Walden Research Japan

URL: www.walden.co.jp
Written by Yoshiyuki Muroya / Yusuke Maeda
E-mail: info@walden.co.jp
Phone : +81 3 3553 3769

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	85.69	20.00	767.91
FY02/2019		18,408	1,223	1,326	843	50.15	20.00	791.34
FY02/2020CoE		17,500	1,000	1,000	700	41.80	20.00	-
FY02/2019	YoY	(7.0%)	(37.9%)	(33.5%)	(42.9%)	-	-	-
FY02/2020CoE	YoY	(4.9%)	(18.2%)	(24.6%)	(17.0%)	-	-	-
Consolidated Half Year (Million Yen)		**Sales**	**Operating Profit**	**Recurring Profit**	**Profit Attributable to Owners of Parent**	**EPS (Yen)**	**DPS (Yen)**	**BPS (Yen)**
Q1 to Q2 FY02/2019		9,117	592	684	466	-	-	-
Q3 to Q4 FY02/2019		9,291	630	642	377	-	-	-
Q1 to Q2 FY02/2020		6,817	3	6	(7)	-	-	-
Q3 to Q4 FY02/2020CoE		10,682	996	993	707	-	-	-
Q1 to Q2 FY02/2020	YoY	(25.2%)	(99.4%)	(99.1%)	-	-	-	-
Q3 to Q4 FY02/2020CoE	YoY	15.0%	58.1%	54.8%	87.6%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (30 October 2019)

Executive Officer System

FREUND CORPORATION to develop, manufacture and sell equipment as well as chemicals is working hard to improve management flexibility by introducing executive officer system (1 September 2019). For example, the US subsidiary FREUND-VECTOR CORPORATION has established a new management structure after replacement, while expanding its so-called laboratory for prospective customers to test the Company's equipment. On the Equipment side, the mainstay customers or domestic generic drug manufacturers are more cautious about capital expenditures than expected at the beginning of the fiscal year, having led to order intake rather lower than expectations. However, it appears that the Company actively implements measures to expand sales over the long term. In FY02/2020, sales on the Equipment side are biased toward H2 more than the past years and sales in Q1 to Q2 came down to roughly to the same level as the break-even point. Meanwhile, sales in H2 are expected to steadily increase over the same period of the previous year and thus benefits from increased sales, given concentration of sales. The government's policy of raising the penetration rate of generic drugs up to 80% brought about significant increases with sales of the Company, while the current situation is said to be a reaction to this. Still, the Company has been implementing all those measures toward FY02/2021, when the transition to period of "leaps and bounds" is supposed to begin with assumptions of the 7th midterm management plan "ONE FREUND" (FY02/2018 to FY02/2022).

IR Representative: Corporate Planning Division (+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 August 2019)
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of Aug. 2019)
Main Features	● Leading the market of Japan for granulation and 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	Ⅰ. Equipment Ⅱ. Chemicals
Top Management	President & CEO: Iwao Fusejima
Shareholders	KK Fusejima Yokosha 8.9%, Yasutoyo Fusejima 7.0%, MUFG Bank 4.5% (as of the end of August 2019)
Headquarters	FREUND Building, 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN
No. of Employees	Consolidated: 380, Parent: 218 (as of the end of August 2019)

