

FREUND CORPORATION (6312)

Consolidated FY (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY02/2016		19,027	1,346	1,394	961	55.7	12.5	668.6
FY02/2017		21,164	2,041	2,097	1,064	61.7	20.0	706.6
FY02/2018CoE		21,000	2,100	2,100	1,400	81.2	20.0	-
FY02/2017		YoY	11.2%	51.6%	50.4%	10.7%	-	-
FY02/2018CoE		YoY	(0.8%)	2.9%	0.1%	31.5%	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY02/2017		14,767	1,441	1,486	815	-	-	-
Q1 to Q3 FY02/2018		13,745	1,152	1,174	849	-	-	-
Q1 to Q3 FY02/2018		YoY	(6.9%)	(20.0%)	(21.0%)	4.1%	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (2 February 2018)

Adjustment and Development of New Business Domains

FREUND CORPORATION, being heavily involved with the operations of developing, manufacturing and selling of pharmaceutical-related and industrial-related equipment, is planning to see a long-term growth together with development of new business domains. On the equipment side, short-term order intake is adjusting most recently, negatively affected by slowing capital expenditures by generic drug industry in Japan. Although the Company is still seeing some increases in terms of order intake on a 12-quarter moving average basis to suggest midterm sales trends, adjusting short-term order intake so far has negatively affected to short-term sales and earnings as a whole for the Company. Meanwhile, the Company suggests that uncertainty for future remains for order intake on the mainstay pharmaceutical-related granulation /coating equipment, but anticipating steady development of new business domains for both pharmaceutical-related and industrial-related in a long-term view. The former is tablet-printing equipment (TABREX Rev.), while the latter equipment for manufacturing rechargeable battery components. After the first order having been placed in Q4 FY02/2017, tablet-printing equipment (TABREX Rev.) has been suffering from rather delayed take off. However, problems at the initial stage are to be solved in the foreseeable future and the Company is to increasingly benefit from here. On the other hand, equipment for manufacturing rechargeable battery components has been adopted by manufacturers of rechargeable battery for R&D purposes only to date and thus sales and earnings have remained insignificant for the Company as a whole. Still, when said equipment is adopted in mass-production, the Company should benefit from here too.


In Q1 to Q3 FY02/2018, sales came in at ¥13,745m (down 6.9% YoY), operating profit ¥1,152m (down 20.0%) and operating profit margin 8.4% (down 1.4% points). By business segment, Equipment saw sales of ¥9,747m (down 2.8%), operating profit of ¥910m (down 21.1%) and operating profit margin of 9.3% (down 2.2% points), while Chemicals sales of ¥3,998m (down 16.1%), operating profit ¥593m (down 1.4%) and operating profit margin of 14.9% (up 2.2% points). On the Equipment side, order intake came in at ¥8,747m (down 28.6%) in Q1 to Q3, while order backlog having stood at ¥7,682m (down 17.3%) as of the end of Q3. Being exposed to generic drug industry in Japan to a large extent, order intake on the Equipment side inevitably suffered from slowing capital expenditures mainly by generic drug manufacturers here. As far as pharmaceutical-related is concerned, order intake came in at ¥7,395m (down 30.1%) with an estimated exposure by almost 60% to generic drug, while ¥4,738m (down 44.2%) in Japan by region. On top of this, sales and earnings came down also on the Chemicals side, but operating profit margin improved in line with improving sales mix. Sales and earnings increased for pharmaceutical excipients to carry high gross profit margin, while sales and earnings came down for dietary supplement to carry low gross profit margin.

FY02/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥21,000m (down 0.8% YoY), operating profit of ¥2,100m (up 2.9%) and operating profit margin of 10.0% (up 0.4% points). Meanwhile, prospective annual dividend of ¥20.0 per share, implying payout ratio of 24.6%, has also remained unchanged. In the first place, it appears that sales on the Equipment side are supposed to meet assumptions of initial Company forecasts as far as no major delay of acceptance inspection takes place. This is because it takes 8 months to 10 months for booking sales after order intake in regards to the mainstay pharmaceutical-related granulation/coating equipment. Initial Company forecasts assume prospective sales of ¥15,410m (up 3.3%) on the Equipment side and ¥5,590m (down 10.5%) on the Chemicals side. Since the initial stage, it has been assumed that sales on the Chemicals side are to come down, negatively affected by decreasing sales of dietary supplement in line with changeover to internal manufacturing from procurement from the Company by major customer.

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2.0 Company Profile

Developing, Manufacturing and Selling Pharmaceutical-related and Industrial-related Equipment

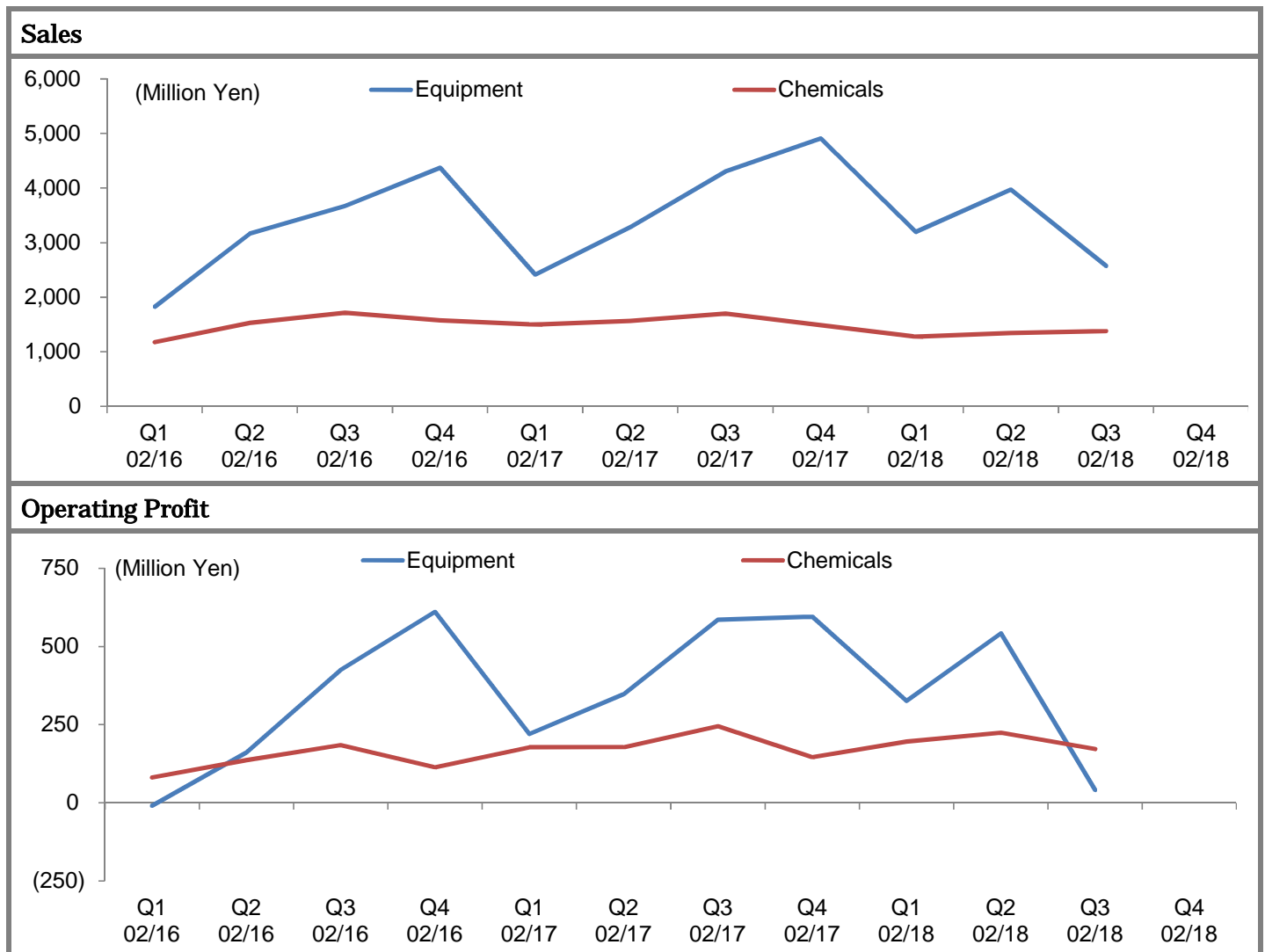
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (Ticker: 6312)	
Capital	¥1,035m (As of the end of November 2017)	
No. of Shares	18,400,000 shares, including 1,155,478 treasury shares (As of the end of Nov. 2017)	
Main Features	<ul style="list-style-type: none"> ● Leading the domestic market of Japan for granulation/coating equipment with market share of 60% to 70% ● One of the three largest players on a global basis ● Developing new business domains by entering tablet-printing equipment (TABREX Rev.) and equipment for manufacturing rechargeable battery components 	
Businesses	<ul style="list-style-type: none"> . Equipment . Chemicals 	
Top Management	President & CEO: Iwao Fusejima	
Shareholders	Yasutoyo Fusejima 10.0%, FIL Corp. 9.0%, Japan Trustee Services Bank, Ltd.(trust account) 6.9% (As of the end of August 2017)	
Headquarters	FREUND Bldg., 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 408, Parent: 240 (As of the end of November 2017)	

