

FREUND CORPORATION (6312)

Consolidated FY (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
FY02/2018		19,801	1,971	1,994	1,477	85.7	20.0	767.9
FY02/2019		18,408	1,223	1,326	843	50.2	20.0	791.3
FY02/2020CoE		17,500	1,000	1,000	700	41.8	20.0	-
FY02/2018	YoY	(6.4%)	(3.4%)	(4.9%)	38.8%	-	-	-
FY02/2019	YoY	(7.0%)	(37.9%)	(33.5%)	(42.9%)	-	-	-
FY02/2020CoE	YoY	(4.9%)	(18.2%)	(24.6%)	(17.0%)	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (16 May 2019)


Starting Over

FREUND CORPORATION, developing, manufacturing and selling equipment and chemicals, is seeing order intake levelling out on the Equipment side, while benefiting from ongoing steady increases of sales for the mainstay pharmaceutical excipients on the Chemicals side. It appears that the Company is on the verge of starting over for period of “growth”, which is of FY02/2021 and FY02/2022 as defined by the Company. On the Equipment side, order intake came down sharply in FY02/2018 over FY02/2017 due mainly to reaction against special procurement demand in line with the government measure to enhance generic drug penetration rate up to 80% in Japan. More importantly, however, this did not reappear in FY02/2019, having resulted in order intake marginally increased over FY02/2018. Going forward, the Company appears going for further increases of order intake in FY02/2020, looking to benefits from cultivation of markets overseas, focus on new products, etc. Still, as it takes 8 to 10 months for order intake to book sales in regards to the mainstay granulation/coating equipment for example and thus sales are to be delayed to this extent. Meanwhile, on the Chemicals side, the Company sees persistently increasing demand for pharmaceutical excipients, those of expertise domains with the Company in particular. As far as we could see, the Company has been achieving sales and earnings in line with assumptions of the 7th midterm management plan “ONE FREUND” (FY02/2018 to FY02/2022) on the Chemicals side.

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2.0 Company Profile

Equipment and Chemicals

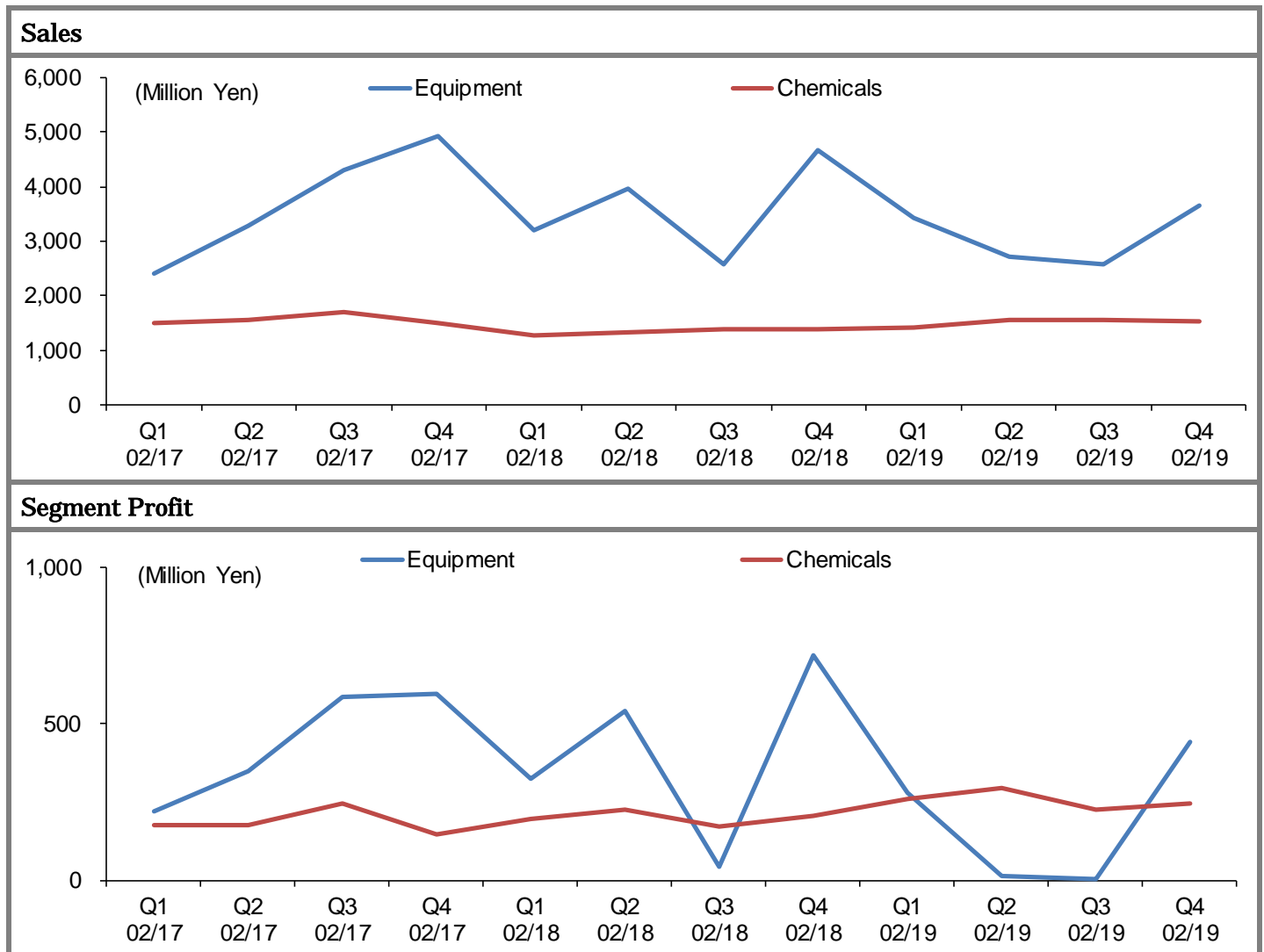
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of February 2019)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of Feb. 2019)	
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 products, i.e., tablet-printing equipment (TABREX), rechargeable-battery-related manufacturing equipment, etc. ● Pharmaceutical excipients, the key growth driver on the Chemicals side 	
Business Segments	<ul style="list-style-type: none"> . Equipment . Chemicals 	
Top Management	President & CEO: Iwao Fusejima	
Shareholders	Own shares holdings 8.9%, KK Fusejima Yokosha 8.9%, Yasutoyo Fusejima 7.0%, MUFG Bank, Ltd. 4.5% (as of the end of February 2019)	
Headquarters	FREUND Bldg., 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 372, Parent: 208 (as of the end of February 2019)	

