

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	-
FY02/2019		YoY (7.0%)	(37.9%)	(33.5%)	(42.9%)	-	-	-
FY02/2020CoE		YoY (4.9%)	(18.2%)	(24.6%)	(17.0%)	-	-	-
Consolidated Quarter (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY02/2019		4,849	399	478	347	-	-	-
Q2 FY02/2019		4,267	193	205	118	-	-	-
Q3 FY02/2019		4,126	77	86	57	-	-	-
Q4 FY02/2019		5,164	552	555	319	-	-	-
Q1 FY02/2020		2,878	(214)	(217)	(158)	-	-	-
Q1 FY02/2020		YoY (40.6%)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (2 August 2019)


Stabilization

FREUND CORPORATION, developing, manufacturing and selling equipment and chemicals, is currently seeing a trend of stabilization with its order intake on the Equipment side. Still, the Company suffered from loss in Q1 FY02/2020 due to temporary fall of sales on the Equipment side. With respect to pharmaceutical-related granulation/coating equipment, accounting for the bulk of sales on the Equipment side, it takes 8 to 10 months for incoming order intake to book sales, while it appears that the Company saw the number of projects to book sales extremely low in Q1. Meanwhile, order intake was rather stabilized, having resulted in substantial increases with order backlog. Although order intake of industrial-related equipment is coming down, strengths of pharmaceutical-related are compensating. With respect to industrial-related equipment, the Company is currently suffering from plummeting order intake associated with rechargeable-battery-related manufacturing equipment for China. On the Chemicals side, meanwhile, it appears that the Company has been seeing business performance in line with assumptions of the 7th midterm management plan “ONE FREUND” (FY02/2018 to FY02/2022). On the Equipment side, it has turned out to be the case that reactionary decrease phenomenon on measure to achieve 80% penetration rate for generic drug in Japan generates negative impacts larger than expected with the midterm management plan. However, the Company is keen on placing emphasis on launch of new products as well as on market cultivations overseas so that the Company should move into a period of “growth” in FY02/2021 as originally planned.

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

2.0 Company Profile

Equipment and Chemicals

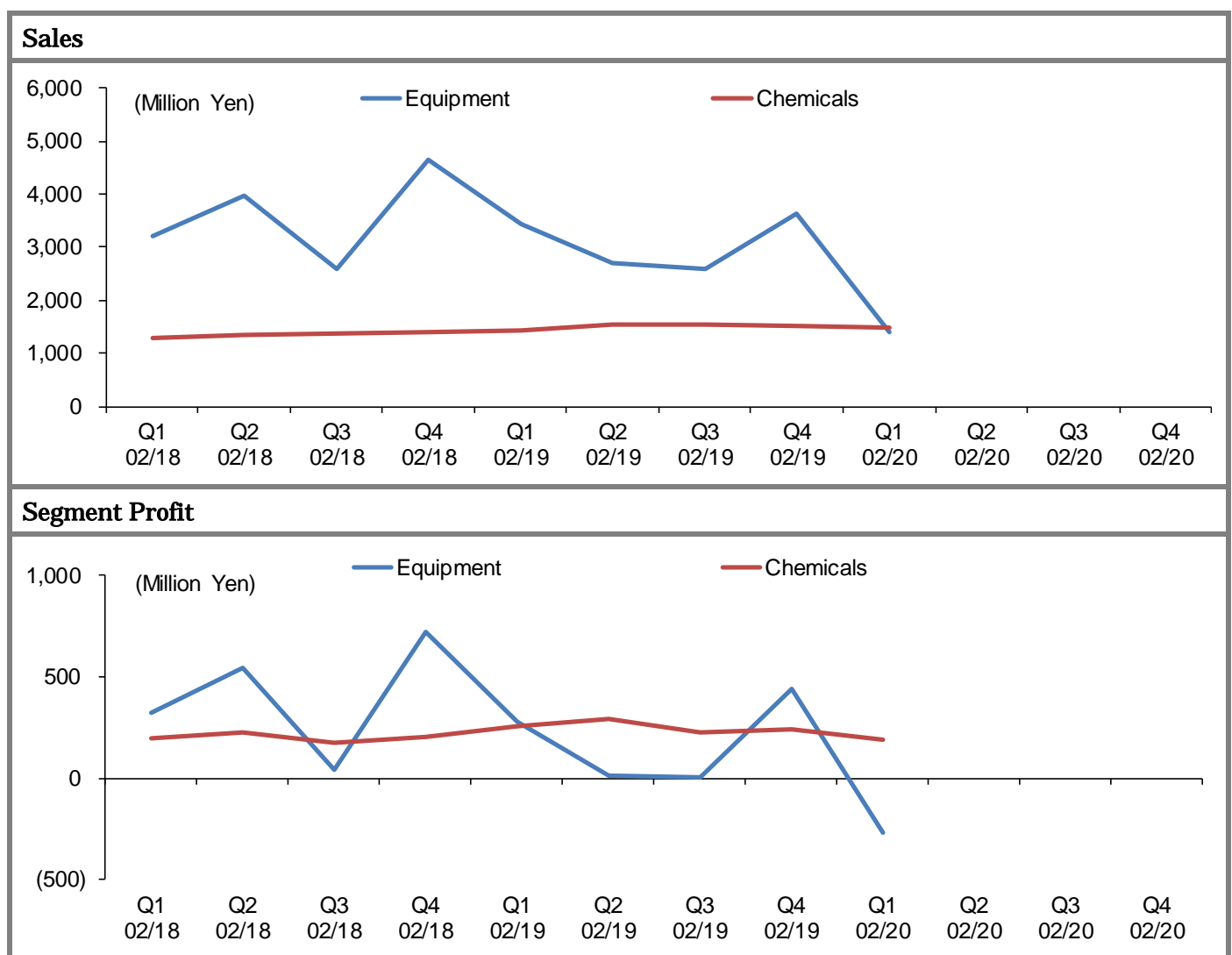
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of May 2019)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of May 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, e.g., tablet-printing equipment (TABREX), rechargeable-battery-related manufacturing equipment ● 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	Company's Tr. Stock 8.9%, KK Fusejima Yokosha 8.9%, Yasutoyo Fusejima 7.0%, MUFG Bank 4.5% (as of the end of February 2019)	
Headquarters	FREUND Bldg., 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN	
No. of Employees	Consolidated: 383, Parent: 215 (as of the end of May 2019)	

