

# 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		17,000	600	600	350	20.90	20.00	-
FY02/2019	YoY	(7.0%)	(37.9%)	(33.5%)	(42.9%)	-	-	-
FY02/2020CoE	YoY	(7.7%)	(50.9%)	(54.8%)	(58.5%)	-	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY02/2018		13,745	1,152	1,174	849	-	-	-
Q1 to Q3 FY02/2019		13,243	670	770	523	-	-	-
Q1 to Q3 FY02/2020		11,110	93	111	37	-	-	-
Q1 to Q3 FY02/2019	YoY	(3.7%)	(41.9%)	(34.4%)	(38.4%)	-	-	-
Q1 to Q3 FY02/2020	YoY	(16.1%)	(86.1%)	(85.5%)	(92.8%)	-	-	-

Source: Company Data, WRJ Calculation

## 1.0 Executive Summary (17 February 2020)


### To Hit the Bottom

FREUND CORPORATION to develop, manufacture and sell equipment as well as chemicals is in the process of exploring ways to hit the bottom for its business performance. Order intake on the Equipment side, which is the key leading indicator, has remained sluggish in Q3 FY02/2020, but the Company says that it has started to see some signs in Q4 that orders are to be placed in line with emergence of demand associated with consistently postponed capital investments. Still, it takes 6 to 8 months or more for each project to book sales after order placement and thus it is too early to deny a possibility for prospective earnings not to further correct in FY02/2021 at the moment. More importantly, however, the Company is going for earnings to hit the bottom in FY02/2021 in the worst case scenario. Meanwhile, the target business performance of the 7th midterm management plan ONE FREUND (FY02/2018 to FY02/2022) has remained unchanged to date, calling for sales of ¥30,000m, operating profit of ¥3,000m and operating profit margin of 10.0% in the final year of the plan, i.e., FY02/2022. At the FY02/2020 results briefing, it appears that the Company is to come up with new measures while reviewing the results over the initial three years (FY02/2018 to FY02/2020).

IR Representative: Corporate Planning Division (+81 3 6890 0767 / [ir@freund.co.jp](mailto:ir@freund.co.jp))

## 2.0 Company Profile

### Equipment and Chemicals

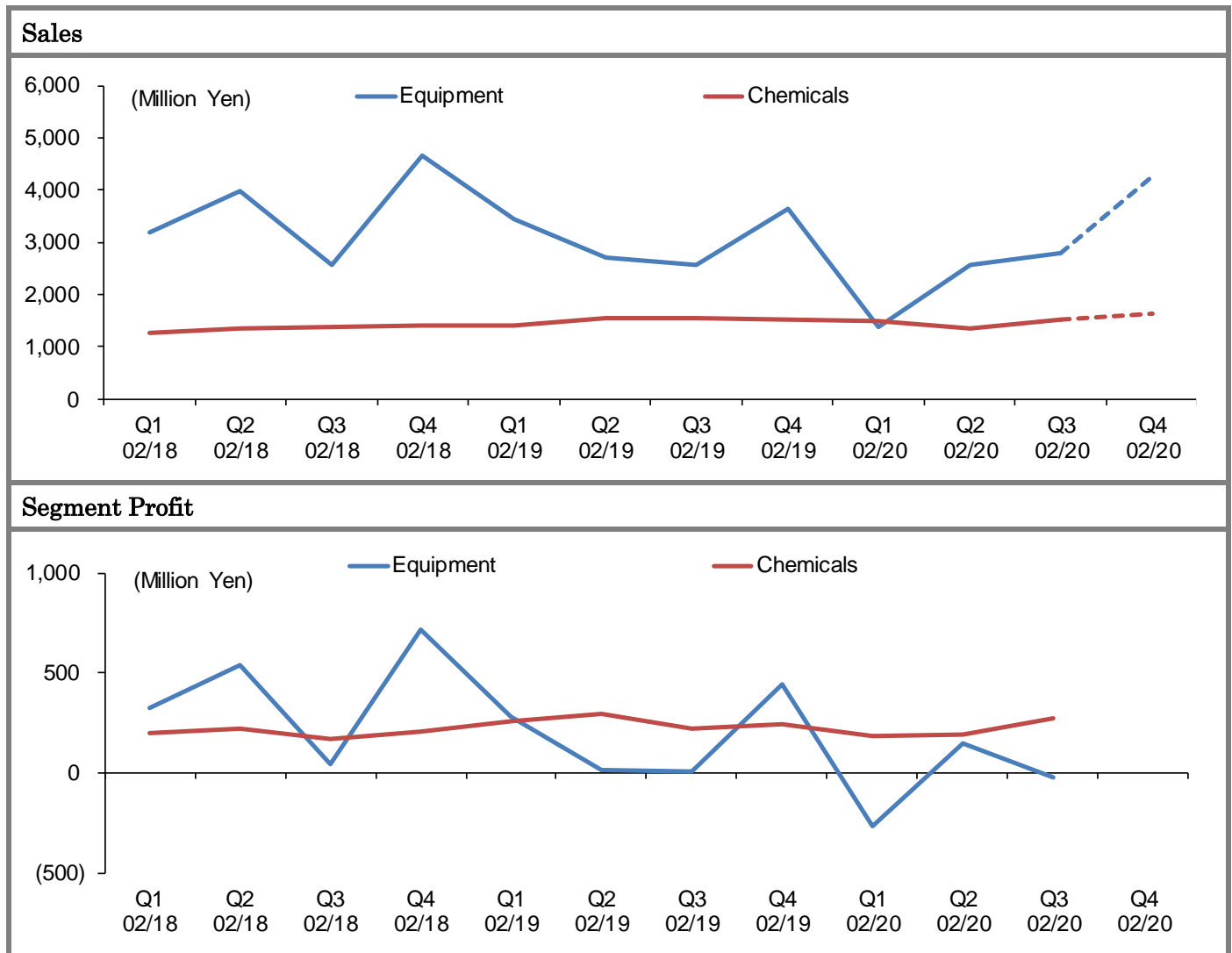
<b>Company Name</b>	FREUND CORPORATION <a href="#">Company Website</a> <a href="#">IR Information</a> <a href="#">Share Price (Japanese)</a>	
<b>Established</b>	22 April 1964	
<b>Listing</b>	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
<b>Capital</b>	¥1,035m (as of the end of November 2019)	
<b>No. of Shares</b>	18,400,000 shares, including 1,655,480 treasury shares (as of the end of Nov. 2019)	
<b>Main Features</b>	<ul style="list-style-type: none"> <li>● Leading the market in Japan for granulation and coating equipment with market share of 60% to 70%</li> <li>● Focus on new products, e.g., tablet-printing equipment (TABREX), etc.</li> <li>● Pharmaceutical excipients, the key growth driver on the Chemicals side</li> </ul>	
<b>Business Segments</b>	I . Equipment II . Chemicals	
<b>Top Management</b>	President and CEO: Iwao Fusejima	
<b>Shareholders</b>	Company's Tr. Stock 8.9%, Fusejima Yokosha 8.9%, Yasutoyo Fusejima 7.0%, MUFG Bank 4.5% (as of the end of August 2019)	
<b>Headquarters</b>	FREUND Building, 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN	
<b>No. of Employees</b>	Consolidated: 386, Parent: 223 (as of the end of November 2019)	