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q3 FY02/2018 Results

In Q1 to Q3 FY02/2018, sales came in at ¥13,745m (down 6.9% YoY), operating profit ¥1,152m (down 20.0%), recurring profit ¥1,174m (down 21.0%) and profit attributable to owners of parent ¥849m (up 4.1%), while operating profit margin 8.4% (down 1.4% points). Profit attributable to owners of parent increased, but this is basically due to non-reappearance of retirement bonus of ¥250m for director to have been booked as extraordinary loss during the same period in the previous year. Meanwhile, the results suggest rather weak progress rate against full-year Company forecasts, i.e., 65.5% in sales and 54.9% in operating profit.

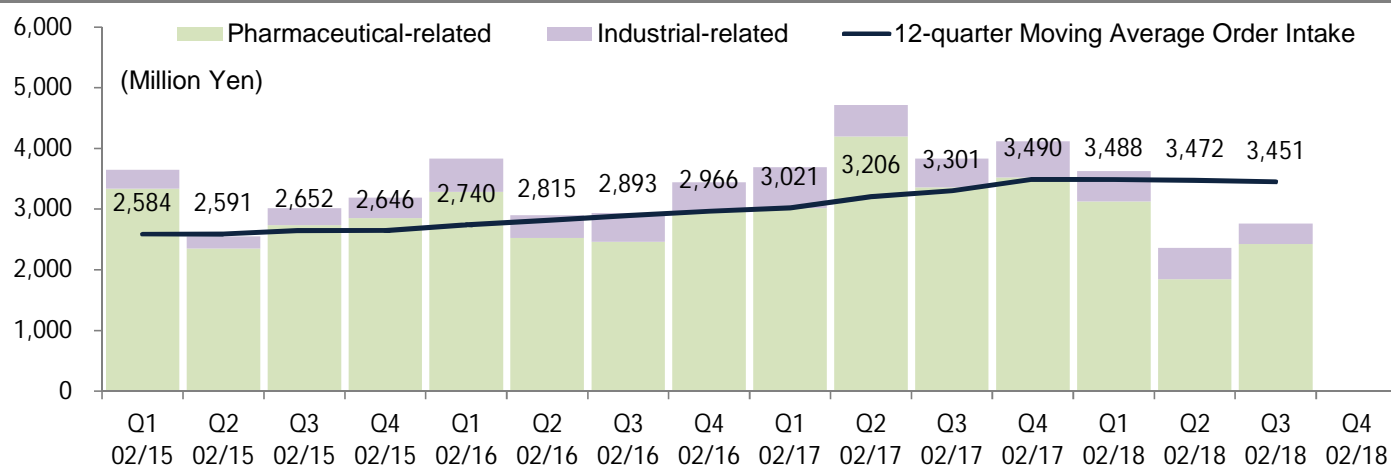


Source: Company Data, WRJ Calculation

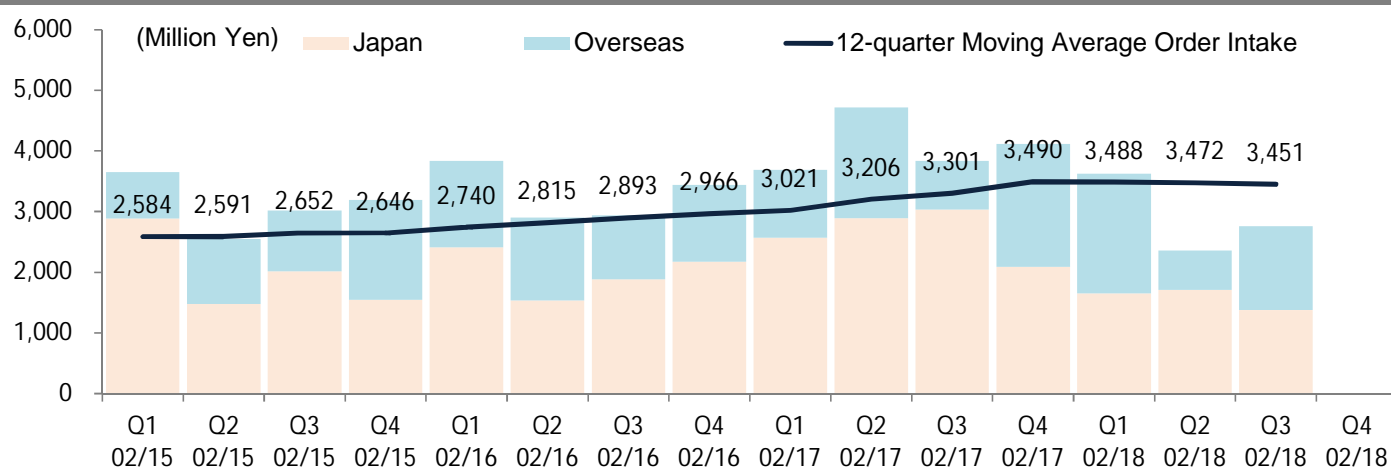
The Company runs own operations on the Equipment side and on the Chemicals side, while sales on the Equipment side accounted for 70.9% of sales as a whole for the Company and 60.5% of operating profit (before elimination) in Q1 to Q3, suggesting that sales and earnings as a whole for the Company basically hinge on operations on the Equipment side. At the same time, sales and earnings on the Equipment side are volatile on a quarterly basis and thus the same as a whole for the Company. In Q3, sales and earnings on the Equipment side adjusted to a large extent, having resulted in rather weak progress rate against full-year Company forecasts as above discussed, as far as we could see.

