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Non-consolidated Financial Results for the Three Months Ended May 31, 2021 [IFRS]

July 13, 2021

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 Stock exchange listing: Tokyo Stock Exchange
 Code number: 4494
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 Scheduled date of filing interim securities report: July 15, 2021
 Scheduled date of commencing dividend payments: —
 Availability of supplementary briefing material on interim financial results: Available
 Schedule of interim financial results briefing session: Not scheduled

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

1. Non-consolidated Financial Results for the Three Months Ended May 31, 2021 (March 1, 2021 to May 31, 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	%
Three months ended										
May 31, 2021	647	3.1	184	(13.4)	171	(13.9)	118	(14.4)	118	(14.4)
May 31, 2020	628	-	213	-	198	-	138	-	138	-

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
May 31, 2021	31.37	29.90
May 31, 2020	37.06	37.06

Notes: Since interim financial statements were not prepared for the three months ended May 31, 2019, percentage changes, as compared with the corresponding period in the previous fiscal year for the three months ended May 31, 2020, have not been stated.

(2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of May 31, 2021	7,044	3,927	55.8
As of February 28, 2021	7,216	3,949	54.7

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended February 28, 2021	-	0.00	-	39.44	39.44
Fiscal year ending February 28, 2022	-				
Fiscal year ending February 28, 2022 (Forecast)	-	0.00	-	40.44	40.44

Note: Revision to the forecast for dividends announced most recently: None

3. Non-consolidated Financial Results 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
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	2,649	4.1	782	2.4	732	3.4	507	3.3	134.79

Note: Revision to the financial results forecast announced most recently: None

* Notes:

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

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

(2) Number of shares issued (common shares)

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

As of May 31, 2021: 3,771,440 shares

As of February 28, 2021: 3,766,620 shares

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

As of May 31, 2021: 29 shares

As of February 28, 2021: - shares

3) Average number of shares during the period:

Three months ended May 31, 2021: 3,768,531 shares

Three months ended May 31, 2020: 3,726,600 shares

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

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

Notes regarding forward-looking statements:

Financial results forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and do not represent a commitment from the Company that they will be achieved. Actual results may differ substantially for various reasons. For the assumptions underlying the financial results forecasts and other notices on the use of financial results forecasts, please refer to “(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information” of “1. Qualitative Information on Interim Financial Results for the Period under Review” in the accompanying materials.

Table of Contents

1. Qualitative Information on Interim Financial Results for the Period under Review	1
(1) Explanation of Business Results.....	1
(2) Explanation of Financial Position.....	1
(3) Analysis of Cash Flows	1
(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information	2
2. Interim Condensed Non-consolidated Financial Statements and Primary Notes	3
(1) Interim Condensed Non-consolidated Statements of Financial Position.....	3
(2) Interim Condensed Non-consolidated Statements of Profit or Loss and Comprehensive Income	5
(3) Interim Condensed Non-consolidated Statements of Changes in Equity	6
(4) Interim Condensed Non-consolidated Statements of Cash Flows.....	7
(5) Notes to Interim Condensed Non-consolidated Financial Statements.....	8

1. Qualitative Information on Interim Financial Results for the Period under Review

(1) Explanation of Business Results

During the three months ended May 31, 2021, there had been expectations for the development of vaccines by major pharmaceutical companies and an increase in vaccinations for preventing the spread of COVID-19. However, no end of the pandemic was yet in sight. The outlook of the Japanese economy 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 investment demand for corporate security measures has continued expanding due to diversifying cyberattacks and attacks targeting the teleworking environment, which has become increasingly common as a measure to prevent the prolonged 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 addition, regarding the procurement of materials, the Company may be affected by a global shortage of semiconductors. Although it is difficult to rationally calculate the effect on the Company's performance at the moment, the Company will continue to monitor the situation.

In such an environment, the Company reported stable sales, exceeding those of the corresponding period of the previous fiscal year, thanks to the recurring revenue from Managed Security Services and a low cancellation rate (0.76%) (Note). Each level of profit under operating profit declined year on year, due to an increase in cost of sales in conjunction with the increased revenue, construction costs of a security operation center, and investments for future growth such as recruitment aimed at strengthening of sales and management departments.

As a result of the above, in the financial results on an IFRS basis for the three months ended May 31, 2021, the Company reported revenue of ¥647,882 thousand (a year-on-year increase of 3.1%), operating profit of ¥184,801 thousand (a year-on-year decrease of 13.4%), profit before tax of ¥171,343 thousand (a year-on-year decrease of 13.9%), and profit of ¥118,229 thousand (a year-on-year decrease of 14.4%).

