

FREUND CORPORATION (6312)

Consolidated FY (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY02/2017		21,164	2,041	2,097	1,064	61.7	20.0	706.6
FY02/2018		19,801	1,971	1,994	1,477	85.7	20.0	767.9
FY02/2019CoE		18,000	1,000	1,100	800	47.5	20.0	-
FY02/2018		YoY (6.4%)	(3.4%)	(4.9%)	38.8%	-	-	-
FY02/2019CoE		YoY (9.1%)	(49.3%)	(44.8%)	(45.9%)	-	-	-
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 FY02/2018		13,745	1,152	1,174	849	-	-	-
Q1 to Q3 FY02/2019		13,243	670	770	523	-	-	-
Q1 to Q3 FY02/2018		YoY (6.9%)	(20.0%)	(21.0%)	4.1%	-	-	-
Q1 to Q3 FY02/2019		YoY (3.7%)	(41.9%)	(34.4%)	(38.4%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (8 February 2019)


Strengthen the Measures

FREUND CORPORATION, developing, manufacturing and selling equipment and chemicals, is seeing short-term business performance below expectations. On the Chemicals side, it appears that long-term sales and earnings could be even better than expectations as is seen in steady increases of those with pharmaceutical excipients most recently, but this looks not enough to fully compensate for shortfall of sales on the Equipment side. The Company suggests that capex to materialize the usage ratio of 80% for generic drugs in Japan is slowing down faster than expectations, while the measures with the 7th midterm management plan "ONE FREUND" (FY02/2018 to FY02/2022) are delayed. Order intake on new product, i.e., tablet-printing equipment (TABREX) is slowing as well as rechargeable-battery-related manufacturing equipment. In regards to cultivation of markets overseas, the Company suggests development of low-priced equipment for emerging countries is also delayed. Meanwhile, for the sake of meeting with target business performance in FY02/2022, i.e., sales of ¥30,000m and operating profit of ¥3,000m, the Company will have to beef up order intake in FY02/2021 to a large extent. In FY02/2020 or the upcoming new fiscal year, the Company will strengthen the measures across the board to achieve this, providing all those problems with solutions as far as we could see.

IR Representative: Corporate Communications Department (+81 3 6890 0767 ir@freund.co.jp)

2.0 Company Profile

Equipment and Chemicals

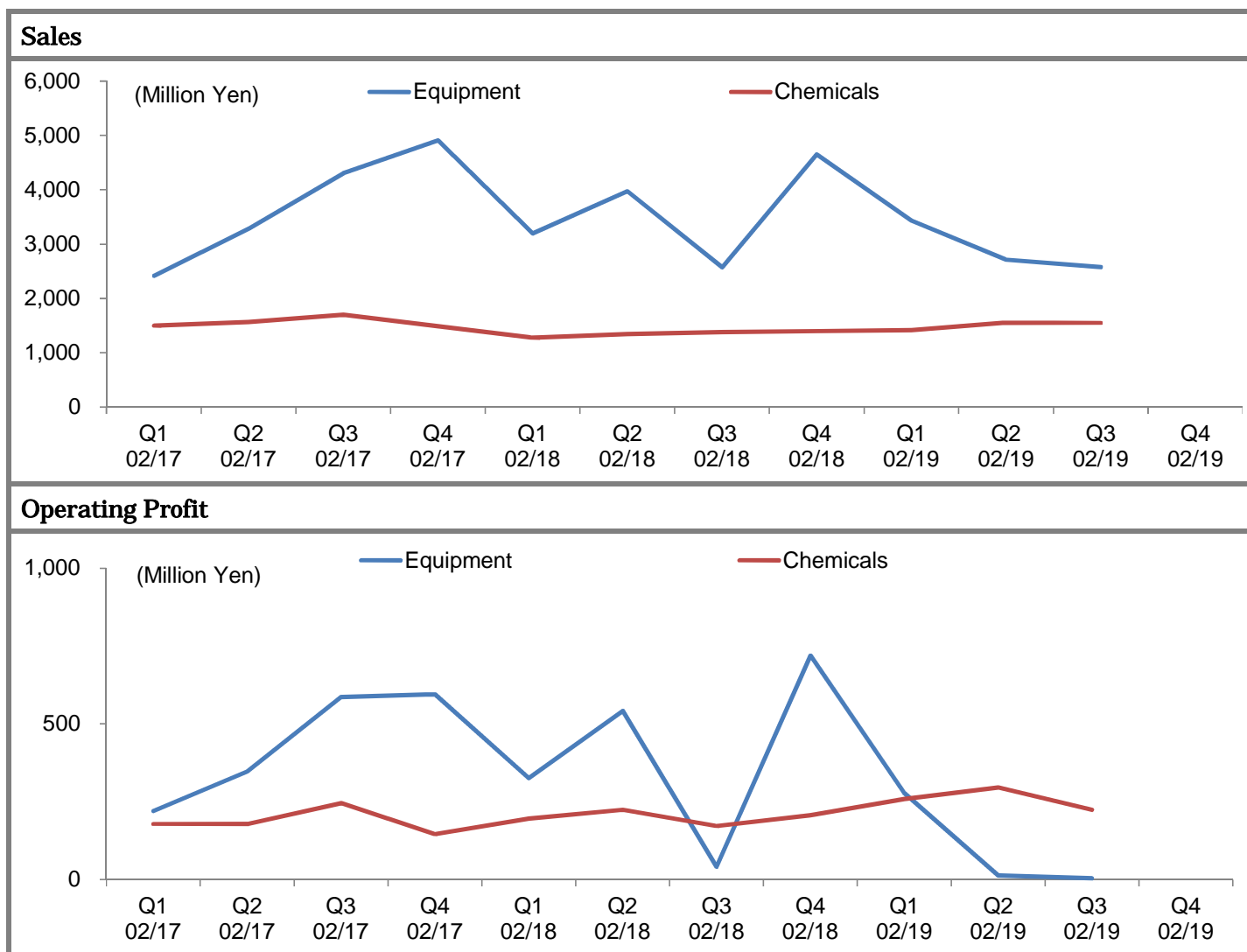
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of November 2018)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of No. 2018)	
Main Features	<ul style="list-style-type: none"> ● Leading the market of Japan for granulation/coating equipment with market share of 60% to 70% ● Focus on new domains, i.e., tablet-printing equipment (TABREX), rechargeable-battery-related manufacturing equipment, etc. ● Pharmaceutical excipients, the key driver on the Chemicals side 	
Business Segments	. Equipment . Chemicals	
Top Management	President & CEO: Iwao Fusejima	
Shareholders	Own shares holding 8.9%, KK Fusejima Yokosha 8.9%, Yasutoyo Fusejima 7.1%, MUFG Bank, Ltd. 4.5% (as of the end of August 2018)	
Headquarters	FREUND Bldg., 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 361, Parent: 203 (as of the end of November 2018)	

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q3 FY02/2019 Results

In Q1 to Q3 FY02/2019, sales came in at ¥13,243m (down 3.7% YoY), operating profit ¥670m (down 41.9%), recurring profit ¥770m (down 34.4%) and profit attributable to owners of parent ¥523m (down 38.4%), while operating profit margin 5.1% (down 3.3% points).