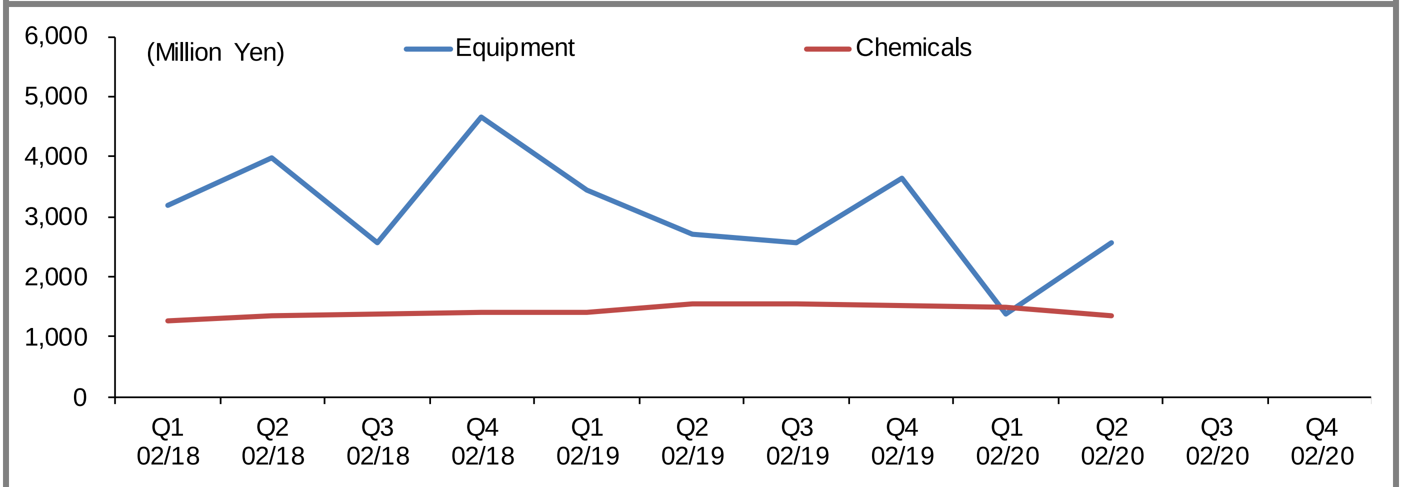
Source: Company Data

3.0 Recent Trading and Prospects

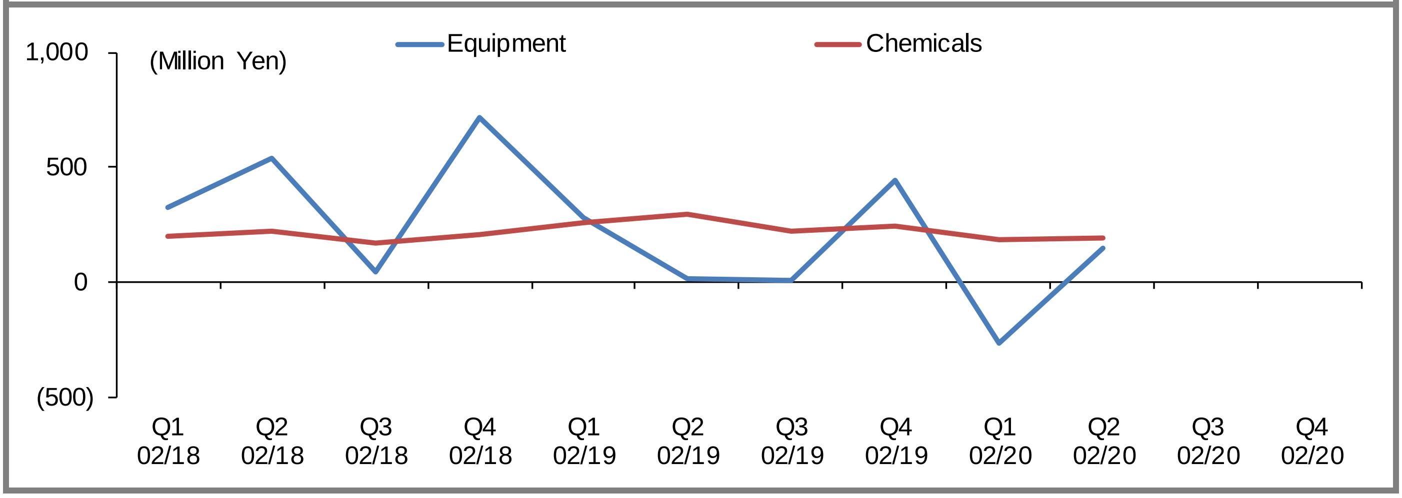
Q1 to Q2 FY02/2020 Results

In Q1 to Q2 FY02/2020, sales came in at ¥6,817m (down 25.2% YoY), operating profit ¥3m (down 99.4%), recurring profit ¥6m (down 99.1%) and profit attributable to owners of parent ¥7m (versus ¥466m during the same period of the previous year), while operating profit margin 0.0% (down 6.5% points).

Sales



Segment Profit

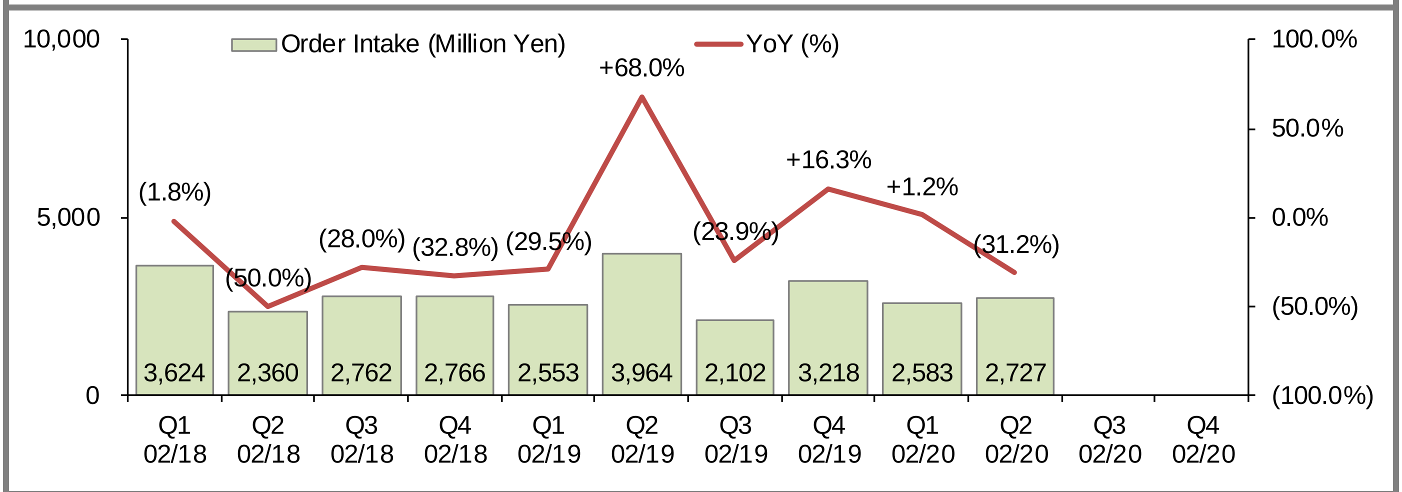


Source: Company Data, WRJ Calculation

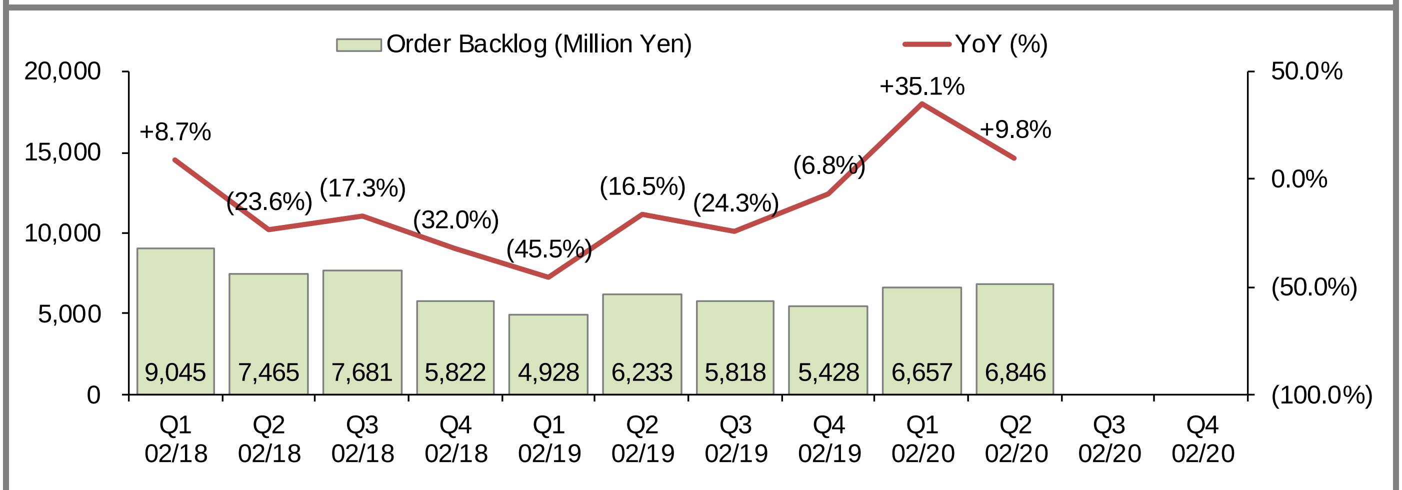
On the Equipment side, sales came in at ¥3,964m (down 35.5%), segment profit minus ¥119m (¥291m) and segment profit margin minus 3.0% (down 7.8% points). Sales associated with pharmaceuticals were ¥3,342m (down 35.3%) and sales associated with industrials ¥621m (down 36.7%), while sales of Japan were ¥2,557m (down 41.2%) and sales overseas ¥1,407m (down 21.5%). With respect to sales overseas, the Company spots overviews by region as follows: struggle in the United States, firm performance in Brazil, absence of large-scale projects in Europe and difficult conditions in India as well as in South Korea. In India, the tightening of inspections by the FDA (Food and Drug Administration) is negatively affecting business with the Company. That is to say, local pharmaceutical manufacturers based in India are suffering from sluggish sales to the mainstay destination, i.e., the United Sates and thus capital expenditures.

