

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 Results Update (9 April 2019)


Off Crop Season

On 9 April 2019, FREUND CORPORATION, developing, manufacturing and selling equipment and chemicals, released its FY02/2019 results. It has been revealed that the Company is currently in the middle of off crop season with its business performance. This is due mainly to special procurement of equipment to drive usage of generic drugs in Japan is not reappearing. Nevertheless, the Company sets three-year period by FY02/2020 as “a period of setting up the basis for growth” in the first place and/or that of preparation for “a period of growth” to follow, i.e., FY02/2021 and FY02/2022 (five-year projections through FY02/2018 to FY02/2022 or the 7th midterm management plan). Meanwhile, we are to attend the Company’s results meeting on 22 April in order to gather information more in depth as well as interviewing with management afterwards so that we should be able to update [FREUND CORPORATION \(6312\) Strengthen the Measures \(8 February 2019\)](#) and to release anew.

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

2.0 Company Profile

Equipment and Chemicals

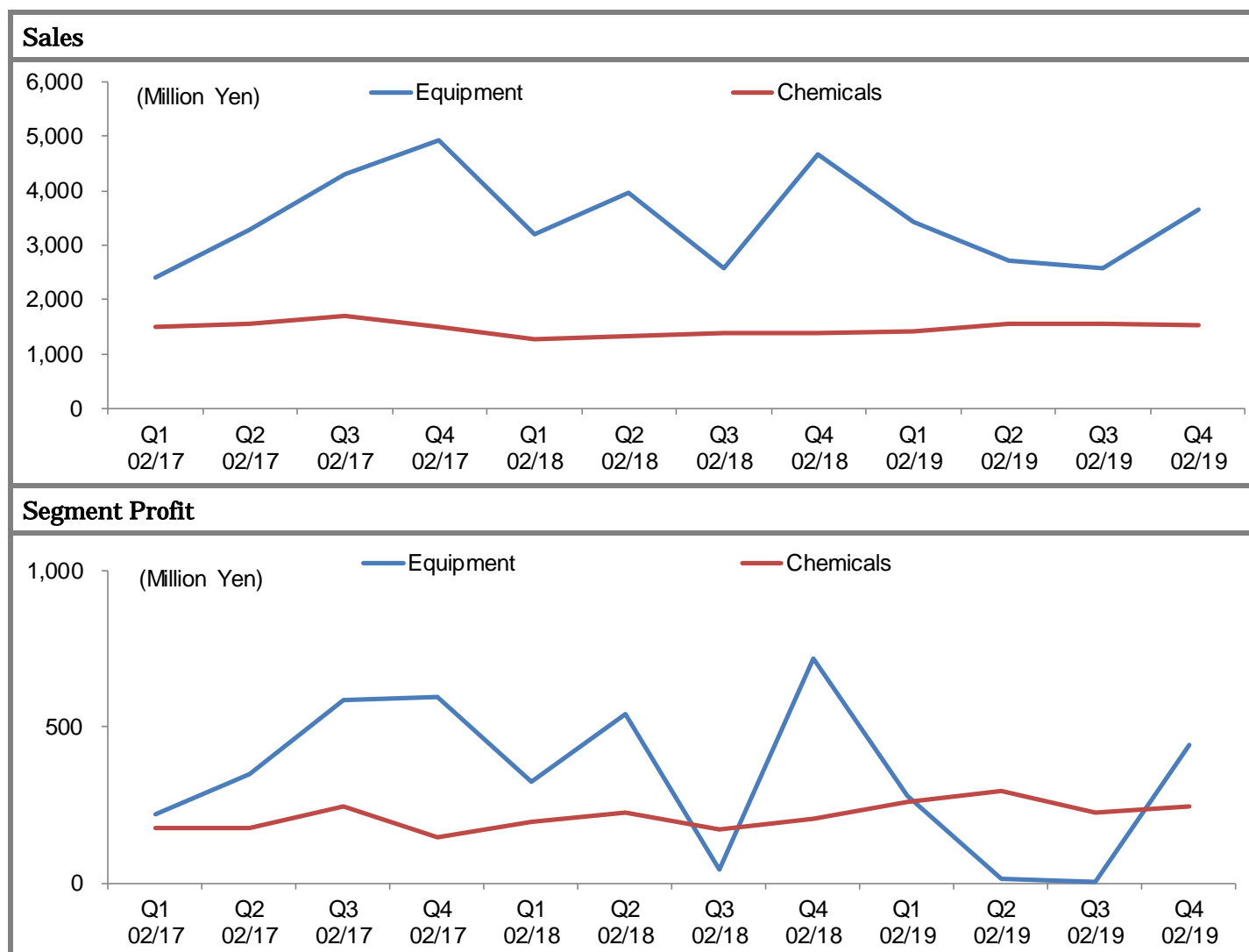
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of February 2019)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury 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 driver on the Chemicals side 	
Business Segments	<ul style="list-style-type: none"> . Equipment . Chemicals 	
Top Management	President & CEO: Iwao Fusejima	
Shareholders	Own shares holding 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