Source: Company Data

3.0 Recent Trading and Prospects

FY02/2019 Results

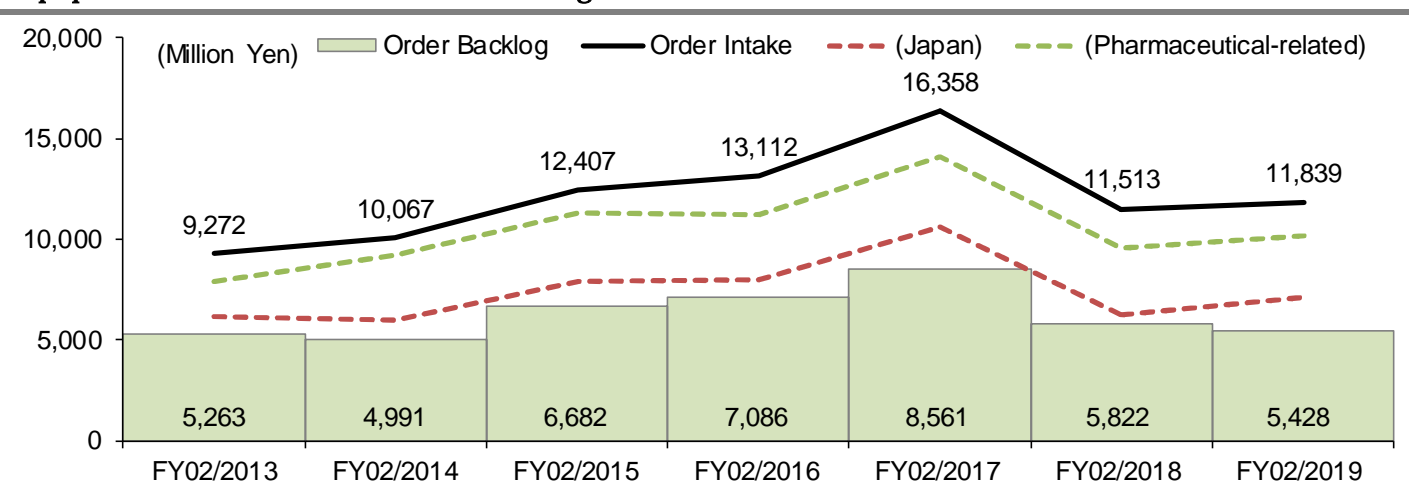
In FY02/2019, sales came in at ¥18,408m (down 7.0% YoY), operating profit ¥1,223m (down 37.9%), recurring profit ¥1,326m (down 33.5%) and profit attributable to owners of parent ¥843m (down 42.9%), while operating profit margin 6.6% (down 3.3% points).



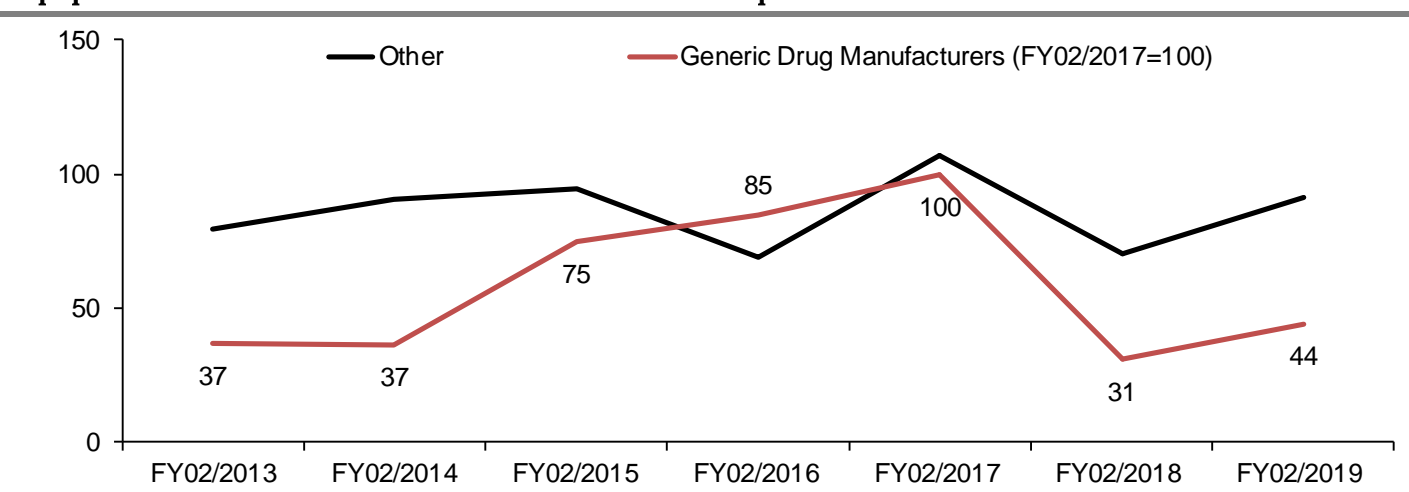
Source: Company Data, WRJ Calculation

On the Equipment side, sales came in at ¥12,368m (down 14.1%), segment profit ¥737m (down 54.8%) and segment profit margin 6.0% (down 5.4% points), while sales ¥6,040m (up 11.9%), segment profit ¥1,024m (up 27.9%) and segment profit margin 17.0% (up 2.1% points) on the Chemicals side. The Company saw favorable business performance on the Chemicals side, but it was more than offset by decreases of sales and earnings on the Equipment side. Still, order intake on the Equipment side has shown a trend of recovery, implying increases of sales and earnings in the foreseeable future, although it takes a whole because of lead time to book sales. Order intake came in at ¥11,839m (up 2.8%) and order backlog ¥5,428m (down 6.8%). With respect to the mainstay pharmaceutical-related in Japan, order intake from generic drug manufacturers saw a recovery after plummeting, which appears to be the key driver here. Assuming the level of FY02/2017 as 100, order intake equated to no more than 31 in FY02/2018 and recovered up to 44 in FY02/2019.