With respect to sales associated with pharmaceuticals represented by those of granulation and coating equipment, the mainstay customers or domestic generic drug manufacturers are more cautious about capital expenditures than expected at the beginning of the fiscal year. With respect to sales associated with industrials mainly comprising those of equipment developed and manufactured by the subsidiary FREUND-TURBO CORPORATION, sales of rechargeable-battery-related manufacturing equipment for the Chinese and Korean markets declined sharply due to the impacts of trade frictions between the United States and China. Meanwhile, sales associated with industrials include those of foods and cosmetics on top of industrials and are also regarded as sales associated with non-pharmaceuticals from this perspective at the same time. Currently, sales of equipment associated with foods and cosmetics are insignificant, but the Company is keen on enhancing sales belonging to this category going forward.

Equipment / Order Intake



Equipment / Order Backlog



Source: Company Data, WRJ Calculation

On the Equipment side, order intake came in at ¥5,311m (down 18.5%) in Q1 to Q2, comprising ¥2,583m (up 1.2%) in Q1 and ¥2,727m (down 31.2%) in Q2. No significant recovery trend has been observed in Japan or overseas. However, order backlog stood at ¥6,846m (up 9.8%) as of the end of Q2, which is cited as the basis for the concentration of sales in H2. In the briefing held on 9 October 2019 for Q2 FY02/2020 results, the Company suggested that the lead time from the booking of order intake to that of sales is around four months to 6 months. In other words, it is almost certain that sales are biased toward the H2 at this point. Meanwhile, order intake associated with pharmaceuticals were ¥4,368m (down 20.8%) and order backlog stood at ¥6,067m (up 13.3%). Order intake associated with industrials ¥942m (down 6.1%) and order backlog ¥779m (down 11.4%).

On the Chemicals side, sales came in at ¥2,852m (down 4.0%), segment profit ¥382m (down 31.3%) and segment profit margin 13.4% (down 5.3% points). Sales of pharmaceutical excipients were ¥1,442m (down 10.1%), sales of food preservatives ¥1,039m (down 3.7%) and sales of new food products ¥370m (up 28.9%), while exports ¥80m (down 65.4%), collectively included in sales of the three subsegments. Exports are principally bound for India, South Korea and Taiwan, while almost all of them are pharmaceutical excipients.

With respect to pharmaceutical excipients, accounting for half of sales as a whole for the business segment and presumably carrying relatively high gross profit margin, the Company is achieving higher sales and earnings as far as those for the mainstay domestic generic drugs manufacturers developed and manufactured in-house are concerned. Still, exports are plummeting and sales of those taking advantage of outsourced manufacture are coming down, which appears to have had greater impacts. Plummeting exports are largely attributable to extended production adjustments by a customer in India for its large-scale project. The background to this is that the said user is caught up in price-oriented competition in the United States, which is the mainstay destination of sales. In other words, the said user is losing market share to competitors that use low prices as a weapon. Sales of food preservatives declined slightly, but were in line with expectations. The rise in sales of new food products was due mainly to a number of spot order intake.

Income Statement (Cumulative, Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	YoY
(Million Yen)	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020	Net Chg.
Sales	**4,849**	**9,117**	**13,243**	**18,408**	**2,878**	**6,817**	**-**	**-**	**(2,299)**
Cost of Sales	3,245	6,100	8,874	12,220	1,830	4,400	-	-	(1,700)
Gross Profit	1,604	3,016	4,368	6,188	1,047	2,416	-	-	(599)
SG&A Expenses	1,204	2,423	3,698	4,964	1,262	2,413	-	-	(9)
Operating Profit	**399**	**592**	**670**	**1,223**	**(214)**	**3**	**-**	**-**	**(589)**
Non Operating Balance	79	91	100	103	(2)	2	-	-	(88)
Recurring Profit	**478**	**684**	**770**	**1,326**	**(217)**	**6**	**-**	**-**	**(678)**
Extraordinary Balance	21	21	22	(70)	7	11	-	-	(10)
Profit before Income Taxes	500	705	792	1,255	(210)	17	-	-	(688)
Total Income Taxes	153	239	269	412	(52)	24	-	-	(214)
Profit Attributable to Owners of Parent	**347**	**466**	**523**	**843**	**(158)**	**(7)**	**-**	**-**	**(474)**
Sales YoY	+8.4%	(6.9%)	(3.7%)	(7.0%)	(40.6%)	(25.2%)	-	-	-
Operating Profit YoY	+3.0%	(44.8%)	(41.9%)	(37.9%)	-	(99.4%)	-	-	-
Recurring Profit YoY	+20.3%	(37.3%)	(34.4%)	(33.5%)	-	(99.1%)	-	-	-
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%	35.4%	-	-	+2.4%
Sales to SG&A Expenses Ratio	24.8%	26.6%	27.9%	27.0%	43.9%	35.4%	-	-	+8.8%
Operating Profit Margin	8.2%	6.5%	5.1%	6.6%	(7.5%)	0.0%	-	-	(6.5%)
Recurring Profit Margin	9.9%	7.5%	5.8%	7.2%	(7.6%)	0.1%	-	-	(7.4%)
Profit Attributable to Owners of Parent Margin	7.2%	5.1%	4.0%	4.6%	(5.5%)	(0.1%)	-	-	(5.2%)
Total Income Taxes / Profit before Income Taxes	30.6%	33.9%	34.0%	32.8%	-	145.1%	-	-	+111.2%