In the first place, both order intake and sales on the Equipment side are supposed to be volatile on a quarterly basis. The Company deals with high unit price equipment of limited numbers, while booking order intake by project in line with customers' capital expenditure plan, often comprising plural number of equipment. After this "order intake stage", etc. to be followed by booking as order backlog, the Company goes through "manufacturing stage" and "acceptance inspection stage", then booking sales per project. In Q3, the Company saw an in-between period in terms of sales booking, suggesting a recovery of sales in Q4 to follow.

Equipment: 12-quarter Moving Average Order Intake and Order Intake by Application



Equipment: 12-quarter Moving Average Order Intake and Order Intake by Region



Source: Company Data, WRJ Calculation

Given above-mentioned volatility stemming from all those factors, we compute 12-quarter moving average order intake on the Equipment side to suggest midterm sales trends. When compared with that of Q4 FY02/2017, the levels have remained roughly unchanged in Q1, Q2 and Q3 in FY02/2018, still having come in at ¥3,451m in Q3, up 5% over ¥3,301m during the same period in the previous year. Meanwhile, order intake in Q1 to Q3 came in at ¥8,747m (down 28.6%), while order backlog having stood at ¥2,762m (down 28.0%) as of the end of Q3.

Order intake of ¥8,747m (down 28.6%) in Q1 to Q3 comprised by application and by region as follows: Pharmaceutical-related saw ¥7,395m (down 30.1%) and industrial-related ¥1,352m (down 19.0%), while Japan ¥4,738m (down 44.2%) and overseas ¥4,009m (up 6.9%).

In regards to pharmaceutical-related, being estimated to have exposure by almost 60%, the Company has started to see order intake on tablet-printing equipment (TABREX Rev.) to have been newly developed and launched since Q4 FY02/2017. Nevertheless, existing granulation/coating equipment has been still accounting for the bulk of order intake here to date, as far as we could gather.

Tablet-printing equipment (TABREX Rev.) offers functionality to do “printing” of identification information on the surface of tablets with objectives to avoid accidental ingestions and/or erroneous prescriptions, while being superior to existing “engraving” by laser, etc. in terms of identifiability. Given this, the Company believes that pharmaceutical industry of new drug and generic drug is to keep on investing in equipment here to “print” said information, going forward. So far, order intake incoming with the Company has remained not very inspiring, but chances are to be increasing in the foreseeable future. Needs for high identifiability are rising and to rise further, going forward, driven by increasing accidental ingestions in line with progressing population ageing and home health care. In line with this, the Company is likely to see increasing order intake on tablet-printing equipment (TABREX Rev.).

In the process of booking sales on the Equipment side, there exists “pre-test stage” prior to above-mentioned “order intake stage”. Meanwhile, in the current situations of tablet-printing equipment (TABREX, Rev.), it takes time longer than initially assumed at “acceptance inspection stage” in regards to delivery projects this fiscal year, delaying timing of “pre-test stage” and “order intake stage”, according to the Company. Thus, the Company sees a tendency to take time more than initially assumed (4 months to 6 months) to book sales after order intake.

Initially, the Company estimated that tablet-printing equipment (TABREX Rev.) was rather like standard one when compared with existing granulation/coating equipment, but it has been turned out to be the case that customers demand capability to cope with tablets by far more diversified than assumed at “acceptance inspection stage”. Thus, the Company has to spare own resources more than assumed and it takes time more at the same time.

Order intake on existing granulation/coating equipment is adjusting a lot, given slowing capital expenditures by generic drug industry in Japan, i.e., the largest customer base. In Q1 to Q2 results meeting to have been held on 13 October 2017, the Company suggested that collective capital expenditures by the three largest players were to come down by more than 10% in FY03/2018 over FY03/2017.

This is because of emerging impacts stemming from NHI price revision having been applied also to generic drug since April 2016 and of uncertainty associated with advent of AG (Authorized Generic, i.e., effectively new drugs sold by new drug manufacturers at prices as low as generic drug). Meanwhile, said impacts stemming from NHI price revision refer to slowing capital expenditures due to concerns on profit margin getting squeezed by this. Still, in Japan, the government is going for market share of 80% on a volume basis for generic drug in CY2020 versus less than 70% at the moment, according to the Company. Given and upside potential here, capital expenditures by generic drug industry in Japan are unlikely to collapse.

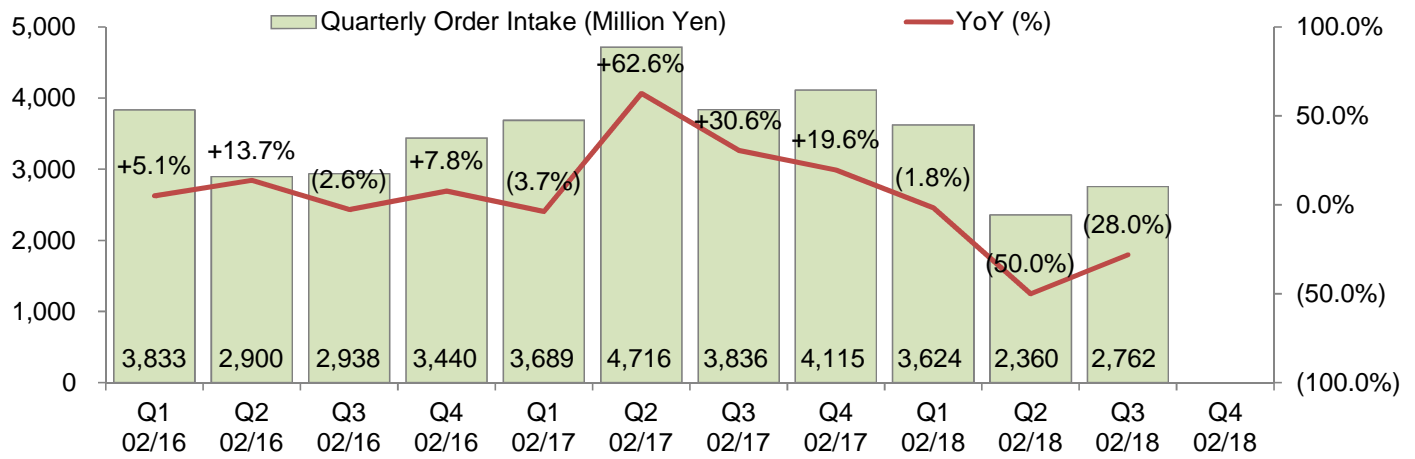
Order intake on industrial-related is also adjusting. Still, in a long-term view, the Company is likely to see full-fledged take off for equipment to manufacture rechargeable battery components, driving earnings as a whole for the Company. In regards to existing industrial-related equipment, the Company used to be mainly involved with equipment to manufacture toners, fine ceramics, etc., but most recently order intake has been placed on equipment to manufacture rechargeable battery components too. Although it appears that this had limited impacts in terms of order intake in Q1 to Q3, the Company mentions that here does it well take advantage of own competitive technology on pulverization and classification being combined with proprietary formulation technology adopted in existing mainstay pharmaceutical-related granulation/coating equipment, resulting in some features superior to major comprehensive peers. This is the reason why the Company is calling for increasing demand going forward.