Source: Company Data

### 3.0 Recent Trading and Prospects

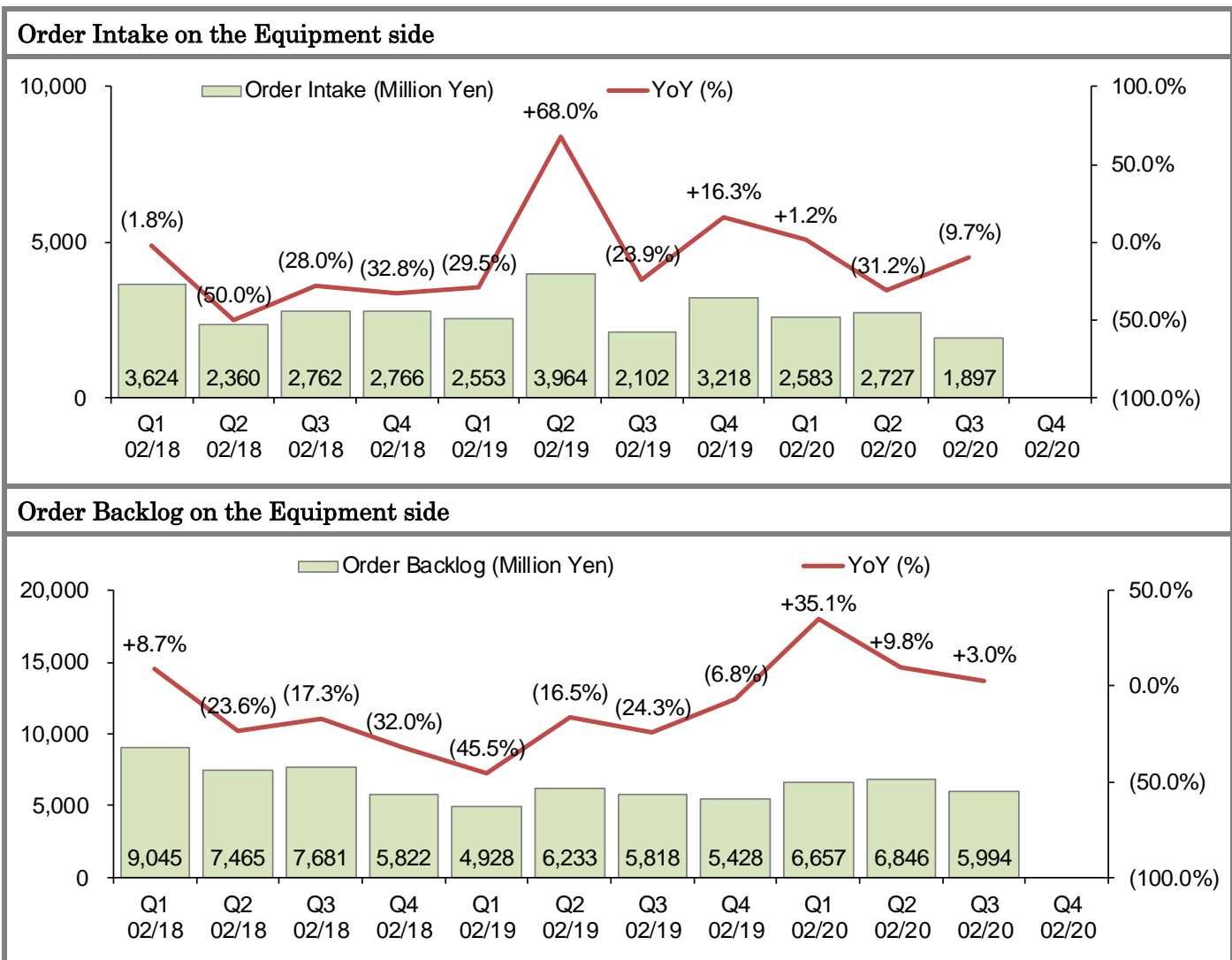
#### Q1 to Q3 FY02/2020 Results

In Q1 to Q3 FY02/2020, sales came in at ¥11,110m (down 16.1% YoY), operating profit ¥93m (down 86.1%), recurring profit ¥111m (down 85.5%) and profit attributable to owners of parent ¥37m (down 92.8%), while operating profit margin 0.8% (down 4.2% points).



Source: Company Data, WRJ Calculation

Against full-year Company forecasts (released on 9 January 2020), the Company sees progress rate of 65.4% in sales and 15.5% in operating profit, superficially implying a shortfall so far. However, the real picture is that sales on the Equipment side are to concentrate in Q4 more than usual. Full-year Company forecasts assume prospective sales of ¥11,000m (down 11.1% YoY) on the Equipment side and thus sales of ¥4,250m in Q4, implying 38.6% of sales on a full-year basis are to be booked in Q4 versus 32.3% in FY02/2018 and 29.5% in FY02/2019. As is taken for granted, earnings are to concentrate in Q4 to an extent larger than sales.



Source: Company Data, WRJ Calculation

On the Equipment side, order intake came in at ¥7,208m (down 16.4%) in Q1 to Q3 and order backlog stood at ¥5,994m (up 3.0%) as of the end of Q3. During the period of Q3, order intake came in at ¥1,897m, having come down by 9.7% over the same period of the previous year and renewed record low on a quarterly basis since Q1 FY02/2018. Still, order backlog as of the end of all the quarters so far in FY02/2020 has continued to see increases over the equivalents of the previous year, likely to result in steady digestion of order backlog in Q4 as expected in Company forecasts (released on 9 January 2020).

In Q1 to Q3, sales came in at ¥6,749m (down 22.6%), segment profit minus ¥142m (versus ¥295m in the same period of the previous year) and segment profit margin minus 2.1% (down 5.5% points) on the Equipment side. According to the Company, the situation is that decreased sales make it too hard to compensate for fixed costs. By application, sales of pharmaceutical-related came in at ¥5,710m (down 19.2%), mainly comprising those of granulation and coating equipment for pharmaceutical industry, while sales of industrial-related came in at ¥1,039m (down 37.2%), comprising those of all the rest of pharmaceutical-related (non-pharmaceuticals). By region, sales in Japan came in at ¥4,265m (down 27.0%) and sales overseas ¥2,489m (down 13.5%).

In other words, sales of pharmaceutical-related in Japan or the mainstay are coming down sharply and thus sales as a whole for this business segment. According to the Company, there is a tendency that pharmaceutical industry in Japan has been cutting back on capital investments more than initially expected. While negative impacts are generated stemming from the drug price revision, it appears that capital investments to achieve 80% penetration rate for generic drugs are not reappearing. On top of this, it appears that the Company suffers from delayed sales of new products. For example, sales of tablet-printing equipment (TABREX) have remained insignificant so far and sales of pharmaceutical-related are all basically of existing mainstay equipment, i.e., granulation and coating equipment.