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	YoY
(Million Yen)	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020	Net Chg.
Sales	**4,849**	**4,267**	**4,126**	**5,164**	**2,878**	**3,939**	**-**	**-**	**(328)**
Cost of Sales	3,245	2,855	2,773	3,345	1,830	2,570	-	-	(285)
Gross Profit	1,604	1,412	1,352	1,819	1,047	1,368	-	-	(43)
SG&A Expenses	1,204	1,218	1,275	1,266	1,262	1,150	-	-	(67)
Operating Profit	**399**	**193**	**77**	**552**	**(214)**	**218**	**-**	**-**	**+24**
Non Operating Balance	79	11	8	2	(2)	5	-	-	(6)
Recurring Profit	**478**	**205**	**86**	**555**	**(217)**	**223**	**-**	**-**	**+17**
Extraordinary Balance	21	0	0	(92)	7	3	-	-	+3
Profit before Income Taxes	500	205	86	462	(210)	227	-	-	+21
Total Income Taxes	153	86	29	142	(52)	76	-	-	(9)
Profit Attributable to Owners of Parent	**347**	**118**	**57**	**319**	**(158)**	**150**	**-**	**-**	**+31**
Sales YoY	+8.4%	(19.7%)	+4.3%	(14.7%)	(40.6%)	(7.7%)	-	-	-
Operating Profit YoY	+3.0%	(71.8%)	(0.9%)	(32.5%)	-	+12.5%	-	-	-
Recurring Profit YoY	+20.3%	(70.4%)	+4.3%	(32.2%)	-	+8.7%	-	-	-
Profit Attributable to Owners of Parent YoY	+26.6%	(74.1%)	(50.1%)	(49.1%)	-	+26.3%	-	-	-
Gross Profit Margin	33.1%	33.1%	32.8%	35.2%	36.4%	34.7%	-	-	+1.7%
Sales to SG&A Expenses Ratio	24.8%	28.5%	30.9%	24.5%	43.9%	29.2%	-	-	+0.7%
Operating Profit Margin	8.2%	4.5%	1.9%	10.7%	(7.5%)	5.5%	-	-	+1.0%
Recurring Profit Margin	9.9%	4.8%	2.1%	10.8%	(7.6%)	5.7%	-	-	+0.9%
Profit Attributable to Owners of Parent Margin	7.2%	2.8%	1.4%	6.2%	(5.5%)	3.8%	-	-	+1.0%
Total Income Taxes / Profit before Income Taxes	30.6%	42.1%	34.0%	30.9%	-	33.9%	-	-	(8.3%)

Source: Company Data, WRJ Calculation

Segmented Information (Cumulative, Quarterly)

Segmented Information (Million Yen)	Cons.Act Q1 02/2019	Cons.Act Q1 to Q2 02/2019	Cons.Act Q1 to Q3 02/2019	Cons.Act Q1 to Q4 02/2019	Cons.Act Q1 02/2020	Cons.Act Q1 to Q2 02/2020	Cons.Act Q1 to Q3 02/2020	Cons.Act Q1 to Q4 02/2020	YoY Net Chg.
Equipment	3,433	6,145	8,723	12,368	1,386	3,964	-	-	(2,180)
Chemicals	1,416	2,971	4,519	6,040	1,491	2,852	-	-	(118)
Sales	**4,849**	**9,117**	**13,243**	**18,408**	**2,878**	**6,817**	**-**	**-**	**(2,299)**
Machinery	+7.4%	(14.3%)	(10.5%)	(14.1%)	(59.6%)	(35.5%)	-	-	-
Chemicals	+11.1%	+13.5%	+13.0%	+11.9%	+5.3%	(4.0%)	-	-	-
Sales (YoY)	**+8.4%**	**(6.9%)**	**(3.7%)**	**(7.0%)**	**(40.6%)**	**(25.2%)**	**-**	**-**	**-**
Equipment	70.8%	67.4%	65.9%	67.2%	48.2%	58.2%	-	-	-
Chemicals	29.2%	32.6%	34.1%	32.8%	51.8%	41.8%	-	-	-
Sales (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**-**	**-**
Equipment	278	291	295	737	(267)	(119)	-	-	(411)
Chemicals	259	556	781	1,024	187	382	-	-	(173)
Segment Profit	**537**	**847**	**1,076**	**1,762**	**(79)**	**262**	**-**	**-**	**(585)**
Elimination	(138)	(254)	(406)	(538)	(135)	(259)	-	-	(4)
Operating Profit	**399**	**592**	**670**	**1,223**	**(214)**	**3**	**-**	**-**	**(589)**
Equipment	(14.8%)	(66.5%)	(67.5%)	(54.8%)	-	-	-	-	-
Chemicals	+32.5%	+32.1%	+31.5%	+27.9%	(27.8%)	(31.3%)	-	-	-
Segment Profit (YoY)	**+2.9%**	**(34.3%)**	**(28.4%)**	**(27.6%)**	**-**	**(69.0%)**	**-**	**-**	**-**
Equipment	51.7%	34.4%	27.5%	41.8%	-	(45.7%)	-	-	-
Chemicals	48.3%	65.6%	72.5%	58.2%	-	145.7%	-	-	-
Segment Profit (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**100.0%**	**-**	**-**	**-**
Equipment	8.1%	4.7%	3.4%	6.0%	(19.3%)	(3.0%)	-	-	(7.8%)
Chemicals	18.3%	18.7%	17.3%	17.0%	12.6%	13.4%	-	-	(5.3%)
Elimination	(2.9%)	(2.8%)	(3.1%)	(2.9%)	(4.7%)	(3.8%)	-	-	(1.0%)
Operating Profit Margin	**8.2%**	**6.5%**	**5.1%**	**6.6%**	**(7.5%)**	**0.0%**	**-**	**-**	**(6.5%)**

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	2,578	-	-	(134)
Chemicals	1,416	1,555	1,548	1,520	1,491	1,360	-	-	(194)
Sales	**4,849**	**4,267**	**4,126**	**5,164**	**2,878**	**3,939**	**-**	**-**	**(328)**
Machinery	+7.4%	(31.7%)	+0.1%	(21.7%)	(59.6%)	(5.0%)	-	-	-
Chemicals	+11.1%	+15.8%	+12.1%	+8.6%	+5.3%	(12.5%)	-	-	-
Sales (YoY)	**+8.4%**	**(19.7%)**	**+4.3%**	**(14.7%)**	**(40.6%)**	**(7.7%)**	**-**	**-**	**-**
Equipment	70.8%	63.6%	62.5%	70.6%	48.2%	65.5%	-	-	-
Chemicals	29.2%	36.4%	37.5%	29.4%	51.8%	34.5%	-	-	-
Sales (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**-**	**-**
Equipment	278	13	4	441	(267)	147	-	-	+133
Chemicals	259	296	224	243	187	194	-	-	(101)
Segment Profit	**537**	**309**	**229**	**685**	**(79)**	**342**	**-**	**-**	**+32**
Elimination	(138)	(116)	(151)	(132)	(135)	(124)	-	-	(7)
Operating Profit	**399**	**193**	**77**	**552**	**(214)**	**218**	**-**	**-**	**+24**
Equipment	(14.8%)	(97.5%)	(90.0%)	(38.7%)	-	-	-	-	-
Chemicals	+32.5%	+31.9%	+30.0%	+17.5%	(27.8%)	(34.3%)	-	-	-
Segment Profit (YoY)	**+2.9%**	**(59.6%)**	**+6.6%**	**(26.2%)**	**-**	**+10.4%**	**-**	**-**	**-**
Equipment	51.7%	4.3%	1.8%	64.5%	-	43.0%	-	-	-
Chemicals	48.3%	95.7%	98.2%	35.5%	-	57.0%	-	-	-
Segment Profit (Composition Ratio)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**100.0%**	**-**	**-**	**-**
Equipment	k	0.5%	0.2%	12.1%	(19.3%)	5.7%	-	-	+5.2%
Chemicals	18.3%	19.1%	14.5%	16.0%	12.6%	14.3%	-	-	(4.8%)
Elimination	(2.9%)	(2.7%)	(3.7%)	(2.6%)	(4.7%)	(3.2%)	-	-	(0.4%)
Operating Profit Margin	**8.2%**	**4.5%**	**1.9%**	**10.7%**	**(7.5%)**	**5.5%**	**-**	**-**	**+1.0%**

