have proven successful in the previous term, such as the use of webinars, strengthening approaches to specific industries, including the medical industry, and remote marketing.

4. Growth Strategy

The company, which has created a business foundation by offering reliable and safe Internet connection and additional services that can be used easily by medium-sized enterprises, will now move beyond Internet services and herald a concept of “Information System as a Service,” offering services by expanding their reach to in-company network infrastructure as a whole, and work towards its implementation.

Specifically, the company will improve the overall strength of its services by focusing on the following three points to increase its earnings and securing profit.

Theme	Aim	Methods
User Interface Integration	Expansion of Cross-Selling	<p>Integrating the User Interface with the aim of increasing convenience and promoting mutual usage</p> <ul style="list-style-type: none"> *Redesigning the control panel for the Integrated Internet Security Services (VSR) *Integrating all services provided *Enabling end users to check which services they are not using
Strengthening/Linkage of the Key Software	Expansion of the Channel	<p>Performance Boost and System Linkage of Key Software</p> <ul style="list-style-type: none"> *Integrating the software dedicated to Vario-NSS (Network Service for Enterprises) with the release of the n Series, a new series of Integrated Internet Security Services *Supporting cloud computing with new core software for the n series
Optimization/Automation of the SOC(Security and Operation Center)	Cost Reduction	<p>Accelerating the conversion of the SOC into a cloud support center</p> <ul style="list-style-type: none"> *Started implementing an automated delivery tool (VSR-Config) to enable responding from home in the event of a disaster *70% of deliveries were handled as of the end of February 2022 *Reduced delivery time by 55%

These measures, which began in the term ended February 2020, are progressing well, and the company will take steps to further strengthen them.

In the area of user interface integration, collaboration with HEROZ, Inc. (TSE Prime, 4382), with which they formed an alliance in September 2021, is a major key.

The VSR n series, the latest series of Managed Security Service, will be equipped with an AI traffic prediction function (beta version) utilizing HEROZ Kishin, and is expected to be launched in May 2022.

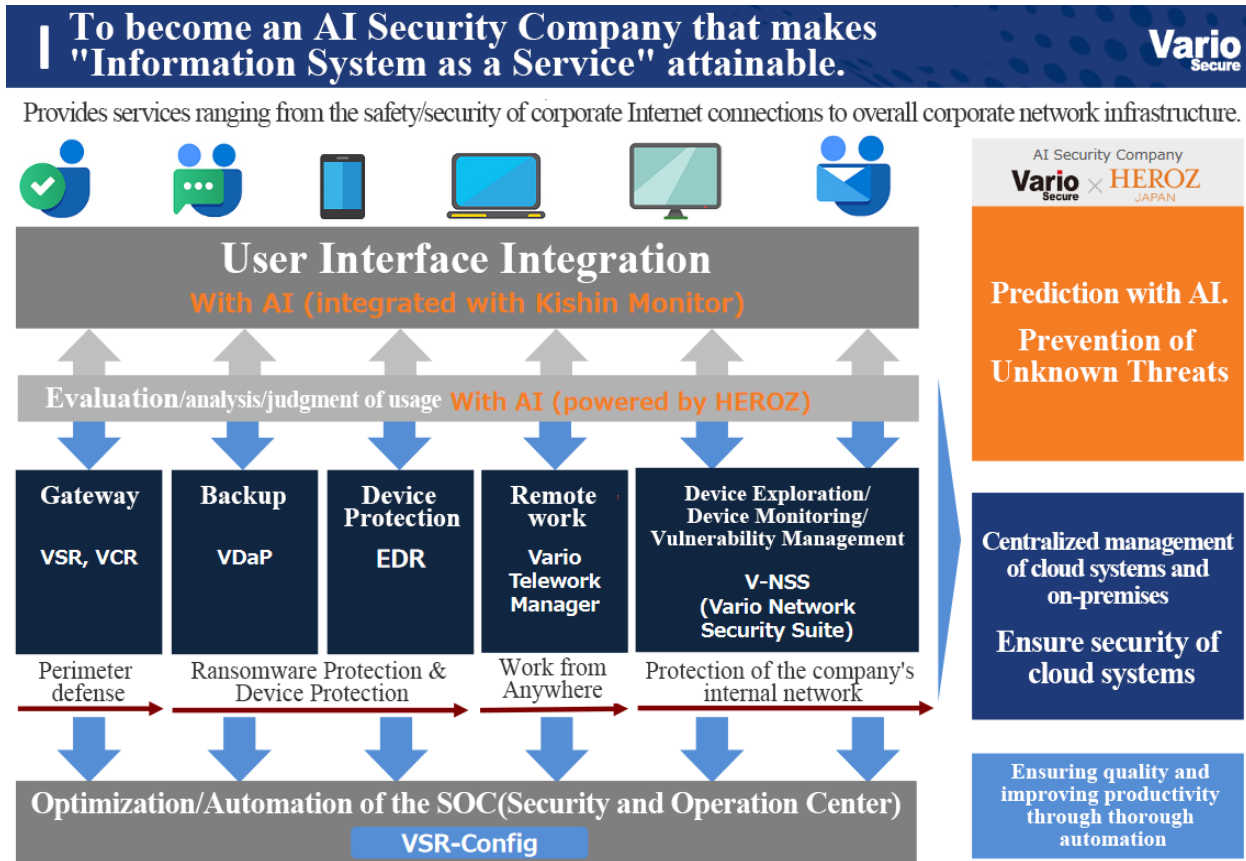
AI predicts the detection of abnormal communication volume and the status of lines and other congestions, and takes next actions to avoid the risk of failure and prevent unknown threats.

