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Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2021 [IFRS]

April 12, 2021

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

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Scheduled date of Annual General Meeting of Shareholders: May 29, 2021

Scheduled date of commencing dividend payments: May 31, 2021

Scheduled date of filing annual securities report: May 31, 2021

Availability of supplementary briefing material on financial results: Available

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

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

1. Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2021 (March 1, 2020 to February 28, 2021)

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

	Revenue		Operating profit		Profit before tax		Profit		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended February 28, 2021	2,545	1.3	764	(3.1)	707	(2.2)	491	(1.3)	491	(1.3)
February 29, 2020	2,513	9.3	789	10.2	723	12.5	498	10.0	498	10.0

	Basic earnings per share	Diluted earnings per share	Return on equity	Profit before tax to total assets	Operating profit to revenue
Fiscal year ended February 28, 2021	Yen 131.78	Yen 123.97	% 13.4	% 9.9	% 30.0
February 29, 2020	133.70	133.70	15.8	10.5	31.4

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

Fiscal year ended February 28, 2021: ¥- million

Fiscal year ended February 29, 2020: ¥- million

Note: The Company executed a twenty-for-one stock split of the Company's common stock on November 21, 2019. Accordingly, the figures for basic earnings per share and diluted earnings per share have been calculated assuming that the stock split was executed at the beginning of the previous fiscal year.

(2) Non-consolidated Financial Position

	Total assets	Total equity	Total equity ratio	Total equity per share
As of February 28, 2021	Million yen 7,216	Million yen 3,949	% 54.7	Yen 1,048.52
As of February 29, 2020	7,081	3,408	48.1	914.75

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended February 28, 2021	Million yen 524	Million yen (112)	Million yen (450)	Million yen 593
February 29, 2020	963	(149)	(470)	632

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to total equity
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended February 29, 2020	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00	Million yen -	% -	% -
Fiscal year ended February 28, 2021	-	0.00	-	39.44	39.44	148	29.9	4.0
Fiscal year ending February 28, 2022 (Forecast)	-	0.00	-	40.44	40.44	-	30.0	-

3. Non-consolidated Financial forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 to February 28, 2022)

(% indicates changes from the previous corresponding period.)

	Revenue		Operating profit		Profit before tax		Profit		Basic earnings per share
Full year	Million yen 2,649	% 4.1	Million yen 782	% 2.4	Million yen 732	% 3.4	Million yen 507	% 3.3	Yen 134.79

* Notes:

(1) Changes in accounting policies and changes in accounting estimates

- 1) Changes in accounting policies required by IFRS: None
- 2) Changes in accounting policies other than those in 1) above: None
- 3) Changes in accounting estimates: None

(2) Number of shares issued (common shares)

1) Total number of shares issued at the end of the period (including treasury shares):

As of February 28, 2021: 3,766,620 shares
As of February 29, 2020: 3,726,600 shares

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

As of February 28, 2021: - shares
As of February 29, 2020: - shares

3) Average number of shares during the period:

Fiscal year ended February 28, 2021: 3,730,030 shares
Fiscal year ended February 29, 2020: 3,726,600 shares

Note: The Company executed a twenty-for-one stock split of the Company's common stock on November 21, 2019. Accordingly, the "Total number of shares issued at the end of the period," the "Total number of treasury shares at the end of the period," and the "Average number of shares during the period" have been calculated assuming that the stock split was executed at the beginning of the previous fiscal year.

* These financial results are not subject to audit by certified public accountants or audit firms

* Explanation of the proper use of financial forecast and other notes

Notes regarding forward-looking statements:

Financial forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially for various reasons. For the assumptions underlying the financial forecasts and other notices on the use of financial forecasts, please refer to "(4) Future Outlook" of "1. Overview of Operating Results, etc." in the accompanying materials.