Source: Company Data

3.0 Recent Trading and Prospects

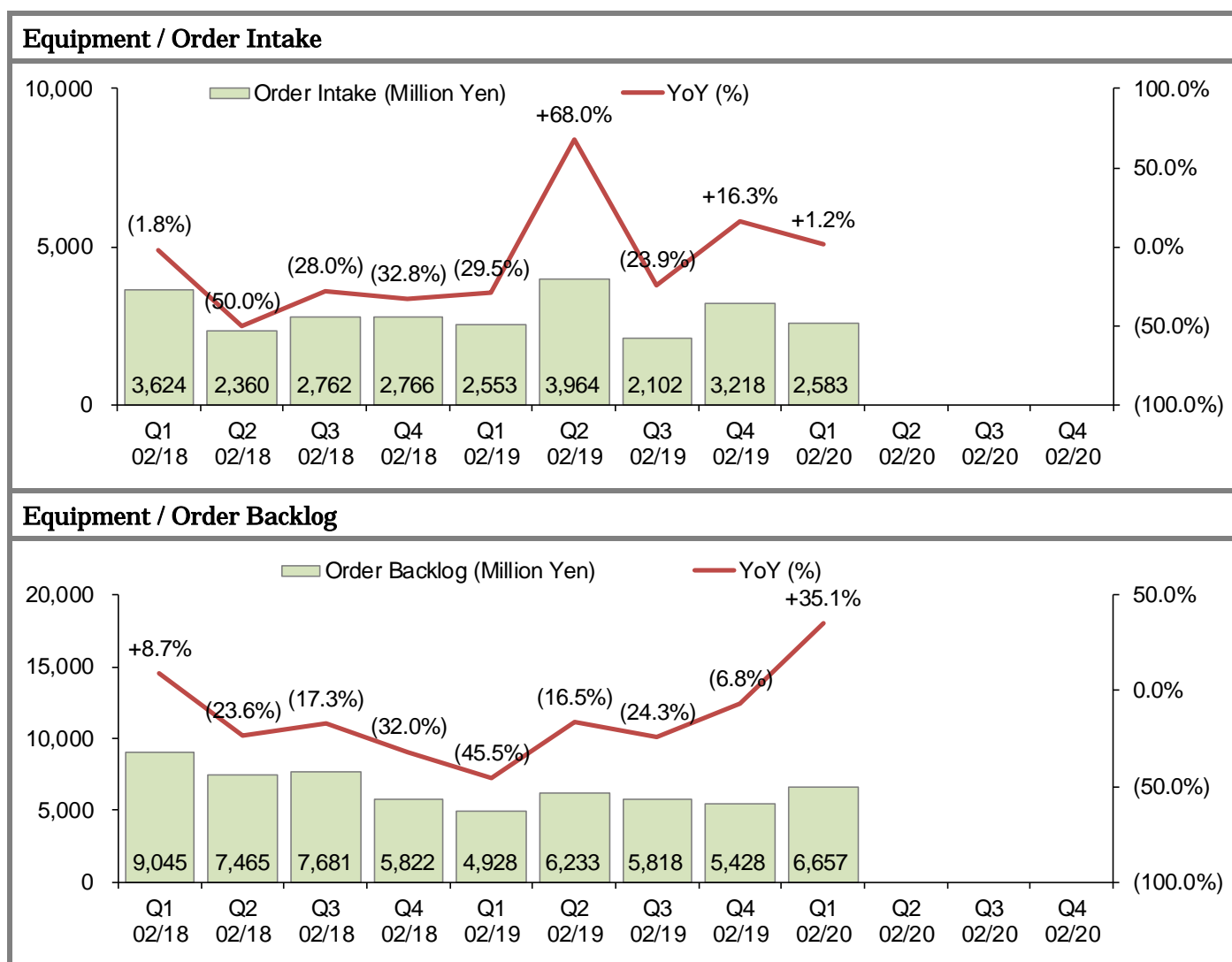
Q1 FY02/2020 Results

In Q1 FY02/2020, sales came in at ¥2,878m (down 40.6% YoY), operating profit negative ¥214m (versus ¥399m during the same period in the previous year), recurring profit negative ¥217m (¥478m) and profit attributable to owners of parent negative ¥158m (¥347m), while operating profit margin negative 7.5% (down 15.7% points). At the same time, gross profit came in at ¥1,047m (down 34.7%), SG&A expenses ¥1,262m (up 4.8%), implying gross profit margin of 36.4% (up 3.3% points) and sales to SG&A expenses ratio of 43.9% (up 19.0% points). The Company, being hardly exposed to fixed cost on the manufacture, saw gross profit margin rather improved in spite of plummeting sales. However, sales literally plummeted on an absolute basis and thus gross profit, which was the key factor for deteriorated earnings. On top of this, earnings came down as much as increases of SG&A expenses due mainly to increased personnel expenses.