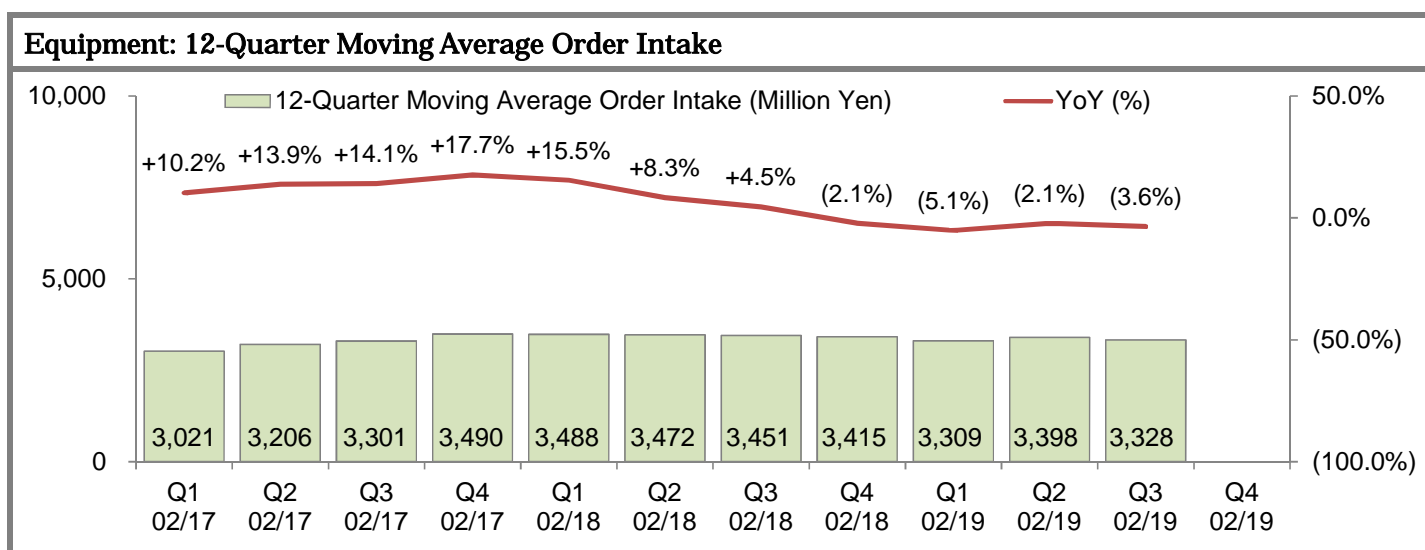


Source: Company Data, WRJ Calculation

Gross profit came in at ¥4,368m (down 8.1%) and SG&A expenses ¥3,968m (up 2.7%). Gross profit came down in line decreased sales, while SG&A expenses were on the rise due to increases of expenses to maintain and/or beef up sales promotions, having resulted in major adjustment for operating profit. On the Equipment side, sales as well as order intake were sluggish as pharmaceutical-related capex projects in Japan were slowing down. On top of this, sales associated with new product and non-pharmaceutical-related have remained insignificant, while sales of FREUND-VECTOR CORPORATION or the subsidiary based in the United States are to concentrate in Q4 to an extent more than before. On the Chemicals side, meanwhile, the mainstay pharmaceutical excipients are seeing steady increases of sales and earnings and food preservative are doing well too. Nevertheless, this was not substantial enough to compensate for decreased sales and earnings on the Equipment side.

On the Equipment side, sales came in at ¥8,723m (down 10.5%), operating profit ¥295m (down 67.5%) and operating profit margin 3.4% (down 6.0% points). By application, sales of pharmaceutical-related came in at ¥7,068m (down 15.2%) and non-pharmaceutical-related ¥1,655m (up 17.5%). In regards to pharmaceutical-related, the mainstay granulation/coating equipment suffered from decreased number of projects, while tablet-printing equipment or new product has failed to take off as quickly as expected. On top of this, the Company saw non-reappearance of large-scale project with high profit margin in Europe to have appeared in Q2 FY02/2018 and loss from above-mentioned subsidiary based in the United States increased over the same period in the previous year. Meanwhile, non-pharmaceutical-related appears to have remained insignificant as a constituent for this business segment as a whole. FREUND-TURBO CORPORATION or the subsidiary in charge of development, manufacture and sales of rechargeable-battery-related manufacturing equipment, etc. saw increased expenses on setting up new office and on development of new product.

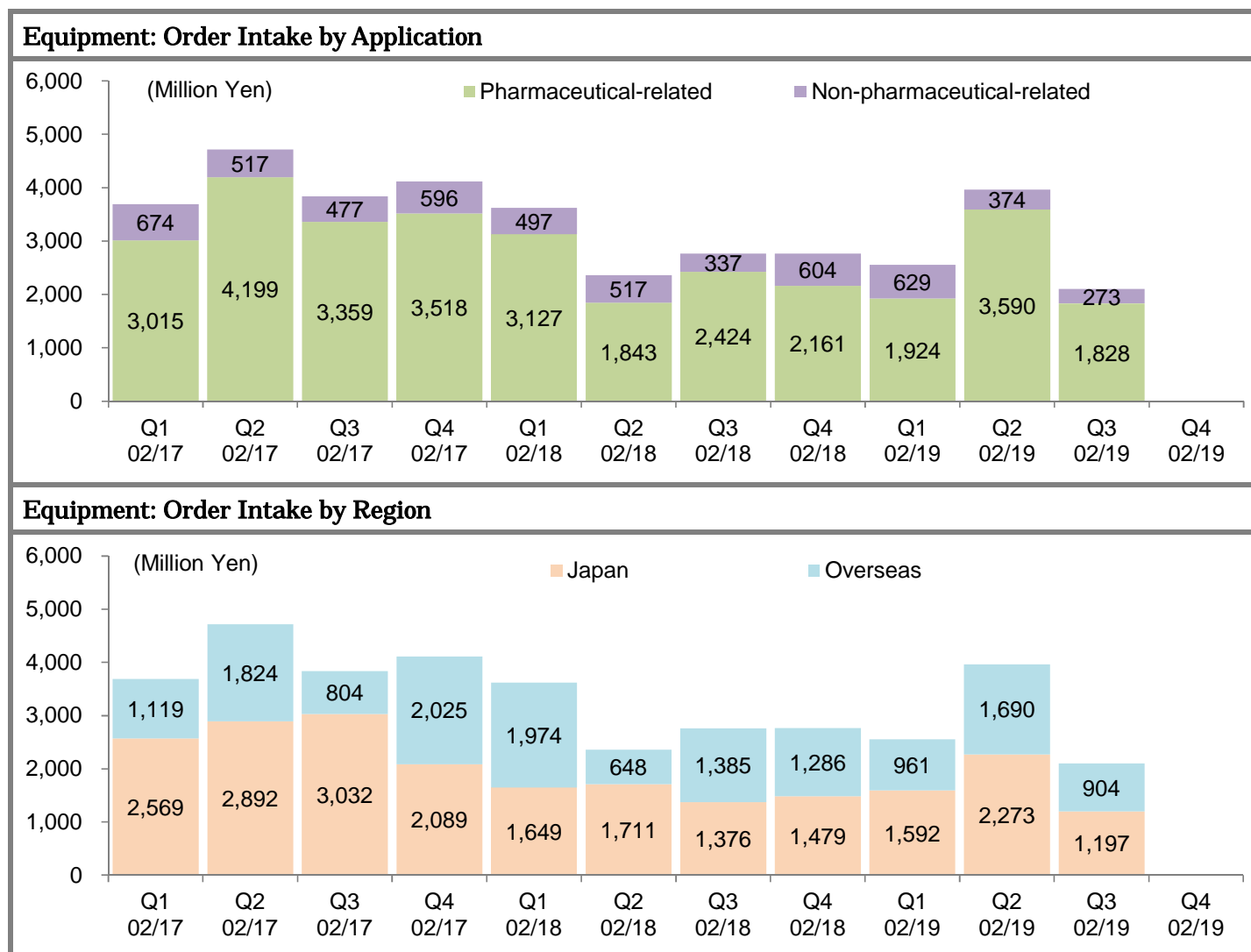
By region, sales of Japan came in at ¥5,846m (down 0.6%), those of North America & Latin America ¥1,726m (down 3.8%), those of Europe & Africa ¥270m (down 79.0%) and those of Middle East, Asia & Oceania ¥879m (up 12.5%). Plummeting sales of Europe & Africa are all attributable to above-mentioned non-reappearance of large-scale project with high profit margin in Europe. Meanwhile, increased sales of Middle East, Asia & Oceania are attributable to those of India and China in particular.



