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Non-consolidated Financial Results for the Three Months Ended May 31, 2024 [IFRS]

July 10, 2024

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 11, 2024

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, 2024 (March 1, 2024 to May 31, 2024)

(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, 2024	673	4.6	151	4.0	146	2.6	100	2.7	100	2.7
May 31, 2023	643	(3.9)	145	(27.1)	142	(22.0)	98	(22.3)	98	(22.3)

	Basic earnings per share	Diluted earnings per share
Three Months Ended	Yen	Yen
May 31, 2024	22.34	22.23
May 31, 2023	21.77	21.40

(2) Non-Consolidated Financial Position

	Total assets	Total equity	Total equity ratio
	Million yen	Million yen	%
As of May 31, 2024	7,637	5,649	74.0
As of February 29, 2024	7,649	5,548	72.5

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended February 29, 2024	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Fiscal year ending February 28, 2025	—				
Fiscal year ending February 28, 2025 (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 28, 2025 (March 1, 2024 to February 28, 2025)

(% 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	2,753	4.3	485	(6.9)	474	(6.7)	336	(3.2)	74.47

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, 2024: 4,520,053 shares

As of February 29, 2024: 4,520,053 shares

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

As of May 31, 2024: 1,519 shares

As of February 29, 2024: 1,519 shares

3) Average number of shares during the period:

Three Months Ended May 31, 2024: 4,518,534 shares

Three Months Ended May 31, 2023: 4,515,143 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, 2024, the Japanese economy was expected to continue its gradual recovery against the background of factors such as growing personal consumption and inbound tourism demand. However, there are also numerous concerns regarding issues such as ongoing depreciation of the yen, soaring raw material prices, the situation in the Middle East, and fluctuations in the financial and capital markets, which pose a risk of downward pressure on the economy.

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 and the development of security personnel have become essential due to the use of cloud services by companies and corporate promotion of DX.

Under such an environment, in order to assist primarily small and medium-sized businesses in implementing security measures, the Company has set “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” as goals under its medium-term management plan. To achieve these goals, it has acquired human resources, strengthened its service planning and business development, and invested in business segments such as software development.

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 (0.80%) (Note), and an increase in the number of Vario Managed EDR licenses. In addition, revenue in Integration Services rose year on year due to deliveries of large-scale network construction projects. Each level of profit below operating profit also increased year on year.

As result of the above, in the financial results on an IFRS basis for the three months ended May 31, 2024, the Company reported revenue of ¥673,487 thousand (a year-on-year increase of 4.6%), operating profit of ¥151,274 thousand (a year-on-year increase of 4.0%), profit before tax of ¥146,342 thousand (a year-on-year increase of 2.6%), and profit of ¥100,945 thousand (a year-on-year increase of 2.7%).

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, 2024 / (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, 2024 was as follows.

Assets

Total assets as of May 31, 2024 were ¥7,637,907 thousand, a decrease of ¥12,026 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥91,840 thousand in property, plant and equipment, as well as decreases of ¥41,805 thousand in cash and cash equivalents, ¥22,419 thousand in inventories, and ¥38,155 thousand in deferred tax assets.

Liabilities

Total liabilities as of May 31, 2024 were ¥1,988,591 thousand, a decrease of ¥113,178 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥64,887 thousand in lease liabilities, as well as decreases of ¥53,753 thousand in income taxes payable, ¥50,597 thousand in provisions under current liabilities, ¥50,000 thousand in borrowings under non-current liabilities, and ¥27,656 thousand in other non-current liabilities.

Equity

Total equity as of May 31, 2024 was ¥5,649,316 thousand, an increase of ¥101,152 thousand from the end of the previous fiscal year. This was primarily due to an increase of ¥100,945 thousand in retained earnings as a result of reporting profit.

(3) Analysis of Cash Flows

Cash flows on an IFRS basis for the Three Months Ended May 31, 2024 were as follows.

Cash and cash equivalents as of May 31, 2024 decreased by ¥41,805 thousand from the end of the previous fiscal year to ¥780,495 thousand.

Cash flows from operating activities

Net cash provided by operating activities during the three months ended May 31, 2024 was ¥63,140 thousand (¥55,291 thousand was provided in the corresponding period of the previous fiscal year). Major cash inflows included ¥146,342 thousand in profit before tax and ¥47,305 thousand in depreciation and amortization, while major cash outflows included a ¥50,597 thousand decrease in provision, a ¥27,656 thousand decrease in other non-current liabilities, and ¥55,206 thousand in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities during the three months ended May 31, 2024 was ¥30,881 thousand (¥42,207 thousand was used in the corresponding period of the previous fiscal year). Major cash outflows included ¥15,160 thousand for the purchase of property, plant and equipment and ¥15,721 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, 2024 was ¥74,065 thousand (¥247,137 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 ¥23,738 thousand for repayments of lease liabilities.

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

Regarding the financial results forecast for the fiscal year ending February 28, 2025, the forecast announced on April 10, 2024 will remain unchanged.

