Yasufumi Kajiura,
President CEO

Vario Secure Inc. (4494)

Company Information

Exchange	TSE Standard
Industry	Information and Communications
President CEO	Yasufumi Kajiura
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

Shared Price	Number of shares issued		Total market cap	ROE (Act.)	Trading Unit
¥732	4,515,613 shares		¥3,305 million	7.9%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Act.)	PBR (Act.)
¥0.00	-	¥68.30	10.7x	¥1,191.32	0.6x

*The share price is the closing price on October 31. Number of shares outstanding, DPS, and EPS are from the second quarter of the fiscal year ending 2024 financial results. ROE and BPS are the results of the previous year.

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 Act.	2,634	581	542	383	93.41	40.50
February 2024 Est.	2,685	456	444	308	68.30	0.00

* Unit: million-yen, yen. Estimates calculated by the company. IFRS applied. Non-consolidated accounting. EPS figures are calculated based on the most recent number of shares due to the third-party allotment performed on September 27, 2022.

This Bridge Report presents Vario Secure Inc.'s earnings results for the second quarter of the Fiscal Year Ending February 2024 and Growth Strategy etc., and an interview with President Kajiura.

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Key Points

- **In the second quarter of the term ending February 2024, revenue was 1,306 million yen, down 2.3% year on year. While the managed security service, which is the mainstay, performed well, the sales of the integration services business remained sluggish. Operating income decreased 24.6% year on year to 290 million yen. Based on the medium-term management policy, the company conducted growth-oriented investments such as the recruitment of engineers and personnel for service planning and operational support, as well as advertising to strengthen marketing. As a result, SG&A expenses increased.**

- **There is no change in the earnings forecast. For the term ending February 2024, revenue is expected to increase 1.9% year on year to 2,685 million yen, while operating profit is projected to decrease 21.4% year on year to 456 million yen. Managed Security Services are forecast to perform well. Integration Services are expected to remain at the same level as in the second half of the previous fiscal year. The company will actively implement business investments such as hiring staff to expand its network and the security operation center (SOC), newly recruiting employees for planning new services and strengthening the sales department and marketing activities to develop new sales channels. The company will not pay dividends. The basic policy was to aim for stable dividends while securing necessary internal reserves. However, for the four years from the term ending February 2024 to the term ending February 2027, the company will prioritize the allocation of funds to human resource investment, service development, M&A, etc., in order to realize the medium-term business plan for further growth.**

- **Through its medium/long-term business investment, the company aims to achieve growth by expanding security-related areas and sales channels. In order to accomplish this aim, the company has set "expanding the areas of managed services and strengthening competitiveness," "entering the growing security market," and "strengthening the new sales system that differs from the existing sales network" as its management policies. For the term ending February 2027, the company aims for revenue of 3,763 million yen and an operating profit of 920 million yen.**

- **We asked President Kajiura about his mission, his current challenges, how he plans to deal with them, and his message to shareholders and investors. He stated, "We will continue to take on new challenges and meet the expectations of our shareholders and investors based on the stability that has been our company's characteristic to date, and we would appreciate your continued support."**

- **The progress rate in the first half was 48.6% for revenue and 63.7% for operating income. Although revenue is at a slightly low level compared to those in the past few years, the number of prospective clients increased significantly by 85% year on year due to the development of 5 new agencies by the second quarter and the strengthening of the direct sales system. Thus, we would like to pay attention to whether these measures will lead to an increase in revenue from the third quarter onward.**

- **Also, as stated in the interview with President Kajiura, the company plans to have a lineup of Zero Trust Security Services that will hold the key to future growth in the next fiscal year. We would like to pay close attention to how quickly this will lead to revenues.**

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

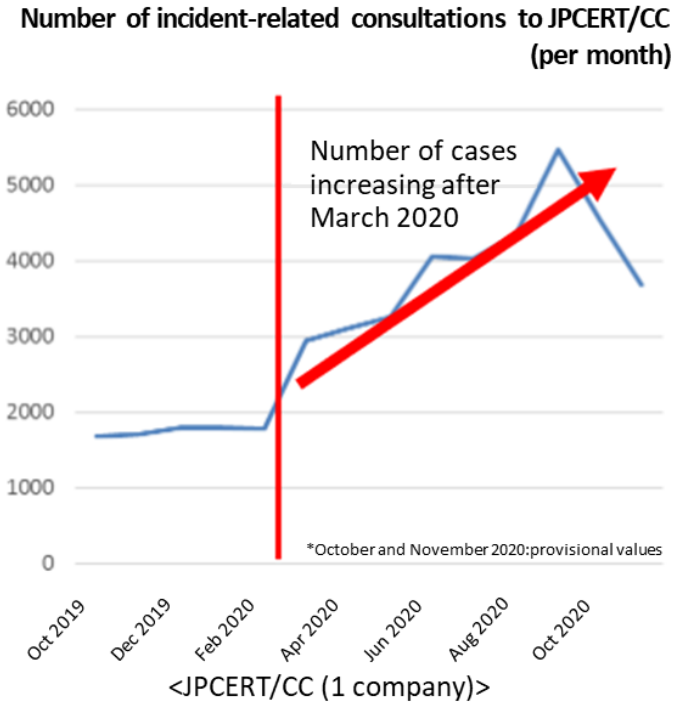
In January 2023, IPA (Information-technology Promotion Agency, Japan) released the Ten Major Threats to Information Security 2023. The Ten Major Threats to Information Security 2023 were selected by IPA from information security incidents that occurred in 2022 and are considered to have had a significant impact on society. The Ten Major Threats Selection Committee, consisting of approximately 200 members, including researchers in the information security field and practitioners from companies, deliberated and voted on the threat candidates.
In terms of "organizations," "damage caused by ransomware" was the top ranking for the second consecutive year, followed by "attacks exploiting weaknesses in the supply chain," which ranked third last year. On the other hand, "attacks that target before an updated program is released (zero-day attacks)" rose from seventh place in the previous year to sixth place, 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.