FREUND-TURBO CORPORATION, i.e., the Company's consolidated subsidiary in charge of developing, manufacturing and selling of equipment to manufacture rechargeable battery components, sees order intake on equipment to manufacture positive electrode materials and negative electrode materials from plural manufacturers of rechargeable battery based in China, Korea and Taiwan. As they demand all those equipment for R&D purposes only at the moment, volume and order intake inevitably remain insignificant, as far as we could see. More importantly, however, it should be noted that said equipment offers distinguished technology to pulverize highly-active electric materials into nanoparticles at specified distribution. That is to say, the Company's technology is to enhance density of rechargeable battery than now and thus reduce weight eventually.

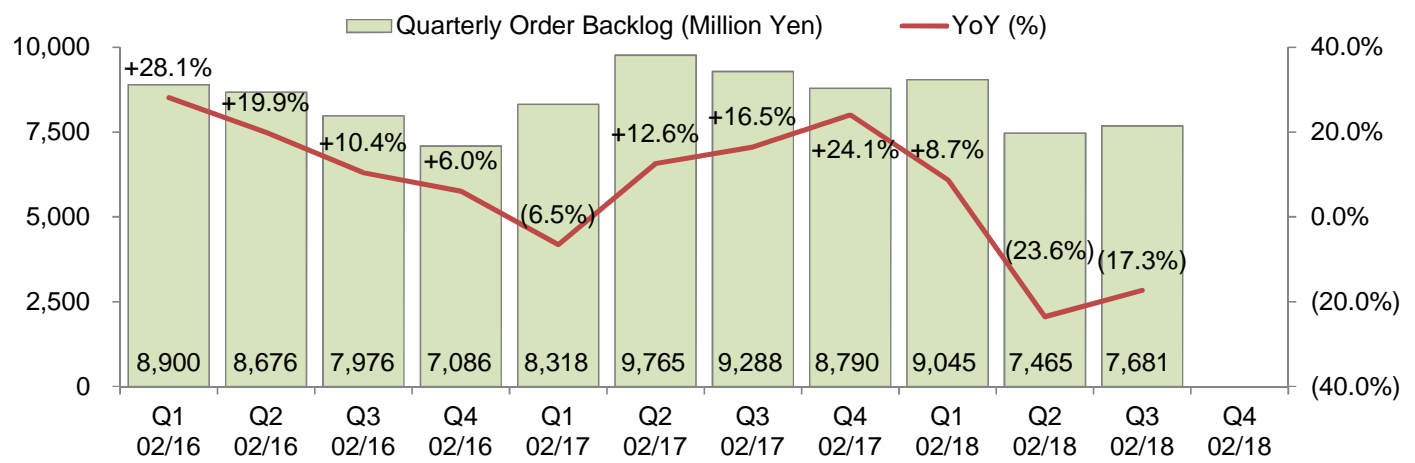
Cutting back weight of rechargeable battery is one of the key issues to propel changeover to motor from internal combustion engine for automotive drive system. In other words, automotive industry is trying to beef up mileage by means of cutting back weight of EV (Electric Vehicle) in its development, with which the Company's technology may eventually provide one of the key solutions.

Meanwhile, in Japan, order intake adjusted a lot, while order intake increased overseas. As mentioned earlier, the Company suffered from slowing capital expenditures by generic drug industry in Japan. In regards to order intake overseas, the Company suffered from adjustment in FREUND-VECTOR CORPORATION, i.e., U.S. consolidated subsidiary, but this was more than compensated for by increasing order intake in Europe & Africa and Middle East, Asia & Oceania, where the Company is directly in charge of sales.

Equipment: Quarterly Order Intake



Equipment: Quarterly Order Backlog



Source: Company Data, WRJ Calculation

Income Statement (Cumulative, Quarterly)

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		
	02/2017	02/2017	02/2017	02/2017	02/2018	02/2018	02/2018	02/2018		
Sales	3,912	8,762	14,767	21,164	4,472	9,789	13,745	-	-	(1,021)
Cost of Sales	2,559	5,900	10,069	14,343	2,915	6,317	8,993	-	-	(1,076)
Gross Profit	1,352	2,862	4,697	6,821	1,556	3,471	4,752	-	-	+55
SG&A	1,057	2,175	3,256	4,779	1,169	2,397	3,599	-	-	+343
Operating Profit	295	687	1,441	2,041	387	1,074	1,152	-	-	(288)
Non Operating Balance	18	21	45	56	10	17	21	-	-	(24)
Recurring Profit	314	708	1,486	2,097	397	1,091	1,174	-	-	(312)
Extraordinary Balance	(227)	(230)	(230)	(313)	-	(1)	59	-	-	+289
Profit before Income Taxes	86	478	1,256	1,783	397	1,089	1,234	-	-	(22)
Total Income Taxes	37	172	441	719	123	355	384	-	-	(56)
NP Belonging to Non-Controlling SHs	-	-	-	-	-	-	-	-	-	-
Profit Attributable to Owners of Parent	48	306	815	1,064	274	734	849	-	-	+33
Sales YoY	+30.3%	+13.8%	+12.9%	+11.2%	+14.3%	+11.7%	(6.9%)	-	-	-
Operating Profit YoY	-	+245.6%	+98.2%	+51.6%	+31.3%	+56.4%	(20.0%)	-	-	-
Recurring Profit YoY	-	+181.1%	+89.6%	+50.4%	+26.7%	+54.0%	(21.0%)	-	-	-
Profit Attributable to Owners of Parent YoY	-	+147.8%	+93.1%	+10.7%	+464.9%	+139.7%	+4.1%	-	-	-
Gross Profit Margin	34.6%	32.7%	31.8%	32.2%	34.8%	35.5%	34.6%	-	-	+2.8%
SG&A / Sales	27.0%	24.8%	22.1%	22.6%	26.1%	24.5%	26.2%	-	-	+4.1%
Operating Profit Margin	7.5%	7.8%	9.8%	9.6%	8.7%	11.0%	8.4%	-	-	(1.4%)
Recurring Profit Margin	8.0%	8.1%	10.1%	9.9%	8.9%	11.2%	8.5%	-	-	(1.5%)
Profit Attributable to Owners of Parent Margin	1.2%	3.5%	5.5%	5.0%	6.1%	7.5%	6.2%	-	-	+0.7%
Total Income Taxes / Profit before Income Taxes	43.8%	36.0%	35.1%	40.3%	31.0%	32.6%	31.2%	-	-	(3.9%)

