

FREUND CORPORATION (6312)

| Consolidated FY (Million Yen) | Sales | Operating Profit | Recurring Profit | Profit Attributable to Owners of Parent | EPS (Yen) | DPS (Yen) | BPS (Yen) |
|----------------------------------|------------|---------------------|---------------------|--|--------------|--------------|--------------|
| FY02/2019 | 18,408 | 1,223 | 1,326 | 843 | 50.15 | 20.00 | 791.34 |
| FY02/2020 | 16,772 | 558 | 582 | 381 | 22.79 | 20.00 | 790.94 |
| FY02/2021CoE | 17,800 | 1,000 | 1,000 | 700 | 41.80 | - | - |
| FY02/2020 | YoY (8.9%) | (54.3%) | (56.1%) | (54.8%) | - | - | - |
| FY02/2021CoE | YoY 6.1% | 79.1% | 71.6% | 83.5% | - | - | - |

Source: Company Data, WRJ Calculation

1.0 Executive Summary (10 June 2020)


A Reversal for Growth

FREUND CORPORATION to develop, manufacture and sell equipment as well as chemicals is to see a reversal for growth with its earnings. The Company has announced the 8th Midterm Management Plan (FY02/2021 to FY02/2023), calling for prospective sales of ¥20,140m and operating profit of ¥1,460m in FY02/2023 or the last year of the plan, i.e., CAGR of 6.3% for sales and 37.8% for operating profit during the same period. It appears that sales and earnings will be rising on both of the Equipment side and the Chemicals side, particularly on the Equipment as far as we could see. In FY02/2020, order intake came in at ¥10,227m (down 13.6% YoY) and order backlog ¥4,695m (down 13.5%) on the Equipment side, while it takes 6 to 8 months or more for order intake to book sales after being placed. The Company suggests that order intake was delayed towards the end of FY02/2020, but the said delayed order intake has been placed to date, while large-scale order intake is kicking in, realizing rather favorable situations in the latest order intake, according to the Company. Meanwhile, the Company suffered from decreased sales and earnings as a whole over the past three years in a row, suggesting that the Company is heading for a reversal for growth with its earnings, starting in FY02/2021.

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2.0 Company Profile

Equipment and Chemicals

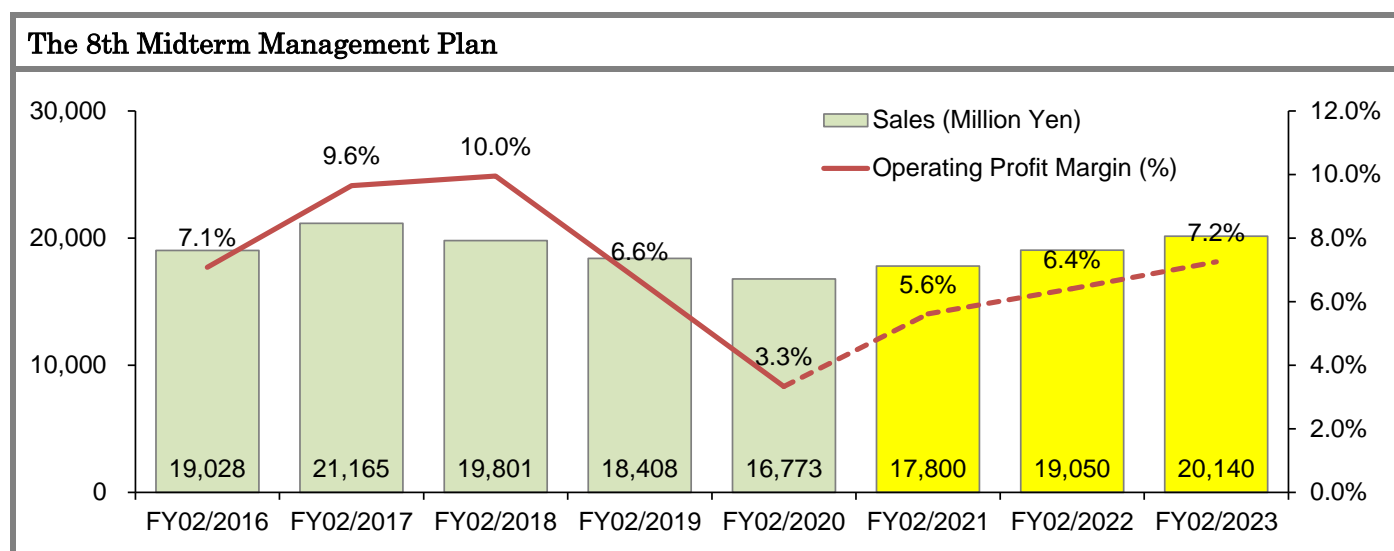
| | | |
|--------------------------|---|--|
| Company Name | FREUND CORPORATION Company Website IR Information Share Price (Japanese) |  |
| Established | 22 April 1964 | |
| Listing | 24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312) | |
| Capital | ¥1,035m (as of the end of February 2020) | |
| No. of Shares | 18,400,000 shares, including 1,655,480 treasury shares (as of the end of Feb. 2020) | |
| Main Features | <ul style="list-style-type: none"> ● Leading the market in Japan for granulation and coating equipment with market share of 60% to 70% ● Focusing also on non-pharmaceuticals (chemicals, foods, dietary supplements, etc.) ● On the Chemicals side, the mainstay pharmaceutical excipients, the key growth driver | |
| Business Segments | I . Equipment II . Chemicals | |
| Top Management | President and CEO: Iwao Fusejima | |
| Shareholders | Fusejima Yokosha 9.8%, Yasutoyo Fusejima 7.6%, MUFG Bank 4.9% (as of the end of February 2020, but for treasury shares) | |
| Headquarters | FREUND Building, 6-25-13 Nishishinjuku, Shinjuku-ku, Tokyo, JAPAN | |
| No. of Employees | Consolidated: 383, Parent: 227 (as of the end of February 2020) | |