Table of Contents

1. Overview of Operating Results, etc.....	1
(1) Overview of Operating Results for the Fiscal Year under Review	1
(2) Overview of Financial Position for the Fiscal Year under Review.....	1
(3) Overview of Cash Flows for the Fiscal Year under Review.....	1
(4) Future Outlook	2
2. Basic Approach to the Selection of Accounting Standards	2
3. Non-consolidated Financial Statements and Primary Notes in accordance with International Financial Reporting Standards	3
(1) Non-consolidated Balance Sheets	3
(2) Non-consolidated Statements of Income and Comprehensive Income	5
(3) Non-consolidated Statements of Changes in Equity	6
(4) Non-consolidated Statements of Cash Flows	7
(5) Notes to Non-consolidated Financial Statements	8

1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

During the fiscal year ended February 28, 2021, the Japanese economy witnessed certain signs of recovery, thanks to the effects of various measures taken by the government in response to the COVID-19 pandemic and improvements in overseas economies. However, the outlook continues to remain uncertain due to concerns regarding the faltering economy, as the number of new COVID-19 cases is again increasing, and the pandemic has become prolonged.

As for the environment in the security services market surrounding the Company, the demand for corporate security measures has been expanding due to diversifying cyberattacks and attacks targeting the teleworking environment, which has expanded rapidly in an effort to prevent the spread of COVID-19.

In particular, in conjunction with the nationwide expansion of teleworking needs, demand not only from super-large and large companies, which had previously been the drivers of such demand, but also new demand for adoption from mid-sized companies and SMEs, which were relatively reluctant toward security measures in the past, has increased. There has been a tendency for companies that have difficulty operating and managing their security to outsource operations and monitoring to security vendors, which has led to a steady expansion of the market, as a whole.

In such an environment, the Company reported stable sales, thanks to the recurring revenue from Managed Security Services and a low cancellation rate (0.81%) (Note).

As a result of the above, in the financial results on an IFRS basis for the fiscal year ended February 28, 2021, the Company reported revenue of ¥2,545,189 thousand (a year-on-year increase of 1.3%), operating profit of ¥764,315 thousand (a year-on-year decrease of 3.1%), profit before tax of ¥707,935 thousand (a year-on-year decrease of 2.2%), and profit of ¥491,534 thousand (a year-on-year decrease of 1.3%).

The results by segment are not stated, as the Company's segments comprise the single segment of Internet Security Services.

Note: Cancellation rate (monetary basis) = Annual cancellation amount / (Monthly revenue at the beginning of each fiscal year × 12)

(2) Overview of Financial Position for the Fiscal Year under Review

The financial position on an IFRS basis as of February 28, 2021 was as follows.

Assets

Total assets as of February 28, 2021 was ¥7,216,165 thousand, an increase of ¥135,145 thousand from the end of the previous fiscal year. This was primarily due to increases of ¥20,824 thousand in trade and other receivables, ¥34,027 thousand in property, plant and equipment, and ¥74,220 thousand in intangible assets.

Liabilities

Total liabilities as of February 28, 2021 was ¥3,266,798 thousand, a decrease of ¥405,326 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥70,616 thousand in other non-current liabilities, as well as decreases of ¥65,115 thousand in income taxes payable and ¥369,763 thousand in borrowings under non-current liabilities.

Equity

Total equity as of February 28, 2021 was ¥3,949,366 thousand, an increase of ¥540,472 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥491,534 thousand in retained earnings as a result of reporting profit.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash flows on an IFRS basis at the end of the fiscal year ended February 28, 2021 were as follows.

Cash and cash equivalents as of February 28, 2021 decreased by ¥38,298 thousand from the end of the previous fiscal year to ¥593,930 thousand as of February 28, 2021.

Cash flows from operating activities

Net cash provided by operating activities was ¥524,227 thousand (¥963,653 thousand was provided in the previous fiscal year). Major cash inflows included ¥707,935 thousand in profit before tax and ¥117,672 thousand in depreciation and amortization, while major cash outflows included a ¥75,785 thousand decrease

in other current liabilities and ¥296,045 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was ¥112,209 thousand (¥149,285 thousand was used in the previous fiscal year). Major cash outflows included ¥97,401 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities was ¥450,320 thousand (¥470,462 thousand was used in the previous fiscal year). Major cash outflows included ¥400,000 thousand for repayments of long-term borrowings and ¥69,465 thousand for repayments of lease liabilities.

(4) Future Outlook

As for the future outlook, despite concerns regarding the faltering economy due to a re-expansion of the number of new COVID-19 cases and prolongation of the pandemic, the product market of security services is expected to expand steadily, going forward.

The Company aims to grow its revenue through measures such as expanding its area of operations to corporate IT infrastructure and remote-work bases based on gateway security, which is the Company's core business, reinforcing corporate backup service offerings, and developing new distributors.