(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

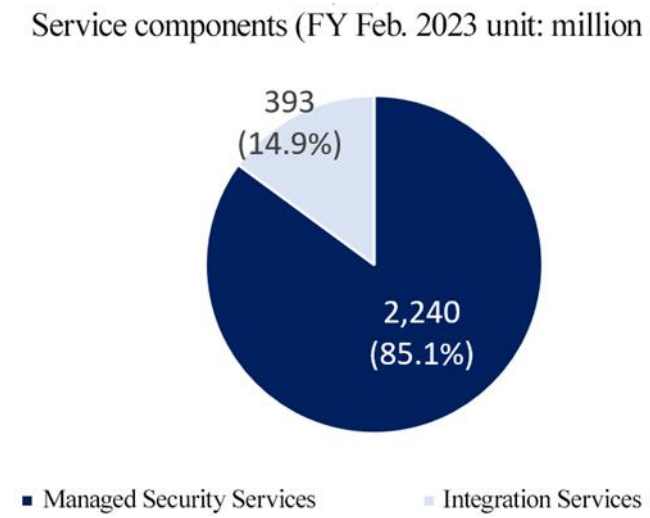
*Created by Investment Bridge based on the Ministry of Economy, Trade and Industry's "Survey on Supply and Demand of IT Human Resource (Summary)" (April 2019).

[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.



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.

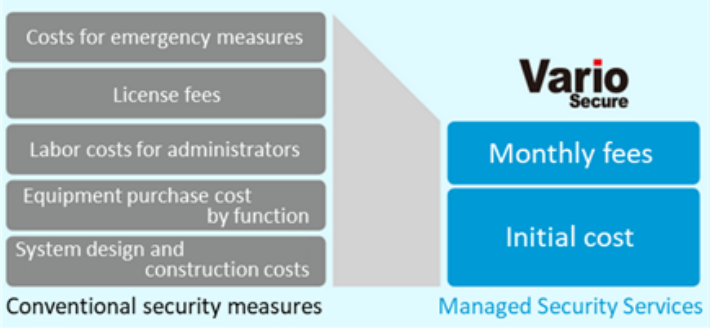
(Source: the company's website)

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)

(Number of VSR units installed)

Most of their customers are mid-sized and small businesses who would struggle to employ IT managers with expertise on their own. As of February 28, 2023, the number of VSR managed units was 7,450. They were installed in 47 prefectures throughout the country.
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 end of August 2023, the company has signed agreements with 31 companies for all managed services.

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 end of February 2023, the company has signed agreements with 71 companies for all managed services.

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) Total number of end users of Managed Security Services

The total number of end-user companies of the overall Managed Security Services was 3,005 as of August, 2023.

[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.

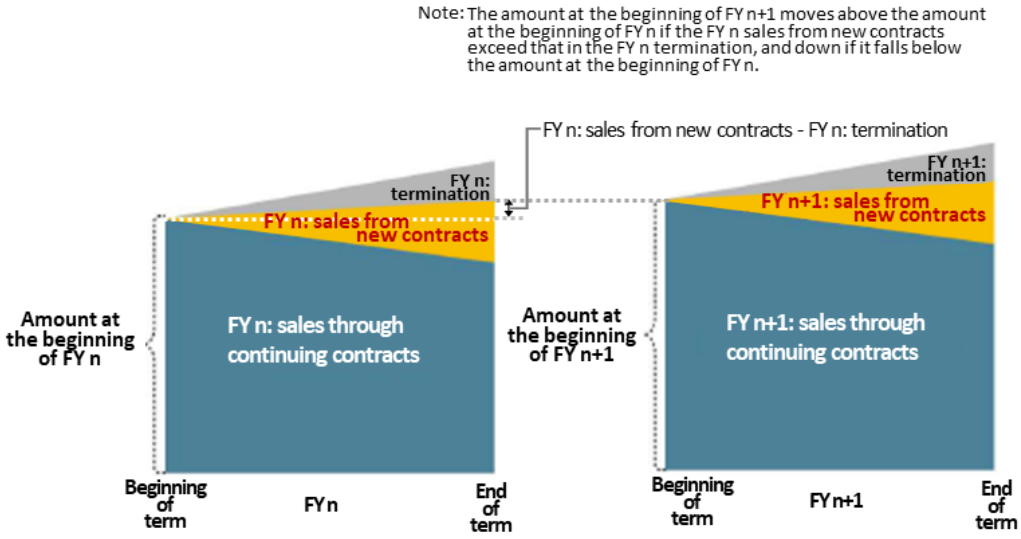
Support is available 24/7, allowing end-users to quickly receive support for inquiries and troubles. The company aims to reach customers within four hours if it deems that equipment needs replacing, and in the term ended February 2021, it almost achieved the target at 99%.

(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 2023, Managed Security Services were provided at approximately 7,450 locations (number of VSR-installed locations) in all 47 prefectures nationwide.

In the term ended February 2023, Managed Security Services accounted for 85.0% of the company's total revenue. With a low churn rate of 0.49% (in 4th quarter of the term ended February 2023), 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 71 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

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.

* Firewall/UTM operational monitoring service market: Sales Amount and Market Share by Employee Size (Forecast for FY 2023)

	0 – 99 employees	100 – 299 employees	300 – 999 employees
No. 1	Vario Secure 33.9%	Vario Secure 21.8%	Vario Secure 20.4%
No. 2	Company A 15.7%	Company A 14.8%	Company A 9.2%
No. 3	Company B 8.3%	Company B 8.0%	Company B 7.9%

* Created by Investment Bridge based on the company's financial results briefing materials (source: ITR "ITR Market View: Gateway Security-Based SOC Service Market 2023")

・Chart 2-1-70 Market of Firewall/UTM operation monitoring services - 0-99 employees: Sales share by vendor (Forecast for FY 2023)

・Chart 2-1-66 Market of Firewall/UTM operation monitoring services - 100-299 employees: Sales share by vendor (Forecast for FY 2023)

・Chart 2-1-62 Market of Firewall/UTM operation monitoring services - 300 -999 employees: Sales share by vendor (Forecast for FY 2023)

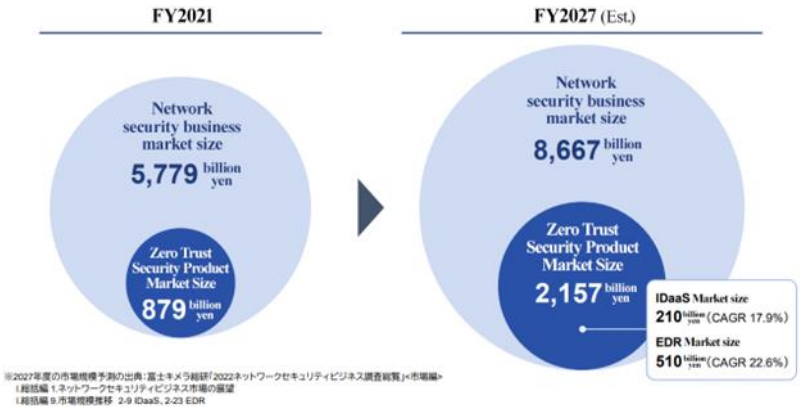
* UTM: Unified Threat Management. A network security measure operated by combining multiple security functions into one.