Equipment: Order Intake and Order Backlog



Equipment: Order Intake of Pharmaceutical-related in Japan



Source: Company Data, WRJ Calculation

In FY02/2019, sales of pharmaceutical-related came in at ¥10,160m (down 17.4%) and sales of non-pharmaceutical-related ¥2,207m (up 5.0%) on the Equipment side. By region, sales of Japan came in at ¥7,312m (down 13.9%) and sales overseas ¥5,055m (down 14.5%). Sales of Japan, having accounted for more than half of total, came down sharply due mainly to reaction against special procurement demand in line with the government measure to enhance generic drug penetration rate up to 80%, which was the key negative factor for sales and earnings. On top of this, the Company also suggests that tablet-printing equipment (TABREX) or new product of pharmaceutical-related has failed to take off as quickly as expected.

With respect to sales overseas, those of North America & Latin America came in at ¥3,352m (up 12.5%), Europe & Africa ¥397m (down 77.7%) and Middle East, Asia & Oceania ¥1,306m (up 13.8%). In North America, the Company suggests that earnings plummeted as large-sized project carrying low profit margin came out, while sales and earnings in Latin America increased nicely due to capex recovery in Brazil. Sales of Europe & Africa came down sharply as those of large-sized project in eurozone did not reappear. In regards to Middle East, Asia & Oceania, the Company suggests sales of China on rechargeable-battery-related manufacturing equipment, belonging to non-pharmaceutical, slowed down sharply. FREUND-TURBO CORPORATION or the Company's subsidiary in charge of this consistently sees inquiries from local potential customers, but hardly having led to order placement most recently. Still, it appears that sales of pharmaceutical-related increased favorably in Middle East, Asia & Oceania.

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	02/2019	
Sales	4,472	9,789	13,745	19,801	4,849	9,117	13,243	18,408		(1,393)
Cost of Sales	2,915	6,317	8,993	12,985	3,245	6,100	8,874	12,220		(765)
Gross Profit	1,556	3,471	4,752	6,816	1,604	3,016	4,368	6,188		(628)
SG&A	1,169	2,397	3,599	4,845	1,204	2,423	3,698	4,964		+119
Operating Profit	387	1,074	1,152	1,971	399	592	670	1,223		(748)
Non Operating Balance	10	17	21	22	79	91	100	103		+80
Recurring Profit	397	1,091	1,174	1,994	478	684	770	1,326		(667)
Extraordinary Balance	0	(1)	59	99	21	21	22	(70)		(169)
Profit before Income Taxes	397	1,089	1,234	2,093	500	705	792	1,255		(837)
Total Income Taxes	123	355	384	615	153	239	269	412		(203)
Profit Attributable to Owners of Parent	274	734	849	1,477	347	466	523	843		(634)
Sales YoY	+14.3%	+11.7%	(6.9%)	(6.4%)	+8.4%	(6.9%)	(3.7%)	(7.0%)		-
Operating Profit YoY	+31.3%	+56.4%	(20.0%)	(3.4%)	+3.0%	(44.8%)	(41.9%)	(37.9%)		-
Recurring Profit YoY	+26.7%	+54.0%	(21.0%)	(4.9%)	+20.3%	(37.3%)	(34.4%)	(33.5%)		-
Profit Attributable to Owners of Parent YoY	+464.9%	+139.7%	+4.1%	+38.8%	+26.6%	(36.5%)	(38.4%)	(42.9%)		-
Gross Profit Margin	34.8%	35.5%	34.6%	34.4%	33.1%	33.1%	33.0%	33.6%		(0.8%)
SG&A / Sales	26.1%	24.5%	26.2%	24.5%	24.8%	26.6%	27.9%	27.0%		+2.5%
Operating Profit Margin	8.7%	11.0%	8.4%	10.0%	8.2%	6.5%	5.1%	6.6%		(3.3%)
Recurring Profit Margin	8.9%	11.2%	8.5%	10.1%	9.9%	7.5%	5.8%	7.2%		(2.9%)
Profit Attributable to Owners of Parent Margin	6.1%	7.5%	6.2%	7.5%	7.2%	5.1%	4.0%	4.6%		(2.9%)
Total Income Taxes / Profit before Income Taxes	31.0%	32.6%	31.2%	29.4%	30.6%	33.9%	34.0%	32.8%		+3.4%
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	02/2019	
Sales	4,472	5,316	3,956	6,055	4,849	4,267	4,126	5,164		(890)
Cost of Sales	2,915	3,401	2,675	3,991	3,245	2,855	2,773	3,345		(646)
Gross Profit	1,556	1,915	1,280	2,063	1,604	1,412	1,352	1,819		(244)
SG&A	1,169	1,227	1,202	1,245	1,204	1,218	1,275	1,266		+21
Operating Profit	387	687	78	818	399	193	77	552		(265)
Non Operating Balance	10	6	4	1	79	11	8	2		+1
Recurring Profit	397	693	82	819	478	205	86	555		(263)
Extraordinary Balance	0	(1)	61	39	21	0	0	(92)		(132)
Profit before Income Taxes	397	691	144	858	500	205	86	462		(395)
Total Income Taxes	123	231	29	230	153	86	29	142		(87)
Profit Attributable to Owners of Parent	274	460	114	628	347	118	57	319		(308)
Sales YoY	+14.3%	+9.6%	(34.1%)	(5.3%)	+8.4%	(19.7%)	+4.3%	(14.7%)		-
Operating Profit YoY	+31.3%	+75.2%	(89.6%)	+36.3%	+3.0%	(71.8%)	(0.9%)	(32.5%)		-
Recurring Profit YoY	+26.7%	+75.7%	(89.4%)	+34.2%	+20.3%	(70.4%)	+4.3%	(32.2%)		-
Profit Attributable to Owners of Parent YoY	+464.9%	+78.5%	(77.4%)	+152.7%	+26.6%	(74.1%)	(50.1%)	(49.1%)		-
Gross Profit Margin	34.8%	36.0%	32.4%	34.1%	33.1%	33.1%	32.8%	35.2%		+1.1%
SG&A / Sales	26.1%	23.1%	30.4%	20.6%	24.8%	28.5%	30.9%	24.5%		+4.0%
Operating Profit Margin	8.7%	12.9%	2.0%	13.5%	8.2%	4.5%	1.9%	10.7%		(2.8%)
Recurring Profit Margin	8.9%	13.1%	2.1%	13.5%	9.9%	4.8%	2.1%	10.8%		(2.8%)
Profit Attributable to Owners of Parent Margin	6.1%	8.7%	2.9%	10.4%	7.2%	2.8%	1.4%	6.2%		(4.2%)
Total Income Taxes / Profit before Income Taxes	31.0%	33.5%	20.6%	26.8%	30.6%	42.1%	34.0%	30.9%		+4.0%