Source: Company Data

3.0 Recent Trading and Prospects

FY02/2020 Results

In FY02/2020, sales came in at ¥16,772m (down 8.9% YoY), operating profit ¥558m (down 54.3%), recurring profit ¥582m (down 56.1%) and profit attributable to owners of parent ¥381m (down 54.8%), while operating profit margin 3.3% (down 3.3% points). On the Equipment side, the Company suffered from delayed sales and order intake, but the results were almost in line with the latest Company forecasts revised on 9 January 2020.



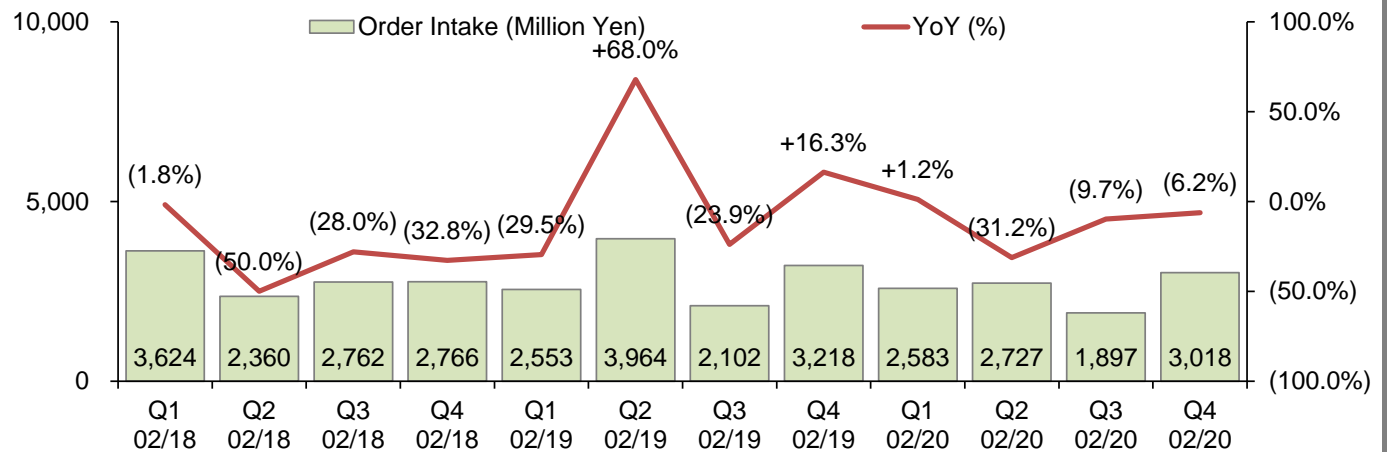
Source: Company Data, WRJ Calculation

On the Equipment side, sales came in at ¥11,118m (down 10.1%), segment profit ¥311m (down 57.8%) and segment profit margin 2.8% (down 3.2% points). Meanwhile, order intake came in at ¥10,227m (down 13.6%) and order backlog ¥4,695m (down 13.5%). By application, sales of pharmaceuticals-related came in at ¥9,357m (down 7.9%), while sales of industrials-related ¥1,760m (down 20.2%). By region, sales in Japan came in at ¥6,696m (down 8.4%) and sales overseas ¥4,422m (down 12.5%).