From a perspective of sales by application, sales of industrial-related are coming down even more than those of pharmaceutical-related, while sales in Middle East / Asia / Oceania, mainly comprising those of Asia, saw sales of ¥509m (down 42.1%), having come down even more than those of Japan by region. With respect to industrial-related, the Company mentions that sales in China and Korea are coming down in particular as the general situation, while plummeting sales in Middle East / Asia / Oceania are mainly attributable to those of India and China. Given deteriorated market conditions, sales of rechargeable-battery-manufacturing equipment in China are effectively gone as far as we could gather.

Meanwhile, on the Chemicals side, sales came in at ¥4,360m (down 3.5%), segment profit ¥652m (down 16.5%) and segment profit margin 15.0% (down 2.3% points). It appears that sales as a whole for this business segment came down due mainly to plummeting sales of exports.

By subsegment, sales of pharmaceutical excipients came in at ¥2,271m (down 3.2%), sales of food preservatives ¥1,583m (down 4.1%) and sales of new food products or dietary supplements ¥506m (down 3.1%). At the same time, sales of exports, included in sales by subsegment here, came in at ¥111m (down 62.9%), effectively all comprising those of pharmaceutical excipients with India, Korea and Taiwan as the destinations, while the Company suffers from decreased sales of exports to the mainstay India, currently lacking in those of large-scale project that used to be the key driver. The customer here is running operations to manufacture pharmaceuticals in India to export to the United States, while having failed to survive price-oriented competition in there most recently. Accordingly, sales of exports with the Company are coming down to this extent. Meanwhile, when simply assuming that sales of exports equate to those of pharmaceutical excipients, sales of pharmaceutical excipients in Japan are ¥2,160m (up 5.6%), implying a consistent strength in the mainstay Japan.

## Income Statement (Cumulative/Quarterly)

Income 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		
<b>Sales</b>	<b>4,849</b>	<b>9,117</b>	<b>13,243</b>	<b>18,408</b>	<b>2,878</b>	<b>6,817</b>	<b>11,110</b>	-	-	<b>(2,132)</b>
Cost of Sales	3,245	6,100	8,874	12,220	1,830	4,400	7,331	-	-	(1,542)
Gross Profit	1,604	3,016	4,368	6,188	1,047	2,416	3,779	-	-	(589)
SG&A Expenses	1,204	2,423	3,698	4,964	1,262	2,413	3,686	-	-	(12)
<b>Operating Profit</b>	<b>399</b>	<b>592</b>	<b>670</b>	<b>1,223</b>	<b>(214)</b>	<b>3</b>	<b>93</b>	-	-	<b>(577)</b>
Non Operating Balance	79	91	100	103	(2)	2	18	-	-	(81)
<b>Recurring Profit</b>	<b>478</b>	<b>684</b>	<b>770</b>	<b>1,326</b>	<b>(217)</b>	<b>6</b>	<b>111</b>	-	-	<b>(659)</b>
Extraordinary Balance	21	21	22	(70)	7	11	(16)	-	-	(39)
Profit before Income Taxes	500	705	792	1,255	(210)	17	94	-	-	(698)
Total Income Taxes	153	239	269	412	(52)	24	56	-	-	(212)
<b>Profit Attributable to Owners of Parent</b>	<b>347</b>	<b>466</b>	<b>523</b>	<b>843</b>	<b>(158)</b>	<b>(7)</b>	<b>37</b>	-	-	<b>(485)</b>
Sales YoY	+8.4%	(6.9%)	(3.7%)	(7.0%)	(40.6%)	(25.2%)	(16.1%)	-	-	-
Operating Profit YoY	+3.0%	(44.8%)	(41.9%)	(37.9%)	-	(99.4%)	(86.1%)	-	-	-
Recurring Profit YoY	+20.3%	(37.3%)	(34.4%)	(33.5%)	-	(99.1%)	(85.5%)	-	-	-
Profit Attributable to Owners of Parent YoY	+26.6%	(36.5%)	(38.4%)	(42.9%)	-	-	(92.8%)	-	-	-
Gross Profit Margin	33.1%	33.1%	33.0%	33.6%	36.4%	35.4%	34.0%	-	-	+1.0%
Sales to SG&A Expenses Ratio	24.8%	26.6%	27.9%	27.0%	43.9%	35.4%	33.2%	-	-	+5.2%
Operating Profit Margin	8.2%	6.5%	5.1%	6.6%	(7.5%)	0.0%	0.8%	-	-	(4.2%)
Recurring Profit Margin	9.9%	7.5%	5.8%	7.2%	(7.6%)	0.1%	1.0%	-	-	(4.8%)
Profit Attributable to Owners of Parent Margin	7.2%	5.1%	4.0%	4.6%	(5.5%)	(0.1%)	0.3%	-	-	(3.6%)
Total Income Taxes/Profit before Income Taxes	30.6%	33.9%	34.0%	32.8%	-	145.1%	60.0%	-	-	+26.1%

Income 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	Q2 02/2019	Q3 02/2019	Q4 02/2019	Q1 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020		
<b>Sales</b>	<b>4,849</b>	<b>4,267</b>	<b>4,126</b>	<b>5,164</b>	<b>2,878</b>	<b>3,939</b>	<b>4,293</b>	-	-	<b>+167</b>
Cost of Sales	3,245	2,855	2,773	3,345	1,830	2,570	2,930	-	-	+157
Gross Profit	1,604	1,412	1,352	1,819	1,047	1,368	1,362	-	-	+9
SG&A Expenses	1,204	1,218	1,275	1,266	1,262	1,150	1,272	-	-	(2)
<b>Operating Profit</b>	<b>399</b>	<b>193</b>	<b>77</b>	<b>552</b>	<b>(214)</b>	<b>218</b>	<b>89</b>	-	-	<b>+12</b>
Non Operating Balance	79	11	8	2	(2)	5	15	-	-	+6
<b>Recurring Profit</b>	<b>478</b>	<b>205</b>	<b>86</b>	<b>555</b>	<b>(217)</b>	<b>223</b>	<b>105</b>	-	-	<b>+18</b>
Extraordinary Balance	21	0	0	(92)	7	3	(27)	-	-	(28)
Profit before Income Taxes	500	205	86	462	(210)	227	77	-	-	(9)
Total Income Taxes	153	86	29	142	(52)	76	31	-	-	+2
<b>Profit Attributable to Owners of Parent</b>	<b>347</b>	<b>118</b>	<b>57</b>	<b>319</b>	<b>(158)</b>	<b>150</b>	<b>45</b>	-	-	<b>(11)</b>
Sales YoY	+8.4%	(19.7%)	+4.3%	(14.7%)	(40.6%)	(7.7%)	+4.0%	-	-	-
Operating Profit YoY	+3.0%	(71.8%)	(0.9%)	(32.5%)	-	+12.5%	+15.8%	-	-	-
Recurring Profit YoY	+20.3%	(70.4%)	+4.3%	(32.2%)	-	+8.7%	+21.9%	-	-	-
Profit Attributable to Owners of Parent YoY	+26.6%	(74.1%)	(50.1%)	(49.1%)	-	+26.3%	(20.7%)	-	-	-
Gross Profit Margin	33.1%	33.1%	32.8%	35.2%	36.4%	34.7%	31.7%	-	-	(1.0%)
Sales to SG&A Expenses Ratio	24.8%	28.5%	30.9%	24.5%	43.9%	29.2%	29.7%	-	-	(1.3%)
Operating Profit Margin	8.2%	4.5%	1.9%	10.7%	(7.5%)	5.5%	2.1%	-	-	+0.2%
Recurring Profit Margin	9.9%	4.8%	2.1%	10.8%	(7.6%)	5.7%	2.5%	-	-	+0.4%
Profit Attributable to Owners of Parent Margin	7.2%	2.8%	1.4%	6.2%	(5.5%)	3.8%	1.1%	-	-	(0.3%)
Total Income Taxes/Profit before Income Taxes	30.6%	42.1%	34.0%	30.9%	-	33.9%	41.1%	-	-	+7.1%