Income Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	02/2017	02/2017	02/2017	02/2017	02/2018	02/2018	02/2018	02/2018		
Sales	3,912	4,850	6,004	6,397	4,472	5,316	3,956	-	-	(2,047)
Cost of Sales	2,559	3,341	4,169	4,273	2,915	3,401	2,675	-	-	(1,493)
Gross Profit	1,352	1,509	1,835	2,123	1,556	1,915	1,280	-	-	(554)
SG&A	1,057	1,117	1,081	1,523	1,169	1,227	1,202	-	-	+121
Operating Profit	295	392	753	600	387	687	78	-	-	(675)
Non Operating Balance	18	2	24	10	10	6	4	-	-	(19)
Recurring Profit	314	394	778	610	397	693	82	-	-	(695)
Extraordinary Balance	(227)	(2)	0	(83)	-	(1)	61	-	-	+61
Profit before Income Taxes	86	392	777	527	397	691	144	-	-	(633)
Total Income Taxes	37	134	268	278	123	231	29	-	-	(238)
NP Belonging to Non-Controlling SHs	-	-	-	-	-	-	-	-	-	-
Profit Attributable to Owners of Parent	48	257	509	248	274	460	114	-	-	(394)
Sales YoY	+30.3%	+3.3%	+11.5%	+7.6%	+14.3%	+9.6%	(34.1%)	-	-	-
Operating Profit YoY	-	+75.6%	+42.7%	(3.1%)	+31.3%	+75.2%	(89.6%)	-	-	-
Recurring Profit YoY	-	+56.3%	+46.2%	+0.1%	+26.7%	+75.7%	(89.4%)	-	-	-
Profit Attributable to Owners of Parent YoY	-	+68.8%	+70.5%	(53.9%)	+464.9%	+78.5%	(77.4%)	-	-	-
Gross Profit Margin	34.6%	31.1%	30.6%	33.2%	34.8%	36.0%	32.4%	-	-	+1.8%
SG&A / Sales	27.0%	23.0%	18.0%	23.8%	26.1%	23.1%	30.4%	-	-	+12.4%
Operating Profit Margin	7.5%	8.1%	12.6%	9.4%	8.7%	12.9%	2.0%	-	-	(10.6%)
Recurring Profit Margin	8.0%	8.1%	13.0%	9.5%	8.9%	13.1%	2.1%	-	-	(10.9%)
Profit Attributable to Owners of Parent Margin	1.2%	5.3%	8.5%	3.9%	6.1%	8.7%	2.9%	-	-	(5.6%)
Total Income Taxes / Profit before Income Taxes	43.8%	34.3%	34.5%	52.8%	31.0%	33.5%	20.6%	-	-	(14.0%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2017	Q1 to Q2 02/2017	Q1 to Q3 02/2017	Q1 to Q4 02/2017	Q1 02/2018	Q1 to Q2 02/2018	Q1 to Q3 02/2018	Q1 to Q4 02/2018		
Equipment	2,413	5,697	10,003	14,914	3,198	7,171	9,747	-	(256)	
Chemicals	1,498	3,065	4,763	6,249	1,274	2,617	3,998	-	(764)	
Sales	3,912	8,762	14,767	21,164	4,472	9,789	13,745	-	(1,021)	
Machinery	+32.2%	+14.1%	+15.5%	+14.4%	+32.5%	+25.9%	(2.6%)	-	-	
Chemicals	+27.4%	+13.3%	+7.8%	+4.3%	(15.0%)	(14.6%)	(16.1%)	-	-	
Sales (YoY)	+30.3%	+13.8%	+12.9%	+11.2%	+14.3%	+11.7%	(6.9%)	-	-	
Equipment	61.7%	65.0%	67.7%	70.5%	71.5%	73.3%	70.9%	-	-	
Chemicals	38.3%	35.0%	32.3%	29.5%	28.5%	26.7%	29.1%	-	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	220	567	1,154	1,750	326	868	910	-	(243)	
Chemicals	178	357	602	748	196	420	593	-	(8)	
Segment Profit	398	924	1,756	2,498	522	1,289	1,504	-	(251)	
Elimination	(103)	(237)	(315)	(456)	(135)	(215)	(351)	-	(36)	
Operating Profit	295	687	1,441	2,041	387	1,074	1,152	-	(288)	
Equipment	-	+272.6%	+99.6%	+47.1%	+48.1%	+53.1%	(21.1%)	-	-	
Chemicals	+117.5%	+62.6%	+48.7%	+44.0%	+10.1%	+17.9%	(1.4%)	-	-	
Segment Profit (YoY)	+449.5%	+148.6%	+78.6%	+46.2%	+31.1%	+39.5%	(14.3%)	-	-	
Equipment	55.3%	61.4%	65.7%	70.0%	62.5%	67.4%	60.5%	-	-	
Chemicals	44.7%	38.6%	34.3%	30.0%	37.5%	32.6%	39.5%	-	-	
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	9.1%	10.0%	11.5%	11.7%	10.2%	12.1%	9.3%	-	(2.2%)	
Chemicals	11.9%	11.6%	12.6%	12.0%	15.4%	16.1%	14.9%	-	+2.2%	
Elimination	(2.6%)	(2.7%)	(2.1%)	(2.2%)	(3.0%)	(2.2%)	(2.6%)	-	(0.4%)	
Operating Profit Margin	7.5%	7.8%	9.8%	9.6%	8.7%	11.0%	8.4%	-	(1.4%)	

Segmented Information (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2017	Q2 02/2017	Q3 02/2017	Q4 02/2017	Q1 02/2018	Q2 02/2018	Q3 02/2018	Q4 02/2018		
Equipment	2,413	3,284	4,305	4,911	3,198	3,973	2,575	-	(1,730)	
Chemicals	1,498	1,566	1,698	1,486	1,274	1,343	1,381	-	(317)	
Sales	3,912	4,850	6,004	6,397	4,472	5,316	3,956	-	(2,047)	
Machinery	+32.2%	+3.7%	+17.3%	+12.3%	+32.5%	+21.0%	(40.2%)	-	-	
Chemicals	+27.4%	+2.5%	(0.9%)	(5.5%)	(15.0%)	(14.2%)	(18.7%)	-	-	
Sales (YoY)	+30.3%	+3.3%	+11.5%	+7.6%	+14.3%	+9.6%	(34.1%)	-	-	
Equipment	61.7%	67.7%	71.7%	76.8%	71.5%	74.7%	65.1%	-	-	
Chemicals	38.3%	32.3%	28.3%	23.2%	28.5%	25.3%	34.9%	-	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	220	347	586	595	326	542	41	-	(544)	
Chemicals	178	178	245	146	196	224	172	-	(72)	
Segment Profit	398	526	831	742	522	767	214	-	(616)	
Elimination	(103)	(133)	(78)	(141)	(135)	(80)	(136)	-	(58)	
Operating Profit	295	392	753	600	387	687	78	-	(675)	
Equipment	-	+114.7%	+37.7%	(2.5%)	+48.1%	+56.2%	(92.9%)	-	-	
Chemicals	+117.5%	+29.9%	+32.3%	+27.3%	+10.1%	+25.7%	(29.4%)	-	-	
Segment Profit (YoY)	+449.5%	+75.7%	+36.1%	+2.2%	+31.1%	+45.8%	(74.2%)	-	-	
Equipment	55.3%	66.0%	70.5%	80.3%	62.5%	70.7%	19.5%	-	-	
Chemicals	44.7%	34.0%	29.5%	19.7%	37.5%	29.3%	80.5%	-	-	
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	9.1%	10.6%	13.6%	12.1%	10.2%	13.7%	1.6%	-	(12.0%)	
Chemicals	11.9%	11.4%	14.4%	9.8%	15.4%	16.7%	12.5%	-	(1.9%)	
Elimination	(2.6%)	(2.8%)	(1.3%)	(2.2%)	(3.0%)	(1.5%)	(3.5%)	-	(2.2%)	
Operating Profit Margin	7.5%	8.1%	12.6%	9.4%	8.7%	12.9%	2.0%	-	(10.6%)	

Source: Company Data, WRJ Calculation

Sales by Region: Equipment (Cumulative, Quarterly)