2. Medium/long-term growth strategy

(1) Network security business market trends

Security trends have irreversibly changed from perimeter defense (no intrusion) to zero trust (intrusion occurs) due to changes in the social environment, such as telecommuting, expanded use of cloud services, and the sophistication of cyberattacks.

In particular, the growth rate of the zero trust security* market is expected to exceed the growth rate of the entire network security business market, and the EDR and IDaaS markets, which are specific solutions for zero trust security, are expected to grow even higher.



(Taken from the reference material of the company)

***Zero-Trust Security**

Conventional security measures, it is assumed that the data and systems to be protected are in the internal network, however, with the spread of cloud computing, more and more data and systems that should be protected exist on the Internet, which is on the external network. As such, the boundaries have become vague, subjects to be protected exist both inside and outside the system, thus, it is becoming increasingly difficult to take sufficient countermeasures with the conventional approach. The "Zero-Trust Security" is a security measure based on the assumption that all communications should not be trusted (Zero-Trust) when considering the security.

(2) The company's management issues and solutions

The company acknowledges the external and internal environment and management issues in this market environment as follows.

External environment	Internal environment
■ The conventional perimeter defense market is expected to grow at an annual rate of around 1.3% ■ There is a need for multi-layered zero-trust security measures that "do not allow intrusion" and "allow intrusion" ■ Demand for zero trust security is expected to grow further in the future	■ The appliance-type UTM product market for small and medium-sized enterprises has grown steadily, but the number of new installations of our VSR has remained flat recently. ■ Our main service is a perimeter defense type for the purpose of "not allowing newcomers" ■ Malware detection and prevention (Vario Endpoint Security) and ransomware-resistant backup (Vario Data Protect) show double digit growth

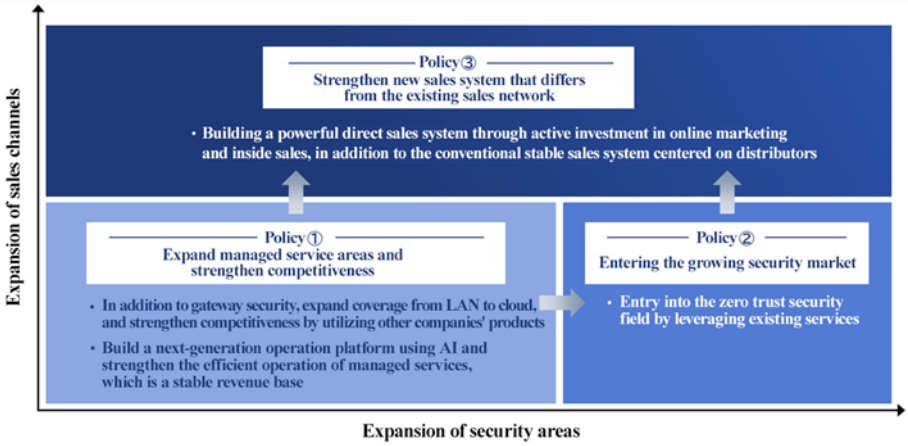
(Taken from the reference material of the company)

In order to solve these management issues, expand the zero-trust security market, and achieve sales and profit growth, the company believes it has to enhance its strengths, invest in growing markets, and strategically develop new customers.

(3) Medium-term management policy

In order to achieve growth by expanding security areas and sales channels through medium/long-term business investment, the company will promote the following three management policies.

Policy 1	Expanding managed service areas and strengthening competitiveness
Policy 2	Entering the growing security market
Policy 3	Strengthening the new sales system that differs from the existing sales network

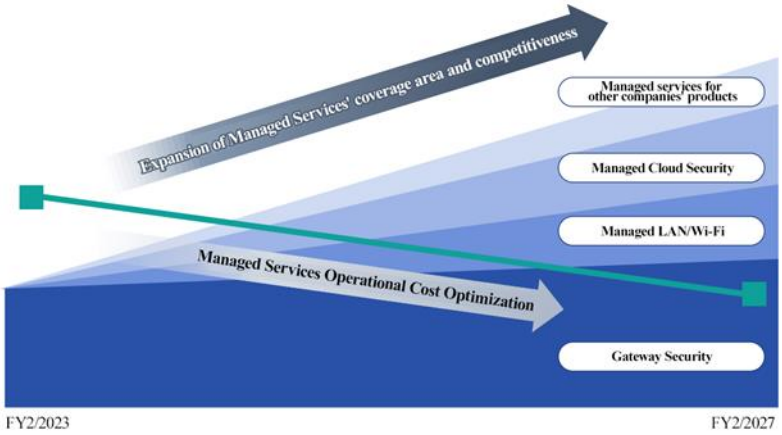


(Taken from the reference material of the company)

＊Policy 1: Expanding managed service areas and strengthening competitiveness

In addition to gateway security, the company will expand the scope of managed services from LAN to cloud services and strengthen competitiveness by utilizing other companies' products.

Moreover, the company will build a next-generation operation platform using AI through an alliance with HEROZ and strengthen the efficient operation of managed services, which is a stable revenue base.



(Taken from the reference material of the company)

Progress in the second quarter of the term ending February 2024

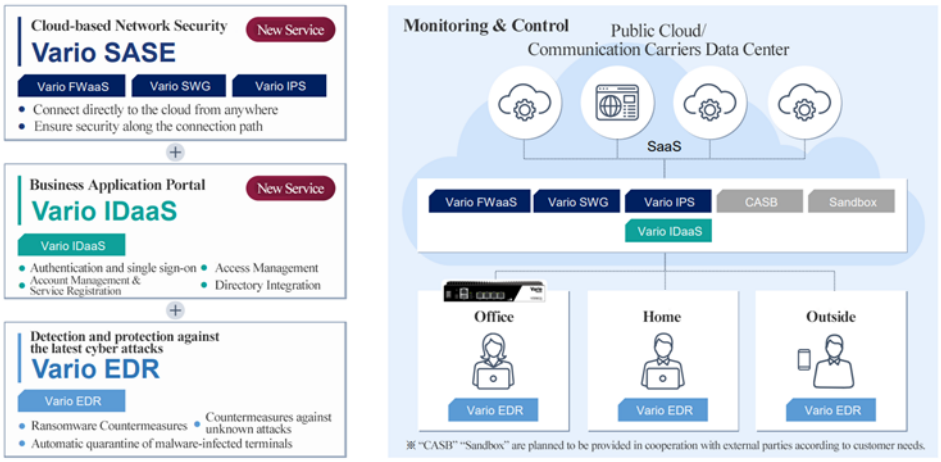
In addition to launching a vulnerability diagnosis service, the company continued to focus on developing new sales agencies. As a result, it was able to open five new managed service agencies. Three of these are agencies that are strong in the medical field, which is the company's target market.