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	3,964	6,749	-	(1,973)	
Chemicals	1,416	2,971	4,519	6,040	1,491	2,852	4,360	-	(159)	
<b>Sales</b>	<b>4,849</b>	<b>9,117</b>	<b>13,243</b>	<b>18,408</b>	<b>2,878</b>	<b>6,817</b>	<b>11,110</b>	-	<b>(2,132)</b>	
Machinery	+7.4%	(14.3%)	(10.5%)	(14.1%)	(59.6%)	(35.5%)	(22.6%)	-	-	
Chemicals	+11.1%	+13.5%	+13.0%	+11.9%	+5.3%	(4.0%)	(3.5%)	-	-	
<b>Sales (YoY)</b>	<b>+8.4%</b>	<b>(6.9%)</b>	<b>(3.7%)</b>	<b>(7.0%)</b>	<b>(40.6%)</b>	<b>(25.2%)</b>	<b>(16.1%)</b>	-	-	
Equipment	70.8%	67.4%	65.9%	67.2%	48.2%	58.2%	60.8%	-	-	
Chemicals	29.2%	32.6%	34.1%	32.8%	51.8%	41.8%	39.2%	-	-	
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	
Equipment	278	291	295	737	(267)	(119)	(142)	-	(437)	
Chemicals	259	556	781	1,024	187	382	652	-	(128)	
<b>Segment Profit</b>	<b>537</b>	<b>847</b>	<b>1,076</b>	<b>1,762</b>	<b>(79)</b>	<b>262</b>	<b>510</b>	-	<b>(566)</b>	
Elimination	(138)	(254)	(406)	(538)	(135)	(259)	(417)	-	(10)	
<b>Operating Profit</b>	<b>399</b>	<b>592</b>	<b>670</b>	<b>1,223</b>	<b>(214)</b>	<b>3</b>	<b>93</b>	-	<b>(577)</b>	
Equipment	(14.8%)	(66.5%)	(67.5%)	(54.8%)	-	-	-	-	-	
Chemicals	+32.5%	+32.1%	+31.5%	+27.9%	(27.8%)	(31.3%)	(16.5%)	-	-	
<b>Segment Profit (YoY)</b>	<b>+2.9%</b>	<b>(34.3%)</b>	<b>(28.4%)</b>	<b>(27.6%)</b>	-	<b>(69.0%)</b>	<b>(52.6%)</b>	-	-	
Equipment	51.7%	34.4%	27.5%	41.8%	-	(45.7%)	(27.9%)	-	-	
Chemicals	48.3%	65.6%	72.5%	58.2%	-	145.7%	127.9%	-	-	
<b>Segment Profit (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	<b>100.0%</b>	<b>100.0%</b>	-	-	
Equipment	8.1%	4.7%	3.4%	6.0%	(19.3%)	(3.0%)	(2.1%)	-	(5.5%)	
Chemicals	18.3%	18.7%	17.3%	17.0%	12.6%	13.4%	15.0%	-	(2.3%)	
Elimination	(2.9%)	(2.8%)	(3.1%)	(2.9%)	(4.7%)	(3.8%)	(3.8%)	-	(0.7%)	
<b>Operating Profit Margin</b>	<b>8.2%</b>	<b>6.5%</b>	<b>5.1%</b>	<b>6.6%</b>	<b>(7.5%)</b>	<b>0.0%</b>	<b>0.8%</b>	-	<b>(4.2%)</b>	

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	Q2 02/2019	Q3 02/2019	Q4 02/2019	Q1 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020		
Equipment	3,433	2,712	2,577	3,644	1,386	2,578	2,785	-	+207	
Chemicals	1,416	1,555	1,548	1,520	1,491	1,360	1,508	-	(40)	
<b>Sales</b>	<b>4,849</b>	<b>4,267</b>	<b>4,126</b>	<b>5,164</b>	<b>2,878</b>	<b>3,939</b>	<b>4,293</b>	-	<b>+167</b>	
Machinery	+7.4%	(31.7%)	+0.1%	(21.7%)	(59.6%)	(5.0%)	+8.0%	-	-	
Chemicals	+11.1%	+15.8%	+12.1%	+8.6%	+5.3%	(12.5%)	(2.6%)	-	-	
<b>Sales (YoY)</b>	<b>+8.4%</b>	<b>(19.7%)</b>	<b>+4.3%</b>	<b>(14.7%)</b>	<b>(40.6%)</b>	<b>(7.7%)</b>	<b>+4.0%</b>	-	-	
Equipment	70.8%	63.6%	62.5%	70.6%	48.2%	65.5%	64.9%	-	-	
Chemicals	29.2%	36.4%	37.5%	29.4%	51.8%	34.5%	35.1%	-	-	
<b>Sales (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	
Equipment	278	13	4	441	(267)	147	(22)	-	(26)	
Chemicals	259	296	224	243	187	194	270	-	+45	
<b>Segment Profit</b>	<b>537</b>	<b>309</b>	<b>229</b>	<b>685</b>	<b>(79)</b>	<b>342</b>	<b>247</b>	-	<b>+18</b>	
Elimination	(138)	(116)	(151)	(132)	(135)	(124)	(158)	-	(6)	
<b>Operating Profit</b>	<b>399</b>	<b>193</b>	<b>77</b>	<b>552</b>	<b>(214)</b>	<b>218</b>	<b>89</b>	-	<b>+12</b>	
Equipment	(14.8%)	(97.5%)	(90.0%)	(38.7%)	-	-	-	-	-	
Chemicals	+32.5%	+31.9%	+30.0%	+17.5%	(27.8%)	(34.3%)	+20.1%	-	-	
<b>Segment Profit (YoY)</b>	<b>+2.9%</b>	<b>(59.6%)</b>	<b>+6.6%</b>	<b>(26.2%)</b>	-	<b>+10.4%</b>	<b>+8.2%</b>	-	-	
Equipment	51.7%	4.3%	1.8%	64.5%	-	43.0%	(9.0%)	-	-	
Chemicals	48.3%	95.7%	98.2%	35.5%	-	57.0%	109.0%	-	-	
<b>Segment Profit (Composition Ratio)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	<b>100.0%</b>	<b>100.0%</b>	-	-	
Equipment	k	0.5%	0.2%	12.1%	(19.3%)	5.7%	(0.8%)	-	(1.0%)	
Chemicals	18.3%	19.1%	14.5%	16.0%	12.6%	14.3%	17.9%	-	+3.4%	
Elimination	(2.9%)	(2.7%)	(3.7%)	(2.6%)	(4.7%)	(3.2%)	(3.7%)	-	(0.0%)	
<b>Operating Profit Margin</b>	<b>8.2%</b>	<b>4.5%</b>	<b>1.9%</b>	<b>10.7%</b>	<b>(7.5%)</b>	<b>5.5%</b>	<b>2.1%</b>	-	<b>+0.2%</b>	