Source: Company Data, WRJ Calculation

Sales by Region / Equipment (Cumulative, Quarterly)

Sales by Region / Equipment (Million Yen)	Cons.Act Q1 02/2019	Cons.Act Q1 to Q2 02/2019	Cons.Act Q1 to Q3 02/2019	Cons.Act Q1 to Q4 02/2019	Cons.Act Q1 02/2020	Cons.Act Q1 to Q2 02/2020	Cons.Act Q1 to Q3 02/2020	Cons.Act Q1 to Q4 02/2020	YoY Net Chg.
Japan	2,783	4,352	5,846	7,312	894	2,557	-	-	(1,794)
North America / Latin America	289	1,007	1,726	3,352	308	1,005	-	-	(2)
Europe / Africa	80	141	270	337	81	150	-	-	+8
Middle East / Asia / Oceania	279	643	879	1,366	101	251	-	-	(392)
Overseas	649	1,793	2,876	5,055	491	1,407	-	-	(386)
Sales	**3,433**	**6,145**	**8,723**	**12,368**	**1,386**	**3,964**	**-**	**-**	**(2,180)**
Japan	+8.5%	(4.5%)	(0.6%)	(13.9%)	(67.9%)	(41.2%)	-	-	-
North America / Latin America	(12.7%)	(10.0%)	(3.8%)	+12.5%	+6.7%	(0.2%)	-	-	-
Europe / Africa	(62.0%)	(86.1%)	(79.0%)	(81.1%)	+1.2%	+6.2%	-	-	-
Middle East / Asia / Oceania	+215.0%	+35.8%	+12.5%	+19.1%	(63.6%)	(61.0%)	-	-	-
Overseas	+2.9%	(31.4%)	(25.6%)	(14.5%)	(24.3%)	(21.5%)	-	-	-
Sales (YoY)	**+7.4%**	**(14.3%)**	**(10.5%)**	**(14.1%)**	**(59.6%)**	**(35.5%)**	**-**	**-**	**-**
Japan	81.1%	70.8%	67.0%	59.1%	64.5%	64.5%	-	-	-
North America / Latin America	8.4%	16.4%	19.8%	27.1%	22.3%	25.4%	-	-	-
Europe / Africa	2.3%	2.3%	3.1%	2.7%	5.9%	3.8%	-	-	-
Middle East / Asia / Oceania	8.2%	10.5%	10.1%	11.0%	7.3%	6.3%	-	-	-
Overseas	18.9%	29.2%	33.0%	40.9%	35.5%	35.5%	-	-	-
Sales (Composition)	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**-**	**-**	**-**

Sales by Region / Equipment (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.
Japan	2,783	1,568	1,494	1,466	894	1,662	-	-	+94
North America / Latin America	289	718	718	1,625	308	696	-	-	(21)
Europe / Africa	80	61	129	66	81	69	-	-	+7
Middle East / Asia / Oceania	279	363	235	486	101	149	-	-	(214)
Overseas	649	1,143	1,083	2,178	491	915	-	-	(228)
Sales	**3,433**	**2,712**	**2,577**	**3,644**	**1,386**	**2,578**	**-**	**-**	**(134)**
Japan	+8.5%	(21.3%)	+12.9%	(43.8%)	(67.9%)	+6.0%	-	-	-
North America / Latin America	(12.7%)	(8.8%)	+6.4%	+37.2%	+6.7%	(3.0%)	-	-	-
Europe / Africa	(62.0%)	(92.4%)	(52.0%)	(86.6%)	+1.2%	+12.8%	-	-	-
Middle East / Asia / Oceania	+215.0%	(5.5%)	(23.4%)	+33.0%	(63.6%)	(59.0%)	-	-	-
Overseas	+2.9%	(42.3%)	(13.5%)	+6.5%	(24.3%)	(20.0%)	-	-	-
Sales (YoY)	**+7.4%**	**(31.7%)**	**+0.1%**	**(21.7%)**	**(59.6%)**	**(5.0%)**	**-**	**-**	**-**
Japan	81.1%	57.8%	58.0%	40.2%	64.5%	64.5%	-	-	-
North America / Latin America	8.4%	26.5%	27.9%	44.6%	22.3%	27.0%	-	-	-
Europe / Africa	2.3%	2.3%	5.0%	1.8%	5.9%	2.7%	-	-	-
Middle East / Asia / Oceania	8.2%	13.4%	9.1%	13.4%	7.3%	5.8%	-	-	-
Overseas	18.9%	42.2%	42.0%	59.8%	35.5%	35.5%	-	-	-
Sales (Composition)	**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 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.
Cash & Deposit	5,236	5,245	4,834	5,534	4,607	5,030	-	-	(215)
Accounts Receivables	4,576	4,377	4,499	4,332	4,039	3,800	-	-	(577)
Inventory	2,998	2,802	3,220	2,475	3,308	3,447	-	-	+645
Other	545	566	653	368	387	443	-	-	(123)
Current Assets	**13,356**	**12,991**	**13,208**	**12,711**	**12,342**	**12,721**	**-**	**-**	**(269)**
Tangible Assets	3,471	3,554	3,580	3,769	3,857	3,997	-	-	+442
Intangible Assets	96	91	93	16	17	16	-	-	(74)
Investments & Other Assets	860	847	843	951	1,009	978	-	-	+130
Fixed Assets	**4,428**	**4,493**	**4,517**	**4,736**	**4,885**	**4,992**	**-**	**-**	**+499**
Total Assets	**17,784**	**17,484**	**17,726**	**17,448**	**17,227**	**17,713**	**-**	**-**	**+229**
Accounts Payables	2,510	2,142	2,343	2,169	2,043	2,350	-	-	+208
Short Term Debt	-	-	-	-	-	-	-	-	-
Other	2,258	2,169	2,105	1,768	2,216	2,317	-	-	+148
Current Liabilities	**4,768**	**4,312**	**4,449**	**3,938**	**4,259**	**4,668**	**-**	**-**	**+356**
Long Term Debt	-	-	-	-	-	-	-	-	-
Other	323	319	323	258	244	238	-	-	(81)
Fixed Liabilities	**323**	**319**	**323**	**258**	**244**	**238**	**-**	**-**	**(81)**
Total Liabilities	**5,092**	**4,632**	**4,772**	**4,197**	**4,504**	**4,906**	**-**	**-**	**+274**
Shareholders' Equity	**12,973**	**13,092**	**13,149**	**13,469**	**12,976**	**13,127**	**-**	**-**	**+34**
Adjustments	(281)	(240)	(196)	(219)	(253)	(319)	-	-	(79)
Total Assets	**12,691**	**12,852**	**12,953**	**13,250**	**12,723**	**12,807**	**-**	**-**	**(44)**
Total Liabilities & Net Assets	**17,784**	**17,484**	**17,726**	**17,448**	**17,227**	**17,713**	**-**	**-**	**+229**
Equity Capital	12,691	12,852	12,953	13,250	12,723	12,807	-	-	(45)
Interest Bearing Debt	-	-	-	-	-	-	-	-	-
Net Debt	(5,236)	(5,245)	(4,834)	(5,534)	(4,607)	(5,030)	-	-	+215
Equity Capital Ratio	71.4%	73.5%	73.1%	75.9%	73.9%	72.3%	-	-	-
Net-Debt-Equity Ratio	(41.3%)	(40.8%)	(37.3%)	(41.8%)	(36.2%)	(39.3%)	-	-	-
ROE (12 months)	12.5%	9.5%	9.0%	6.4%	2.7%	2.9%	-	-	-
ROA (12 months)	11.5%	8.7%	8.5%	7.3%	3.6%	3.7%	-	-	-
Total Assets Turnover	109%	98%	93%	118%	67%	89%	-	-	-
Inventory Turnover	4.3	4.1	3.4	5.4	2.2	3.0	-	-	-
Days of Inventory	84	90	106	68	165	122	-	-	-
Quick Ratio	206%	223%	210%	251%	203%	189%	-	-	-
Current Ratio	280%	301%	297%	323%	290%	273%	-	-	-