＊Policy 2: Entering the growing security market

Utilizing existing services, the company will enter the zero-trust security field.

The company provides security services tailored to the size of its target small and medium-sized businesses, from cloud to office environments, and aims to ensure security and save labor in operation and maintenance.

Managed services for zero-trust security with minimal configuration



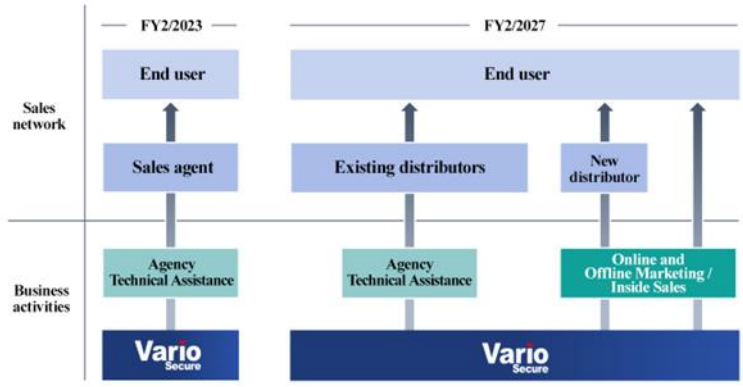
(Taken from the reference material of the company)

Progress in the second quarter of the term ending February 2024

The company expanded the scope of its managed security services to include boundaries, LANs, and cloud environments, and along with IDaaS, it proceeded with the development of services that cover everything from people to devices and from on-premises to cloud.

∗ Policy 3: Strengthening the new sales system that differs from the existing sales network

In addition to the conventional stable sales system centered on distributors, the company will build a solid direct sales system by actively investing in online marketing and inside sales. The inside sales team will work on developing new distributors.



(Taken from the reference material of the company)

Progress in the second quarter of the term ending February 2024

The number of prospective clients increased 85% from the previous year due to the system for finding and nurturing prospective clients through marketing measures.

(4) Medium-term investment plan

Over the three years from the current term ending February 2024 to the term ending February 2026, the company will invest in marketing for acquiring new sales channels and in personnel and development for strengthening sales capabilities. The company also plans to invest 400 million yen in M&A for a total of 900 million yen in growth investment.

It assumes M&A with companies with expertise in vulnerability diagnosis and companies with strong sales capabilities targeting small and medium-sized enterprises.

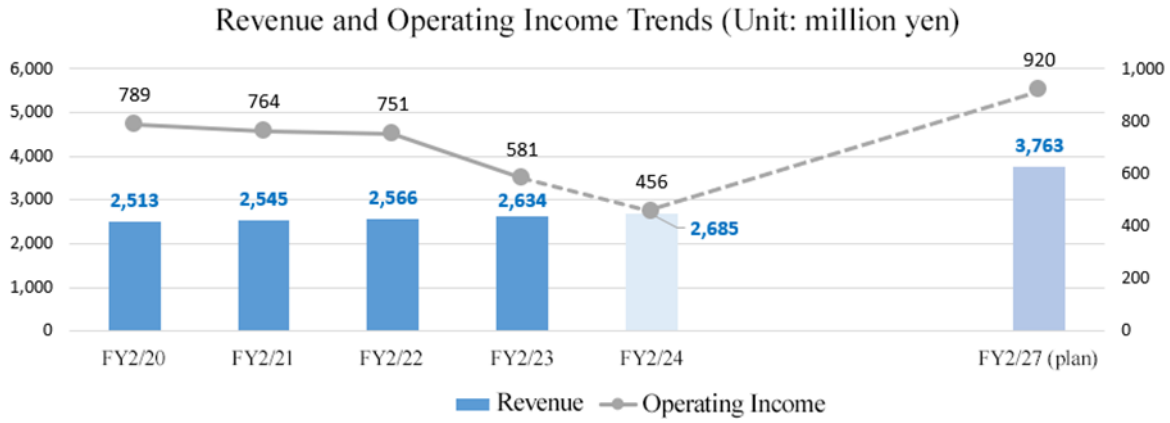
FY2/2024 - FY2/2026

Personnel expenses New service planning and sales department reinforcement	258 million yen
Development costs / SOC operational enhancement costs Software development, etc.	155 million yen
Marketing costa Increased awareness, lead acquisition	100 million yen
M&A Maintenance, operation, vulnerability assessment, etc.	400 million yen
Total amount	913 million yen

(Taken from the reference material of the company)

(5) Medium-term management targets

For the term ending February 2027, the company aims for revenue of 3,763 million yen and an operating profit of 920 million yen. It aims for a growth of 42.8% in net sales (CAGR +9.3%) and 58.3% in operating income (CAGR +12.2%) compared to the term ended February 2023.



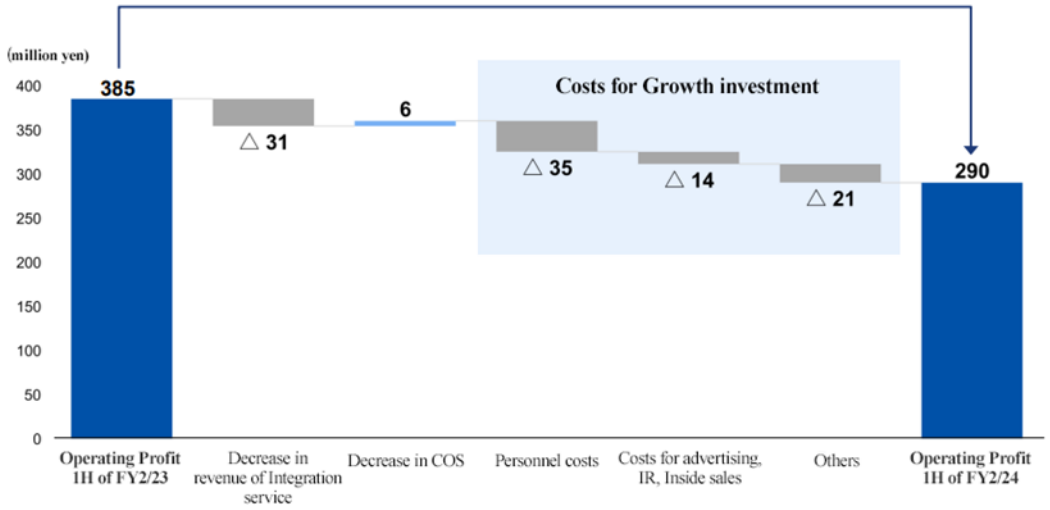
The sales composition ratio of Managed Security Services is expected to increase further from 85.0% in the term ended February 2023 to 94.3% in the term ending February 2027 due to growth from the expansion of security-related areas and the sales channels.