Source: Company Data, WRJ Calculation

Meanwhile, the Company suffered from major correction of order intake on the Equipment side in Q3 and order backlog came down. By application, order intake of both pharmaceutical-related and non-pharmaceutical-related in Q3 corrected against Q2, while ditto for both Japan and overseas by region. Still, 12-quarter moving average order intake, which we compute in order to grasp midterm underlying trend of sales on the Equipment side, suggests nothing but marginal adjustment. In Q3 FY02/2019, 12-quarter moving average order intake came in at ¥3,328m, which is down 3.6% over the same period in the previous year. Given down 5.1% in Q1 FY02/2019, it could be the case that the worst is already over.

In regards to granulation/coating equipment to account for the bulk of sales for the mainstay pharmaceutical-related on the Equipment side, it takes 8 months to 10 months for incoming order intake to book sales, while it is often unavoidable for booking of sales being delayed with some reasons. Also considering the fact that order intake of each quarter depends whether that of large-scale project being included or not on top of all those factors, we believe moving average of order intake over past 12 quarters or 36 months should suggest a direction of midterm sales trends.



Source: Company Data, WRJ Calculation

Order intake of non-pharmaceutical-related is slowing down, negatively affected by adjustment on rechargeable-battery-related manufacturing equipment mainly for China, while that of pharmaceutical-related once recovered nicely in Q2 FY02/2019. However, it was followed by adjustment in Q3. The mainstay granulation/coating equipment has been slowing down and tablet-printing equipment (TABREX) or new product has been seen the levels below expectations. Company forecasts as of Q2 FY02/2019 assumed order intake of 10 units and sales of 5 units in FY02/2019, but incoming order intake has been suspended for some time. Although sales of 5 units have been achieved, users to have installed the said equipment claimed for capability to cope with printing on tablets unexpectedly diverse, having resulted in concentration of own resources on improvement of hardware until recently. Still, this has been done to date and the Company is now starting over for aggressive promotions to see order intake.

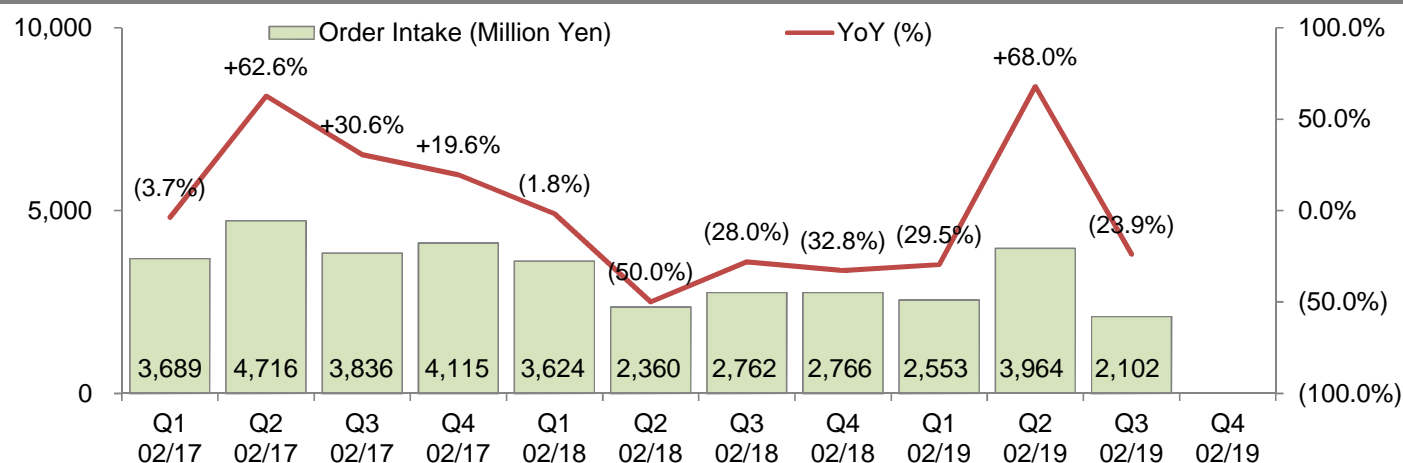
Tablet-printing equipment (TABREX) offer functionality to do “ink-jet-type printing” of identification information on the surface of tablets with an objective to avoid accidental ingestions and/or erroneous prescriptions, while being superior to existing “laser-type printing” in terms of identifiability. Given this, the Company believes that manufacturers of pharmaceuticals both new and generic are to keep on investing in equipment to do “ink-jet-type printing”, going forward. Needs for high identifiability are to rise, driven by increasing accidental ingestions in line with progressing population ageing and increasing home health care over the long-term.

