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## Non-consolidated Financial Results for the Three Months Ended May 31, 2023 [IFRS]

July 11, 2023

Company name: Vario Secure Inc.

Stock exchange listing: Tokyo Stock Exchange

Code number: 4494

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Scheduled date of filing interim securities report: July 12, 2023

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, 2023 (March 1, 2023 to May 31, 2023)

#### (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, 2023	643	(3.9)	145	(27.1)	142	(22.0)	98	(22.3)	98	(22.3)
May 31, 2022	670	3.4	199	7.9	182	6.7	126	7.0	126	7.0

	Basic earnings per share	Diluted earnings per share
Three Months Ended	Yen	Yen
May 31, 2023	21.77	21.40
May 31, 2022	33.29	32.22

#### (2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of May 31, 2023	7,618	5,294	69.5
As of February 28, 2023	7,826	5,378	68.7

## 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, 2023	—	0.00	—	40.50	40.50
Fiscal year ending February 29, 2024	—				
Fiscal year ending February 29, 2024 (Forecast)	—	0.00	—	0.00	0.00

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

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

(% 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	2,685	1.9	456	(21.4)	444	(18.0)	308	(19.5)	68.30

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, 2023: 4,515,613 shares

As of February 28, 2023: 4,515,613 shares

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

As of May 31, 2023: 470 shares

As of February 28, 2023: 470 shares

3) Average number of shares during the period:

Three Months Ended May 31, 2023: 4,515,143 shares

Three Months Ended May 31, 2022: 3,799,955 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.

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

### (1) Explanation of Business Results

During the three months ended May 31, 2023, the Japanese economy was expected to continue its gradual recovery partly due to the effects of various policies as the earning and employment environment improved. However, the global trend of monetary tightening has caused a downturn in overseas economies that poses a risk of downward pressure on Japan's economy. There are also mounting concerns over the impact of soaring commodity prices and fluctuations in the financial and capital markets.

As for the environment in the security services market surrounding the Company, the number of cyberattacks targeting supply chains is rising, and the threat of ransomware attacks (ransom-demanding-type viruses) targeting organizations such as general companies and hospitals is growing. Security measures have become essential due to the use of cloud services by companies and corporate promotion of DX.

In such an environment, the Company has expanded sales promotion of Vario Managed EDR, which detects signs of cyberattacks as an endpoint security measure, and data backup services (VDaP) that protect corporate information assets from the growing threat of ransomware attacks (ransom-demanding-type viruses), in addition to conventional gateway security, in order to support the development of a secure and safe business environment through multilayered defense against an increasing array of threats. The Company has also begun offering managed LAN/Wi-Fi services that monitor the operating status of communications devices within companies and protect communication environments from vulnerabilities.

From this fiscal year to the fiscal year ending February 28, 2026, in accordance with the medium-term management plan, the Company has formulated plans for acquiring human resources, strengthening its service planning and business development, and investing in business segments such as software development, with the aim of "expanding the fields supported by managed services and making managed services more competitive," "entering growing security markets," and "strengthening new sales systems different from the existing sales network."

Under such circumstances, the Company reported revenue exceeding that of the corresponding period of the previous fiscal year due to the recurring revenue from Managed Security Services, a low cancellation rate (0.82%) (Note), and an increase in the number of Vario Managed EDR licenses. Sales of integrated security equipment (UTM) were sluggish, causing revenue in Integration Services to decline year on year. The Company has recorded hiring expenses, research and development expenses, and advertising expenses in relation to business investments under the medium-term management plan. As a result, each level of profit decreased year on year.

As result of the above, in the financial results on an IFRS basis for the three months ended May 31, 2023, the Company reported revenue of ¥643,809 thousand (a year-on-year decrease of 3.9%), operating profit of ¥145,508 thousand (a year-on-year decrease of 27.1%), profit before tax of ¥142,617 thousand (a year-on-year decrease of 22.0%), and profit of ¥98,305 thousand (a year-on-year decrease of 22.3%).