Source: Company Data, WRJ Calculation

On the Equipment side, sales came in at ¥1,386m (down 59.6%), segment profit negative ¥267m (¥278m) and segment profit margin negative 19.3% (down 27.4% points), while sales ¥1,491m (up 5.3%), segment profit ¥187m (down 27.8%) and segment profit margin 12.6% (down 5.8% points) on the Chemicals side. Sales plummeted on the Equipment side, substantially increased sales composition ratio on the Chemicals side, i.e., up to 51.8% from 29.2% during the same period in the previous year. As a result, the Company saw increased common cost to be allocated in line with sales composition ratio and thus decreased earnings due to this on the Chemicals side. If it were not for this, earnings on the Chemicals side should have been buoyant, according to the Company.



Source: Company Data, WRJ Calculation

In Q1 FY02/2020, order intake on the Equipment side came in at ¥2,583m, up 1.2% from ¥2,553m during the same period in the previous year. Meanwhile, order backlog as of the end of Q1 stood at ¥6,657m, up 35.1% from ¥4,928m as of the end of Q1 FY02/2019. As mentioned earlier, short-term sales are plummeting, but sales are to be stabilized longer term in line with stabilization of the most recent order intake.

By application, the mainstay pharmaceutical-related saw order intake of ¥2,148m (up 11.7%), order backlog of ¥6,047m (up 54.4%) and sales of ¥1,146m (down 61.7%), while industrial-related saw order intake of ¥434m (down 30.9%), order backlog of ¥610m (down 39.7%) and sales of ¥240m (down 45.3%). As order intake has not started over yet by the end of Q1 with respect to tablet-printing equipment (TABREX), it appears that granulation/coating equipment is everything with pharmaceutical-related. Meanwhile, although it is the case that reactionary decrease phenomenon on measure to achieve 80% penetration rate for generic drug in Japan generates negative impacts larger than expected with the 7th midterm management plan "ONE FREUND" (FY02/2018 to FY02/2022), order intake on pharmaceutical-related is now increasing. Still, order intake on industrial-related is coming down in line with that of rechargeable-battery-related manufacturing equipment for China despite high growth expectations until recently, having resulted in decreased sales and decreased order backlog for industrial-related at the same time. However, more importantly, pharmaceutical-related is the mainstay on the Equipment side, overwhelming driving business performance as a whole.

On the Chemicals side, meanwhile, pharmaceutical excipients saw sales of ¥764m (up 2.7%), food preservatives ¥538m (down 3.0%) and dietary supplements ¥188m (up 61.5%), while exports mainly comprising pharmaceutical excipients (mostly bound for India, Korea and Taiwan) saw sales of ¥38m (down 68.9%). With respect to pharmaceutical excipients, presumably being the key driver of earnings on the Chemicals side due to high exposure in sales and high gross profit margin, is seeing solid increases of demand mainly associated with generic drug manufacturers and thus increased sales and earnings, according to the Company. Still, as exports to India associated with large-scale project is currently in an off-crop season, sales of pharmaceutical excipients are not growing very fast at the moment.

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.
	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020		
Sales	4,849	9,117	13,243	18,408	2,878	-	-	-	-	(1,971)
Cost of Sales	3,245	6,100	8,874	12,220	1,830	-	-	-	-	(1,414)
Gross Profit	1,604	3,016	4,368	6,188	1,047	-	-	-	-	(556)
SG&A	1,204	2,423	3,698	4,964	1,262	-	-	-	-	+57
Operating Profit	399	592	670	1,223	(214)	-	-	-	-	(613)
Non Operating Balance	79	91	100	103	(2)	-	-	-	-	(82)
Recurring Profit	478	684	770	1,326	(217)	-	-	-	-	(696)
Extraordinary Balance	21	21	22	(70)	7	-	-	-	-	(14)
Profit before Income Taxes	500	705	792	1,255	(210)	-	-	-	-	(710)
Total Income Taxes	153	239	269	412	(52)	-	-	-	-	(205)
Profit Attributable to Owners of Parent	347	466	523	843	(158)	-	-	-	-	(505)
Sales YoY	+8.4%	(6.9%)	(3.7%)	(7.0%)	(40.6%)	-	-	-	-	-
Operating Profit YoY	+3.0%	(44.8%)	(41.9%)	(37.9%)	-	-	-	-	-	-
Recurring Profit YoY	+20.3%	(37.3%)	(34.4%)	(33.5%)	-	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	+26.6%	(36.5%)	(38.4%)	(42.9%)	-	-	-	-	-	-
Gross Profit Margin	33.1%	33.1%	33.0%	33.6%	36.4%	-	-	-	-	+3.3%
Sales to SG&A Expenses Ratio	24.8%	26.6%	27.9%	27.0%	43.9%	-	-	-	-	+19.0%
Operating Profit Margin	8.2%	6.5%	5.1%	6.6%	(7.5%)	-	-	-	-	(15.7%)
Recurring Profit Margin	9.9%	7.5%	5.8%	7.2%	(7.6%)	-	-	-	-	(17.4%)
Profit Attributable to Owners of Parent Margin	7.2%	5.1%	4.0%	4.6%	(5.5%)	-	-	-	-	(12.7%)
Total Income Taxes / Profit before Income Taxes	30.6%	33.9%	34.0%	32.8%	-	-	-	-	-	-
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.
	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020		
Sales	4,849	4,267	4,126	5,164	2,878	-	-	-	-	(1,971)
Cost of Sales	3,245	2,855	2,773	3,345	1,830	-	-	-	-	(1,414)
Gross Profit	1,604	1,412	1,352	1,819	1,047	-	-	-	-	(556)
SG&A	1,204	1,218	1,275	1,266	1,262	-	-	-	-	+57
Operating Profit	399	193	77	552	(214)	-	-	-	-	(613)
Non Operating Balance	79	11	8	2	(2)	-	-	-	-	(82)
Recurring Profit	478	205	86	555	(217)	-	-	-	-	(696)
Extraordinary Balance	21	0	0	(92)	7	-	-	-	-	(14)
Profit before Income Taxes	500	205	86	462	(210)	-	-	-	-	(710)
Total Income Taxes	153	86	29	142	(52)	-	-	-	-	(205)
Profit Attributable to Owners of Parent	347	118	57	319	(158)	-	-	-	-	(505)
Sales YoY	+8.4%	(19.7%)	+4.3%	(14.7%)	(40.6%)	-	-	-	-	-
Operating Profit YoY	+3.0%	(71.8%)	(0.9%)	(32.5%)	-	-	-	-	-	-
Recurring Profit YoY	+20.3%	(70.4%)	+4.3%	(32.2%)	-	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	+26.6%	(74.1%)	(50.1%)	(49.1%)	-	-	-	-	-	-
Gross Profit Margin	33.1%	33.1%	32.8%	35.2%	36.4%	-	-	-	-	+3.3%
Sales to SG&A Expenses Ratio	24.8%	28.5%	30.9%	24.5%	43.9%	-	-	-	-	+19.0%
Operating Profit Margin	8.2%	4.5%	1.9%	10.7%	(7.5%)	-	-	-	-	(15.7%)
Recurring Profit Margin	9.9%	4.8%	2.1%	10.8%	(7.6%)	-	-	-	-	(17.4%)
Profit Attributable to Owners of Parent Margin	7.2%	2.8%	1.4%	6.2%	(5.5%)	-	-	-	-	(12.7%)
Total Income Taxes / Profit before Income Taxes	30.6%	42.1%	34.0%	30.9%	-	-	-	-	-	-