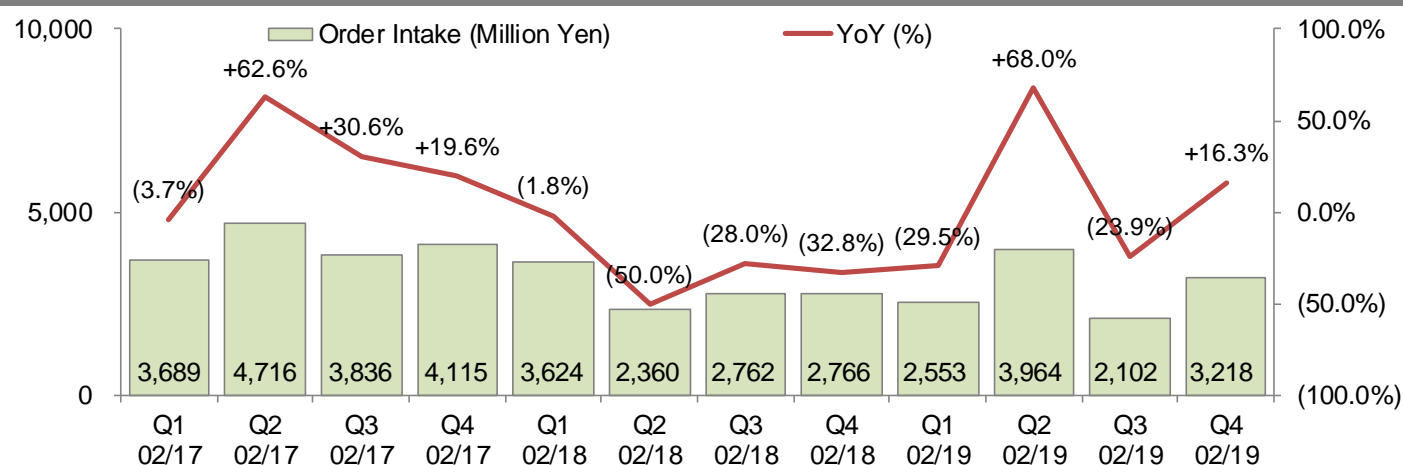
In FY02/2019, sales came in at ¥18,408m (down 7.0% YoY), operating profit ¥1,223m (down 37.9%), recurring profit ¥1,326m (down 33.5%) and profit attributable to owners of parent ¥843m (down 42.9%), while operating profit margin 6.6% (down 3.3% points). The most recent Company forecasts (released on 8 January 2019) were exceeded by ¥408m (2.3%) in sales and by ¥223m (22.3%) in operating profit. On the equipment side, the Company did not suffer from delayed sales assumed with Company forecasts, while having seen sales and earnings better than expected on the Chemicals side as far as we could see.



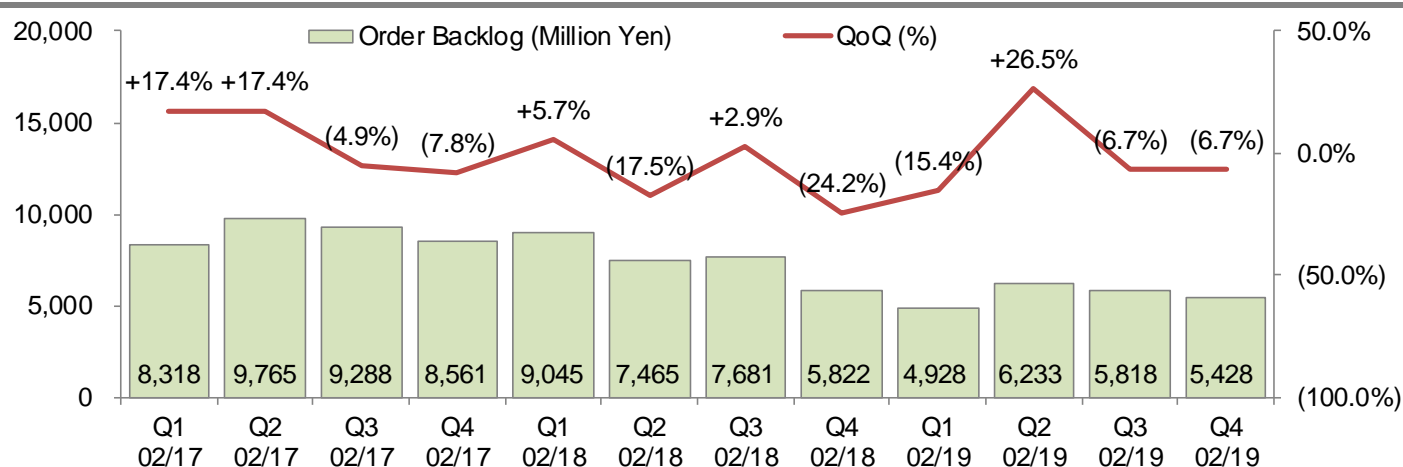
Source: Company Data, WRJ Calculation

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). Special procurement of equipment to drive usage of generic drugs in Japan is not reappearing, while the Company has not succeeded in beefing up sales of new products as much as expected earlier. Still, order intake came in at ¥11,839m (up 2.8%) on a full-year basis, which could imply a tendency towards “a period of growth” in a sense. More importantly, the Company suggests the levelling out after above-mentioned special procurement has already started up with order intake, while anticipating a gradual takeoff of new products across the board in the foreseeable future.

Equipment: Order Intake



Equipment: Order Backlog



Source: Company Data, WRJ Calculation

On the Chemicals side, sales came in at ¥6,040m (up 11.9%), segment profit ¥1,024m (up 27.9%) and segment profit margin 17.0% (up 2.1% points). The Company suggests that steady increases of sales and earnings here have a lot to do with increased demand for pharmaceutical excipients, those of the Company's expertise domains in particular. Still, this is not substantial enough to compensate for adjustments on the Equipment side.

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%. In the middle of off crop season, the Company fails to see increased financial funds for dividend or profit attributable to owners of parent, but going for stable dividend in order to secure returns for shareholders.

4.0 Financial Statements

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

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	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 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)	-	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

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.

Company name: Walden Research Japan Incorporated

Head office: 4F Hulic Ginza 1-chome Building, 1-13-1 Ginza, Chuo-ku, Tokyo 104-0061 JAPAN

URL: www.walden.co.jp

E-mail: info@walden.co.jp

Phone : +81 3 3553 3769