In such an environment, regarding the financial forecast for the fiscal year ending February 28, 2022, the Company expects revenue of ¥2,649 million (a year-on-year increase of 4.1%), operating profit of ¥782 million (a year-on-year increase of 2.4%), profit before tax of ¥732 million (a year-on-year increase of 3.4%), and profit of ¥507 million (a year-on-year increase of 3.3%).

Financial forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and actual results may differ substantially for various reasons. The impact of COVID-19 on the Company's performance is minimal.

2. Basic Approach to the Selection of Accounting Standards

The Company has adopted the International Financial Reporting Standards (IFRS) from the fiscal year ended February 28, 2019, in order to increase the international comparability of its financial information, and to improve convenience.

3. Non-consolidated Financial Statements and Primary Notes in accordance with International Financial Reporting Standards

(1) Non-consolidated Balance Sheets

(Thousand yen)

	As of February 29, 2020	As of February 28, 2021
Assets		
Current assets		
Cash and cash equivalents	632,229	593,930
Trade and other receivables	440,495	461,320
Inventories	105,032	119,743
Other current assets	124,324	144,196
Total current assets	1,302,081	1,319,190
Non-current assets		
Property, plant and equipment	259,204	293,232
Goodwill	5,054,613	5,054,613
Intangible assets	99,191	173,412
Other financial assets	63,384	63,384
Deferred tax assets	122,439	139,881
Other non-current assets	180,103	172,450
Total non-current assets	5,778,937	5,896,974
Total assets	7,081,019	7,216,165

(Thousand yen)

	As of February 29, 2020	As of February 28, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	365,053	369,763
Trade and other payables	127,426	108,005
Income taxes payable	185,548	120,432
Other current liabilities	<u>418,356</u>	<u>394,476</u>
Total current liabilities	1,096,384	992,678
Non-current liabilities		
Borrowings	2,156,440	1,786,677
Lease liabilities	105,246	102,725
Provisions	18,288	18,336
Other non-current liabilities	<u>295,764</u>	<u>366,380</u>
Total non-current liabilities	2,575,740	2,274,119
Total liabilities	3,672,125	3,266,798
Equity		
Share capital	310,000	320,072
Capital surplus	1,590,985	1,629,850
Retained earnings	<u>1,507,909</u>	<u>1,999,444</u>
Total equity	3,408,894	3,949,366
Total liabilities and equity	7,081,019	7,216,165

(2) Non-consolidated Statements of Income and Comprehensive Income

Non-consolidated Statements of Income

	For the fiscal year ended February 29, 2020 (from March 1, 2019 to February 29, 2020)	(Thousand yen)	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)
Revenue	2,513,337	2,545,189	
Cost of sales	964,291	984,890	
Gross profit	1,549,045	1,560,298	
Selling, general and administrative expenses	760,116	796,109	
Other income	238	126	
Other expenses	0	-	
Operating profit	789,167	764,315	
Finance income	10	6	
Finance costs	65,415	56,385	
Profit before tax	723,762	707,935	
Income tax expense	225,523	216,400	
Profit	<u>498,238</u>	<u>491,534</u>	
 Earnings per share			
Basic earnings per share (yen)	133.70	131.78	
Diluted earnings per share (yen)	133.70	123.97	

Non-consolidated Statements of Comprehensive Income

	For the fiscal year ended February 29, 2020 (from March 1, 2019 to February 29, 2020)	(Thousand yen)	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)
Profit	498,238	491,534	
Other comprehensive income	—	—	
Comprehensive income	<u>498,238</u>	<u>491,534</u>	

(3) Non-consolidated Statements of Changes in Equity

(Thousand yen)

	Share capital	Capital surplus	Retained earnings	Total
As of March 1, 2019	310,000	1,589,456	1,009,670	2,909,127
Profit	—	—	498,238	498,238
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	498,238	498,238
Share-based remuneration transactions	—	1,528	—	1,528
Total transactions with owners	—	1,528	—	1,528
As of February 29, 2020	310,000	1,590,985	1,507,909	3,408,894
Profit	—	—	491,534	491,534
Other comprehensive income	—	—	—	—
Total comprehensive income	—	—	491,534	491,534
Exercise of share acquisition rights	10,072	10,072	—	20,145
Share-based remuneration transactions	—	28,792	—	28,792
Total transactions with owners	10,072	38,865	—	48,937
As of February 28, 2021	320,072	1,629,850	1,999,444	3,949,366