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 02/2019	Q1 to Q2 02/2019	Q1 to Q3 02/2019	Q1 to Q4 02/2019	Q1 02/2020	Q1 to Q2 02/2020	Q1 to Q3 02/2020	Q1 to Q4 02/2020		
Equipment	3,433	6,145	8,723	12,368	1,386	-	-	-	-	(2,046)
Chemicals	1,416	2,971	4,519	6,040	1,491	-	-	-	-	+75
Sales	4,849	9,117	13,243	18,408	2,878	-	-	-	-	(1,971)
Machinery	+7.4%	(14.3%)	(10.5%)	(14.1%)	(59.6%)	-	-	-	-	-
Chemicals	+11.1%	+13.5%	+13.0%	+11.9%	+5.3%	-	-	-	-	-
Sales (YoY)	+8.4%	(6.9%)	(3.7%)	(7.0%)	(40.6%)	-	-	-	-	-
Equipment	70.8%	67.4%	65.9%	67.2%	48.2%	-	-	-	-	-
Chemicals	29.2%	32.6%	34.1%	32.8%	51.8%	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Equipment	278	291	295	737	(267)	-	-	-	-	(545)
Chemicals	259	556	781	1,024	187	-	-	-	-	(72)
Segment Profit	537	847	1,076	1,762	(79)	-	-	-	-	(617)
Elimination	(138)	(254)	(406)	(538)	(135)	-	-	-	-	+3
Operating Profit	399	592	670	1,223	(214)	-	-	-	-	(613)
Equipment	(14.8%)	(66.5%)	(67.5%)	(54.8%)	-	-	-	-	-	-
Chemicals	+32.5%	+32.1%	+31.5%	+27.9%	(27.8%)	-	-	-	-	-
Segment Profit (YoY)	+2.9%	(34.3%)	(28.4%)	(27.6%)	-	-	-	-	-	-
Equipment	51.7%	34.4%	27.5%	41.8%	-	-	-	-	-	-
Chemicals	48.3%	65.6%	72.5%	58.2%	-	-	-	-	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-	-
Equipment	8.1%	4.7%	3.4%	6.0%	(19.3%)	-	-	-	-	(27.4%)
Chemicals	18.3%	18.7%	17.3%	17.0%	12.6%	-	-	-	-	(5.8%)
Elimination	(2.9%)	(2.8%)	(3.1%)	(2.9%)	(4.7%)	-	-	-	-	(1.8%)
Operating Profit Margin	8.2%	6.5%	5.1%	6.6%	(7.5%)	-	-	-	-	(15.7%)
Segmented Information (Million Yen)	Cons.Act Q1 02/2019	Cons.Act Q2 02/2019	Cons.Act Q3 02/2019	Cons.Act Q4 02/2019	Cons.Act Q1 02/2020	Cons.Act Q2 02/2020	Cons.Act Q3 02/2020	Cons.Act Q4 02/2020	YoY Net Chg.	
Equipment	3,433	2,712	2,577	3,644	1,386	-	-	-	(2,046)	
Chemicals	1,416	1,555	1,548	1,520	1,491	-	-	-	+75	
Sales	4,849	4,267	4,126	5,164	2,878	-	-	-	(1,971)	
Machinery	+7.4%	(31.7%)	+0.1%	(21.7%)	(59.6%)	-	-	-	-	
Chemicals	+11.1%	+15.8%	+12.1%	+8.6%	+5.3%	-	-	-	-	
Sales (YoY)	+8.4%	(19.7%)	+4.3%	(14.7%)	(40.6%)	-	-	-	-	
Equipment	70.8%	63.6%	62.5%	70.6%	48.2%	-	-	-	-	
Chemicals	29.2%	36.4%	37.5%	29.4%	51.8%	-	-	-	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	
Equipment	278	13	4	441	(267)	-	-	-	(545)	
Chemicals	259	296	224	243	187	-	-	-	(72)	
Segment Profit	537	309	229	685	(79)	-	-	-	(617)	
Elimination	(138)	(116)	(151)	(132)	(135)	-	-	-	+3	
Operating Profit	399	193	77	552	(214)	-	-	-	(613)	
Equipment	(14.8%)	(97.5%)	(90.0%)	(38.7%)	-	-	-	-	-	
Chemicals	+32.5%	+31.9%	+30.0%	+17.5%	(27.8%)	-	-	-	-	
Segment Profit (YoY)	+2.9%	(59.6%)	+6.6%	(26.2%)	-	-	-	-	-	
Equipment	51.7%	4.3%	1.8%	64.5%	-	-	-	-	-	
Chemicals	48.3%	95.7%	98.2%	35.5%	-	-	-	-	-	
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-	
Equipment	k	0.5%	0.2%	12.1%	(19.3%)	-	-	-	(27.4%)	
Chemicals	18.3%	19.1%	14.5%	16.0%	12.6%	-	-	-	(5.8%)	
Elimination	(2.9%)	(2.7%)	(3.7%)	(2.6%)	(4.7%)	-	-	-	(1.8%)	
Operating Profit Margin	8.2%	4.5%	1.9%	10.7%	(7.5%)	-	-	-	(15.7%)	