Sales by Region: Equipment		Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
		Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)		02/2017	02/2017	02/2017	02/2017	02/2018	02/2018	02/2018	02/2018	Net Chg.
Japan		1,819	4,195	7,040	9,459	2,566	4,559	5,883	-	(1,157)
North America & Latin America		437	1,104	1,906	3,884	331	1,119	1,795	-	(111)
Europe & Africa		92	263	424	867	210	1,018	1,287	-	+863
Middle East, Asia & Oceania		63	134	632	702	88	473	781	-	+149
Overseas		594	1,502	2,963	5,454	631	2,612	3,864	-	+900
Sales		2,413	5,697	10,003	14,914	3,198	7,171	9,747	-	(256)
Japan		+49.9%	+23.7%	+32.7%	+23.4%	+41.1%	+8.7%	(16.4%)	-	-
North America & Latin America		+45.8%	+36.8%	(4.4%)	+11.2%	(24.2%)	+1.4%	(5.9%)	-	-
Europe & Africa		(60.5%)	(19.8%)	(41.9%)	(11.6%)	+127.0%	+286.3%	+203.4%	-	-
Middle East, Asia & Oceania		(17.6%)	(71.2%)	(0.5%)	(21.5%)	+39.7%	+251.8%	+23.6%	-	-
Overseas		(3.0%)	(6.1%)	(11.8%)	+1.6%	+6.3%	+73.8%	+30.4%	-	-
Sales (YoY)		+32.2%	+14.1%	+15.5%	+14.4%	+32.5%	+25.9%	(2.6%)	-	-
Japan		75.4%	73.6%	70.4%	63.4%	80.3%	63.6%	60.4%	-	-
North America & Latin America		18.1%	19.4%	19.1%	26.0%	10.4%	15.6%	18.4%	-	-
Europe & Africa		3.9%	4.6%	4.2%	5.8%	6.6%	14.2%	13.2%	-	-
Middle East, Asia & Oceania		2.6%	2.4%	6.3%	4.7%	2.8%	6.6%	8.0%	-	-
Overseas		24.6%	26.4%	29.6%	36.6%	19.7%	36.4%	39.6%	-	-
Sales (Composition)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-
Sales by Region: Equipment		Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)		02/2017	02/2017	02/2017	02/2017	02/2018	02/2018	02/2018	02/2018	Net Chg.
Japan		1,819	2,375	2,845	2,419	2,566	1,992	1,323	-	(1,521)
North America & Latin America		437	666	802	1,977	331	788	675	-	(127)
Europe & Africa		92	170	160	443	210	807	269	-	+108
Middle East, Asia & Oceania		63	71	497	70	88	385	307	-	(189)
Overseas		594	908	1,460	2,491	631	1,980	1,252	-	(208)
Sales		2,413	3,284	4,305	4,911	3,198	3,973	2,575	-	(1,730)
Japan		+49.9%	+9.1%	+48.8%	+2.3%	+41.1%	(16.1%)	(53.5%)	-	-
North America & Latin America		+45.8%	+31.5%	(32.4%)	+32.0%	(24.2%)	+18.2%	(15.8%)	-	-
Europe & Africa		(60.5%)	+82.6%	(60.0%)	+76.2%	+127.0%	+373.0%	+67.5%	-	-
Middle East, Asia & Oceania		(17.6%)	(81.7%)	+191.9%	(72.8%)	+39.7%	+441.6%	(38.2%)	-	-
Overseas		(3.0%)	(8.1%)	(17.0%)	+24.0%	+6.3%	+118.0%	(14.3%)	-	-
Sales (YoY)		+32.2%	+3.7%	+17.3%	+12.3%	+32.5%	+21.0%	(40.2%)	-	-
Japan		75.4%	72.3%	66.1%	49.3%	80.3%	50.2%	51.4%	-	-
North America & Latin America		18.1%	20.3%	18.6%	40.3%	10.4%	19.8%	26.2%	-	-
Europe & Africa		3.9%	5.2%	3.7%	9.0%	6.6%	20.3%	10.5%	-	-
Middle East, Asia & Oceania		2.6%	2.2%	11.6%	1.4%	2.8%	9.7%	11.9%	-	-
Overseas		24.6%	27.7%	33.9%	50.7%	19.7%	49.8%	48.6%	-	-
Sales (Composition)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2017	Q2 02/2017	Q3 02/2017	Q4 02/2017	Q1 02/2018	Q2 02/2018	Q3 02/2018	Q4 02/2018		
Cash & Deposit	4,263	4,900	5,407	6,982	6,152	6,000	6,392	-	+985	
Accounts Receivables	4,832	4,994	5,373	4,403	4,352	5,028	4,341	-	(1,032)	
Inventory	2,968	3,578	2,717	2,765	3,094	3,344	4,061	-	+1,344	
Other	980	848	854	786	720	639	718	-	(135)	
Current Assets	13,045	14,321	14,353	14,938	14,320	15,012	15,514	-	+1,161	
Tangible Assets	3,109	3,210	3,232	3,234	3,205	3,219	3,355	-	+123	
Intangible Assets	93	80	68	55	43	32	20	-	(47)	
Investments & Other Assets	807	756	757	872	869	857	864	-	+106	
Fixed Assets	4,010	4,047	4,058	4,162	4,118	4,109	4,240	-	+182	
Total Assets	17,056	18,369	18,411	19,101	18,439	19,122	19,755	-	+1,343	
Accounts Payables	2,617	3,341	2,952	3,058	2,893	3,289	3,273	-	+320	
Short Term Debt	-	-	-	-	-	-	-	-	-	
Other	2,952	3,441	3,408	3,533	3,139	2,966	3,458	-	+49	
Current Liabilities	5,570	6,782	6,361	6,592	6,033	6,256	6,731	-	+370	
Long Term Debt	-	-	-	-	-	-	-	-	-	
Other	326	339	328	323	325	333	336	-	+7	
Fixed Liabilities	326	339	328	323	325	333	336	-	+7	
Total Liabilities	5,896	7,122	6,689	6,916	6,358	6,589	7,067	-	+377	
Shareholders' Equity	11,394	11,652	12,161	12,410	12,339	12,800	12,915	-	+753	
Adjustments	(235)	(405)	(439)	(225)	(258)	(267)	(226)	-	+212	
Total Assets	11,159	11,246	11,722	12,185	12,081	12,532	12,688	-	+965	
Total Liabilities & Net Assets	17,056	18,369	18,411	19,101	18,439	19,122	19,755	-	+1,343	
Equity Capital	11,159	11,246	11,722	12,185	12,081	12,532	12,688	-	+966	
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	
Net Debt	(4,263)	(4,900)	(5,407)	(6,982)	(6,152)	(6,000)	(6,392)	-	(985)	
Equity Capital Ratio	65.4%	61.2%	63.7%	63.8%	65.5%	65.5%	64.2%	-	-	
Net-Debt-Equity Ratio	(38.2%)	(43.6%)	(46.1%)	(57.3%)	(50.9%)	(47.9%)	(50.4%)	-	-	
ROE (12 months)	9.5%	10.4%	11.9%	9.0%	11.1%	12.6%	9.0%	-	-	
ROA (12 months)	10.1%	10.4%	11.7%	11.6%	12.3%	13.2%	9.4%	-	-	
Total Assets Turnover	92%	106%	130%	134%	97%	111%	80%	-	-	
Inventory Turnover	3.4	3.7	6.1	6.2	3.8	4.1	2.6	-	-	
Days of Inventory	106	98	59	59	97	90	139	-	-	
Quick Ratio	163%	146%	169%	173%	174%	176%	159%	-	-	
Current Ratio	234%	211%	226%	227%	237%	240%	230%	-	-	