In regards to granulation/coating equipment or the mainstay of pharmaceutical-related, the Company has seen sales on serial manufacturing system based on “Granuformer”, which is mentioned as a topic by the Company. Currently, a major new pharmaceutical manufacturer based in Japan to have bought and installed this system in Q2 FY02/2019 is utilizing this on an experiment basis. According to the Company, this system enables serial manufacture with a stability by means of quality monitoring based on PAT (Process Analytical Technology) in each batch of the manufacturing process all through supplying of raw materials, blending, granulating and drying. That is to say, manufacturers of pharmaceuticals or users are able to manufacture own products faster than before, benefiting from rationalization to this extent. It has been the case that human-resource-oriented quality monitoring to take some time is adopted in each of the batch for the manufacture of pharmaceuticals as safety has been prioritized, while the Company is trying to replace this by proprietary mechanism to control feedback. The Company argues that it is possible to quickly receive quality data through PAT and carry out immediate feedback for process parameter, realizing stable manufacture without deviation of monitoring range.

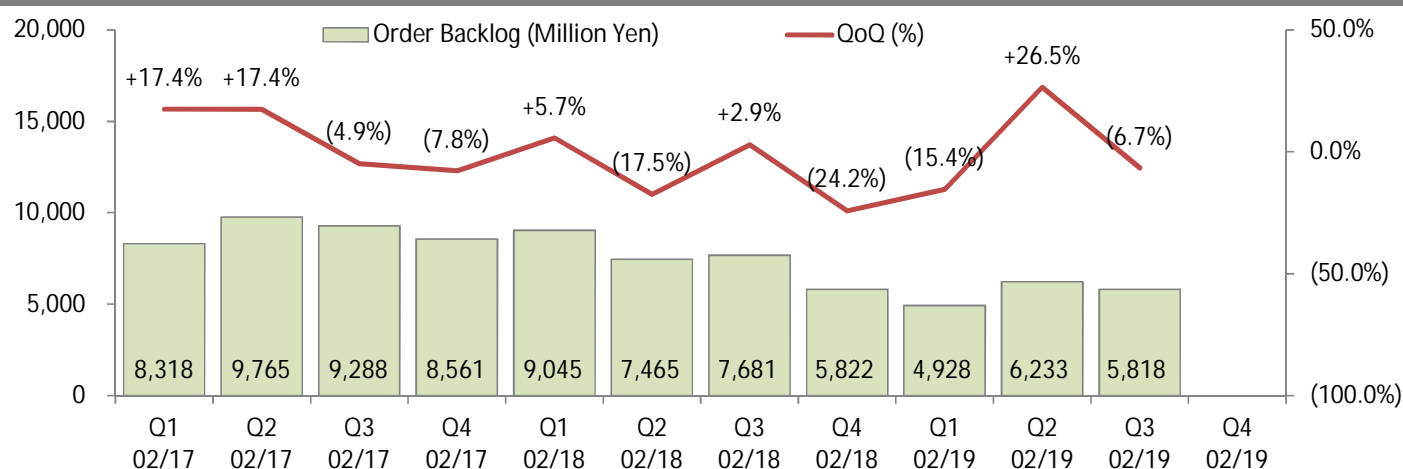
Although it is a matter of future, pharmaceutical industry is trying to get at improved efficiency in the manufacture of pharmaceuticals together with above-mentioned *Jidoka* or automation with a human element. Equipment after *Jidoka* are not supposed to manufacture any defective products as “utilization is suspended when disorder being found”. In other words, the said system does not simply manufacture products automatically, but they themselves well take advantage of built-in capability to detect whether being good or bad. Meanwhile, the Company would like to support this move in a long-term view.

Meanwhile, in regards to order intake overseas, the Company saw a major pick up in Q2 FY02/2019. This is due to order intake the largest ever having been placed in Brazil with aforementioned subsidiary based in the United States. The Company suggests that demand for pharmaceutical-related equipment in Brazil is now recovering.

Equipment: Order Intake



Equipment: Order Backlog



Source: Company Data, WRJ Calculation

On the Chemicals side, sales came in at ¥4,519m (up 13.0%), operating profit ¥781m (up 31.5%) and operating profit margin 17.3% (up 2.4% points). Pharmaceutical excipients saw sales of ¥2,346m (up 25.6%), food preservatives ¥1,650m (up 6.2%) and dietary supplement ¥522m (down 9.2%). Meanwhile, exports mainly bound for India, Korea and Taiwan came in at ¥301m (2.7 times), all being included in sales of the three domains, while the bulk was of pharmaceutical excipients.

Steady increases of sales and earnings in this business segment is attributable to increased sales of pharmaceutical excipients used for oral agents in Japan and overseas. In the first place, sales and earnings of this business segment hinge on those of pharmaceutical excipients accounting for the largest part and creating high added value (high gross profit margin) as far as we could see. Meanwhile, given prospects for demand to further increase going forward, the Company is keen on expanding capacity for the manufacture in order to quickly and appropriately cope with needs from customers. In particular, exports bound for India is promising, according to the Company. Elsewhere, food preservatives are also seeing increased sales and earnings, partly driven by the fact that cultivation of markets overseas is now on the verge of taking off, while such favorable situations are likely to persist, according to the Company.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019		
Sales	4,472	9,789	13,745	19,801	4,849	9,117	13,243	-		(502)
Cost of Sales	2,915	6,317	8,993	12,985	3,245	6,100	8,874	-		(118)
Gross Profit	1,556	3,471	4,752	6,816	1,604	3,016	4,368	-		(383)
SG&A	1,169	2,397	3,599	4,845	1,204	2,423	3,698	-		+98
Operating Profit	387	1,074	1,152	1,971	399	592	670	-		(482)
Non Operating Balance	10	17	21	22	79	91	100	-		+78
Recurring Profit	397	1,091	1,174	1,994	478	684	770	-		(403)
Extraordinary Balance	0	(1)	59	99	21	21	22	-		(37)
Profit before Income Taxes	397	1,089	1,234	2,093	500	705	792	-		(441)
Total Income Taxes	123	355	384	615	153	239	269	-		(115)
Profit Attributable to Owners of Parent	274	734	849	1,477	347	466	523	-		(325)
Sales YoY	+14.3%	+11.7%	(6.9%)	(6.4%)	+8.4%	(6.9%)	(3.7%)	-		-
Operating Profit YoY	+31.3%	+56.4%	(20.0%)	(3.4%)	+3.0%	(44.8%)	(41.9%)	-		-
Recurring Profit YoY	+26.7%	+54.0%	(21.0%)	(4.9%)	+20.3%	(37.3%)	(34.4%)	-		-
Profit Attributable to Owners of Parent YoY	+464.9%	+139.7%	+4.1%	+38.8%	+26.6%	(36.5%)	(38.4%)	-		-
Gross Profit Margin	34.8%	35.5%	34.6%	34.4%	33.1%	33.1%	33.0%	-		(1.6%)
SG&A / Sales	26.1%	24.5%	26.2%	24.5%	24.8%	26.6%	27.9%	-		+1.7%
Operating Profit Margin	8.7%	11.0%	8.4%	10.0%	8.2%	6.5%	5.1%	-		(3.3%)
Recurring Profit Margin	8.9%	11.2%	8.5%	10.1%	9.9%	7.5%	5.8%	-		(2.7%)
Profit Attributable to Owners of Parent Margin	6.1%	7.5%	6.2%	7.5%	7.2%	5.1%	4.0%	-		(2.2%)
Total Income Taxes / Profit before Income Taxes	31.0%	32.6%	31.2%	29.4%	30.6%	33.9%	34.0%	-		+2.8%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019		
Sales	4,472	5,316	3,956	6,055	4,849	4,267	4,126	-		+169
Cost of Sales	2,915	3,401	2,675	3,991	3,245	2,855	2,773	-		+97
Gross Profit	1,556	1,915	1,280	2,063	1,604	1,412	1,352	-		+71
SG&A	1,169	1,227	1,202	1,245	1,204	1,218	1,275	-		+72
Operating Profit	387	687	78	818	399	193	77	-		0
Non Operating Balance	10	6	4	1	79	11	8	-		+4
Recurring Profit	397	693	82	819	478	205	86	-		+3
Extraordinary Balance	0	(1)	61	39	21	0	0	-		(61)
Profit before Income Taxes	397	691	144	858	500	205	86	-		(57)
Total Income Taxes	123	231	29	230	153	86	29	-		0
Profit Attributable to Owners of Parent	274	460	114	628	347	118	57	-		(57)
Sales YoY	+14.3%	+9.6%	(34.1%)	(5.3%)	+8.4%	(19.7%)	+4.3%	-		-
Operating Profit YoY	+31.3%	+75.2%	(89.6%)	+36.3%	+3.0%	(71.8%)	(0.9%)	-		-
Recurring Profit YoY	+26.7%	+75.7%	(89.4%)	+34.2%	+20.3%	(70.4%)	+4.3%	-		-
Profit Attributable to Owners of Parent YoY	+464.9%	+78.5%	(77.4%)	+152.7%	+26.6%	(74.1%)	(50.1%)	-		-
Gross Profit Margin	34.8%	36.0%	32.4%	34.1%	33.1%	33.1%	32.8%	-		+0.4%
SG&A / Sales	26.1%	23.1%	30.4%	20.6%	24.8%	28.5%	30.9%	-		+0.5%
Operating Profit Margin	8.7%	12.9%	2.0%	13.5%	8.2%	4.5%	1.9%	-		(0.1%)
Recurring Profit Margin	8.9%	13.1%	2.1%	13.5%	9.9%	4.8%	2.1%	-		(0.0%)
Profit Attributable to Owners of Parent Margin	6.1%	8.7%	2.9%	10.4%	7.2%	2.8%	1.4%	-		(1.5%)
Total Income Taxes / Profit before Income Taxes	31.0%	33.5%	20.6%	26.8%	30.6%	42.1%	34.0%	-		+13.5%