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	Cons.Act	YoY Net Chg.
	Q1 02/2019	Q1 to Q2 02/2019	Q1 to Q3 02/2019	Q1 to Q4 02/2019	Q1 02/2020	Q1 to Q2 02/2020	Q1 to Q3 02/2020	Q1 to Q4 02/2020		
Japan	2,783	4,352	5,846	7,312	894	-	-	-	(1,888)	
North America / Latin America	289	1,007	1,726	3,352	308	-	-	-	+19	
Europe / Africa	80	141	270	337	81	-	-	-	0	
Middle East / Asia / Oceania	279	643	879	1,366	101	-	-	-	(178)	
Overseas	649	1,793	2,876	5,055	491	-	-	-	(157)	
Sales	3,433	6,145	8,723	12,368	1,386	-	-	-	(2,046)	
Japan	+8.5%	(4.5%)	(0.6%)	(13.9%)	(67.9%)	-	-	-	-	
North America / Latin America	(12.7%)	(10.0%)	(3.8%)	+12.5%	+6.7%	-	-	-	-	
Europe / Africa	(62.0%)	(86.1%)	(79.0%)	(81.1%)	+1.2%	-	-	-	-	
Middle East / Asia / Oceania	+215.0%	+35.8%	+12.5%	+19.1%	(63.6%)	-	-	-	-	
Overseas	+2.9%	(31.4%)	(25.6%)	(14.5%)	(24.3%)	-	-	-	-	
Sales (YoY)	+7.4%	(14.3%)	(10.5%)	(14.1%)	(59.6%)	-	-	-	-	
Japan	81.1%	70.8%	67.0%	59.1%	64.5%	-	-	-	-	
North America / Latin America	8.4%	16.4%	19.8%	27.1%	22.3%	-	-	-	-	
Europe / Africa	2.3%	2.3%	3.1%	2.7%	5.9%	-	-	-	-	
Middle East / Asia / Oceania	8.2%	10.5%	10.1%	11.0%	7.3%	-	-	-	-	
Overseas	18.9%	29.2%	33.0%	40.9%	35.5%	-	-	-	-	
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	