Source: Company Data, WRJ Calculation

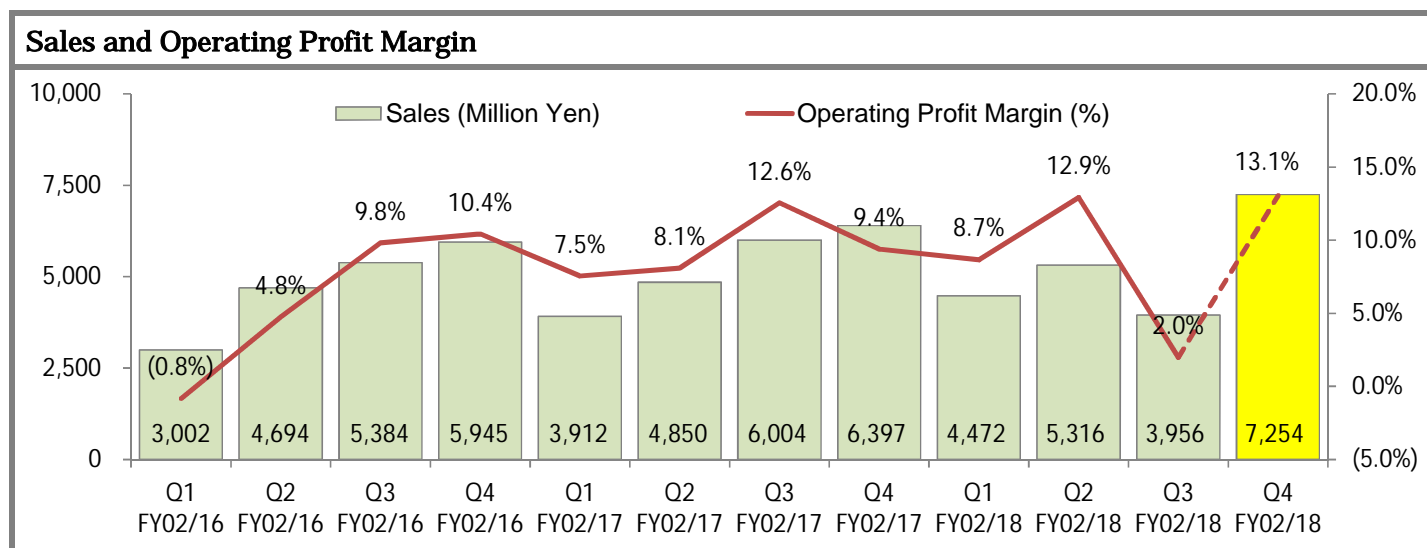
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2017	Q1 to Q2 02/2017	Q1 to Q3 02/2017	Q1 to Q4 02/2017	Q1 02/2018	Q1 to Q2 02/2018	Q1 to Q3 02/2018	Q1 to Q4 02/2018		
Operating Cash Flow	-	1,480	-	3,605	-	(375)	-	-	-	
Investment Cash Flow	-	(268)	-	(351)	-	(224)	-	-	-	
Operating CF & Investment CF	-	1,211	-	3,253	-	(600)	-	-	-	
Financing Cash Flow	-	(247)	-	(277)	-	(368)	-	-	-	

Source: Company Data, WRJ Calculation

FY02/2018 Company Forecasts

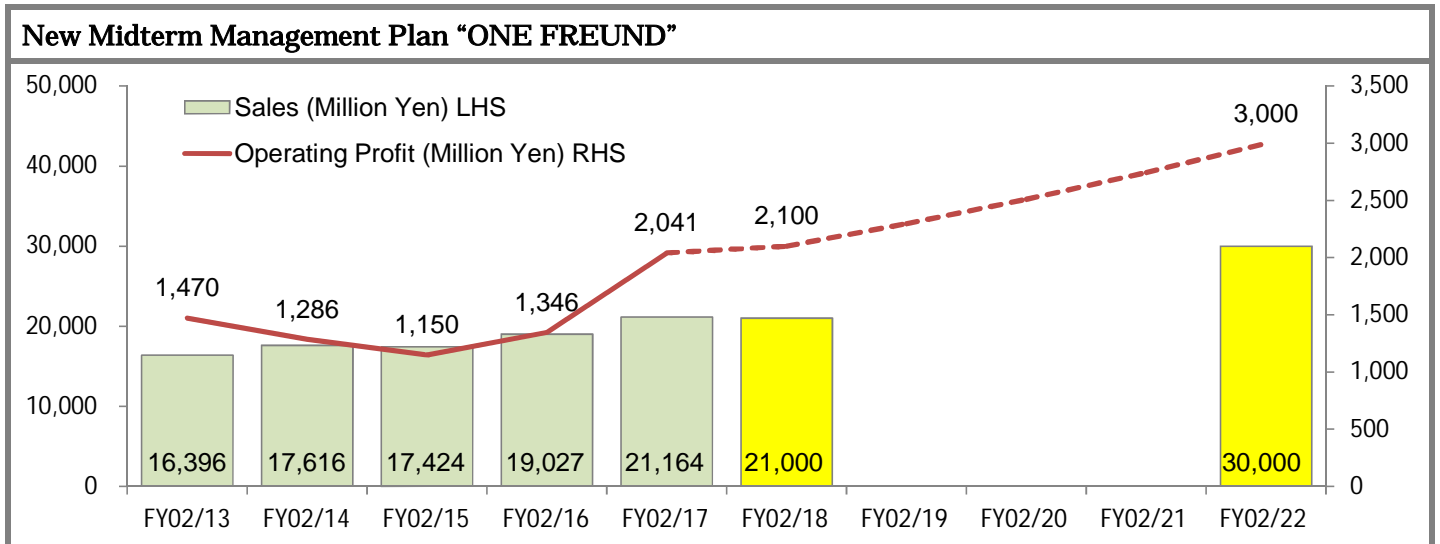
FY02/2018 initial Company forecasts have remained unchanged, going for prospective sales of ¥21,000m (down 0.8% YoY), operating profit of ¥2,100m (up 2.9%), recurring profit of ¥2,100m (up 0.1%) and profit attributable to owners of parent of ¥1,400m (up 31.5%), while operating profit margin of 10.0% (up 0.4% points). Meanwhile, prospective annual dividend of ¥20.0 per share, implying payout ratio of 24.6%, has also remained unchanged.



Source: Company Data, WRJ Calculation

Long-Term Prospects

The Company released its new midterm management plan “ONE FREUND” on 11 April 2017, which was followed by disclosure of further details in the results meeting to have been held on 14 April 2017. As the target of business performance for FY02/2022, the plan is calling for prospective sales of ¥30,000m, operating profit of ¥3,000m, operating profit margin of 10.0% and ROE of more than 8.0% (versus 9.0% in FY02/2017 results).



Source: Company Data, WRJ Calculation

When based on FY02/2017 results, the plan assumes CAGR of 7.2% for sales and 8.0% for earnings over the 5-year period toward FY02/2022. Given that they were 6.8% and 13.9%, respectively, over the past 5 years, it is suggested that the Company is planning to see CAGR almost in line with the results over the past 5 years in both sales and earnings. Still, as in the past 5 years, it appears that the plan does not assume stable and linear growth in upcoming years.