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY	
(Million Yen)	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019	02/2019	Net Chg.
Equipment	3,198	7,171	9,747	14,403	3,433	6,145	8,723	-		(1,023)
Chemicals	1,274	2,617	3,998	5,398	1,416	2,971	4,519	-		+521
Sales	4,472	9,789	13,745	19,801	4,849	9,117	13,243	-		(502)
Machinery	+32.5%	+25.9%	(2.6%)	(3.4%)	+7.4%	(14.3%)	(10.5%)	-		-
Chemicals	(15.0%)	(14.6%)	(16.1%)	(13.6%)	+11.1%	+13.5%	+13.0%	-		-
Sales (YoY)	+14.3%	+11.7%	(6.9%)	(6.4%)	+8.4%	(6.9%)	(3.7%)	-		-
Equipment	71.5%	73.3%	70.9%	72.7%	70.8%	67.4%	65.9%	-		-
Chemicals	28.5%	26.7%	29.1%	27.3%	29.2%	32.6%	34.1%	-		-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-		-
Equipment	326	868	910	1,631	278	291	295	-		(615)
Chemicals	196	420	593	801	259	556	781	-		+187
Segment Profit	522	1,289	1,504	2,432	537	847	1,076	-		(427)
Elimination	(135)	(215)	(351)	(461)	(138)	(254)	(406)	-		(54)
Operating Profit	387	1,074	1,152	1,971	399	592	670	-		(482)
Equipment	+48.1%	+53.1%	(21.1%)	(6.8%)	(14.8%)	(66.5%)	(67.5%)	-		-
Chemicals	+10.1%	+17.9%	(1.4%)	+7.1%	+32.5%	+32.1%	+31.5%	-		-
Segment Profit (YoY)	+31.1%	+39.5%	(14.3%)	(2.6%)	+2.9%	(34.3%)	(28.4%)	-		-
Equipment	62.5%	67.4%	60.5%	67.1%	51.7%	34.4%	27.5%	-		-
Chemicals	37.5%	32.6%	39.5%	32.9%	48.3%	65.6%	72.5%	-		-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-		-
Equipment	10.2%	12.1%	9.3%	11.3%	8.1%	4.7%	3.4%	-		(6.0%)
Chemicals	15.4%	16.1%	14.9%	14.8%	18.3%	18.7%	17.3%	-		+2.4%
Elimination	(3.0%)	(2.2%)	(2.6%)	(2.3%)	(2.9%)	(2.8%)	(3.1%)	-		(0.5%)
Operating Profit Margin	8.7%	11.0%	8.4%	10.0%	8.2%	6.5%	5.1%	-		(3.3%)
Segmented Information	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY	
(Million Yen)	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019	02/2019	Net Chg.
Equipment	3,198	3,973	2,575	4,655	3,433	2,712	2,577	-		+2
Chemicals	1,274	1,343	1,381	1,399	1,416	1,555	1,548	-		+167
Sales	4,472	5,316	3,956	6,055	4,849	4,267	4,126	-		+169
Machinery	+32.5%	+21.0%	(40.2%)	(5.2%)	+7.4%	(31.7%)	+0.1%	-		-
Chemicals	(15.0%)	(14.2%)	(18.7%)	(5.8%)	+11.1%	+15.8%	+12.1%	-		-
Sales (YoY)	+14.3%	+9.6%	(34.1%)	(5.3%)	+8.4%	(19.7%)	+4.3%	-		-
Equipment	71.5%	74.7%	65.1%	76.9%	70.8%	63.6%	62.5%	-		-
Chemicals	28.5%	25.3%	34.9%	23.1%	29.2%	36.4%	37.5%	-		-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-		-
Equipment	326	542	41	720	278	13	4	-		(37)
Chemicals	196	224	172	207	259	296	224	-		+51
Segment Profit	522	767	214	927	537	309	229	-		+14
Elimination	(135)	(80)	(136)	(109)	(138)	(116)	(151)	-		(14)
Operating Profit	387	687	78	818	399	193	77	-		0
Equipment	+48.1%	+56.2%	(92.9%)	+20.9%	(14.8%)	(97.5%)	(90.0%)	-		-
Chemicals	+10.1%	+25.7%	(29.4%)	+41.7%	+32.5%	+31.9%	+30.0%	-		-
Segment Profit (YoY)	+31.1%	+45.8%	(74.2%)	+25.0%	+2.9%	(59.6%)	+6.6%	-		-
Equipment	62.5%	70.7%	19.5%	77.7%	51.7%	4.3%	1.8%	-		-
Chemicals	37.5%	29.3%	80.5%	22.3%	48.3%	95.7%	98.2%	-		-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-		-
Equipment	10.2%	13.7%	1.6%	15.5%	8.1%	0.5%	0.2%	-		(1.5%)
Chemicals	15.4%	16.7%	12.5%	14.8%	18.3%	19.1%	14.5%	-		+2.0%
Elimination	(3.0%)	(1.5%)	(3.5%)	(1.8%)	(2.9%)	(2.7%)	(3.7%)	-		(0.2%)
Operating Profit Margin	8.7%	12.9%	2.0%	13.5%	8.2%	4.5%	1.9%	-		(0.1%)