Sales by Region / Equipment (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2019	Q2 02/2019	Q3 02/2019	Q4 02/2019	Q1 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020		
Japan	2,783	1,568	1,494	1,466	894	-	-	-	(1,888)	
North America / Latin America	289	718	718	1,625	308	-	-	-	+19	
Europe / Africa	80	61	129	66	81	-	-	-	0	
Middle East / Asia / Oceania	279	363	235	486	101	-	-	-	(178)	
Overseas	649	1,143	1,083	2,178	491	-	-	-	(157)	
Sales	3,433	2,712	2,577	3,644	1,386	-	-	-	(2,046)	
Japan	+8.5%	(21.3%)	+12.9%	(43.8%)	(67.9%)	-	-	-	-	
North America / Latin America	(12.7%)	(8.8%)	+6.4%	+37.2%	+6.7%	-	-	-	-	
Europe / Africa	(62.0%)	(92.4%)	(52.0%)	(86.6%)	+1.2%	-	-	-	-	
Middle East / Asia / Oceania	+215.0%	(5.5%)	(23.4%)	+33.0%	(63.6%)	-	-	-	-	
Overseas	+2.9%	(42.3%)	(13.5%)	+6.5%	(24.3%)	-	-	-	-	
Sales (YoY)	+7.4%	(31.7%)	+0.1%	(21.7%)	(59.6%)	-	-	-	-	
Japan	81.1%	57.8%	58.0%	40.2%	64.5%	-	-	-	-	
North America / Latin America	8.4%	26.5%	27.9%	44.6%	22.3%	-	-	-	-	
Europe / Africa	2.3%	2.3%	5.0%	1.8%	5.9%	-	-	-	-	
Middle East / Asia / Oceania	8.2%	13.4%	9.1%	13.4%	7.3%	-	-	-	-	
Overseas	18.9%	42.2%	42.0%	59.8%	35.5%	-	-	-	-	
Sales (Composition)	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 02/2019	Q2 02/2019	Q3 02/2019	Q4 02/2019	Q1 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020		
Cash & Deposit	5,236	5,245	4,834	5,534	4,607	-	-	-	-	(629)
Accounts Receivables	4,576	4,377	4,499	4,332	4,039	-	-	-	-	(537)
Inventory	2,998	2,802	3,220	2,475	3,308	-	-	-	-	+310
Other	545	566	653	368	387	-	-	-	-	(157)
Current Assets	13,356	12,991	13,208	12,711	12,342	-	-	-	-	(1,013)
Tangible Assets	3,471	3,554	3,580	3,769	3,857	-	-	-	-	+386
Intangible Assets	96	91	93	16	17	-	-	-	-	(78)
Investments & Other Assets	860	847	843	951	1,009	-	-	-	-	+149
Fixed Assets	4,428	4,493	4,517	4,736	4,885	-	-	-	-	+457
Total Assets	17,784	17,484	17,726	17,448	17,227	-	-	-	-	(556)
Accounts Payables	2,510	2,142	2,343	2,169	2,043	-	-	-	-	(466)
Short Term Debt	-	-	-	-	-	-	-	-	-	-
Other	2,258	2,169	2,105	1,768	2,216	-	-	-	-	(42)
Current Liabilities	4,768	4,312	4,449	3,938	4,259	-	-	-	-	(509)
Long Term Debt	-	-	-	-	-	-	-	-	-	-
Other	323	319	323	258	244	-	-	-	-	(79)
Fixed Liabilities	323	319	323	258	244	-	-	-	-	(79)
Total Liabilities	5,092	4,632	4,772	4,197	4,504	-	-	-	-	(588)
Shareholders' Equity	12,973	13,092	13,149	13,469	12,976	-	-	-	-	+3
Adjustments	(281)	(240)	(196)	(219)	(253)	-	-	-	-	+28
Total Assets	12,691	12,852	12,953	13,250	12,723	-	-	-	-	+31
Total Liabilities & Net Assets	17,784	17,484	17,726	17,448	17,227	-	-	-	-	(556)
Equity Capital	12,691	12,852	12,953	13,250	12,723	-	-	-	-	+32
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	-
Net Debt	(5,236)	(5,245)	(4,834)	(5,534)	(4,607)	-	-	-	-	+629
Equity Capital Ratio	71.4%	73.5%	73.1%	75.9%	73.9%	-	-	-	-	-
Net-Debt-Equity Ratio	(41.3%)	(40.8%)	(37.3%)	(41.8%)	(36.2%)	-	-	-	-	-
ROE (12 months)	12.5%	9.5%	9.0%	6.4%	2.7%	-	-	-	-	-
ROA (12 months)	11.5%	8.7%	8.5%	7.3%	3.6%	-	-	-	-	-
Total Assets Turnover	109%	98%	93%	118%	67%	-	-	-	-	-
Inventory Turnover	4.3	4.1	3.4	5.4	2.2	-	-	-	-	-
Days of Inventory	84	90	106	68	165	-	-	-	-	-
Quick Ratio	206%	223%	210%	251%	203%	-	-	-	-	-
Current Ratio	280%	301%	297%	323%	290%	-	-	-	-	-

Source: Company Data, WRJ Calculation

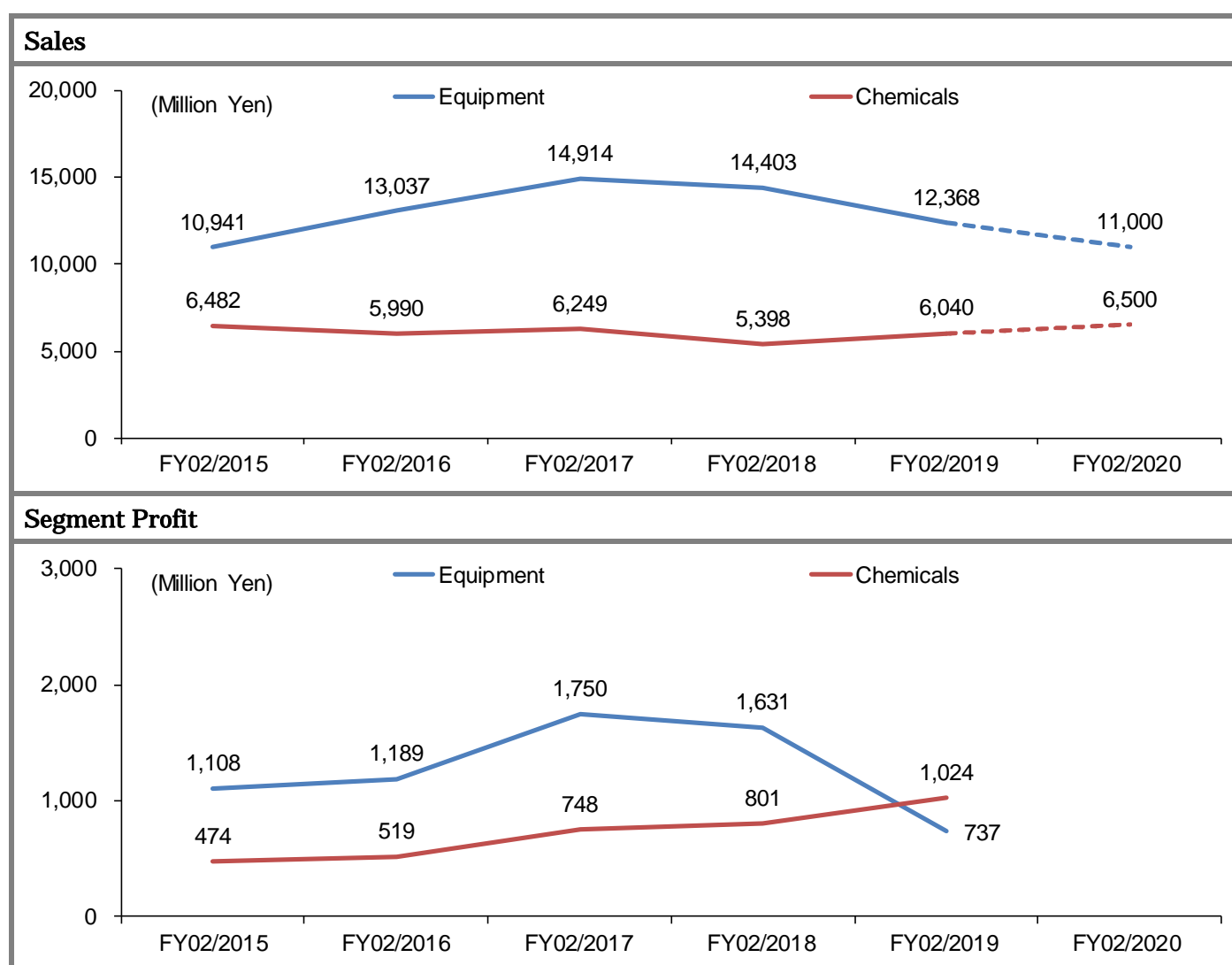
Cash Flow Statement (Cumulative)