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 02/2018	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		
Equipment	3,198	7,171	9,747	14,403	3,433	6,145	8,723	12,368	(2,034)	
Chemicals	1,274	2,617	3,998	5,398	1,416	2,971	4,519	6,040	+641	
Sales	4,472	9,789	13,745	19,801	4,849	9,117	13,243	18,408	(1,393)	
Machinery	+32.5%	+25.9%	(2.6%)	(3.4%)	+7.4%	(14.3%)	(10.5%)	(14.1%)	-	
Chemicals	(15.0%)	(14.6%)	(16.1%)	(13.6%)	+11.1%	+13.5%	+13.0%	+11.9%	-	
Sales (YoY)	+14.3%	+11.7%	(6.9%)	(6.4%)	+8.4%	(6.9%)	(3.7%)	(7.0%)	-	
Equipment	71.5%	73.3%	70.9%	72.7%	70.8%	67.4%	65.9%	67.2%	-	
Chemicals	28.5%	26.7%	29.1%	27.3%	29.2%	32.6%	34.1%	32.8%	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Equipment	326	868	910	1,631	278	291	295	737	(894)	
Chemicals	196	420	593	801	259	556	781	1,024	+223	
Segment Profit	522	1,289	1,504	2,432	537	847	1,076	1,762	(670)	
Elimination	(135)	(215)	(351)	(461)	(138)	(254)	(406)	(538)	(77)	
Operating Profit	387	1,074	1,152	1,971	399	592	670	1,223	(748)	
Equipment	+48.1%	+53.1%	(21.1%)	(6.8%)	(14.8%)	(66.5%)	(67.5%)	(54.8%)	-	
Chemicals	+10.1%	+17.9%	(1.4%)	+7.1%	+32.5%	+32.1%	+31.5%	+27.9%	-	
Segment Profit (YoY)	+31.1%	+39.5%	(14.3%)	(2.6%)	+2.9%	(34.3%)	(28.4%)	(27.6%)	-	
Equipment	62.5%	67.4%	60.5%	67.1%	51.7%	34.4%	27.5%	41.8%	-	
Chemicals	37.5%	32.6%	39.5%	32.9%	48.3%	65.6%	72.5%	58.2%	-	
Segment Profit (Composition Ratio)	100.0%	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%	(5.4%)	
Chemicals	15.4%	16.1%	14.9%	14.8%	18.3%	18.7%	17.3%	17.0%	+2.1%	
Elimination	(3.0%)	(2.2%)	(2.6%)	(2.3%)	(2.9%)	(2.8%)	(3.1%)	(2.9%)	(0.6%)	
Operating Profit Margin	8.7%	11.0%	8.4%	10.0%	8.2%	6.5%	5.1%	6.6%	(3.3%)	

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 02/2018	Q2 02/2018	Q3 02/2018	Q4 02/2018	Q1 02/2019	Q2 02/2019	Q3 02/2019	Q4 02/2019		
Equipment	3,198	3,973	2,575	4,655	3,433	2,712	2,577	3,644	(1,010)	
Chemicals	1,274	1,343	1,381	1,399	1,416	1,555	1,548	1,520	+120	
Sales	4,472	5,316	3,956	6,055	4,849	4,267	4,126	5,164	(890)	
Machinery	+32.5%	+21.0%	(40.2%)	(5.2%)	+7.4%	(31.7%)	+0.1%	(21.7%)	-	
Chemicals	(15.0%)	(14.2%)	(18.7%)	(5.8%)	+11.1%	+15.8%	+12.1%	+8.6%	-	
Sales (YoY)	+14.3%	+9.6%	(34.1%)	(5.3%)	+8.4%	(19.7%)	+4.3%	(14.7%)	-	
Equipment	71.5%	74.7%	65.1%	76.9%	70.8%	63.6%	62.5%	70.6%	-	
Chemicals	28.5%	25.3%	34.9%	23.1%	29.2%	36.4%	37.5%	29.4%	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	
Equipment	326	542	41	720	278	13	4	441	(278)	
Chemicals	196	224	172	207	259	296	224	243	+36	
Segment Profit	522	767	214	927	537	309	229	685	(242)	
Elimination	(135)	(80)	(136)	(109)	(138)	(116)	(151)	(132)	(22)	
Operating Profit	387	687	78	818	399	193	77	552	(265)	
Equipment	+48.1%	+56.2%	(92.9%)	+20.9%	(14.8%)	(97.5%)	(90.0%)	(38.7%)	-	
Chemicals	+10.1%	+25.7%	(29.4%)	+41.7%	+32.5%	+31.9%	+30.0%	+17.5%	-	
Segment Profit (YoY)	+31.1%	+45.8%	(74.2%)	+25.0%	+2.9%	(59.6%)	+6.6%	(26.2%)	-	
Equipment	62.5%	70.7%	19.5%	77.7%	51.7%	4.3%	1.8%	64.5%	-	
Chemicals	37.5%	29.3%	80.5%	22.3%	48.3%	95.7%	98.2%	35.5%	-	
Segment Profit (Composition Ratio)	100.0%	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%	12.1%	(3.4%)	
Chemicals	15.4%	16.7%	12.5%	14.8%	18.3%	19.1%	14.5%	16.0%	+1.2%	
Elimination	(3.0%)	(1.5%)	(3.5%)	(1.8%)	(2.9%)	(2.7%)	(3.7%)	(2.6%)	(0.8%)	
Operating Profit Margin	8.7%	12.9%	2.0%	13.5%	8.2%	4.5%	1.9%	10.7%	(2.8%)	

Source: Company Data, WRJ Calculation

Sales by Region: Equipment (Cumulative, Quarterly)