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	YoY
(Million Yen)		Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Net Chg.
		02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019	
Japan		2,566	4,559	5,883	8,493	2,783	4,352	5,846	-	(36)
North America & Latin America		331	1,119	1,795	2,979	289	1,007	1,726	-	(68)
Europe & Africa		210	1,018	1,287	1,782	80	141	270	-	(1,016)
Middle East, Asia & Oceania		88	473	781	1,147	279	643	879	-	+97
Overseas		631	2,612	3,864	5,909	649	1,793	2,876	-	(987)
Sales		3,198	7,171	9,747	14,403	3,433	6,145	8,723	-	(1,023)
Japan		+41.1%	+8.7%	(16.4%)	(10.2%)	+8.5%	(4.5%)	(0.6%)	-	-
North America & Latin America		(24.2%)	+1.4%	(5.9%)	(23.3%)	(12.7%)	(10.0%)	(3.8%)	-	-
Europe & Africa		+127.0%	+286.3%	+203.4%	+105.4%	(62.0%)	(86.1%)	(79.0%)	-	-
Middle East, Asia & Oceania		+39.7%	+251.8%	+23.6%	+63.3%	+215.0%	+35.8%	+12.5%	-	-
Overseas		+6.3%	+73.8%	+30.4%	+8.3%	+2.9%	(31.4%)	(25.6%)	-	-
Sales (YoY)		+32.5%	+25.9%	(2.6%)	(3.4%)	+7.4%	(14.3%)	(10.5%)	-	-
Japan		80.3%	63.6%	60.4%	59.0%	81.1%	70.8%	67.0%	-	-
North America & Latin America		10.4%	15.6%	18.4%	20.7%	8.4%	16.4%	19.8%	-	-
Europe & Africa		6.6%	14.2%	13.2%	12.4%	2.3%	2.3%	3.1%	-	-
Middle East, Asia & Oceania		2.8%	6.6%	8.0%	8.0%	8.2%	10.5%	10.1%	-	-
Overseas		19.7%	36.4%	39.6%	41.0%	18.9%	29.2%	33.0%	-	-
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	YoY
(Million Yen)		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Net Chg.
		02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019	
Japan		2,566	1,992	1,323	2,610	2,783	1,568	1,494	-	+170
North America & Latin America		331	788	675	1,184	289	718	718	-	+43
Europe & Africa		210	807	269	494	80	61	129	-	(140)
Middle East, Asia & Oceania		88	385	307	365	279	363	235	-	(71)
Overseas		631	1,980	1,252	2,045	649	1,143	1,083	-	(168)
Sales		3,198	3,973	2,575	4,655	3,433	2,712	2,577	-	+2
Japan		+41.1%	(16.1%)	(53.5%)	+7.9%	+8.5%	(21.3%)	+12.9%	-	-
North America & Latin America		(24.2%)	+18.2%	(15.8%)	(40.1%)	(12.7%)	(8.8%)	+6.4%	-	-
Europe & Africa		+127.0%	+373.0%	+67.5%	+11.6%	(62.0%)	(92.4%)	(52.0%)	-	-
Middle East, Asia & Oceania		+39.7%	+441.6%	(38.2%)	+419.0%	+215.0%	(5.5%)	(23.4%)	-	-
Overseas		+6.3%	+118.0%	(14.3%)	(17.9%)	+2.9%	(42.3%)	(13.5%)	-	-
Sales (YoY)		+32.5%	+21.0%	(40.2%)	(5.2%)	+7.4%	(31.7%)	+0.1%	-	-
Japan		80.3%	50.2%	51.4%	56.1%	81.1%	57.8%	58.0%	-	-
North America & Latin America		10.4%	19.8%	26.2%	25.4%	8.4%	26.5%	27.9%	-	-
Europe & Africa		6.6%	20.3%	10.5%	10.6%	2.3%	2.3%	5.0%	-	-
Middle East, Asia & Oceania		2.8%	9.7%	11.9%	7.9%	8.2%	13.4%	9.1%	-	-
Overseas		19.7%	49.8%	48.6%	43.9%	18.9%	42.2%	42.0%	-	-
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 02/2018	Q2 02/2018	Q3 02/2018	Q4 02/2018	Q1 02/2019	Q2 02/2019	Q3 02/2019	Q4 02/2019		
Cash & Deposit	6,152	6,000	6,392	6,568	5,236	5,245	4,834	-	(1,557)	
Accounts Receivables	4,352	5,028	4,341	4,451	4,576	4,377	4,499	-	+158	
Inventory	3,094	3,344	4,061	3,185	2,998	2,802	3,220	-	(841)	
Other	720	639	718	579	545	566	653	-	(65)	
Current Assets	14,320	15,012	15,514	14,784	13,356	12,991	13,208	-	(2,306)	
Tangible Assets	3,205	3,219	3,355	3,370	3,471	3,554	3,580	-	+225	
Intangible Assets	43	32	20	102	96	91	93	-	+72	
Investments & Other Assets	869	857	864	868	860	847	843	-	(20)	
Fixed Assets	4,118	4,109	4,240	4,341	4,428	4,493	4,517	-	+277	
Total Assets	18,439	19,122	19,755	19,125	17,784	17,484	17,726	-	(2,029)	
Accounts Payables	2,893	3,289	3,273	2,823	2,510	2,142	2,343	-	(929)	
Short Term Debt	-	-	-	-	-	-	-	-	-	
Other	3,139	2,966	3,458	2,741	2,258	2,169	2,105	-	(1,352)	
Current Liabilities	6,033	6,256	6,731	5,564	4,768	4,312	4,449	-	(2,281)	
Long Term Debt	-	-	-	-	-	-	-	-	-	
Other	325	333	336	318	323	319	323	-	(12)	
Fixed Liabilities	325	333	336	318	323	319	323	-	(12)	
Total Liabilities	6,358	6,589	7,067	5,883	5,092	4,632	4,772	-	(2,294)	
Shareholders' Equity	12,339	12,800	12,915	13,543	12,973	13,092	13,149	-	+234	
Adjustments	(258)	(267)	(226)	(301)	(281)	(240)	(196)	-	+30	
Total Assets	12,081	12,532	12,688	13,242	12,691	12,852	12,953	-	+265	
Total Liabilities & Net Assets	18,439	19,122	19,755	19,125	17,784	17,484	17,726	-	(2,029)	
Equity Capital	12,081	12,532	12,688	13,242	12,691	12,852	12,953	-	+265	
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	
Net Debt	(6,152)	(6,000)	(6,392)	(6,568)	(5,236)	(5,245)	(4,834)	-	+1,557	
Equity Capital Ratio	65.5%	65.5%	64.2%	69.2%	71.4%	73.5%	73.1%	-	-	
Net-Debt-Equity Ratio	(50.9%)	(47.9%)	(50.4%)	(49.6%)	(41.3%)	(40.8%)	(37.3%)	-	-	
ROE (12 months)	11.1%	12.6%	9.0%	11.6%	12.5%	9.5%	9.0%	-	-	
ROA (12 months)	12.3%	13.2%	9.4%	10.4%	11.5%	8.7%	8.5%	-	-	
Total Assets Turnover	97%	111%	80%	127%	109%	98%	93%	-	-	
Inventory Turnover	3.8	4.1	2.6	5.0	4.3	4.1	3.4	-	-	
Days of Inventory	97	90	139	73	84	90	106	-	-	
Quick Ratio	174%	176%	159%	198%	206%	223%	210%	-	-	
Current Ratio	237%	240%	230%	266%	280%	301%	297%	-	-	