3. The Second Quarter of the Fiscal Year Ending February 2024 Earnings Results

(1) Overview of business results

	FY 2/23 2Q	Ratio to sales	FY 2/24 2Q	Ratio to sales	YoY
Revenue	1,337	100.0%	1,306	100.0%	-2.3%
Gross profit	797	59.7%	773	59.2%	-3.1%
SG&A and others	413	30.9%	482	36.9%	+16.6%
Operating profit	385	28.9%	290	22.3%	-24.6%
Profit before tax	355	26.6%	285	21.8%	-19.7%
Profit	245	18.3%	190	14.6%	-22.3%

*Unit: million yen



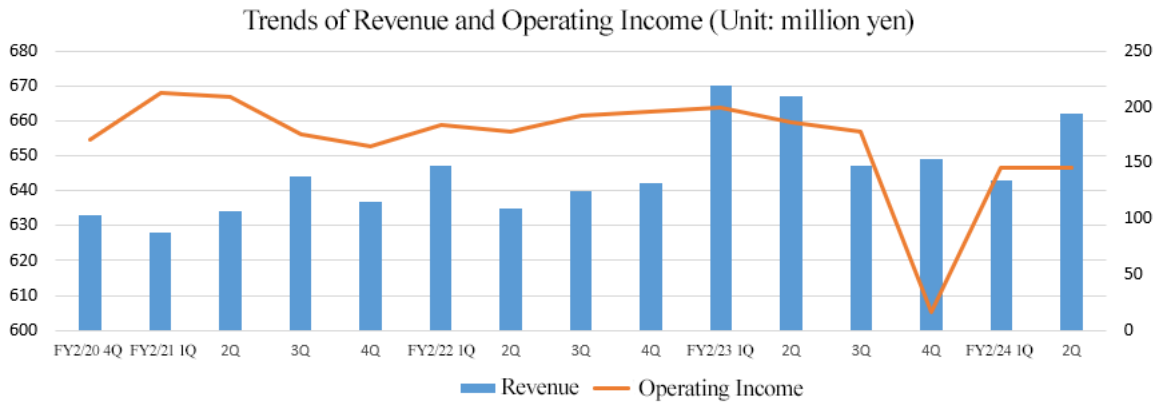
IFRS

* Prepared by Investment Bridge Co., Ltd. based on the disclosed material.

Revenue and profit decreased

Revenue decreased 2.3% YoY to 1,306 million yen. While the mainstay managed security services remained strong, the integration services business was sluggish.

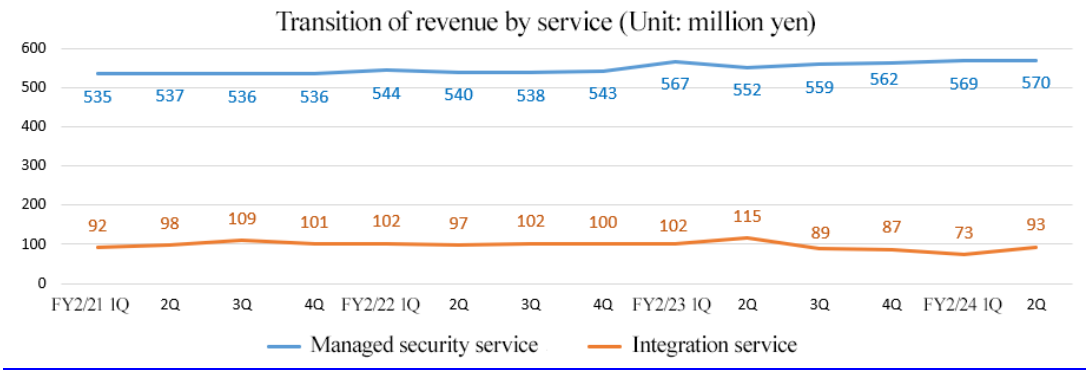
Operating income declined 24.6% YoY to 290 million yen. Alongside a decrease in revenue, selling, general, and administrative expenses (SG&A) increased due to investment in growth, such as personnel recruitment in service planning, engineering, operational support, and the reinforcement of marketing through advertising and promotional expenses, in line with the medium/long-term growth strategy.



(2) Service trends

Revenue	FY 2/23 2Q	FY 2/24 2Q	YoY
Managed security service	1,119	1,139	+1.8%
Integration service	217	166	-23.5%

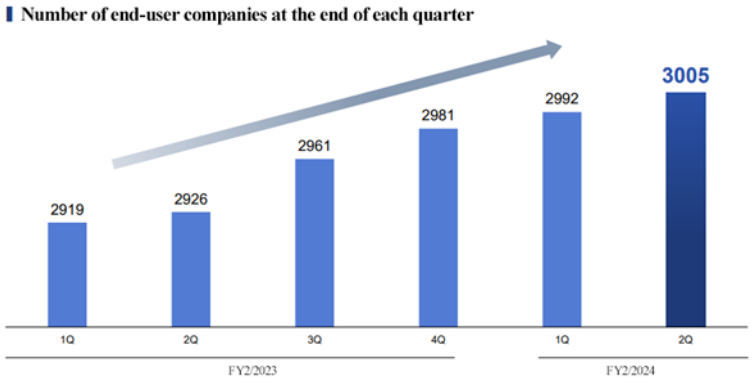
*Unit: million yen



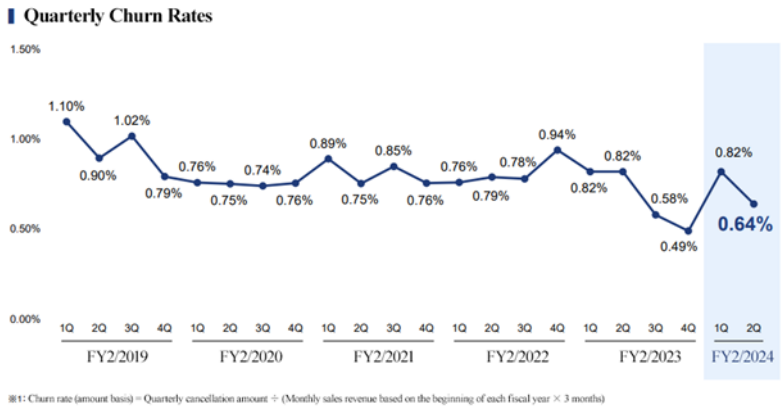
①Managed security service

The sales of "Vario Endpoint Security" were strong. As of the end of August 2023, the number of end-user companies was 3,005, showing a steady increase.