The two companies have a high affinity in complementing each other's areas of expertise, and the joint service development, POC (Proof of Concept), to validate the introduction of AI is progressing smoothly. This is expected to be a strong competitive advantage in Managed Security Service.

In strengthening/coordination of infrastructure software, cloud systems and on-premise systems will be centrally managed to ensure the security of cloud systems.

In optimization/automation of SOC (Security Operation Center), the company aims to ensure quality and improve productivity based on thorough automation.

In about five years, the company aims to become an AI Security Company that provides services ranging from the safety and security of corporate Internet connections to overall corporate network infrastructure to make "Information System as a Service" attainable.



(Taken from the reference material of the company)

5. Conclusions

The current market growth rate for the company's core services, such as UTM provision and monitoring services, is around 1-2%, and the company's top-line growth is likely to be unchanged for the time being. However, in line with the increasing number of news stories about ransomware and other cyber security issues, the business environment surrounding the company remains favorable, with the number of inquiries and licenses for the company's services (VDaP and EDR), which include not only data backup, but also preparation for viruses and malware that cannot be detected by conventional anti-virus software, is increasing rapidly.

The company's collaboration with HEROZ has also been successful in terms of both development and sales, and we look forward to the evaluation and results of the AI traffic forecasting function (beta version), which will be launched in May. In addition, the release of the VSR-n Series, a new series of Integrated Internet Security Services, will also be an important point in advancing the strengthening/coordination of foundational software. We will be keeping a close eye on the progress of these efforts as well as the company's performance in the current term.

<Reference: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with company auditor(s)
Directors	7 directors, including 2 outside ones (one independent executive)
Auditors	3 auditors, including 3 outside ones (three independent executives)

◎ Corporate Governance Report

Last update date: December 24, 2021

<Basic Policy>

Our company's mission is "to ensure that all enterprises using the Internet can easily and securely carry out their business, we will offer the very best services to Japan and to the world," and have conducted our business to meet the expectations of our various stakeholders. Business management based on corporate governance, which forms the core of our business, is the most important administrative category and through a highly transparent, optimized management with a strengthened monitoring system, we are aggressively taking initiatives to improve our corporate value.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