Source: Company Data, WRJ Calculation

Cash Flow Statement (Cumulative)

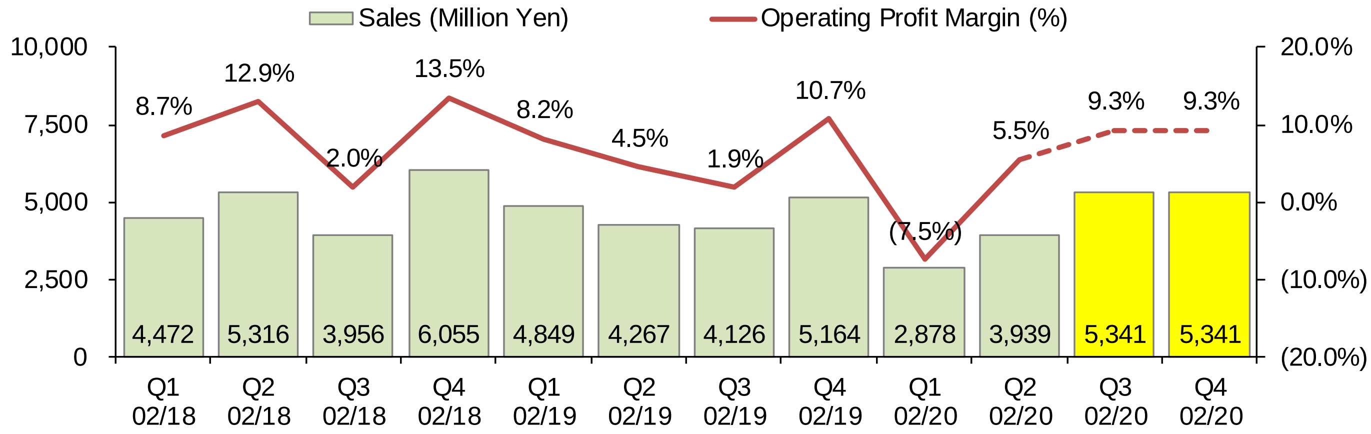
Cash Flow Statement (Million Yen)	Cons.Act Q1 02/2019	Cons.Act Q1 to Q2 02/2019	Cons.Act Q1 to Q3 02/2019	Cons.Act Q1 to Q4 02/2019	Cons.Act Q1 02/2020	Cons.Act Q1 to Q2 02/2020	Cons.Act Q1 to Q3 02/2020	Cons.Act Q1 to Q4 02/2020	YoY Net Chg.
Operating Cash Flow	-	(230)	-	435	-	289	-	-	+519
Investment Cash Flow	-	(190)	-	(566)	-	(414)	-	-	(224)
Operating CF and Investment CF	**-**	**(420)**	**-**	**(130)**	**-**	**(124)**	**-**	**-**	**+295**
Financing Cash Flow	-	(918)	-	(921)	-	(359)	-	-	+559

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). At the same time, Company forecasts have also remained unchanged for annual dividend, going for ¥20.00 per share, implying payout ratio of 47.8%. Compared with ¥20.00 per share, implying payout ratio of 39.9%, in FY02/2019, the Company would maintain the amount of dividend, while payout ratio rising to the level far above the target of 30%. The Company is to suffer from adjustments of profit attributable to owners of parent, i.e., source of dividend, but it appears that the Company maintains its emphasis on returning earnings to shareholders.