Sales by Region: Equipment (Million Yen)		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	
Japan		2,566	4,559	5,883	8,493	2,783	4,352	5,846	7,312	(1,180)
North America & Latin America		331	1,119	1,795	2,979	289	1,007	1,726	3,352	+372
Europe & Africa		210	1,018	1,287	1,782	80	141	270	337	(1,445)
Middle East, Asia & Oceania		88	473	781	1,147	279	643	879	1,366	+218
Overseas		631	2,612	3,864	5,909	649	1,793	2,876	5,055	(853)
Sales		3,198	7,171	9,747	14,403	3,433	6,145	8,723	12,368	(2,034)
Japan		+41.1%	+8.7%	(16.4%)	(10.2%)	+8.5%	(4.5%)	(0.6%)	(13.9%)	-
North America & Latin America		(24.2%)	+1.4%	(5.9%)	(23.3%)	(12.7%)	(10.0%)	(3.8%)	+12.5%	-
Europe & Africa		+127.0%	+286.3%	+203.4%	+105.4%	(62.0%)	(86.1%)	(79.0%)	(81.1%)	-
Middle East, Asia & Oceania		+39.7%	+251.8%	+23.6%	+63.3%	+215.0%	+35.8%	+12.5%	+19.1%	-
Overseas		+6.3%	+73.8%	+30.4%	+8.3%	+2.9%	(31.4%)	(25.6%)	(14.5%)	-
Sales (YoY)		+32.5%	+25.9%	(2.6%)	(3.4%)	+7.4%	(14.3%)	(10.5%)	(14.1%)	-
Japan		80.3%	63.6%	60.4%	59.0%	81.1%	70.8%	67.0%	59.1%	-
North America & Latin America		10.4%	15.6%	18.4%	20.7%	8.4%	16.4%	19.8%	27.1%	-
Europe & Africa		6.6%	14.2%	13.2%	12.4%	2.3%	2.3%	3.1%	2.7%	-
Middle East, Asia & Oceania		2.8%	6.6%	8.0%	8.0%	8.2%	10.5%	10.1%	11.0%	-
Overseas		19.7%	36.4%	39.6%	41.0%	18.9%	29.2%	33.0%	40.9%	-
Sales (Composition)		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	0.0%	-
Sales by Region: Equipment (Million Yen)		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	
Japan		2,566	1,992	1,323	2,610	2,783	1,568	1,494	1,466	(1,144)
North America & Latin America		331	788	675	1,184	289	718	718	1,625	+440
Europe & Africa		210	807	269	494	80	61	129	66	(428)
Middle East, Asia & Oceania		88	385	307	365	279	363	235	486	+120
Overseas		631	1,980	1,252	2,045	649	1,143	1,083	2,178	+133
Sales		3,198	3,973	2,575	4,655	3,433	2,712	2,577	3,644	(1,010)
Japan		+41.1%	(16.1%)	(53.5%)	+7.9%	+8.5%	(21.3%)	+12.9%	(43.8%)	-
North America & Latin America		(24.2%)	+18.2%	(15.8%)	(40.1%)	(12.7%)	(8.8%)	+6.4%	+37.2%	-
Europe & Africa		+127.0%	+373.0%	+67.5%	+11.6%	(62.0%)	(92.4%)	(52.0%)	(86.6%)	-
Middle East, Asia & Oceania		+39.7%	+441.6%	(38.2%)	+419.0%	+215.0%	(5.5%)	(23.4%)	+33.0%	-
Overseas		+6.3%	+118.0%	(14.3%)	(17.9%)	+2.9%	(42.3%)	(13.5%)	+6.5%	-
Sales (YoY)		+32.5%	+21.0%	(40.2%)	(5.2%)	+7.4%	(31.7%)	+0.1%	(21.7%)	-
Japan		80.3%	50.2%	51.4%	56.1%	81.1%	57.8%	58.0%	40.2%	-
North America & Latin America		10.4%	19.8%	26.2%	25.4%	8.4%	26.5%	27.9%	44.6%	-
Europe & Africa		6.6%	20.3%	10.5%	10.6%	2.3%	2.3%	5.0%	1.8%	-
Middle East, Asia & Oceania		2.8%	9.7%	11.9%	7.9%	8.2%	13.4%	9.1%	13.4%	-
Overseas		19.7%	49.8%	48.6%	43.9%	18.9%	42.2%	42.0%	59.8%	-
Sales (Composition)		100.0%	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	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019		
Cash & Deposit	6,152	6,000	6,392	6,568	5,236	5,245	4,834	5,534	(1,033)	
Accounts Receivables	4,352	5,028	4,341	4,451	4,576	4,377	4,499	4,332	(118)	
Inventory	3,094	3,344	4,061	3,185	2,998	2,802	3,220	2,475	(710)	
Other	720	639	718	579	545	566	653	539	(39)	
Current Assets	14,320	15,012	15,514	14,784	13,356	12,991	13,208	12,881	(1,902)	
Tangible Assets	3,205	3,219	3,355	3,370	3,471	3,554	3,580	3,769	+398	
Intangible Assets	43	32	20	102	96	91	93	16	(86)	
Investments & Other Assets	869	857	864	868	860	847	843	797	(70)	
Fixed Assets	4,118	4,109	4,240	4,341	4,428	4,493	4,517	4,583	+242	
Total Assets	18,439	19,122	19,755	19,125	17,784	17,484	17,726	17,465	(1,660)	
Accounts Payables	2,893	3,289	3,273	2,823	2,510	2,142	2,343	2,169	(654)	
Short Term Debt	-	-	-	-	-	-	-	-	-	
Other	3,139	2,966	3,458	2,741	2,258	2,169	2,105	1,768	(972)	
Current Liabilities	6,033	6,256	6,731	5,564	4,768	4,312	4,449	3,938	(1,626)	
Long Term Debt	-	-	-	-	-	-	-	-	-	
Other	325	333	336	318	323	319	323	275	(42)	
Fixed Liabilities	325	333	336	318	323	319	323	275	(42)	
Total Liabilities	6,358	6,589	7,067	5,883	5,092	4,632	4,772	4,214	(1,668)	
Shareholders' Equity	12,339	12,800	12,915	13,543	12,973	13,092	13,149	13,469	(73)	
Adjustments	(258)	(267)	(226)	(301)	(281)	(240)	(196)	(219)	+81	
Total Assets	12,081	12,532	12,688	13,242	12,691	12,852	12,953	13,250	+8	
Total Liabilities & Net Assets	18,439	19,122	19,755	19,125	17,784	17,484	17,726	17,465	(1,660)	
Equity Capital	12,081	12,532	12,688	13,242	12,691	12,852	12,953	13,250	+8	
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	
Net Debt	(6,152)	(6,000)	(6,392)	(6,568)	(5,236)	(5,245)	(4,834)	(5,534)	+1,033	
Equity Capital Ratio	65.5%	65.5%	64.2%	69.2%	71.4%	73.5%	73.1%	75.9%	-	
Net-Debt-Equity Ratio	(50.9%)	(47.9%)	(50.4%)	(49.6%)	(41.3%)	(40.8%)	(37.3%)	(41.8%)	-	
ROE (12 months)	11.1%	12.6%	9.0%	11.6%	12.5%	9.5%	9.0%	6.4%	-	
ROA (12 months)	12.3%	13.2%	9.4%	10.4%	11.5%	8.7%	8.5%	7.2%	-	
Total Assets Turnover	97%	111%	80%	127%	109%	98%	93%	118%	-	
Inventory Turnover	3.8	4.1	2.6	5.0	4.3	4.1	3.4	5.4	-	
Days of Inventory	97	90	139	73	84	90	106	68	-	
Quick Ratio	174%	176%	159%	198%	206%	223%	210%	251%	-	
Current Ratio	237%	240%	230%	266%	280%	301%	297%	327%	-	