Source: Company Data, WRJ Calculation

## Sales of Equipment by Region (Cumulative/Quarterly)

Sales of Equipment by Region	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	Q1 to Q4	Net Chg.
	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020	02/2020	
Japan	2,783	4,352	5,846	7,312	894	2,557	4,265	-	-	(1,581)
North America / Latin America	289	1,007	1,726	3,352	308	1,005	1,743	-	-	+16
Europe / Africa	80	141	270	337	81	150	236	-	-	(34)
Middle East / Asia / Oceania	279	643	879	1,366	101	251	509	-	-	(369)
Overseas	649	1,793	2,876	5,055	491	1,407	2,489	-	-	(387)
<b>Sales</b>	<b>3,433</b>	<b>6,145</b>	<b>8,723</b>	<b>12,368</b>	<b>1,386</b>	<b>3,964</b>	<b>6,749</b>	-	-	<b>(1,973)</b>
Japan	+8.5%	(4.5%)	(0.6%)	(13.9%)	(67.9%)	(41.2%)	(27.0%)	-	-	-
North America / Latin America	(12.7%)	(10.0%)	(3.8%)	+12.5%	+6.7%	(0.2%)	+1.0%	-	-	-
Europe / Africa	(62.0%)	(86.1%)	(79.0%)	(81.1%)	+1.2%	+6.2%	(12.7%)	-	-	-
Middle East / Asia / Oceania	+215.0%	+35.8%	+12.5%	+19.1%	(63.6%)	(61.0%)	(42.1%)	-	-	-
Overseas	+2.9%	(31.4%)	(25.6%)	(14.5%)	(24.3%)	(21.5%)	(13.5%)	-	-	-
<b>Sales (YoY)</b>	<b>+7.4%</b>	<b>(14.3%)</b>	<b>(10.5%)</b>	<b>(14.1%)</b>	<b>(59.6%)</b>	<b>(35.5%)</b>	<b>(22.6%)</b>	-	-	-
Japan	81.1%	70.8%	67.0%	59.1%	64.5%	64.5%	63.2%	-	-	-
North America / Latin America	8.4%	16.4%	19.8%	27.1%	22.3%	25.4%	25.8%	-	-	-
Europe / Africa	2.3%	2.3%	3.1%	2.7%	5.9%	3.8%	3.5%	-	-	-
Middle East / Asia / Oceania	8.2%	10.5%	10.1%	11.0%	7.3%	6.3%	7.5%	-	-	-
Overseas	18.9%	29.2%	33.0%	40.9%	35.5%	35.5%	36.9%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.1%</b>	-	-	-

Sales of Equipment by Region	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	Q4	Net Chg.
	02/2019	02/2019	02/2019	02/2019	02/2020	02/2020	02/2020	02/2020	02/2020	
Japan	2,783	1,568	1,494	1,466	894	1,662	1,707	-	-	+213
North America / Latin America	289	718	718	1,625	308	696	737	-	-	+18
Europe / Africa	80	61	129	66	81	69	86	-	-	(43)
Middle East / Asia / Oceania	279	363	235	486	101	149	258	-	-	+22
Overseas	649	1,143	1,083	2,178	491	915	1,081	-	-	(1)
<b>Sales</b>	<b>3,433</b>	<b>2,712</b>	<b>2,577</b>	<b>3,644</b>	<b>1,386</b>	<b>2,578</b>	<b>2,785</b>	-	-	<b>+207</b>
Japan	+8.5%	(21.3%)	+12.9%	(43.8%)	(67.9%)	+6.0%	+14.3%	-	-	-
North America / Latin America	(12.7%)	(8.8%)	+6.4%	+37.2%	+6.7%	(3.0%)	+2.6%	-	-	-
Europe / Africa	(62.0%)	(92.4%)	(52.0%)	(86.6%)	+1.2%	+12.8%	(33.4%)	-	-	-
Middle East / Asia / Oceania	+215.0%	(5.5%)	(23.4%)	+33.0%	(63.6%)	(59.0%)	+9.7%	-	-	-
Overseas	+2.9%	(42.3%)	(13.5%)	+6.5%	(24.3%)	(20.0%)	(0.1%)	-	-	-
<b>Sales (YoY)</b>	<b>+7.4%</b>	<b>(31.7%)</b>	<b>+0.1%</b>	<b>(21.7%)</b>	<b>(59.6%)</b>	<b>(5.0%)</b>	<b>+8.0%</b>	-	-	-
Japan	81.1%	57.8%	58.0%	40.2%	64.5%	64.5%	61.2%	-	-	-
North America / Latin America	8.4%	26.5%	27.9%	44.6%	22.3%	27.0%	26.4%	-	-	-
Europe / Africa	2.3%	2.3%	5.0%	1.8%	5.9%	2.7%	3.1%	-	-	-
Middle East / Asia / Oceania	8.2%	13.4%	9.1%	13.4%	7.3%	5.8%	9.3%	-	-	-
Overseas	18.9%	42.2%	42.0%	59.8%	35.5%	35.5%	38.8%	-	-	-
<b>Sales (Composition)</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	-	-	-