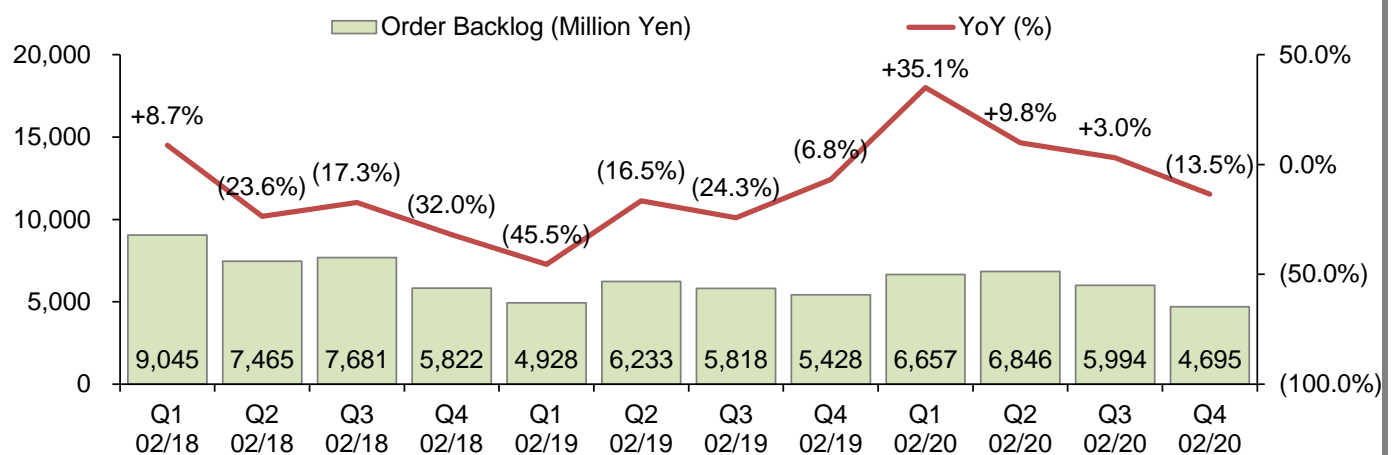
With respect to pharmaceuticals-related, demand for the mainstay granulation and coating equipment has remained sluggish. The key negative factor is that users in Japan are restraining capital expenditure given slowing growth in the market for generic drugs. On top of this, sales of new products represented by tablet printing equipment (TABREX) were delayed. With respect to industrials-related, sales stagnated due mainly to sluggishness of the market for lithium-ion batteries in China. Still, most recently, order intake of industrials-related has been increasing over the previous year in line with increased demand associated with foods, dietary supplements, etc. Meanwhile, subsidiary FREUND-TURBO CORPORATION in charge of industrials-related has seen a turnaround to surplus at the operating level as a result of aggressive sales promotions for high-profit-margin products. However this was not sufficient enough to compensate for decreased earnings on a parent basis and losses of subsidiary FREUND-VECTOR CORPORATION which is based in the United States and is in charge of development of markets overseas.

In terms of sales overseas by region, the Company saw ¥2,915m (down 13.0%) in North & Latin Americas, ¥452m (up 13.8%) in Europe & Africa and ¥1,054m (down 19.2%) in Middle East, Asia & Oceania. Sales in North and Latin Americas came down due to a major decline in the United States. Sales in Brazil were buoyant, but not substantial enough to compensate for the former. Sales in Europe & Africa have increased but remained insignificant in terms of scale. Decreased sales in Middle East, Asia & Oceania are mainly attributable to those of India, while sales in China have been firm, according to the Company.