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

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

(Thousand yen)

	As of February 29, 2024	As of May 31, 2024
Assets		
Current assets		
Cash and cash equivalents	822,301	780,495
Trade and other receivables	458,218	466,319
Inventories	189,362	166,943
Other current assets	138,874	147,115
Total current assets	1,608,758	1,560,874
Non-current assets		
Property, plant and equipment	227,667	319,507
Goodwill	5,054,613	5,054,613
Intangible assets	343,683	344,922
Other financial assets	63,384	63,384
Deferred tax assets	153,667	115,512
Other non-current assets	198,159	179,093
Total non-current assets	6,041,175	6,077,033
Total assets	7,649,933	7,637,907

(Thousand yen)

	As of February 29, 2024	As of May 31, 2024
Liabilities and equity		
Liabilities		
Current liabilities		
Borrowings	200,000	200,000
Trade and other payables	106,604	89,362
Income taxes payable	66,297	12,544
Provisions	50,597	-
Other current liabilities	352,911	374,081
Total current liabilities	776,410	675,988
Non-current liabilities		
Borrowings	1,100,000	1,050,000
Lease liabilities	28,841	93,729
Provisions	18,481	18,493
Other non-current liabilities	178,037	150,380
Total non-current liabilities	1,325,359	1,312,603
Total liabilities	2,101,770	1,988,591
Equity		
Share capital	750,868	750,868
Capital surplus	2,051,600	2,051,807
Retained earnings	2,745,780	2,846,726
Treasury shares	(85)	(85)
Total equity	5,548,163	5,649,316
Total liabilities and equity	7,649,933	7,637,907

(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, 2023 (from March 1, 2023 to May 31, 2023)	For the Three Months Ended May 31, 2024 (from March 1, 2024 to May 31, 2024)
Revenue	643,809	673,487
Cost of sales	256,043	312,161
Gross profit	387,765	361,325
Selling, general and administrative expenses	242,278	211,250
Other income	23	1,199
Other expenses	1	-
Operating profit	145,508	151,274
Finance costs	2,890	4,931
Profit before tax	142,617	146,342
Income tax expense	44,312	45,396
Profit	98,305	100,945
Earnings per share		
Basic earnings per share (yen)	21.77	22.34
Diluted earnings per share (yen)	21.40	22.23

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

	(Thousand yen)	
	For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)	For the Three Months Ended May 31, 2024 (from March 1, 2024 to May 31, 2024)
Profit	98,305	100,945
Other comprehensive income	-	-
Comprehensive income	98,305	100,945

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

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	749,758	2,048,599	2,496,481	(85)	5,294,753

For the Three Months Ended May 31, 2024 (from March 1, 2024 to May 31, 2024)

					(Thousand yen)
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
As of March 1, 2024	750,868	2,051,600	2,745,780	(85)	5,548,163
Profit	-	-	100,945	-	100,945
Total comprehensive income	-	-	100,945	-	100,945
Share-based remuneration transactions	-	206	-	-	206
Total transactions with owners	-	206	-	-	206
As of May 31, 2024	750,868	2,051,807	2,846,726	(85)	5,649,316

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

	(Thousand yen)	
	For the Three Months Ended May 31, 2023 (from March 1, 2023 to May 31, 2023)	For the Three Months Ended May 31, 2024 (from March 1, 2024 to May 31, 2024)
Cash flows from operating activities		
Profit before tax	142,617	146,342
Depreciation and amortization	45,712	47,305
Increase in provision	242	(50,597)
Finance costs	2,890	4,931
Decrease (increase) in inventories	(42,179)	22,419
Decrease (increase) in trade and other receivables	15,517	(8,100)
Decrease (increase) in other current assets	(11,695)	(8,122)
Decrease (increase) in other non-current assets	1,895	19,066
Increase (decrease) in trade and other payables	9,569	(17,691)
Increase (decrease) in other current liabilities	25,694	939
Increase (decrease) in other non-current liabilities	(33,228)	(27,656)
Other	(10,839)	(7,557)
Subtotal	146,198	121,278
Interest paid	(2,804)	(2,931)
Income taxes paid	(88,102)	(55,206)
Cash flows from operating activities	55,291	63,140
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,634)	(15,160)
Purchase of intangible assets	(32,573)	(15,721)
)Cash flows from investing activities	(42,207)	(30,881)
Cash flows from financing activities		
Repayments of long-term borrowings	(50,000)	(50,000)
Repayments of lease liabilities	(24,539)	(23,738)
Dividends paid	(172,597)	(327)
Cash flows from financing activities	(247,137)	(74,065)
Net increase (decrease) in cash and cash equivalents	(234,053)	(41,805)
Cash and cash equivalents at the beginning of the period	1,039,961	822,301
Net effect of currency translation on cash and cash equivalents	-	-
Cash and cash equivalents at the end of the period	805,907	780,495

(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.