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 and Deposit	5,236	5,245	4,834	5,534	4,607	5,030	4,232	-	(602)	
Accounts Receivables	4,576	4,377	4,499	4,332	4,039	3,800	4,320	-	(179)	
Inventory	2,998	2,802	3,220	2,475	3,308	3,447	3,870	-	+650	
Other	545	566	653	368	387	443	457	-	(195)	
<b>Current Assets</b>	<b>13,356</b>	<b>12,991</b>	<b>13,208</b>	<b>12,711</b>	<b>12,342</b>	<b>12,721</b>	<b>12,881</b>	-	<b>(327)</b>	
Tangible Assets	3,471	3,554	3,580	3,769	3,857	3,997	4,206	-	+625	
Intangible Assets	96	91	93	16	17	16	96	-	+3	
Investments and Other Assets	860	847	843	951	1,009	978	998	-	+154	
<b>Fixed Assets</b>	<b>4,428</b>	<b>4,493</b>	<b>4,517</b>	<b>4,736</b>	<b>4,885</b>	<b>4,992</b>	<b>5,301</b>	-	<b>+783</b>	
<b>Total Assets</b>	<b>17,784</b>	<b>17,484</b>	<b>17,726</b>	<b>17,448</b>	<b>17,227</b>	<b>17,713</b>	<b>18,182</b>	-	<b>+456</b>	
Accounts Payables	2,510	2,142	2,343	2,169	2,043	2,350	2,783	-	+440	
Short Term Debt	-	-	-	-	-	-	-	-	-	
Other	2,258	2,169	2,105	1,768	2,216	2,317	2,235	-	+129	
<b>Current Liabilities</b>	<b>4,768</b>	<b>4,312</b>	<b>4,449</b>	<b>3,938</b>	<b>4,259</b>	<b>4,668</b>	<b>5,019</b>	-	<b>+569</b>	
Long Term Debt	-	-	-	-	-	-	-	-	-	
Other	323	319	323	258	244	238	241	-	(81)	
<b>Fixed Liabilities</b>	<b>323</b>	<b>319</b>	<b>323</b>	<b>258</b>	<b>244</b>	<b>238</b>	<b>241</b>	-	<b>(81)</b>	
<b>Total Liabilities</b>	<b>5,092</b>	<b>4,632</b>	<b>4,772</b>	<b>4,197</b>	<b>4,504</b>	<b>4,906</b>	<b>5,260</b>	-	<b>+487</b>	
<b>Shareholders' Equity</b>	<b>12,973</b>	<b>13,092</b>	<b>13,149</b>	<b>13,469</b>	<b>12,976</b>	<b>13,127</b>	<b>13,172</b>	-	<b>+22</b>	
Adjustments	(281)	(240)	(196)	(219)	(253)	(319)	(251)	-	(54)	
<b>Total Assets</b>	<b>12,691</b>	<b>12,852</b>	<b>12,953</b>	<b>13,250</b>	<b>12,723</b>	<b>12,807</b>	<b>12,921</b>	-	<b>(31)</b>	
<b>Total Liabilities and Net Assets</b>	<b>17,784</b>	<b>17,484</b>	<b>17,726</b>	<b>17,448</b>	<b>17,227</b>	<b>17,713</b>	<b>18,182</b>	-	<b>+456</b>	
Equity Capital	12,691	12,852	12,953	13,250	12,723	12,807	12,921	-	(32)	
Interest Bearing Debt	-	-	-	-	-	-	-	-	-	
Net Debt	(5,236)	(5,245)	(4,834)	(5,534)	(4,607)	(5,030)	(4,232)	-	+602	
Equity Capital Ratio	71.4%	73.5%	73.1%	75.9%	73.9%	72.3%	71.1%	-	-	
Net-Debt-Equity Ratio	(41.3%)	(40.8%)	(37.3%)	(41.8%)	(36.2%)	(39.3%)	(32.8%)	-	-	
ROE (12 months)	12.5%	9.5%	9.0%	6.4%	2.7%	2.9%	2.8%	-	-	
ROA (12 months)	11.5%	8.7%	8.5%	7.3%	3.6%	3.7%	3.7%	-	-	
Total Assets Turnover	109%	98%	93%	118%	67%	89%	94%	-	-	
Inventory Turnover	4.3	4.1	3.4	5.4	2.2	3.0	3.0	-	-	
Days of Inventory	84	90	106	68	165	122	121	-	-	
Quick Ratio	206%	223%	210%	251%	203%	189%	170%	-	-	
Current Ratio	280%	301%	297%	323%	290%	273%	257%	-	-	

Source: Company Data, WRJ Calculation

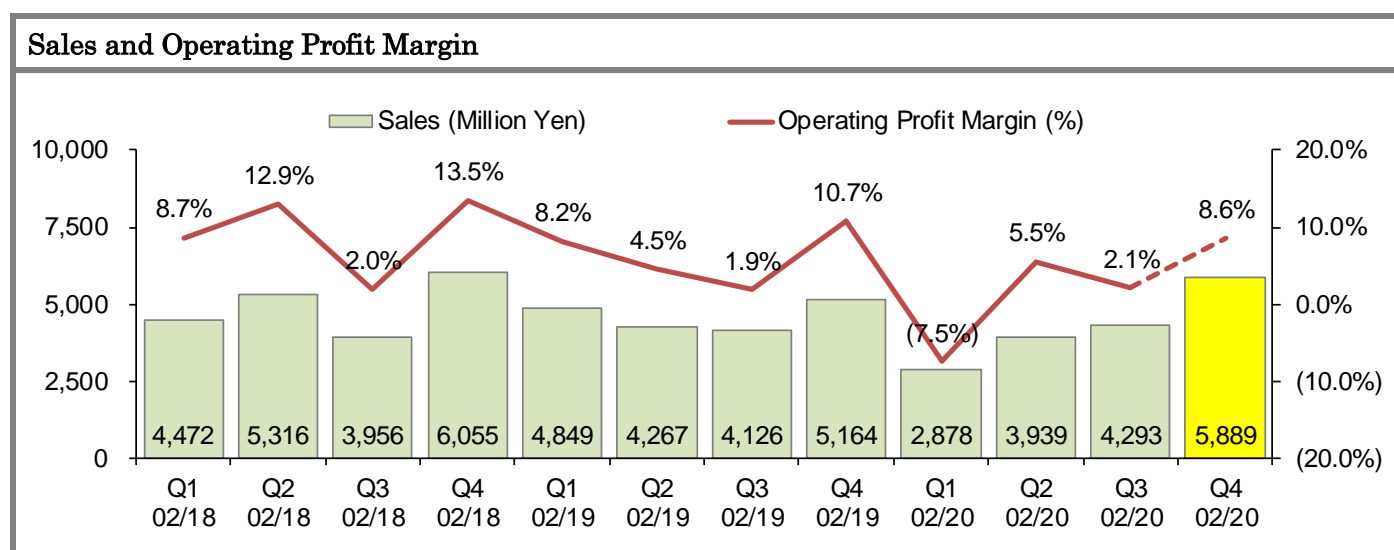
## Cash Flow Statement (Cumulative)

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	-	289	-	-	-	
Investment Cash Flow	-	(190)	-	(566)	-	(414)	-	-	-	
<b>Operating CF and Investment CF</b>	<b>-</b>	<b>(420)</b>	<b>-</b>	<b>(130)</b>	<b>-</b>	<b>(124)</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Financing Cash Flow	-	(918)	-	(921)	-	(359)	-	-	-	

Source: Company Data, WRJ Calculation

## FY02/2020 Company Forecasts

FY02/2020 Company forecasts (released on 9 January 2020) are going for prospective sales of ¥17,000m (down 7.7% YoY), operating profit of ¥600m (down 50.9%), recurring profit of ¥600m (down 54.8%) and profit attributable to owners of parent of ¥350m (down 58.5%), while operating profit margin of 3.5% (down 3.1% points).