Sales and Operating Profit Margin



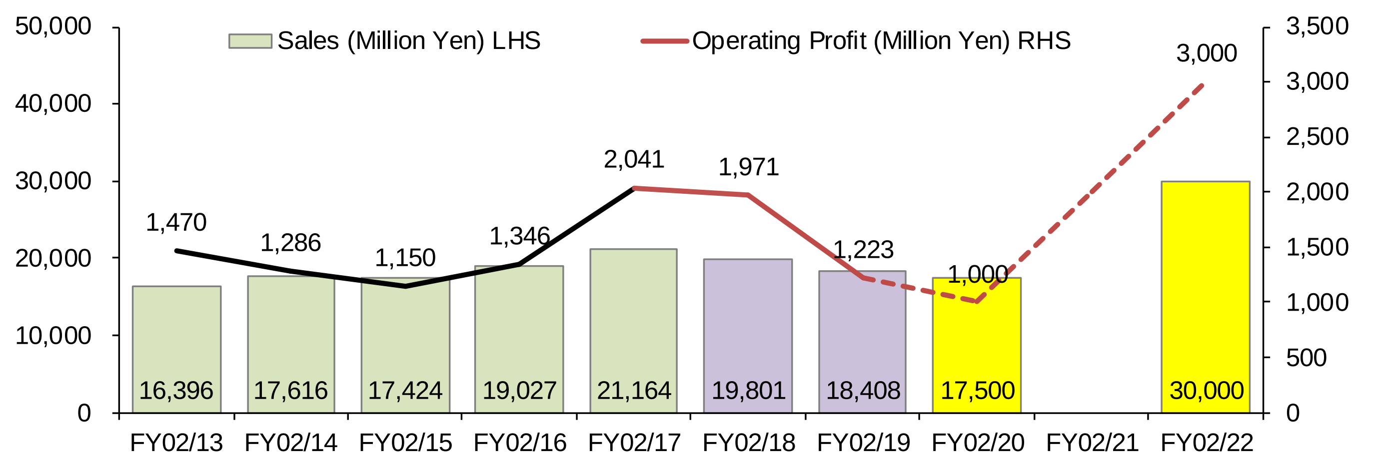
Source: Company Data, WRJ Calculation

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. On the Equipment side, sales are almost certain as mentioned earlier unless so-called "delayed sales" does not take place. On the Chemicals side, the Company continues focusing on pharmaceutical excipients, trying to acquire new projects in Japan and overseas.

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.

The 7th Midterm Management Plan "ONE FREUND" (FY02/2018 – FY02/2022)



Source: Company Data, WRJ Calculation

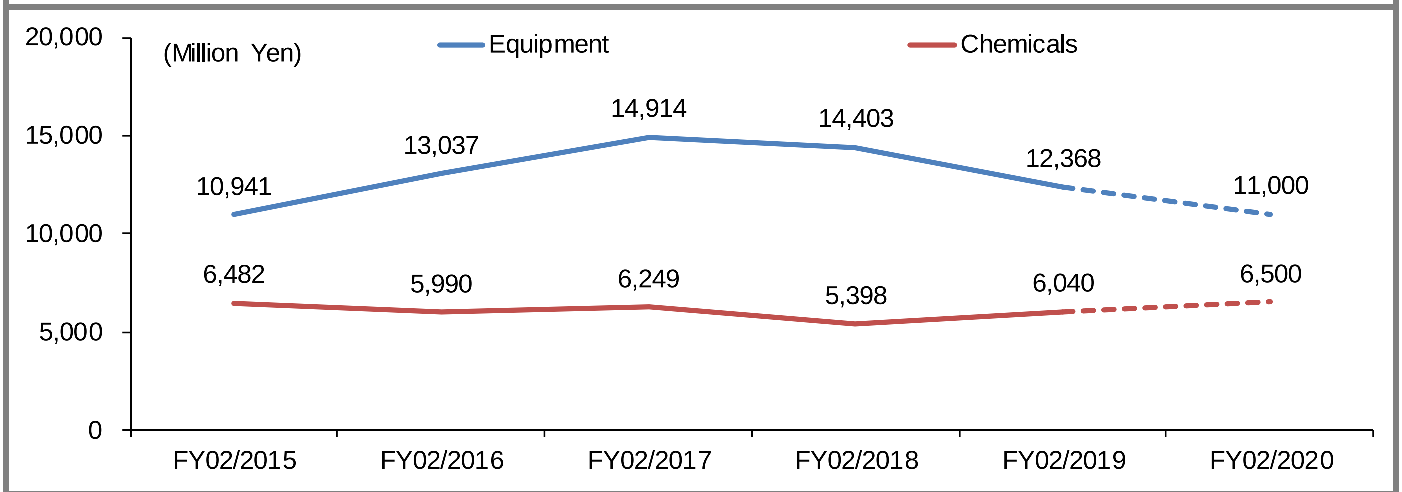
When based on FY02/2017 results, the plan assumes CAGR of 7.2% for sales and 8.0% for earnings over 5-year period toward FY02/2022. They were 6.8% and 13.9%, respectively, over 5-year period ended by FY02/2017, suggesting that the Company is going for CAGR roughly in line with the results over the said 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) focus on sales associated with non-pharmaceuticals (industrials, 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 " leaps and bounds", i.e., the remaining two-year period through FY02/2021 to FY02/2022.

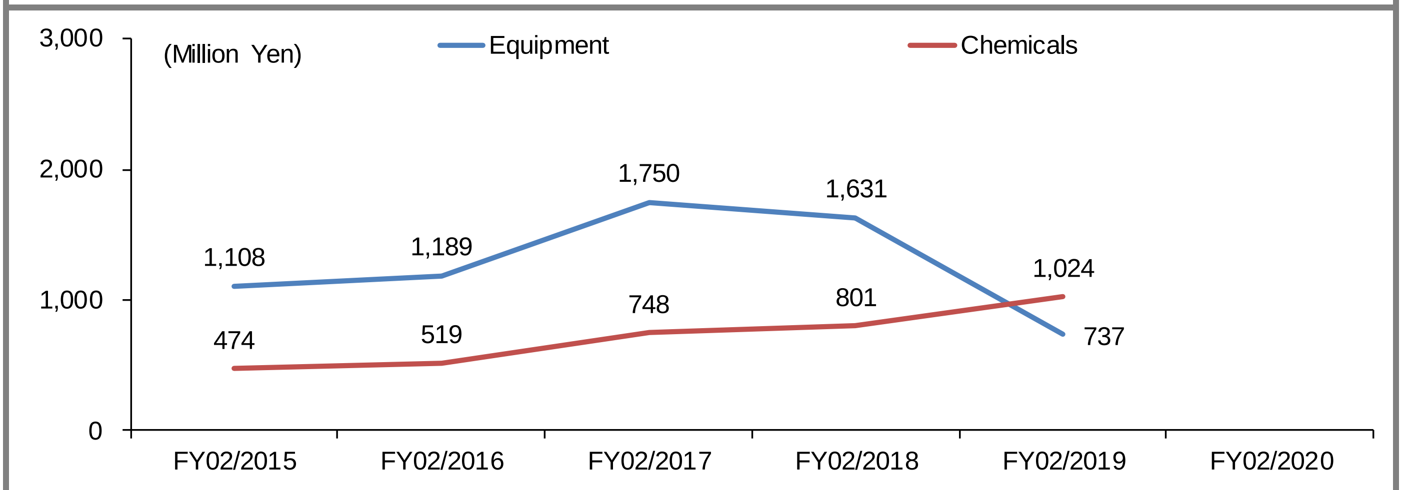
The Company saw sales and earnings in line with assumptions of the midterm management plan in FY02/2018 or the first year, but Company suffered from something unexpected on the Equipment side in FY02/2019 or the second year of the plan. Sales fell short of initial Company forecasts, negatively affected by "delayed sales of new products associated with pharmaceuticals", "delayed sales associated with non-pharmaceuticals (industrials, 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.