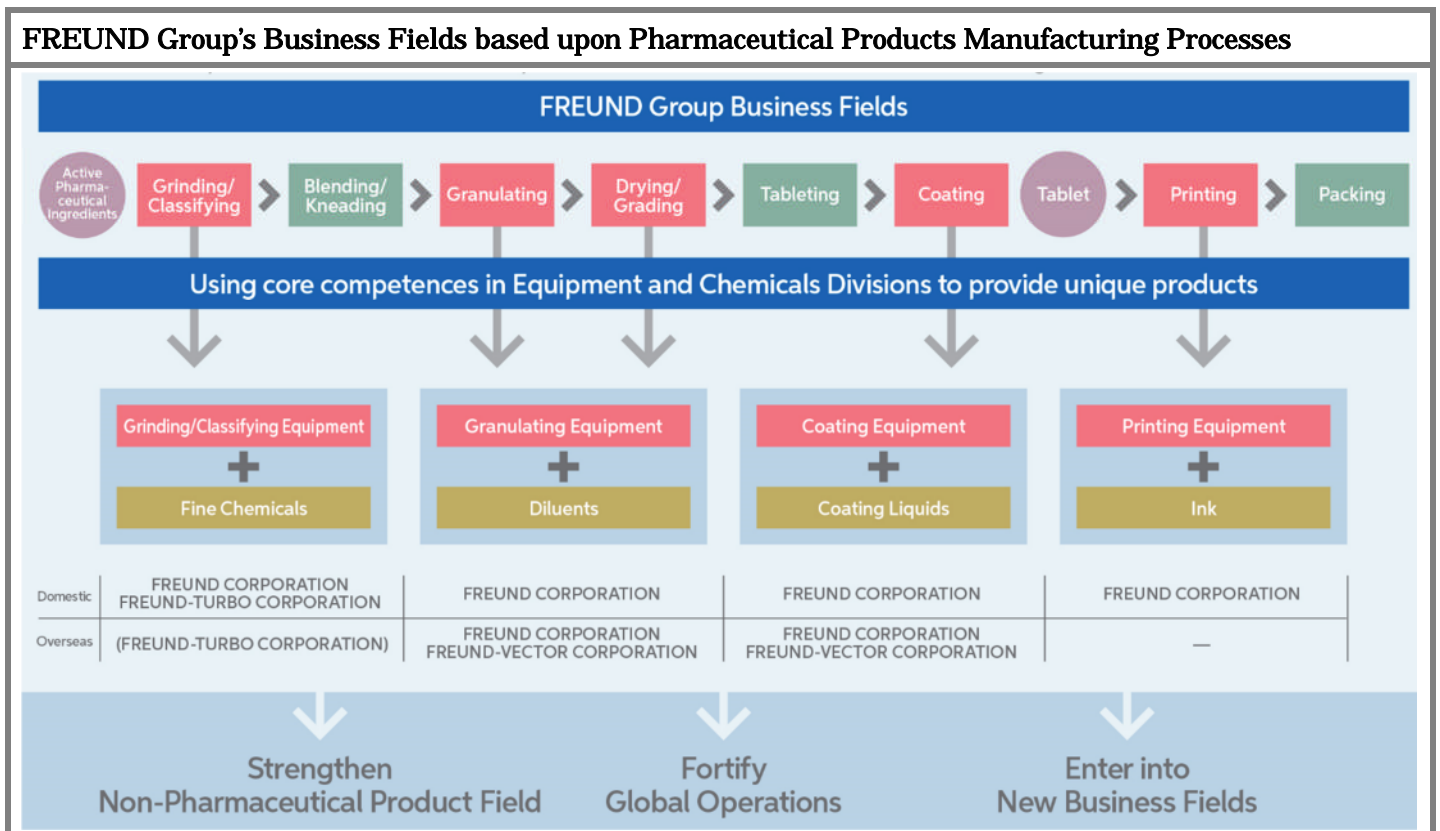
The Company saw CAGR of 6.8% for sales and 13.9% for earnings over the past 5 years, basically attributable to increases of sales by 11.2% and by 51.6% in earnings in FY02/2017 over FY02/2016. This was driven by advent of vigorous appetite for capital expenditures of generic drug industry in Japan. Meanwhile, in upcoming 5 years, development of new business domains is expected to replace this and drive earnings. Specifically, the contents here are increasing benefits from tablet-printing equipment (TABREX Rev.) and equipment to manufacture rechargeable battery components as mentioned earlier. At the moment, both have remained not significant as drivers for earnings as a whole for the Company, but are expected to drive earnings more than a certain extent by FY02/2022, i.e., the last year of new midterm management plan “ONE FREUND”.

Meanwhile, in the Q1 to Q2 FY02/2018 results meeting to have been held on 13 October 2017, the basic strategy of the midterm management plan of “coping with genuine needs of customers with own expertise, while targeting to set up management structure to consistently see earnings growth” was claimed for, as well as key issues associated with this, i.e., “creation of special value”, “thoroughly in sight of customers” and “networking”.

4.0 Business Model

Formulation, the Key Technology




The Company's mainstay business currently relates to the operations of developing, manufacturing and selling of pharmaceutical-related granulation/coating equipment to incorporate proprietary formulation technology. Here, the Company is one of the three largest players on a global basis. Glatt GmbH (based in Germany) is the largest and GEA Group (based in Denmark) the second largest together with the Company. Meanwhile, in Japan, the Company is the leader with market share of 60% to 70%, while the only competitor in Japan is Powrex Corporation (unlisted) which sells equivalents based on the technology licensing by Glatt GmbH.



Source: Company Data

Granulation/coating equipment is literally applied in granulation and coating processes in the manufacture of pharmaceuticals. Granulation refers to processing into fine particles through mixing drug compounds as an active ingredient of the medicament and additives to control various functions at a predetermined ratio. Meanwhile, coating refers to formation of functionality films on the surface of tablets so that emission limits to control drug resolution in the tablet surface are achievable and so is masking to block the bitterness, etc.

Meanwhile, on the Chemicals side, the Company is involved with the operations of developing, manufacturing and selling of pharmaceutical excipients, food preservatives and dietary supplement. Sales here are almost all those of Japan, but as far as pharmaceutical excipients are concerned, the Company is exposed to exports to India, Korea and Taiwan, collectively accounting for 6% of sales here.

Serial Granulation and Drying	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p data-bbox="236 488 411 521">Granuformer</p>	 <p data-bbox="722 533 911 566">TABREX Rev.</p>	 <p data-bbox="1169 533 1406 566">Granulol F (Fine)</p>
<p data-bbox="92 622 555 701">Granulation, mixing and drying all on a serial basis</p>	<p data-bbox="582 622 1045 846">Printing identification information on the surface of tablets with objectives to avoid accidental ingestions and/or erroneous prescriptions</p>	<p data-bbox="1077 622 1406 701">Miniaturized particles, diversifying applications</p>

Source: Company Data

Pharmaceutical excipients are additives to formulate drug substances into tablets, coating agents, orally-fast-disintegrating tablets, capsules, granules, etc. in the manufacture of pharmaceuticals, making drug substances properly exert their functions. At the moment, the Company is seeing increasing demand associated with generic drugs where the Company is competitive in particular, resulting in consistent increases of sales and earnings. On top of this, they have high added value and thus high gross profit margin, accounting for bulk of earnings on the Chemicals side, as far as we could see.

Food preservatives are adopted as those for baumkuchen and diverse other foods, while sales and earnings are on the rise. Meanwhile, the Company is heavily involved with joint development of final products with own customers in regards to dietary supplement. Most recently, sales and earnings are coming down as a result of changeover to internal manufacturing from procurement from the Company by major customer. Still, this business carries low gross profit margin in the first place and thus earnings on the Chemicals side are not negatively affected very much.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage etc.

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