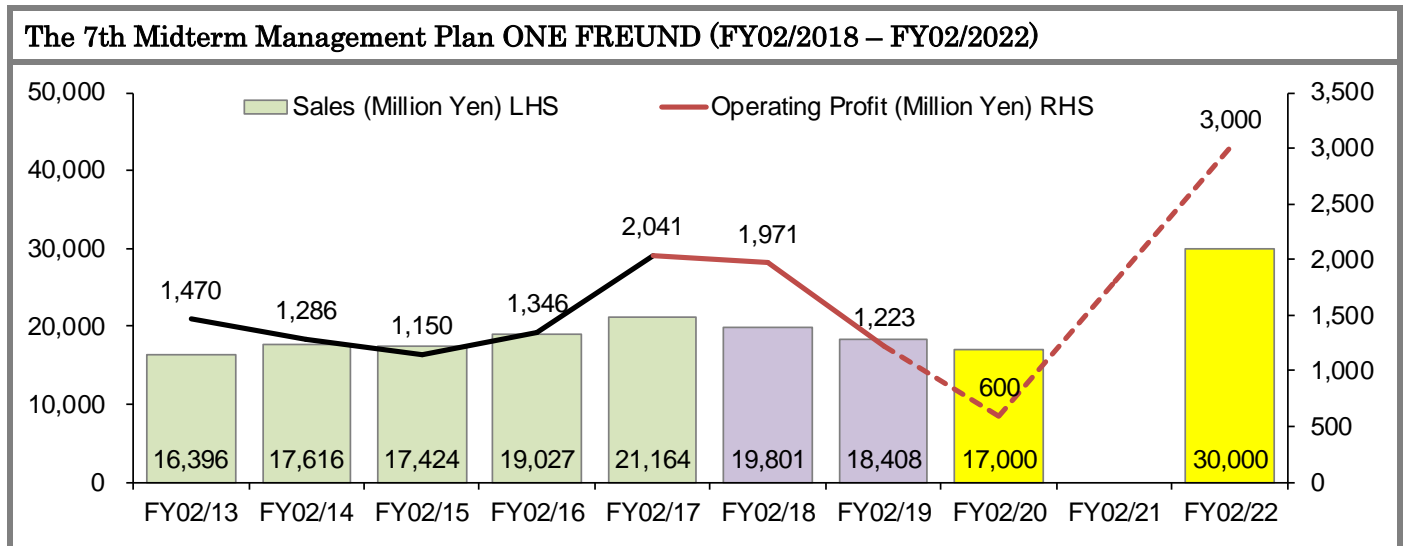
Source: Company Data, WRJ Calculation

Compared with initial Company forecast (released on 9 April 2019), downward revision has been made, i.e., by ¥500m (2.9%) in sales, by ¥400m (40.0%) in operating profit, by ¥400m (40.0%) in recurring profit and by ¥350m (50.0%) in profit attributable to owners of parent. Sales on the Equipment side are falling short of initial expectations and thus sales as a whole for the Company too, while it is inevitable for earnings to fall short of in line with this.

Meanwhile, FY02/2020 Company forecasts have remained unchanged for prospective annual dividend, going for ¥20.00 per share. The Company has set a target payout ratio of 30%, but it will see payout ratio as high as 95.7%, given above-mentioned downward revision. The Company, which has expressed an aggressive stance on shareholder returns, appears to be focusing on maintaining stability of annual dividend, although it has not written down the policy.

## 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 the FY02/2017 results) in FY02/2022 or the final year of the plan.



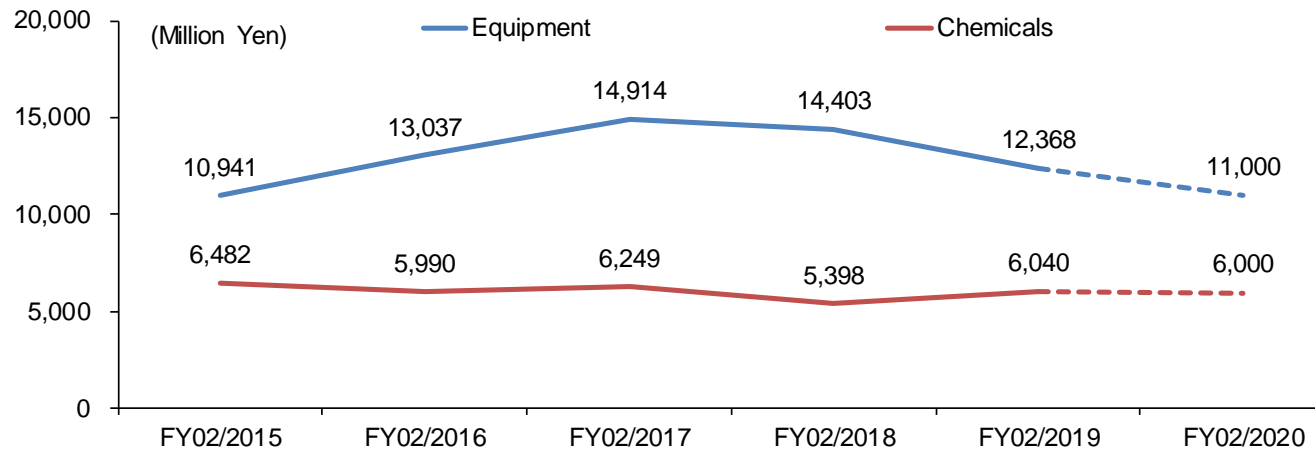
Source: Company Data, WRJ Calculation

When based on the FY02/2017 results, the plan assumes CAGR of 7.2% in sales and 8.0% in 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 5-year period ended by FY02/2017, the plan does not assume stable and linear growth during its period in the first place.