Principle	Disclosed Content
<Supplementary Principle 2-4 ① Ensuring Diversity of Human Resources>	The company believes that it is important for each and every employee to embody the company's mission to enhance corporate value, and is working to ensure diversity by actively appointing excellent human resources without regard to gender, nationality, disability, or other factors. We will continue to consider the medium-to long-term human resource development policy and internal environment improvement policy.
<Supplementary Principle 3-1 ③ Sustainability Initiatives, etc.>	We provide comprehensive network security services so that all companies engaged in business can use the Internet safely and comfortably, and we believe that by promoting our business, we are responding to the resolution of issues concerning the sustainability of society. We are considering disclosing our investment in human capital and intellectual property in the future.
<Supplementary Principle 4-1 ② Information Disclosure Related to the Medium-Term Management Plan>	The company formulates its target amounts based on a medium to long term point of view, but does not publicly announce those amounts. As the scale of the company is still small, it refrains from disclosing for any quick changes in strategy can be possible. The company will disclose the information once it reaches a certain scale.
Principle 5-2. Formulation and Public Announcement of Management Strategy and Plan	The company formulates management strategies and earning plans, which it shares with its board members. Regarding earning capacity and capital efficiency, as the scale of the company is still small, it refrains from disclosing for any quick changes in strategy can be possible. The company will disclose the information once it reaches a certain scale.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principle	Disclosed Content
<Principle 1-4. Strategically Held Shares>	The company does not possess any strategically held shares. Further, the company will not hold any such shares, unless the alliance with invested companies would contribute to the improvement of the medium or long-term corporate value and is considered to contribute to the benefits of shareholders based on objective discussions, such as the comparison between the benefits and risk of ownership and the company's capital cost.
<Principle 3-1. Information Disclosure Enhancement>	<p>In addition to the timely and appropriate legal disclosure of information, the company also publishes the following policies:</p> <p>(i) Management Philosophy, Strategy, and Plan The company's corporate ethos is described on its website: https://www.variosecure.net/company/mission/</p> <p>(ii) Basic Policies and Way of Thinking Regarding Corporate Governance Kindly refer to "I.1. Basic Way of Thinking" of this report for details on the company's basic policies and way of thinking regarding corporate governance.</p> <p>(iii) The Board of Directors' Policies and Procedures for Determining the Compensation for Management Staff and Directors The Board of Directors consults a discretionary compensation committee regarding the compensation system and policies for Directors, the calculation method for determining the exact compensation amount, and individual compensation amounts. The Board of Directors has decided that the Representative Director will make the final decision on the individual compensation amounts reported by the discretionary compensation committee, within the compensation amount limit approved in the Stockholders' General Meeting through a resolution.</p> <p>(iv) Policies and Procedures for the Selection and Removal of a Management Staff Member by the Board of Directors and the Nomination of a Candidate for a Director Regarding the selection and removal of a Director, the Board of Directors will hold a final resolution based on the comprehensive decision on each employee's character as a manager as well as their experience, results, and expertise as a manager.</p> <p>(v) Explanation Regarding the Individual Nomination and Appointment During the Appointment or Removal of a Management Staff or the Nomination of a Candidate for the Board of Directors The reasoning behind each individual nomination is recorded in the regular General Meeting of Stockholders held every term, or in an extraordinary General Meeting of Stockholders.</p>
<Principle 5-1. Policies Regarding Constructive Dialogue with Stockholders>	The company uses its IR Department as a medium to promote dialogue with stockholders every day instead of only during Stockholders' General Meetings and offers information through its website and through phone calls. Further, the company has a system where the opinions of investors and stockholders obtained through these dialogues are reported to the Management Staff every time.

BRIDGE REPORT



This report is not intended for soliciting or promoting investment activities or offering any advice on investment or the like, but for providing information only. The information included in this report was taken from sources considered reliable by our company. Our company will not guarantee the accuracy, integrity, or appropriateness of information or opinions in this report. Our company will not assume any responsibility for expenses, damages or the like arising out of the use of this report or information obtained from this report. All kinds of rights related to this report belong to Investment Bridge Co., Ltd. The contents, etc. of this report may be revised without notice. Please make an investment decision on your own judgment.

Copyright(C) Investment Bridge Co.,Ltd. All Rights Reserved.