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

Note: Cancellation rate (monetary basis) = Cancellation amount for the three months ended May 31, 2021 / (Monthly revenue at the beginning of each fiscal year × 3)

(2) Explanation of Financial Position

The financial position on an IFRS basis as of May 31, 2021 was as follows.

Assets

Total assets as of May 31, 2021 was ¥7,044,848 thousand, a decrease of ¥171,316 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥26,613 thousand in inventories and a decrease of ¥187,470 thousand in cash and cash equivalents.

Liabilities

Total liabilities as of May 31, 2021 was ¥3,117,316 thousand, a decrease of ¥149,481 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥51,295 thousand in other current liabilities, as well as decreases of ¥78,823 thousand in income taxes payable, ¥18,418 thousand in lease liabilities, and ¥93,226 thousand in borrowings under non-current liabilities.

Equity

Total equity as of May 31, 2021 was ¥3,927,531 thousand, a decrease of ¥21,835 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥118,229 thousand in retained earnings as a result of reporting profit, and a decrease in retained earnings as a result of reporting dividends of ¥148,555 thousand.

(3) Analysis of Cash Flows

Cash flows on an IFRS basis for the three months ended May 31, 2021 were as follows.

Cash and cash equivalents as of May 31, 2021 decreased by ¥187,470 thousand from the end of the previous fiscal year to ¥406,460 thousand.

Cash flows from operating activities

Net cash provided by operating activities during the three months ended May 31, 2021 was ¥48,661 thousand (¥22,189 thousand was used in the corresponding period of the previous fiscal year). Major cash inflows included ¥171,343 thousand in profit before tax and ¥32,543 thousand in depreciation and amortization, while major cash outflows included a ¥26,613 thousand increase in inventories, a ¥19,389 thousand increase in other current assets, and ¥107,122 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the three months ended May 31, 2021 was ¥31,197 thousand (¥31,267 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥24,523 thousand for the purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities during the three months ended May 31, 2021 was ¥204,934 thousand (¥117,616 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥100,000 thousand for repayments of long-term borrowings, ¥89,678 thousand for dividends paid, and ¥17,366 thousand for repayments of lease liabilities.

(4) Explanation of Non-consolidated Financial Results Forecast and Other Forward-looking Information

Financial results forecasts and other forward-looking statements contained in this document are based on information currently available to the Company and certain assumptions that management believes to be reasonable and actual results may differ substantially for various reasons. The impact of COVID-19 on the Company's performance is minimal. Therefore, regarding the financial results forecast for the fiscal year ending February 28, 2022, the forecast announced on April 12, 2021 will remain unchanged, and timely disclosures will be provided, if management determines that it is necessary to revise the earnings forecast, in light of business trends going forward.

2. Interim Condensed Non-consolidated Financial Statements and Primary Notes

(1) Interim Condensed Non-consolidated Statements of Financial Position

(Thousand yen)

	As of February 28, 2021	As of May 31, 2021
	<hr/>	<hr/>
Assets		
Current assets		
Cash and cash equivalents	593,930	406,460
Trade and other receivables	461,320	452,686
Inventories	119,743	146,356
Other current assets	144,196	163,585
Total current assets	<hr/> 1,319,190	<hr/> 1,169,089
Non-current assets		
Property, plant and equipment	293,232	275,196
Goodwill	5,054,613	5,054,613
Intangible assets	173,412	189,092
Other financial assets	63,384	63,384
Deferred tax assets	139,881	118,250
Other non-current assets	172,450	175,221
Total non-current assets	<hr/> 5,896,974	<hr/> 5,875,759
Total assets	<hr/> <hr/> 7,216,165	<hr/> <hr/> 7,044,848

(Thousand yen)

	As of February 28, 2021	As of May 31, 2021
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	369,763	370,993
Trade and other payables	108,005	100,232
Income taxes payable	120,432	41,609
Other current liabilities	394,476	445,772
Total current liabilities	992,678	958,607
Non-current liabilities		
Borrowings	1,786,677	1,693,451
Lease liabilities	102,725	84,306
Provisions	18,336	18,348
Other non-current liabilities	366,380	362,603
Total non-current liabilities	2,274,119	2,158,709
Total liabilities	3,266,798	3,117,316
Equity		
Share capital	320,072	321,277
Capital surplus	1,629,850	1,637,184
Retained earnings	1,999,444	1,969,118
Treasury shares	-	(49)
Total equity	3,949,366	3,927,531
Total liabilities and equity	7,216,165	7,044,848

(2) Interim Condensed Non-consolidated Statements of Profit or Loss and Comprehensive Income
Interim Condensed Non-consolidated Statements of Profit or Loss
Three Months Ended May 31