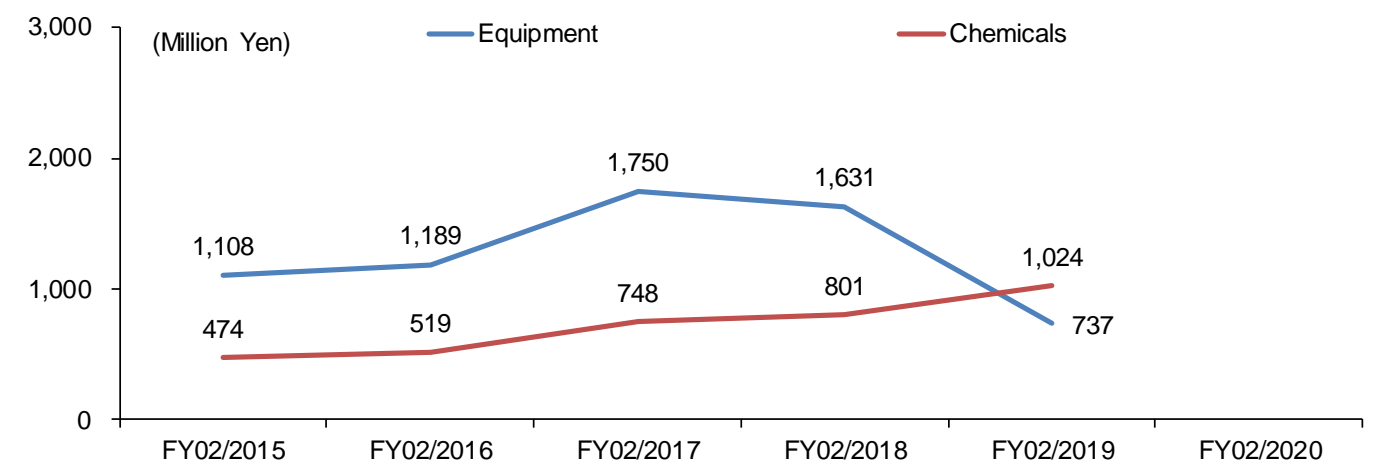
The initial three-year period through FY02/2018 to FY02/2020 is of “building growth basis”, where the plan assumes “flat trends” for sales and earnings, according to the Company. At the same time, the Company focuses on a) development of new products, b) focus on sales associated with non-pharmaceuticals or industrial-related 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 it suffered from the issues unexpected on the Equipment side in FY02/2019 or the second year. Sales fell short of initial Company forecasts, negatively affected by “delayed sales of new products of pharmaceutical-related”, “delayed sales of non-pharmaceuticals or industrial-related” and “capital investments by customers lower than expected”, having resulted in shortfall of operating profit at the same time. Compared with initial Company forecasts, sales fell short of by ¥1,592m (8.0%) and operating profit by ¥677m (35.6%). It appears that the situations in FY02/2020 or the third year may have even deteriorated since then, judging from the Q1 to Q3 results.

## Sales



## Segment Profit



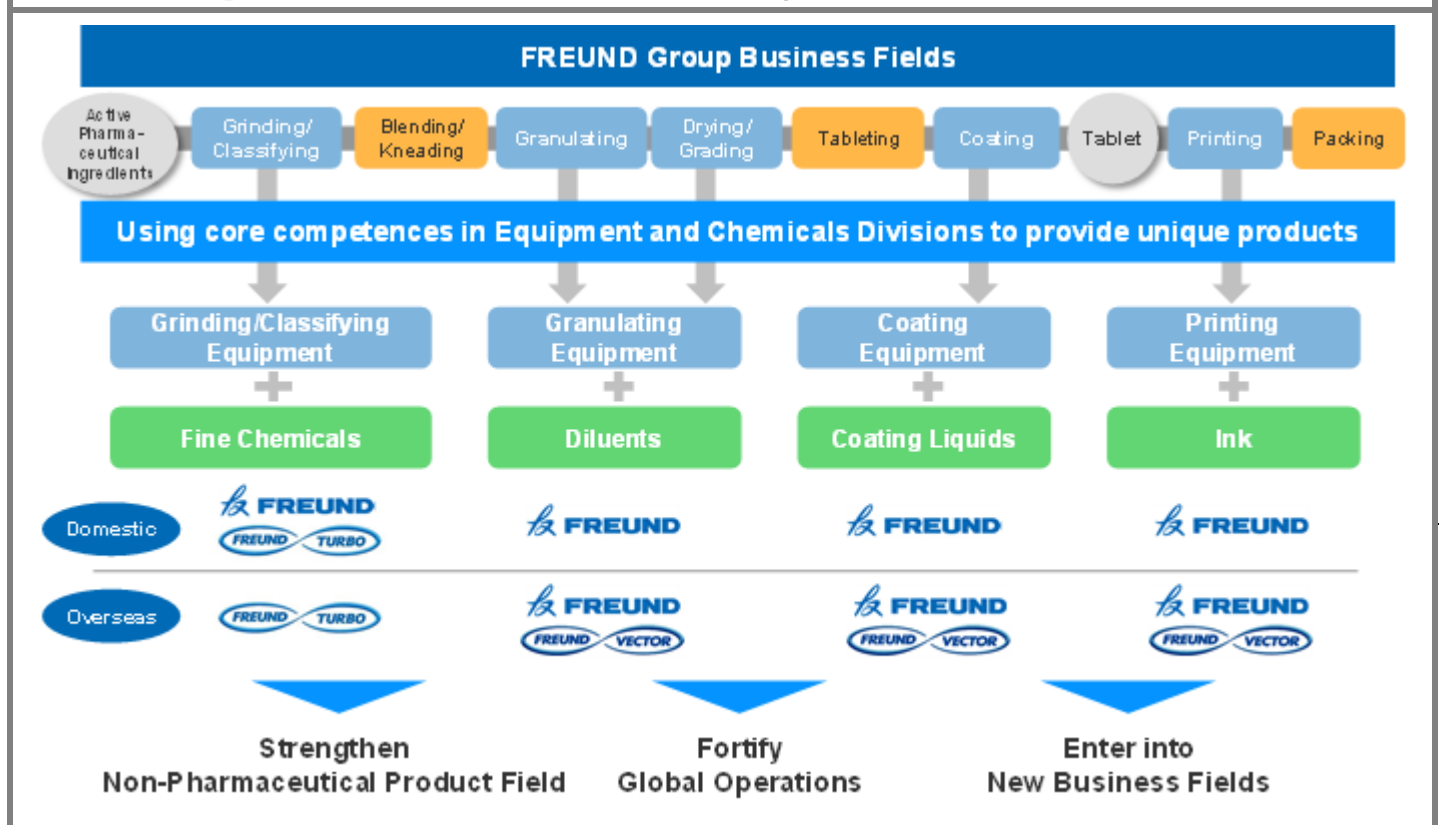
Source: Company Data, WRJ Calculation

## 4.0 Business Model

### Proprietary 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 sales 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 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 on 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, having already completed the delivery to date.

With respect 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 has focused own resources on improving capability of the hardware, given additional needs from users to have already installed the equipment to cope with variety of tablets far more extensively than initially assumed. As a result, incoming order intake has been almost suspended in Q1 to Q3 FY02/2020.

Granulation and Coating Equip.	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p style="text-align: center;"><b>Granuformer</b> (Serial Manufacturing System)</p>	 <p style="text-align: center;"><b>TABREX</b></p>	 <p style="text-align: center;"><b>Nonpareil®</b></p>
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

Meanwhile, on the Chemicals side, the Company is involved with development, manufacture and sales of pharmaceutical excipients, food preservatives and new food products or 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 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 mainstay 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**

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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 Hulia Ginza 1-chome Building, 1-13-1 Ginza, Chuo-ku, Tokyo 104-0061 JAPAN

URL: [www.walden.co.jp](http://www.walden.co.jp)

E-mail: [info@walden.co.jp](mailto:info@walden.co.jp)

Phone : +81 3 3553 3769