The churn rate remained low.



(Taken from the reference material of the company)



(Taken from the reference material of the company)

② Integration services

Sales of integrated security equipment (UTM) were sluggish.

(3) Business topics

* The company began providing vulnerability diagnosis services. The company remotely performs automated diagnosis with dedicated tools and diagnosis led by security engineers, including "web application diagnosis," "penetration testing," "platform (network) diagnosis," and "smartphone application diagnosis."

After diagnosing vulnerabilities, the company flexibly provides security enhancements such as managed UTM operation services, next-generation endpoint measures, security-enhanced backup, and integrated management of switches and Wi-Fi APs within a LAN, depending on the customer's situation. This service is positioned as a gateway to the realization of the Zero-Trust Security model, which is the company's goal.

* The company is promoting "AI SOC," a project to streamline network security operation and management tasks by utilizing HEROZ's AI technology. The project will automate operation tasks that were previously performed manually and systematize highly technical tasks that are difficult to rationalize through automation alone by utilizing AI.
Currently, the company is promoting the semi-automation of a series of operations, from receiving customer requests to completing configuration changes, by introducing AI into the tasks regarding the configuration changes of VSR's managed security services.
In the future, AI will be introduced into support operations to reduce training costs and improve response quality, and the company is also considering offering "AI SOC" on an OEM basis.

* The company is building a strong direct sales system based on the medium-term management plan.

As marketing measures, the company worked to improve its process for nurturing prospective clients and strengthen its approach to strategic targets.
By continuously distributing e-mail newsletters to conference and webinar participants to expand contact with prospective clients, the number of e-mail newsletter registrants increased 4.7 times, and the number of new webinar participants and downloads of materials among e-mail newsletter registrants increased significantly.
In addition, the company set hospitals and small and medium-sized enterprises as strategic targets and held webinars introducing newly released services for hospitals and small and medium-sized enterprises. As a result, it was able to obtain highly prospective clients for its strategic targets.

As remote marketing measures, the company strengthened long-distance sales through phone calls and improved the scrutiny and management of prospective clients.
In-house introduction of prospective clients to the sales section increased 1.5 times as a result of the proactive phone call approach to prospective clients found at a large conference held in the first quarter.
In addition, in order to deal with the decline of quality of prospective clients, the company added a prospective client scrutiny process, strengthened collaboration with marketing, and introduced sales support tools (SFA) to manage prospective clients. This led to an increase in the rate of in-house introduction of prospective clients to the sales section and the improvement of the efficiency of the entire remote marketing operation.

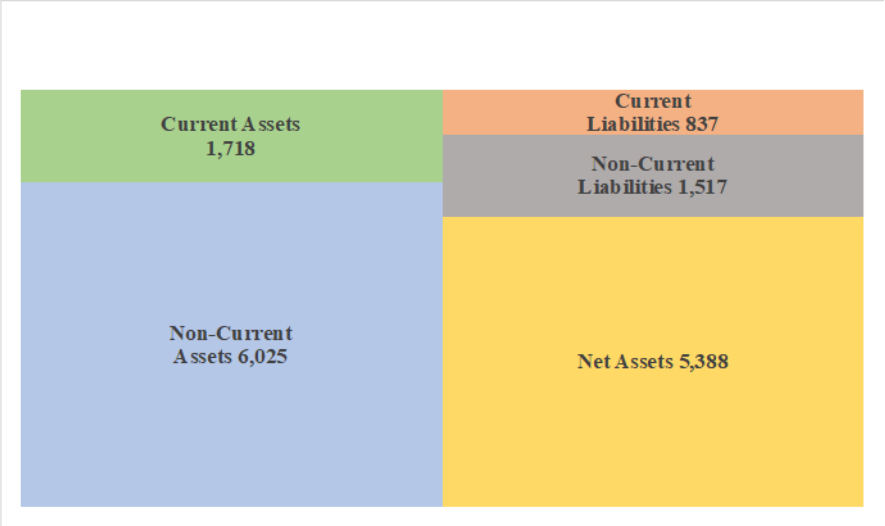
(4) Financial position and cash flows

◎ Main Balance Sheet

	End of February 2023	End of August 2023	Increase/ decrease		End of February 2023	End of August 2023	Increase/ decrease
Current Assets	1,925	1,718	-206	**Current Liabilities**	832	837	+5
Cash and Cash Equivalents	1,039	793	-246	**ST Interest Bearing Liabilities**	200	200	0
Trade and Other Receivables	443	463	+19	**Trade and Other Payables**	81	90	+8
Non-current Assets	5,900	6,025	+124	**Non-current Liabilities**	1,614	1,517	-96
Tangible Assets	158	251	+92	**LT Interest Bearing Liabilities**	1,300	1,200	-100

Goodwill	5,054	5,054	0	**Total Liabilities**	2,447	2,355	-91
Intangible Assets	296	329	+33	**Net Assets**	5,378	5,388	+9
Total Assets	7,826	7,744	-82	**Retained Earnings**	2,581	2,588	+7
				Total Liabilities and Net Assets	7,826	7,744	-82
				Total Borrowings	1,500	1,400	-100

*Unit: million yen.



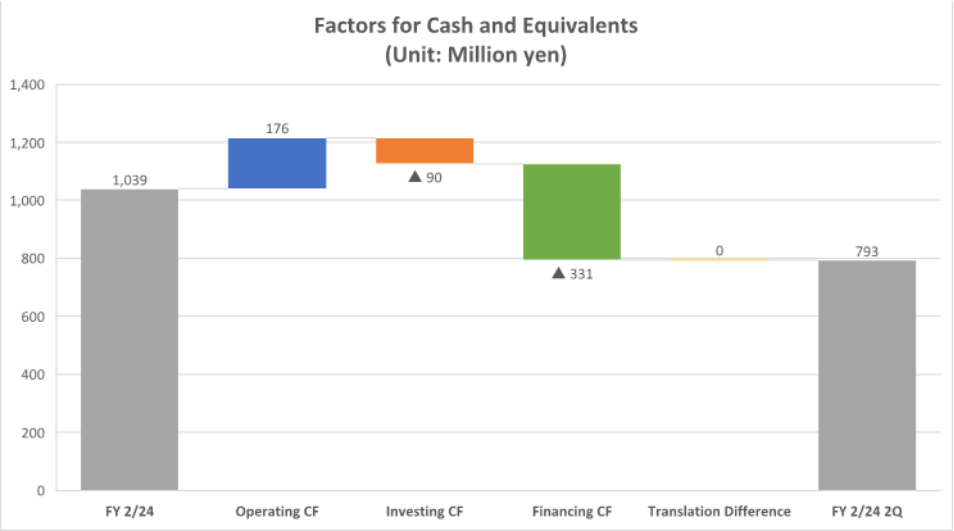
* Prepared by Investment Bridge Co., Ltd. based on the disclosed material.