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

Note:  $\text{Cancellation rate (monetary basis)} = \text{Cancellation amount for the Three Months Ended May 31, 2023} / (\text{Monthly revenue at the beginning of each fiscal year} \times 3)$

### (2) Explanation of Financial Position

The financial position on an IFRS basis as of May 31, 2023 was as follows.

#### Assets

Total assets as of May 31, 2023 were ¥7,618,476 thousand, a decrease of ¥207,714 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥42,179 thousand in inventories, as well as decreases of ¥234,053 thousand in cash and cash equivalents and ¥15,517 thousand in trade and other receivables.

#### Liabilities

Total liabilities as of May 31, 2023 were ¥2,323,722 thousand, a decrease of ¥123,494 thousand from the end of the previous fiscal year. This was primarily due to decreases of ¥71,446 thousand in income taxes payable and ¥50,000 thousand in borrowings under non-current liabilities.

### Equity

Total equity as of May 31, 2023 was ¥5,294,753 thousand, a decrease of ¥84,219 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥98,305 thousand in retained earnings as a result of reporting profit, as well as a decrease in retained earnings as a result of reporting dividends of ¥182,863 thousand.

### (3) Analysis of Cash Flows

Cash flows on an IFRS basis for the Three Months Ended May 31, 2023 were as follows.

Cash and cash equivalents as of May 31, 2023 decreased by ¥234,053 thousand from the end of the previous fiscal year to ¥805,907 thousand.

#### Cash flows from operating activities

Net cash provided by operating activities during the three months ended May 31, 2023 was ¥55,291 thousand (¥63,704 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥142,617 thousand in profit before tax, ¥45,712 thousand in depreciation and amortization, a ¥15,517 thousand decrease in trade and other receivables, and a ¥25,694 thousand increase in other current liabilities, while major cash outflows included a ¥42,179 thousand increase in inventories, a ¥33,228 thousand decrease in other non-current liabilities, and ¥88,102 thousand in income taxes paid.

#### Cash flows from investing activities

Net cash used in investing activities during the three months ended May 31, 2023 was ¥42,207 thousand (¥35,187 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥32,573 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, 2023 was ¥247,137 thousand (¥159,529 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥50,000 thousand for repayments of long-term borrowings and ¥172,597 thousand for dividends paid.

### (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 29, 2024, the forecast announced on April 12, 2023 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, 2023	As of May 31, 2023
Assets		
Current assets		
Cash and cash equivalents	1,039,961	805,907
Trade and other receivables	443,904	428,387
Inventories	260,283	302,462
Other current assets	181,143	192,838
Total current assets	<u>1,925,292</u>	<u>1,729,595</u>
Non-current assets		
Property, plant and equipment	158,905	147,703
Goodwill	5,054,613	5,054,613
Intangible assets	296,075	313,636
Other financial assets	63,384	63,384
Deferred tax assets	166,352	149,872
Other non-current assets	161,566	159,670
Total non-current assets	<u>5,900,898</u>	<u>5,888,880</u>
Total assets	<u><u>7,826,190</u></u>	<u><u>7,618,476</u></u>

(Thousand yen)

	As of February 28, 2023	As of May 31, 2023
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	200,000	200,000
Trade and other payables	81,751	91,320
Income taxes payable	105,254	33,808
Provisions	94,858	95,100
Other current liabilities	350,810	368,451
Total current liabilities	832,674	788,680
Non-current liabilities		
Borrowings	1,300,000	1,250,000
Lease liabilities	-	3,715
Provisions	18,432	18,444
Other non-current liabilities	296,110	262,881
Total non-current liabilities	1,614,542	1,535,042
Total liabilities	2,447,217	2,323,722
Equity		
Share capital	749,758	749,758
Capital surplus	2,048,261	2,048,599
Retained earnings	2,581,039	2,496,481
Treasury shares	(85)	(85)
Total equity	5,378,973	5,294,753
Total liabilities and equity	7,826,190	7,618,476