Source: Company Data, WRJ Calculation

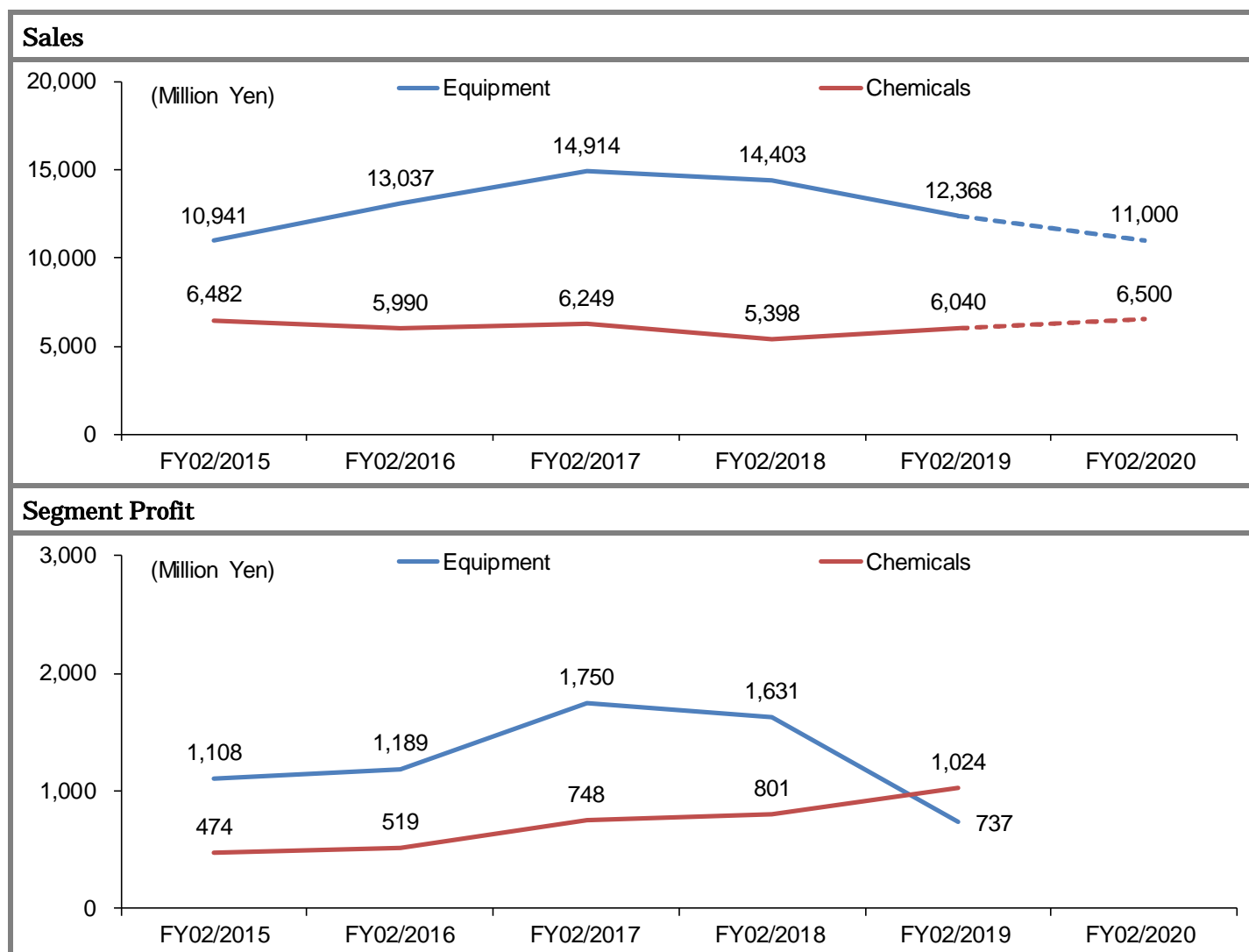
Cash Flow Statement (Cumulative)

Cash Flow Statement (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	
	02/2018	02/2018	02/2018	02/2018	02/2019	02/2019	02/2019	02/2019	
Operating Cash Flow	-	(375)	-	594	-	(230)	-	435	(158)
Investment Cash Flow	-	(224)	-	(493)	-	(190)	-	(566)	(72)
Operating CF & Investment CF	-	(600)	-	100	-	(420)	-	(130)	(231)
Financing Cash Flow	-	(368)	-	(499)	-	(918)	-	(921)	(422)

Source: Company Data, WRJ Calculation

FY02/2020 Company Forecasts

FY02/2020 Company forecasts are going for prospective sales of ¥17,500m (down 4.9% YoY), operating profit of ¥1,000m (down 18.2%), recurring profit of ¥1,000m (down 24.6%) and profit attributable to owners of parent of ¥700m (down 17.0%), while operating profit margin of 5.7% (down 0.9% points). Company forecasts are also going for annual dividend of ¥20.0 per share, implying payout ratio of 47.8%. The Company fails to go for increased financial funds for dividend or profit attributable to owners of parent, but going for stable dividend, presumably in order to secure returns for shareholders.