Total borrowings decreased 100 million yen from the end of the previous fiscal year. Net D/E ratio increased 2.7 points from the end of the previous fiscal year to 11.3%.
Equity ratio increased 0.9 points to 69.6%.
Repayment of interest-bearing liabilities and financial soundness improvement are progressing as planned.

◎ Cash Flows

	FY 2/23 2Q	FY 2/24 2Q	Increase/decrease
Operating Cash Flow	201	176	-25
Investing Cash Flow	-63	-90	-27
Free Cash Flow	138	85	-52
Financing Cash Flow	-289	-331	-42
Balance of Cash and Equivalents	239	793	+554

*Unit: million yen



* Prepared by Investment Bridge Co., Ltd. based on the disclosed material.

The surpluses of operating CF and free CF decreased. The cash position improved.

4. Fiscal Year Ending February 2024 Earnings Forecasts

(1) Earnings forecasts

	FY 2/23	Ratio to sales	FY 2/24 Est.	Ratio to sales	YoY	Progress rate
Revenue	2,634	100.0%	2,685	100.0%	+1.9%	48.6%
Gross profit	1,390	52.8%	1,458	54.3%	+4.8%	53.0%
SG&A	810	30.8%	1,001	37.3%	+23.4%	48.2%
Operating profit	581	22.1%	456	17.0%	-21.4%	63.7%
Profit before tax	542	20.6%	444	16.5%	-18.0%	64.2%
Profit	383	14.6%	308	11.5%	-19.5%	61.8%

*Unit: million yen

Increase in revenue and decrease in profit estimated.

There is no change to the forecast. Revenue is expected to increase 1.9% YoY to 2,685 million yen, and operating profit is expected to decrease 21.4% YoY to 456 million yen.

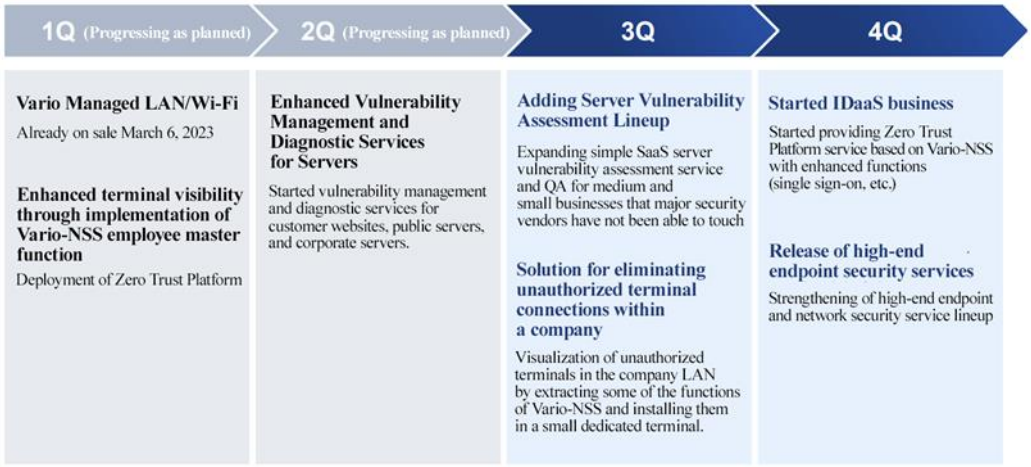
Managed security services are expected to remain firm. Integration services are expected to remain at the same level as in the second half of the previous fiscal year.

The company will aggressively invest in business, including hiring staff to expand the Network Security Operation Center (SOC), hiring new staff to strengthen the new service planning and sales divisions, and marketing to develop new sales channels.

No dividend will be paid. The company's basic policy has been to aim for stable dividends while securing necessary internal reserves, but for the four fiscal years from FY02/2024 to FY02/2027, priority will be given to allocating funds to human resource investment, service development, M&A, etc., in order to realize the medium-term business plan for further growth.

(2) Roadmap for the release of new services

The company plans to release services centered on strengthening measures against cyber-attacks and developing a platform for the full-scale provision of Zero Trust Security, and it carried out releases as scheduled in both the first and second quarters. In the third and fourth quarters, the company will also continue with its releases to realize the Zero Trust Security model.



(Taken from the reference material of the company)

5. Interview with President Kajiura

President Kajiura was involved in IT outsourcing, managed services, cloud services, etc., at several foreign system companies and joined Vario Secure Inc. in June 2018, where he was appointed as Director and General Manager of the Sales Division. He became the company's President and Representative Director on September 1, 2023.

Q: Please tell us about your mission as a new president.

In May of this year, we announced our medium-term management plan and identified the entry into the new "Zero Trust Security" area as our growth strategy.
We have been experiencing stable growth in the market of appliance-type UTM products for small and medium-sized enterprises. Still, with competition intensifying, the number of VSR units installed has been flat recently. Thus, to achieve further growth, we believe it is essential to provide not only perimeter protection services aimed at preventing intrusion, but also zero-trust security services, which are multi-layer protection services that take into consideration the existence of an intrusion.
I was also involved in the formulation of the medium-term business plan as Director and General Manager of the Sales Division, so I consider it my most important mission to take over from the previous president and make sure that it is accomplished.

Q: On the other hand, what issues are you currently aware of, and how do you plan to address them?

In order to accomplish the medium-term management plan, I believe it is necessary to encourage employees further to take the initiative to grow rather than having top management give them instructions to do so.
Each employee must think carefully about what they can do on their own and put it into action. Although there will naturally be many difficulties, they can overcome them through planning and trial and error. They must cultivate and acquire this kind of ability.
In the past ten years, the company has been relatively stable, so there has been little awareness of the need for this within the company. However, with competition becoming fiercer and fiercer, unless employees acquire the ability to survive on their own, neither they nor the company will be able to grow, nor will we be able to achieve our medium-term management plan.

Q: Specifically, what are the initiatives you are taking?

About two years ago, when I was head of the Sales Division, I selected young employees in their 20s and asked them to spend several hours once a week practicing the PDCA cycle (plan, do, act, and check).
With the help of an outside coaching specialist, they begin by analyzing the current situation, including the status of the agencies they are in charge of, and formulating a plan on how they must achieve their sales goals.