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 02/2018	Q1 to Q2 02/2018	Q1 to Q3 02/2018	Q1 to Q4 02/2018	Q1 02/2019	Q1 to Q2 02/2019	Q1 to Q3 02/2019	Q1 to Q4 02/2019		
Operating Cash Flow	-	(375)	-	594	-	(230)	-	-	-	
Investment Cash Flow	-	(224)	-	(493)	-	(190)	-	-	-	
Operating CF & Investment CF	-	(600)	-	100	-	(420)	-	-	-	
Financing Cash Flow	-	(368)	-	(499)	-	(918)	-	-	-	

Source: Company Data, WRJ Calculation

FY02/2019 Company Forecasts

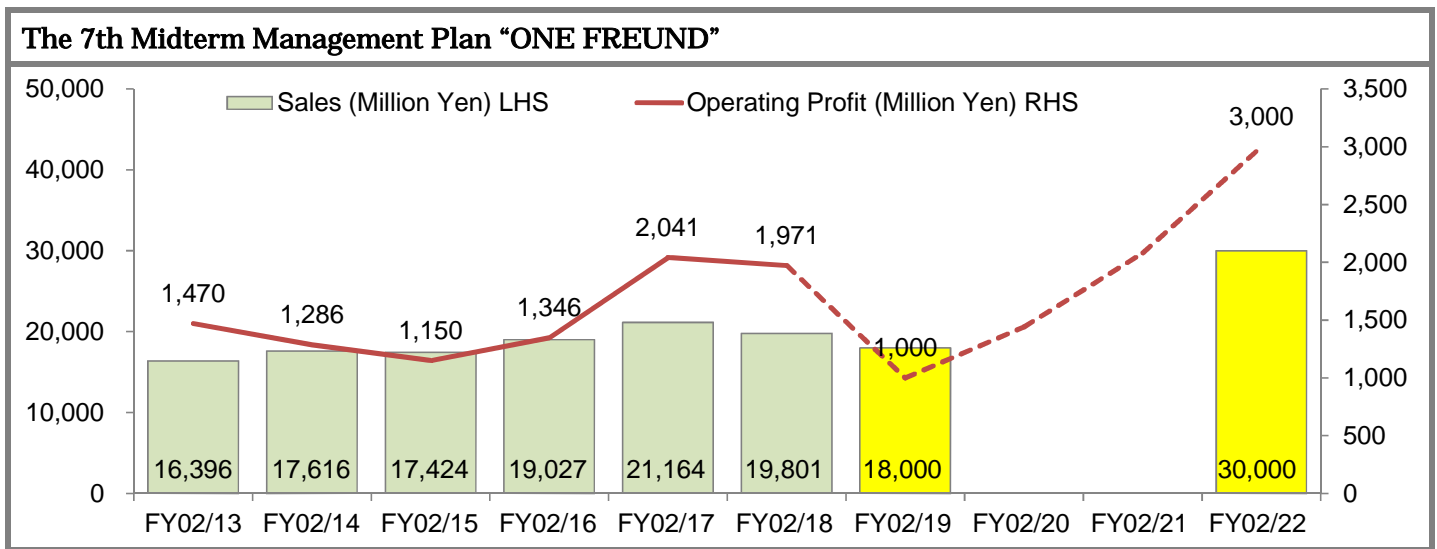
FY02/2019 Company forecasts (revised on 8 January 2019) are going for prospective sales of ¥18,000m (down 9.1% YoY), operating profit of ¥1,000m (down 49.3%), recurring profit of ¥1,100m (down 44.8%) and profit attributable to owners of parent of ¥800m (down 45.9%), while operating profit margin of 5.6% (down 4.4% points). Compared with initial Company forecasts, prospective sales have been downgraded by ¥2,000m (10.0%), operating profit by ¥900m (47.4%), recurring profit by ¥800m (42.1%) and profit attributable to owners of parent by ¥550m (40.7%). Still, prospective dividend has remained unchanged at ¥20.0 per share, implying payout ratio as high as 42.1% versus ¥20.0 per share, implying payout ratio of 23.3%, in FY02/2018 results.

By business segment, Company forecasts assume sales of ¥12,000m (down 16.7%) on the Equipment side and ¥6,000m (up 11.1%) on the Chemicals side. Given the fact that initial Company forecasts were going for sales of ¥14,000m (down 2.8%) on the Equipment side, above-mentioned downgrade is wholly attributable to that of sales on the Equipment side, comprising that of ¥500m in sales by a) delayed new product, ¥500m by b) delayed non-pharmaceutical-related, ¥800m by c) shortfall of capex with customers and ¥200m by d) probability for booking of sales to delay. The said probability relates to a part of sales on large-scale project, while it is taken for granted this does not take place when the delay does not take place.

New product basically represents tablet-printing equipment (TABREX) and non-pharmaceutical-related represents rechargeable-battery-related manufacturing equipment, etc. Shortfall of capex with customers has a lot to do with situations in generic drug manufacturers and those on a contract basis. [Ministry of Health, Labor and Welfare](#) is going for 80% usage ratio of generic drugs as soon as possible by September 2020, while [Japan Generic Medicines Association](#) estimates this ratio has reached as high as 73.2% in July to September 2018. Given situations like this, some generic drug manufacturers and those on a contract basis are cutting back capex to boost capacity, while other ones are considering increases of capacity associated with development overseas, according to the Company. Thus, the Company's mainstay customers are not cutting back capex across the board, while the real picture is that the sentiment is mixed. Nevertheless, it is still nothing but a truth that the trends of capex appetite here as a whole is worse than assumptions of initial Company forecasts.