(4) Non-consolidated Statements of Cash Flows

	For the fiscal year ended February 29, 2020 (from March 1, 2019 to February 29, 2020)	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)	(Thousand yen)
Cash flows from operating activities			
Profit before tax	723,762	707,935	
Depreciation and amortization	94,305	117,672	
Finance income	(10)	(6)	
Finance costs	65,415	56,385	
Decrease (increase) in inventories	156,393	(14,710)	
Decrease (increase) in trade and other receivables	(27,680)	(20,824)	
Decrease (increase) in other current assets	2,481	(19,871)	
Decrease (increase) in other non-current assets	(7,708)	7,653	
Increase (decrease) in trade and other payables	29,476	(15,332)	
Increase (decrease) in other current liabilities	168,707	(75,785)	
Increase (decrease) in other non-current liabilities	39,297	70,616	
Other	<u>(58,889)</u>	<u>25,553</u>	
Subtotal	1,185,551	839,286	
Interest received	10	6	
Interest paid	(21,759)	(19,019)	
Income taxes paid	<u>(200,149)</u>	<u>(296,045)</u>	
Cash flows from operating activities	963,653	524,227	
Cash flows from investing activities			
Purchase of property, plant and equipment	(20,629)	(14,808)	
Purchase of intangible assets	(92,681)	(97,401)	
Payments for acquisition of businesses	<u>(35,973)</u>	<u>—</u>	
Cash flows from investing activities	(149,285)	(112,209)	
Cash flows from financing activities			
Proceeds from exercise of share acquisition rights	—	20,145	
Repayments of long-term borrowings	(400,000)	(400,000)	
Repayments of lease liabilities	(69,465)	(69,465)	
Other	<u>(996)</u>	<u>(1,000)</u>	
Cash flows from financing activities	(470,462)	(450,320)	
Net increase (decrease) in cash and cash equivalents	343,905	(38,303)	
Cash and cash equivalents at the beginning of the period	288,323	632,229	
Net effect of currency translation on cash and cash equivalents	0	5	
Cash and cash equivalents at the end of the period	<u>632,229</u>	<u>593,930</u>	

(5) Notes to Non-consolidated Financial Statements

Notes on going concern assumption

Not applicable

Changes in accounting policies

Not applicable

Changes in accounting estimates

Not applicable

Additional information

Although limited in scope, COVID-19 has had a certain impact on the supply chain in our business activities. With regard to the negative impact on certain businesses, the Company has made accounting estimates of the impairment of fixed assets and the recoverability of deferred tax assets based on currently available information, under the assumption that the pandemic will be contained within one year from the end of the fiscal year ended February 28, 2021.

Due to the high level of uncertainty regarding the impact of COVID-19 going forward, if the above assumption changes as a result of a re-expansion of the number of COVID-19 cases and prolongation of the pandemic, it may impact our future financial position and operating results.

Segment information

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

Per share information

	For the fiscal year ended February 29, 2020 (from March 1, 2019 to February 29, 2020)	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)
Equity per share	914.75 yen	1,048.52 yen
Basic earnings per share	133.70 yen	131.78 yen
Diluted earnings per share	133.70 yen	123.97 yen

Notes: 1. The bases for calculating basic earnings per share and diluted earnings per share are as follows.

2. The Company executed a twenty-for-one stock split of the Company's common stock on November 21, 2019. Accordingly, the figures for basic earnings per share and diluted earnings per share have been calculated assuming that the stock split was executed at the beginning of the previous fiscal year.

	For the fiscal year ended February 29, 2020 (from March 1, 2019 to February 29, 2020)	For the fiscal year ended February 28, 2021 (from March 1, 2020 to February 28, 2021)
Basic earnings per share		
Profit (thousand yen)	498,238	491,534
Amount not attributable to common shareholders (thousand yen)	-	-
Profit related to common shares (thousand yen)	498,238	491,534
Average number of common shares during the period (shares)	3,726,600	3,730,030
Diluted earnings per share		
Adjustments of profit (thousand yen)	-	-
Increase in the number of common shares (shares)	-	234,801
[including share acquisition rights (shares)]	[-]	[234,801]
Overview of dilutive shares not included in the calculation of diluted earnings per share, as they have no dilutive effect	—	—

Significant subsequent events

Not applicable