We started with about three employees, but now the next generation has joined us, and our employees' awareness is visibly changing. In addition, we have opened five new agencies in the first half of this fiscal year, and we are beginning to see the results of these initiatives in our sales figures.
Although the members are young and in their 20s, they have reached a level where they can talk with agency directors on an equal footing without problems. So, in addition to helping them gain further experience, we aim to build a cycle in which they gain further experience and nurture the next generation.

The third management policy in our medium-term management plan is to "strengthen new sales systems that differ from existing sales networks." So, we are working to build a strong direct sales system by aggressively investing in online marketing and remote marketing, but changes in existing sales styles are also essential.
Until now, we have had a passive wait-and-see sales structure, but in order to expand our business in the "Zero Trust Security" area, we need to think about ways to get our agents to sell a wide range of our products, and we expect our employees to acquire the ability to think about this and achieve it.

We have been focusing on young employees, which has stimulated the hard work of veteran employees, leading to a company-wide improvement.

We see this kind of awareness reform, "strengthening the ability to think," as a company-wide issue, not only for sales, but also for technology.
When issues arise in day-to-day operations, we discuss them with each other, find solutions, and implement them. If they don't work, we consider the reasons and come up with the next solution.
It has been about two months since we started this initiative of thinking about what the company should be like, and I feel that we are making visible changes.
I believe the groundwork is being laid for swiftly achieving the medium-term management plan.

Q: Thank you. Lastly, please give a message to shareholders and investors.

To enter the Zero Trust Security area, we have planned to release new services every quarter this fiscal year and launched services as initially envisioned: Vario Managed LAN/Wi-Fi in the first quarter and enhanced vulnerability management and diagnosis services for servers in the second quarter.
Following the release of the additional services of the vulnerability assessment lineup for servers in the third quarter, we will launch the IDaas business in the fourth quarter and start providing services on the Zero Trust platform.
We also plan to release new services in the next fiscal year, and the Zero Trust security services will be available in the second half of the next fiscal year.
We will continue to provide detailed information regarding these service releases, so please keep an eye out for them.

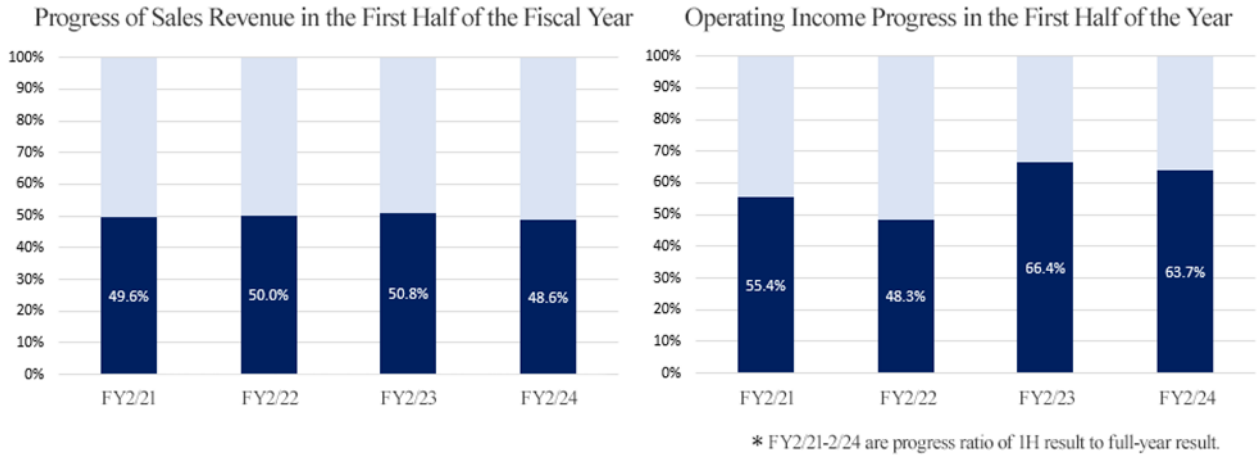
In addition, we have already completed the PoC (Proof of Concept) of the "AI SOC" project, which streamlines the operation and management of network security by utilizing the AI technology of HEROZ, our capital and business alliance partner, and we will aim to improve the quality of our support services and acquire business opportunities by providing services on an OEM basis.

Based on the stability that has characterized our company to date, we will take on new challenges and meet the expectations of our shareholders and investors, and we hope that you will continue to support us in the future.

6. Conclusions

The progress rate for the first half was 48.6% for sales revenue and 63.7% for operating income. Although sales revenue is at a slightly low level compared to the past few years, it will be interesting to see if the company can translate the development of five new agencies through 2Q and the large 85% increase in leads over the previous quarter due to the strengthening of the direct sales system into increased sales revenue in 3Q and beyond.

As mentioned in an interview with President Kajiura, the company plans to launch its lineup of "Zero Trust Security Services," which will be the key to future growth, in the next fiscal year. It will be interesting to see how quickly this will translate into earnings.



<Reference: Regarding Corporate Governance>

◎ Organization type and the composition of directors and auditors

Organization type	Company with Audit Committee
Directors	10 directors, including 4 outside ones (4 independent executives)

◎ Corporate Governance Report

Last update date: September 5, 2023

<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 5-2 Formulate and Publish Management Strategies and Plans >	The Company has developed a management strategy and earnings plan, which is shared among the directors. We do not disclose our

	profitability and capital efficiency so that we can change our strategy flexibly as we are still a small company. In the future, when the company reaches a certain level of scale, we will present the information for disclosure.

<Reasons for Non-compliance with 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>	In addition to the timely and appropriate legal disclosure of information, the company also publishes the following policies: (i) Management Philosophy, Strategy, and Plan The company's corporate ethos is described on its website: https://www.variosecure.net/company/mission/ (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. (iii) The Board of Directors' Policies and Procedures for Determining the Compensation for Management Staff and Directors The Board of Directors has established a policy for determining the details of remuneration for individual directors as described in the Section II.1. below. In addition, the Board consults with the arbitrary Remuneration Committee regarding the remuneration system and policies for directors, the calculation method used to determine specific remuneration amounts, and individual remuneration amounts, in order to reinforce the fairness, transparency, and objectivity of the procedures for determining the details of directors' remuneration. 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. (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.

	(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.
Supplementary Principle 4-1 (2) Disclosure of information on the medium-term management plan	Our company has announced our medium-term management plan and is striving to achieve it. Regarding the progress of the medium-term management plan, our company's policy entails working toward achieving the plan while making revisions to it as needed, taking into account environmental and strategy changes.
<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.