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 02/2019	Q1 to Q2 02/2019	Q1 to Q3 02/2019	Q1 to Q4 02/2019	Q1 02/2020	Q1 to Q2 02/2020	Q1 to Q3 02/2020	Q1 to Q4 02/2020		
Operating Cash Flow	-	(230)	-	435	-	-	-	-	-	-
Investment Cash Flow	-	(190)	-	(566)	-	-	-	-	-	-
Operating CF & Investment CF	-	(420)	-	(130)	-	-	-	-	-	-
Financing Cash Flow	-	(918)	-	(921)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

FY02/2020 Company Forecasts

FY02/2020 initial Company forecasts have remained unchanged, 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 dividend unchanged from FY02/2019, presumably in order to secure returns for shareholders.

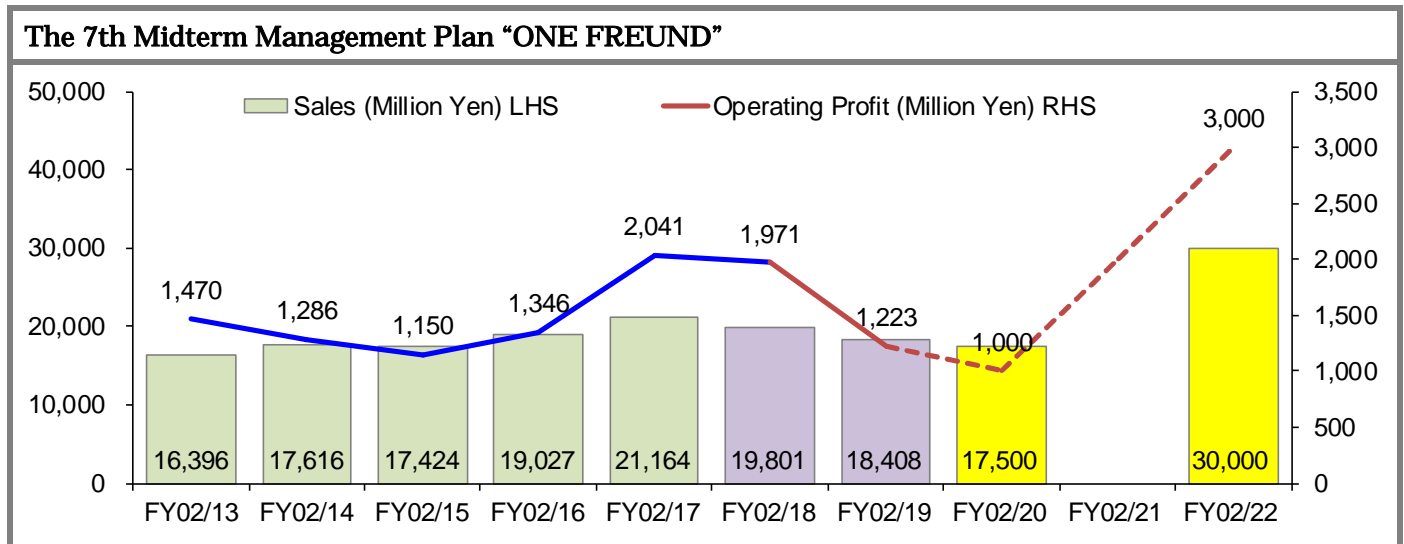


Source: Company Data, WRJ Calculation

Meanwhile, 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 focuses on tablet-printing equipment (TABREX) or new product of pharmaceutical-related and on industrial-related (including foods, cosmetics, etc.) on the Equipment side, while promoting sales overseas at the same time. Meanwhile, the Company focuses on pharmaceutical excipients on the Chemicals side as it has been the case so far.

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 or the last year of the plan.



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 5-year period toward FY02/2022. They were 6.8% and 13.9%, respectively, over 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 5-year period ended by FY02/2017, the plan does not assume stable and linear growth during its period in the first place.

The initial three-year period through FY02/2018 to FY02/2020 is of “building growth basis”, where the plan assumes “flat trends” for sales and earnings, according to the Company. At the same time, the Company focuses on a) development of new products, b) non-pharmaceutical-related (industrial-related, etc.) and c) cultivation of markets overseas. It is also assumed, after all those measures having been implemented, the Company should be able to see increased 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 new product of pharmaceutical-related, delayed sales of non-pharmaceutical-related (industrial-related, etc.) 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 all those measure going forward. It appears that the Company is looking to c) cultivation of markets overseas in particular. For example, when the Company held its FY02/2019 results meeting (on 22 April 2019), having been keen on disclosure of aggressive measures to make progress with sales promotions overseas on the Equipment side as well as on the Chemicals side.