	(Thousand yen)	
	For the three months ended May 31, 2020 (from March 1, 2020 to May 31, 2020)	For the three months ended May 31, 2021 (from March 1, 2021 to May 31, 2021)
Revenue	628,182	647,882
Cost of sales	229,892	248,775
Gross profit	398,289	399,107
Selling, general and administrative expenses	184,828	214,340
Other income	42	34
Other expenses	-	0
Operating profit	213,504	184,801
Finance income	275	-
Finance costs	14,816	13,457
Profit before tax	198,962	171,343
Income tax expense	60,852	53,113
Profit	138,109	118,229
Earnings per share		
Basic earnings per share (yen)	37.06	31.37
Diluted earnings per share (yen)	37.06	29.90

Interim Condensed Non-consolidated Statements of Comprehensive Income
Three Months Ended May 31

	(Thousand yen)	
	For the three months ended May 31, 2020 (from March 1, 2020 to May 31, 2020)	For the three months ended May 31, 2021 (from March 1, 2021 to May 31, 2021)
Profit	138,109	118,229
Other comprehensive income	-	-
Comprehensive income	138,109	118,229

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

For the three months ended May 31, 2020 (from March 1, 2020 to May 31, 2020)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2020	310,000	1,590,985	1,507,909	-	3,408,894
Profit	-	-	138,109	-	138,109
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	138,109	-	138,109
Share-based remuneration transactions	-	2,806	-	-	2,806
Total transactions with owners	-	2,806	-	-	2,806
As of May 31, 2020	<u>310,000</u>	<u>1,593,791</u>	<u>1,646,018</u>	<u>-</u>	<u>3,549,810</u>

For the three months ended May 31, 2021 (from March 1, 2021 to May 31, 2021)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2021	320,072	1,629,850	1,999,444	-	3,949,366
Profit	-	-	118,229	-	118,229
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	118,229	-	118,229
Purchase of treasury shares	-	-	-	(49)	(49)
Dividends	-	-	(148,555)	-	(148,555)
Exercise of share acquisition rights	1,205	1,205	-	-	2,410
Share-based remuneration transactions	-	6,129	-	-	6,129
Total transactions with owners	1,205	7,334	(148,555)	(49)	(140,065)
As of May 31, 2021	<u>321,277</u>	<u>1,637,184</u>	<u>1,969,118</u>	<u>(49)</u>	<u>3,927,531</u>

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

	(Thousand yen)	
	For the three months ended May 31, 2020 (from March 1, 2020 to May 31, 2020)	For the three months ended May 31, 2021 (from March 1, 2021 to May 31, 2021)
Cash flows from operating activities		
Profit before tax	198,962	171,343
Depreciation and amortization	28,250	32,543
Finance income	(275)	-
Finance costs	14,816	13,457
Decrease (increase) in inventories	(12,464)	(26,613)
Decrease (increase) in trade and other receivables	3,491	8,633
Decrease (increase) in other current assets	(28,751)	(19,389)
Decrease (increase) in other non-current assets	(1,761)	(2,771)
Increase (decrease) in trade and other payables	(4,564)	(6,762)
Increase (decrease) in other current liabilities	(48,287)	(8,634)
Increase (decrease) in other non-current liabilities	11,107	(3,777)
Other	(4,089)	2,259
Subtotal	<u>156,432</u>	<u>160,288</u>
Interest paid	(4,997)	(4,504)
Income taxes paid	<u>(173,624)</u>	<u>(107,122)</u>
Cash flows from operating activities	(22,189)	48,661
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,453)	(6,674)
Purchase of intangible assets	<u>(26,813)</u>	<u>(24,523)</u>
Cash flows from investing activities	(31,267)	(31,197)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	-	2,410
Repayments of long-term borrowings	(100,000)	(100,000)
Repayments of lease liabilities	(17,366)	(17,366)
Purchase of treasury shares	-	(49)
Dividends paid	-	(89,678)
Other	(249)	(249)
Cash flows from financing activities	<u>(117,616)</u>	<u>(204,934)</u>
Net increase (decrease) in cash and cash equivalents	(171,074)	(187,470)
Cash and cash equivalents at the beginning of the period	632,229	593,930
Net effect of currency translation on cash and cash equivalents	0	0
Cash and cash equivalents at the end of the period	<u><u>461,155</u></u>	<u><u>406,460</u></u>

(5) Notes to Interim Condensed Non-consolidated Financial Statements

Notes on going concern assumption

Not applicable

Changes in accounting policies

Not applicable

Changes in accounting estimates

Not applicable

Segment information

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