Then, in FY02/2020 or the third year of the midterm management plan, the mainstay customers on the Equipment side or domestic generic drug manufacturers are more cautious about capital expenditures than expected at the beginning of the fiscal year, having led to order intake rather lower than expectations. In other words, it appears that “capex by customers lower than expected” is making progress still further.

Sales



Segment Profit



Source: Company Data, WRJ Calculation

Meanwhile, the government's policy of raising the penetration rate of generic drugs up to 80% brought about significant increases with sales on the Equipment side, having resulted in segment profit of ¥1,750m in FY02/2017 and ¥1,631m in FY02/2018. Now, the situation is said to be a reaction to this. In the NHI drug price revision in April 2017, generic drugs that had not been eligible for the revision till then became eligible, having made domestic generic drug manufacturers less motivated to invest in equipment. Most recently, this trend appears being accelerating.

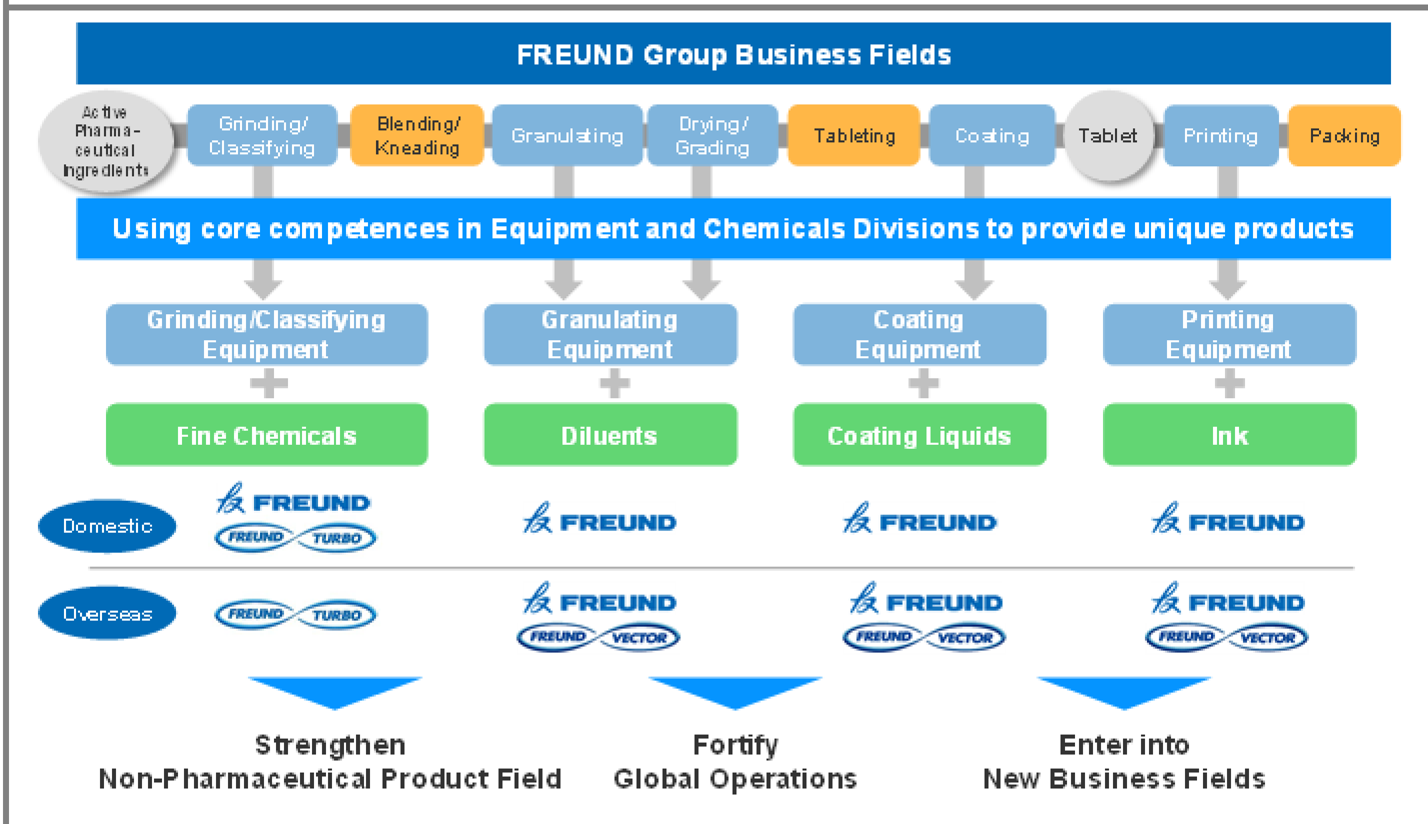
Presumably, in view of this, the Company emphasized its focus on c) cultivation of markets overseas in the briefing held on 9 October 2019 for Q2 FY02/2020 results. For example, the Company argued that the US subsidiary FREUND-VECTOR CORPORATION in charge of sales overseas has established a new management structure after replacement, while expanding its so-called laboratory for prospective customers to test the Company's equipment. In addition to granulation and coating equipment, the Company will also try to sell tablet-printing equipment (TABREX) with this measure. Meanwhile, in India, the Company is seeing a favorable takeoff for PalreFreund or 51%-owned joint business with a local company, established in March 2019. Here, the main components are planned to be imported from Japan for local knock-down production and the high quality dry granulation equipment is to be assembled. To date, the Company has already received order intake for several units.

4.0 Business Model

Formulation, the Key Technology

The Company's mainstay business is of developing, manufacturing and selling pharmaceutical-related granulation and 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 and coating equipment, accounting for the bulk of the mainstay sales associated with pharmaceuticals 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 are 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. On top of this, the Company suggests that a government-related R&D institute has placed order for the second one most recently.

In regards to the mainstay pharmaceutical domain, 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 Q2 FY02/2020. Still, the problem is now solved and the Company has just resumed to aggressively appeal to prospective customers for order placement.

Granulation and Coating Equip.	**Tablet-Printing Equipment**	**Pharmaceutical Excipients**
 Granuformer (Serial Manufacturing System)	 TABREX	 Nonpareil®
Granulation, mixing and drying all on a serial basis	Printing identification information on the surface of tablets with an objective to avoid accidental ingestions and/or erroneous prescriptions	Perfect as a core to elaborate granule for pharmaceutical preparation with narrow particle size distribution and high sphericity.

Source: Company Data

On the Chemicals side, meanwhile, the Company is involved with development, manufacture and sales of pharmaceutical excipients, food preservatives and new food products. 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 is buoyant, which is the key contributor to 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.

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