(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, 2022 (from March 1, 2022 to May 31, 2022)	For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)
Revenue	670,074	643,809
Cost of sales	259,418	256,043
Gross profit	410,656	387,765
Selling, general and administrative expenses	212,623	242,278
Other income	1,455	23
Other expenses	0	1
Operating profit	199,487	145,508
Finance costs	16,598	2,890
Profit before tax	182,889	142,617
Income tax expense	56,402	44,312
Profit	<u>126,486</u>	<u>98,305</u>
Earnings per share		
Basic earnings per share (yen)	33.29	21.77
Diluted earnings per share (yen)	32.22	21.40

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

	(Thousand yen)	
	For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)	For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)
Profit	126,486	98,305
Other comprehensive income	-	-
Comprehensive income	<u>126,486</u>	<u>98,305</u>

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

For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2022	330,018	1,641,719	2,351,369	(49)	4,323,058
Profit	-	-	126,486	-	126,486
Total comprehensive income	-	-	126,486	-	126,486
Purchase of treasury shares	-	-	-	(36)	(36)
Dividends	-	-	(153,647)	-	(153,647)
Exercise of share acquisition rights	240	240	-	-	480
Share-based remuneration transactions	-	365	-	-	365
Total transactions with owners	240	605	(153,647)	(36)	(152,838)
As of May 31, 2022	<u>330,258</u>	<u>1,642,325</u>	<u>2,324,209</u>	<u>(85)</u>	<u>4,296,706</u>

For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2023	749,758	2,048,261	2,581,039	(85)	5,378,973
Profit	-	-	98,305	-	98,305
Total comprehensive income	-	-	98,305	-	98,305
Dividends	-	-	(182,863)	-	(182,863)
Share-based remuneration transactions	-	338	-	-	338
Total transactions with owners	-	338	(182,863)	-	(182,524)
As of May 31, 2023	<u>749,758</u>	<u>2,048,599</u>	<u>2,496,481</u>	<u>(85)</u>	<u>5,294,753</u>

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

	(Thousand yen)	
	For the Three Months Ended May 31, 2022 (from March 1, 2022 to May 31, 2022)	For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)
Cash flows from operating activities		
Profit before tax	182,889	142,617
Depreciation and amortization	38,013	45,712
Increase in provision	-	242
Finance costs	16,598	2,890
Decrease (increase) in inventories	(40,924)	(42,179)
Decrease (increase) in trade and other receivables	(11,736)	15,517
Decrease (increase) in other current assets	(19,190)	(11,695)
Decrease (increase) in other non-current assets	(9,988)	1,895
Increase (decrease) in trade and other payables	(37,599)	9,569
Increase (decrease) in other current liabilities	35,660	25,694
Increase (decrease) in other non-current liabilities	7,760	(33,228)
Other	(8,956)	(10,839)
Subtotal	152,525	146,198
Interest paid	(3,831)	(2,804)
Income taxes paid	(84,989)	(88,102)
Cash flows from operating activities	63,704	55,291
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,779)	(9,634)
Purchase of intangible assets	(31,408)	(32,573)
Cash flows from investing activities	(35,187)	(42,207)
Cash flows from financing activities		
Proceeds from exercise of share acquisition rights	480	-
Net increase (decrease) in short-term borrowings	100,000	-
Repayments of long-term borrowings	(100,000)	(50,000)
Repayments of lease liabilities	(18,418)	(24,539)
Purchase of treasury shares	(36)	-
Dividends paid	(141,304)	(172,597)
Other	(249)	-
Cash flows from financing activities	(159,529)	(247,137)
Net increase (decrease) in cash and cash equivalents	(131,011)	(234,053)
Cash and cash equivalents at the beginning of the period	389,846	1,039,961
Net effect of currency translation on cash and cash equivalents	0	-
Cash and cash equivalents at the end of the period	258,834	805,907

(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.