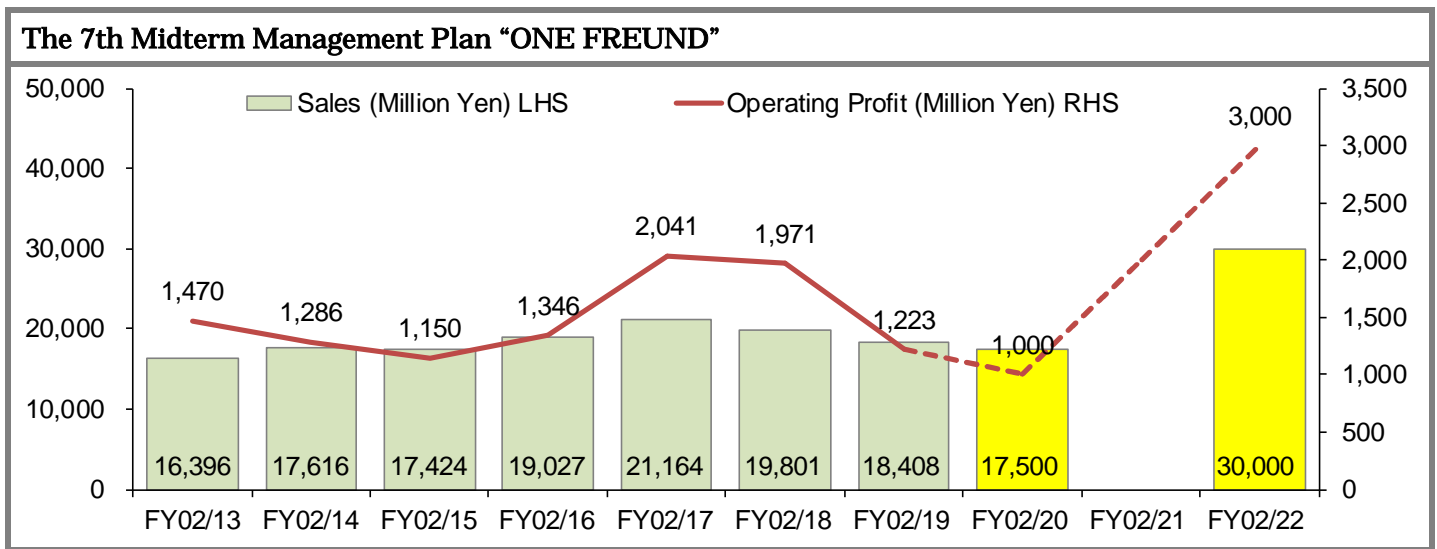


Source: Company Data, WRJ Calculation

Company forecasts assume prospective sales of ¥11,000m (down 11.1%) on the Equipment side and sales of ¥6,500m (up 7.6%) on the Chemicals side. The Company is looking to increasing contribution from tablet-printing equipment or new product of pharmaceutical-related and from equipment of non-pharmaceutical-related (foods, cosmetics and industrial machinery) on the Equipment side, while promoting sales overseas at the same time. Meanwhile, the Company is looking to consistent increases of sales for pharmaceutical excipients on the Chemicals side.

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. They were 6.8% and 13.9%, respectively, over the 5-year period ended by FY02/2017, suggesting that the Company is going for CAGR roughly 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 during its period in the first place.

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. The Company focuses on a) development of new products, b) non-pharmaceutical-related and c) cultivation of markets overseas. After all those measures being implemented, the Company should be able to see increasing sales and earnings during that of “growth”, i.e., the remaining two-year period through FY02/2021 to FY02/2022.

Meanwhile, the Company suffered from something unexpected in FY02/2019 on the Equipment side. Sales fell short of initial Company forecasts, negatively affected by delayed sales of pharmaceutical-related new product, delayed sales of non-pharmaceutical-related and capex by customers lower than expected, having resulted in shortfall of operating profit at the same time. Initial Company forecasts fell short of by ¥1,592m (8.0%) in sales and by ¥677m (35.6%) in operating profit. However, the Company has maintained above-mentioned earnings target in FY02/2022 to date, presumably because of a probability that the Company could further pursue benefits from own measures going forward. It appears that the Company is looking to c) cultivation of markets overseas in particular. For example, the Company held FY02/2019 results meeting (on 22 April 2019), where management was keen on disclosure of measure to make progress with localization on the Equipment side as well as on the Chemicals side for the sake of sales promotions overseas.

On the Equipment side, the Company makes progress with measure to locally set up laboratory to invite local potential customers overseas for the test of own equipment. On top of existing ones available with R&D center based in Hamamatsu and with FREUND-VECTOR CORPORATION or the Company's US subsidiary based in Iowa, the Company set up a new one in Milan (Italy) a few years ago in order to locally promote sales. This was followed by another one set up in China in FY02/2019, while local joint company (PalreFreund) set up with Palre Corporation, based in India, to have been a business partner with the Company for years at the same time. The Company suggests that a local customer has already placed order with PalreFreund.

This new joint company plays a role of local laboratory as well as locally manufacturing equipment to locally sell, which is highly appreciated by local potential customers across the board in that this is local manufacturing based on the Company's high technology (core parts imported from Japan), according to the Company. Going forward, the Company is trying to further set up new ones in Brazil, etc. All those local bridgeheads overseas are also in charge of maintenance services after sales, which is another positive factor to locally drive sales, according to the Company.