On the Equipment side, the Company makes progress with its measures to locally set up laboratories overseas to invite local potential customers 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 U.S. 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. Since the startup of operations, the Company suggests that local customers have been placing 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.

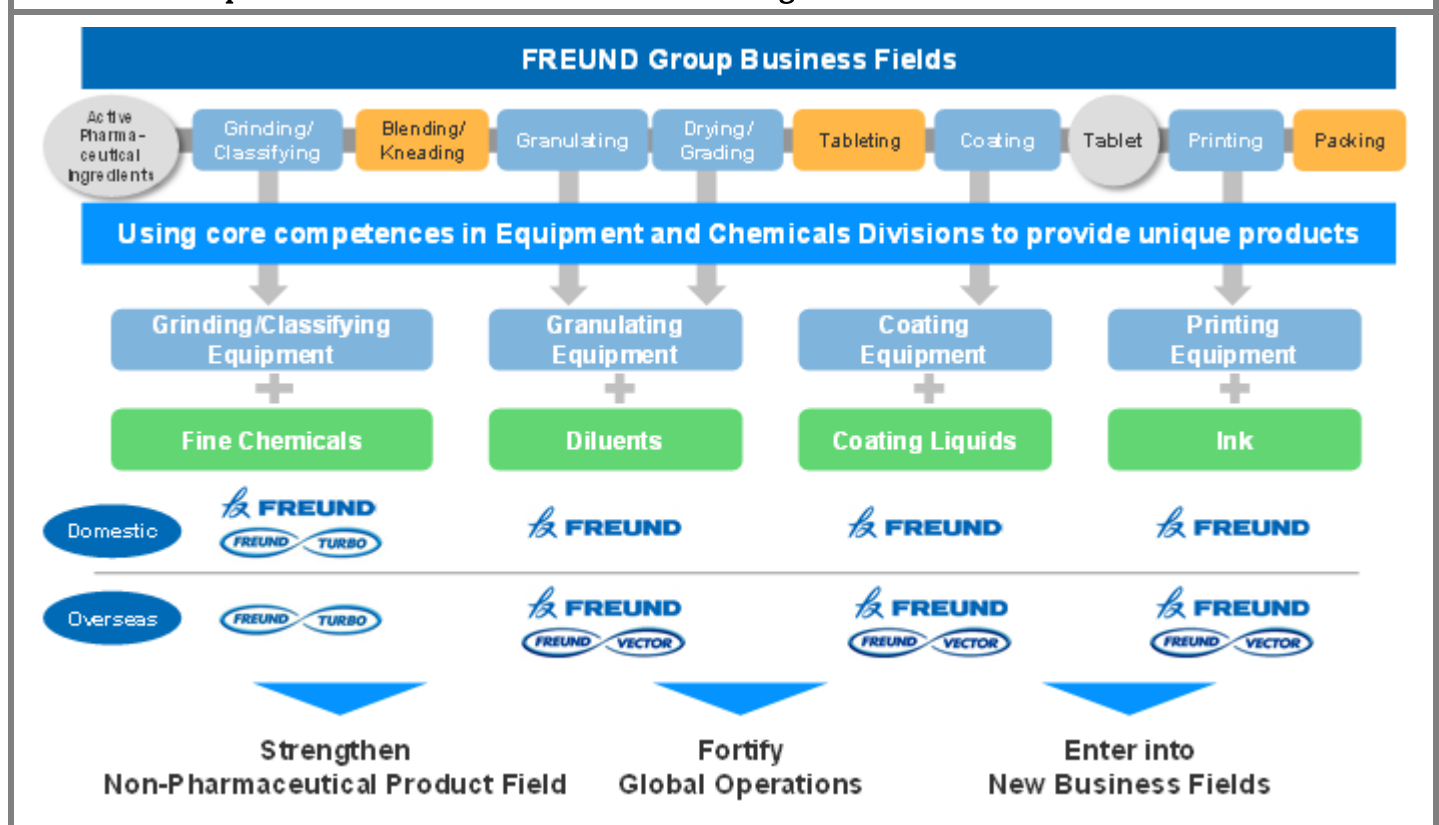
On the Chemicals side, meanwhile, the Company makes progress with sales promotions overseas mainly for the mainstay pharmaceutical excipients. Until recently, the Company used to simply export them from Japan, but having newly concluded consignment sales contracts with local distributors based in the United States, India and China to date. In particular, 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. On top of this, the Company suggests that order intake on the Equipment side is starting to benefit from this move at the same time.

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 (ditto) 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 on 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 ratios. 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 increased accidental ingestions in line with progressing population ageing and increased 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 had been suspended by the end of Q1 FY02/2020. Still, the problem is now solved and the Company has just resumed to aggressively appeal to potential customers for order placement.

Granulation/Coating Equipment	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p data-bbox="140 1131 545 1216">Granuformer (Serial Manufacturing System)</p>	 <p data-bbox="774 1153 901 1187">TABREX</p>	 <p data-bbox="1236 1176 1380 1209">Nonpareil®</p>
<p data-bbox="108 1243 576 1321">Granulation, mixing and drying all on a serial basis</p>	<p data-bbox="603 1243 1056 1467">Printing identification information on the surface of tablets with an objective to avoid accidental ingestions and/or erroneous prescriptions</p>	<p data-bbox="1094 1243 1487 1467">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 supplements. 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 three to 5 years. All those pharmaceutical excipients are manufactured with self-developed equipment, implying a high barrier to enter. Meanwhile, the Company takes advantage of outsourced manufacture as far as low value-added ones are concerned.

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 Hulin 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