Long-Term Prospects

On 11 April 2017, the Company released the 7th midterm management plan “ONE FREUND “ (FY02/2018 to FY02/2022), calling for prospective sales of ¥30,000m, operating profit of ¥3,000m and operating profit margin of 10.0% as well as ROE of more than 8.0% (versus 9.0% in FY02/2017 results) in FY02/2022.



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 5-year period ended by FY02/2017, it is suggested that the Company is planning to see CAGR almost in line with the results over the said period for both sales and earnings. Still, as in the five-year period ended by FY02/2017, the plan does not assume stable and linear growth in upcoming years.

The three-year period through FY02/2018 to FY02/2020 is of “building growth basis”, according to the Company, to see “flat trends” for sales and earnings. More importantly, the Company is to focus on implementing measures of a) developing new product, b) focusing on non-pharmaceutical-related and c) cultivating markets overseas so that the Company should achieve steady increases of sales and earnings in the period through FY02/2021 to FY02/2022, i.e., that of “leap”.

In FY02/2018 results, sales and earnings are in line, which is true of FY02/2019 initial Company forecasts going for prospective sales of ¥20,000m and operating profit of ¥1,900m. However, now, Company forecasts are going for prospective sales of ¥18,000m (down 9.1% YoY) and operating profit of ¥1,000m (down 49.6%) in FY02/2019 due to shortfall of sales on the Equipment side.

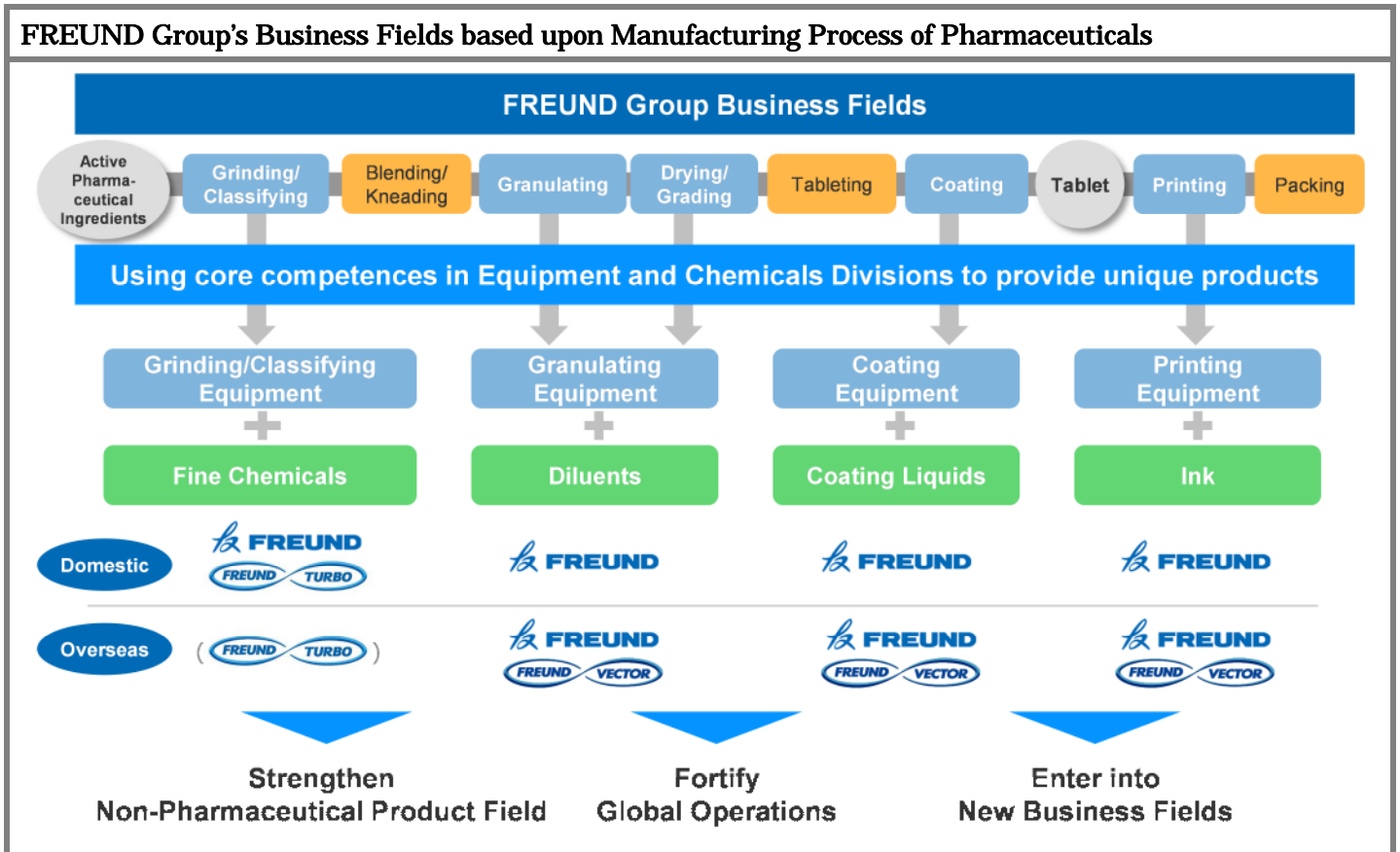
As far as we could see, meanwhile, the Company is trying to further beef up all those measures a), b) and c) in order to achieve the business performance target in the last year of FY02/2022. In regards to c) cultivating markets overseas, the Company is keen on development of low-priced equipment to cope with needs in emerging countries in particular. On the Equipment side, the level of order intake in FY02/2021 is one of the key determinants for business performance in the last year of FY02/2022 and thus the business performance target with the 7th midterm management plan has remained unchanged to date.

4.0 Business Model

Formulation, the Key Technology




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

FREUND Group's Business Fields based upon Manufacturing Process of Pharmaceuticals



Source: Company Data

Granulation/coating equipment are literally applied in granulation and coating process 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 on the tablet surface are achievable and so is masking to block the bitterness, etc.

Serial Granulation and Drying	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p data-bbox="236 488 411 521">Granuformer</p>	 <p data-bbox="754 533 882 566">TABREX</p>	 <p data-bbox="1169 533 1406 566">Granulol F (Fine)</p>
<p data-bbox="92 622 557 701">Granulation, mixing and drying all on a serial basis</p>	<p data-bbox="579 622 1043 846">Printing identification information on the surface of tablets with objectives to avoid accidental ingestions and/or erroneous prescriptions</p>	<p data-bbox="1074 622 1485 701">Miniaturized particles, diverse applications</p>

Source: Company Data

On the Chemicals side, the Company is involved with development, manufacture and sales of pharmaceutical excipients, food preservatives and dietary supplement. Pharmaceutical excipients are auxiliary feedstocks used for oral agents, including tablets, coating agents, orally-fast-disintegrating tablets, capsules, granules, etc. at the stage of formulation of drug substances in the manufacture of pharmaceuticals, making drug substances properly exert their own functions. On top of this, the Company is also involved with food preservatives adopted as those for baumkuchen and other diverse foods.

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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