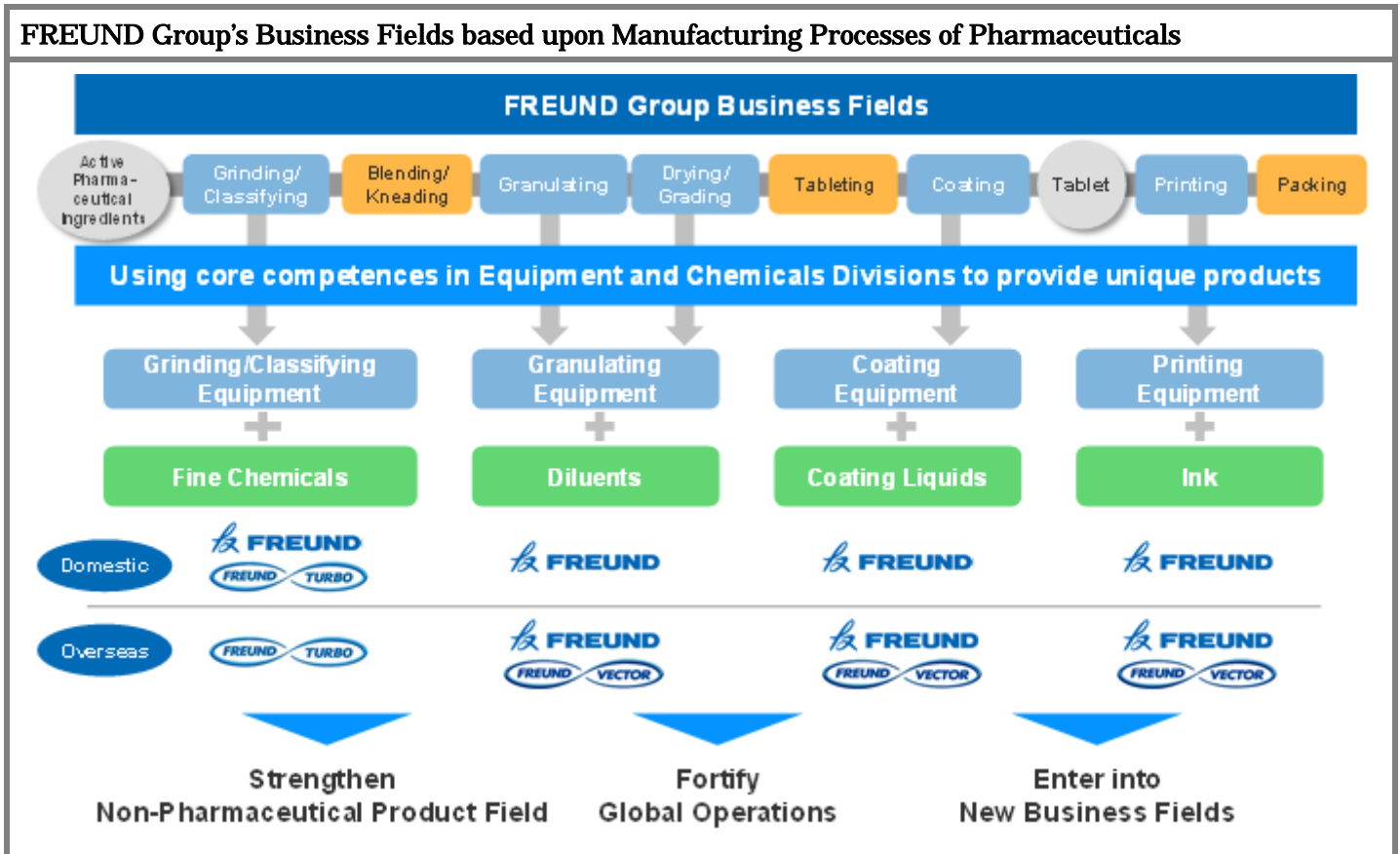
On the Chemicals side, meanwhile, the Company makes progress with localization overseas mainly for the mainstay pharmaceutical excipients. In order to cope with demand overseas, the Company used to simply export them from Japan until recently, while having concluded contracts with local distributors based in the United States, India and China to date in order to further beef up sales overseas. In India, the Company used to cope with firm local demand by means of exports from Japan and the situations in China are noteworthy, according to the Company. As the government measure, equality is increasingly emphasized for any product and service in China, which is not an exception for pharmaceutical excipients, implying a tide running in favor of the Company.

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 licensed by Glatt GmbH.




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



Source: Company Data

Granulation/coating equipment, comprising the bulk of the mainstay pharmaceutical-related on the Equipment side, are 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 on the tablet surface are achievable and so is masking to block the bitterness, etc. As a recent topic, the Company mentions that a major new pharmaceutical manufacturer in Japan has acquired first-made serial manufacturing system or Granuformer. At the moment, this equipment is run on an experiment basis with objective to cut back time for the manufacture of pharmaceuticals, while improved productivity and efficiency likely being proven in the foreseeable future, according to the Company.

In regards to the mainstay pharmaceutical-related, the Company has also introduced new product or tablet-printing equipment (TABREX) in the market, representing equipment to 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. Being superior to existing “laser-type printing” in terms of identifiability, 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 continue rising, driven by increasing accidental ingestions in line with progressing population ageing and increasing home health care over the long term. Meanwhile, the Company used to focus own resources on improving capability of hardware until recently, given additional needs from users to have already installed the equipment to cope with variety of tablets far more extensively than initially assumed. Given this situation, order intake here has been suspended for some time. More importantly, however, the Company has mentioned that this problem is now gone, while resuming to appeal to potential customers for order placement with the Company most recently.

Granulation/Coating Equipment	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p data-bbox="124 1182 528 1261">Granuformer (Serial Manufacturing System)</p>	 <p data-bbox="759 1205 879 1238">TABREX</p>	 <p data-bbox="1214 1227 1361 1261">Nonpareil®</p>
<p data-bbox="92 1294 555 1373">Granulation, mixing and drying all on a serial basis</p>	<p data-bbox="582 1294 1045 1518">Printing identification information on the surface of tablets with an objective to avoid accidental ingestions and/or erroneous prescriptions</p>	<p data-bbox="1077 1294 1469 1518">Perfect as a core for elaborate granule for pharmaceutical preparation with narrow particle size distribution and high sphericity.</p>

Source: Company Data

On the Chemicals side, meanwhile, the Company is involved with development, manufacture and sales of pharmaceutical excipients, food preservatives and dietary supplement. The mainstay pharmaceutical excipients are auxiliary feedstocks used for oral agents, including tablets, coating agents, orally 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. At the moment, demand from manufacturers of pharmaceuticals both new and generic associated with orally disintegrating tablets with which the Company has expertise in particular is so buoyant, which is driving sales and earnings on the Chemicals side as a whole.

A domain out of the mainstay Nonpareil® sees sales volume more than doubled over the previous year, while further increases are likely, according to the Company. In regards to SmartEx™, codeveloped with Shin-Etsu Chemical 5 years ago, sales volume is now starting to surge and the Company suggests this could be 10 times larger in 3 to 5 years. All those pharmaceutical excipients are manufactured with self-developed equipment, implying a high barrier to enter. Meanwhile, the Company, forecasting rosy prospects for demand, has recently decided to expand capacity for the manufacture of pharmaceutical excipients.

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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