Order Intake on the Equipment side

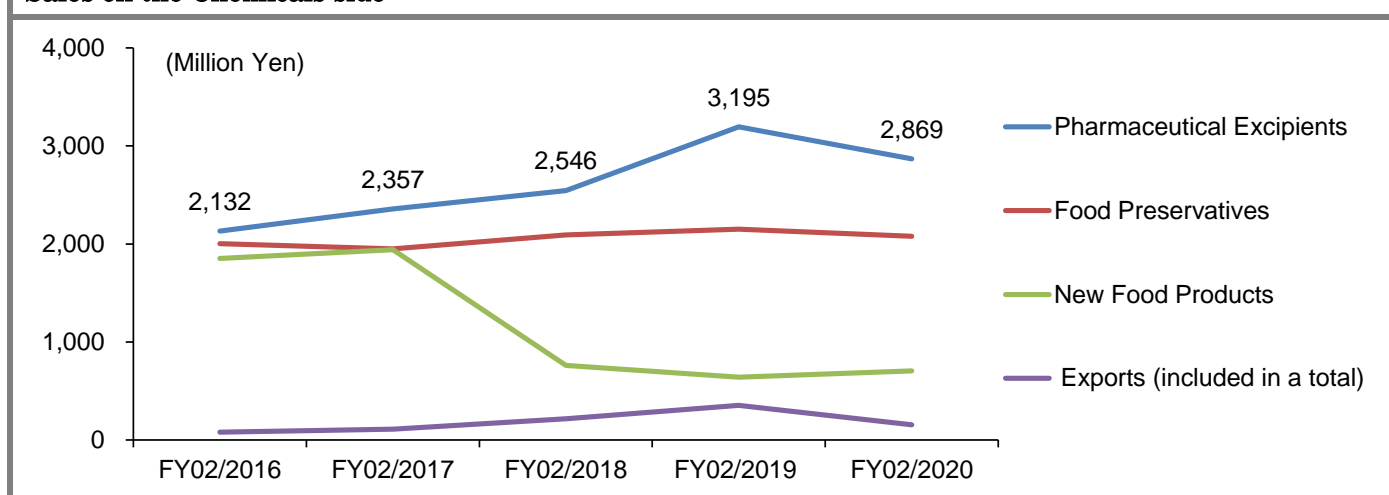


Order Backlog on the Equipment side



Source: Company Data, WRJ Calculation

Sales on the Chemicals side



Source: Company Data, WRJ Calculation

On the Chemicals side, sales came in at ¥5,654m (down 6.4%), segment profit ¥781m (down 23.7%) and segment profit margin 13.8% (down 3.2% points). With respect to the mainstay pharmaceutical excipients, sales came in at ¥2,869m (down 10.2%). Demand in Japan has remained firm, but demand overseas was sluggish, which was more than offsetting the former. For example, exports bound for India came down due to extended inventory adjustment in a specific local user (manufacturer of pharmaceuticals), according to the Company. On top of this, the Company suffered from sales mix worsened due to decreased sales associated with high-profit-margin projects, having generated a key negative factor to decreased earnings in this business segment.

Meanwhile, sales of food preservatives and new food products (dietary supplements) have remained roughly unchanged from the previous year. Most recently, however, the Company suggests that demand associated with food preservatives used for preserving the quality of Baumkuchen, etc. is coming down, negatively affected by decreased inbound demand, etc.

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 | Q1 to Q4 | Net Chg. |
| | 02/2019 | 02/2019 | 02/2019 | 02/2019 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | |
| Sales | 4,849 | 9,117 | 13,243 | 18,408 | 2,878 | 6,817 | 11,110 | 16,772 | 16,772 | (1,635) |
| Cost of Sales | 3,245 | 6,100 | 8,874 | 12,220 | 1,830 | 4,400 | 7,331 | 11,344 | 11,344 | (875) |
| Gross Profit | 1,604 | 3,016 | 4,368 | 6,188 | 1,047 | 2,416 | 3,779 | 5,428 | 5,428 | (759) |
| SG&A Expenses | 1,204 | 2,423 | 3,698 | 4,964 | 1,262 | 2,413 | 3,686 | 4,870 | 4,870 | (94) |
| Operating Profit | 399 | 592 | 670 | 1,223 | (214) | 3 | 93 | 558 | 558 | (664) |
| Non Operating Balance | 79 | 91 | 100 | 103 | (2) | 2 | 18 | 24 | 24 | (78) |
| Recurring Profit | 478 | 684 | 770 | 1,326 | (217) | 6 | 111 | 582 | 582 | (743) |
| Extraordinary Balance | 21 | 21 | 22 | (70) | 7 | 11 | (16) | (14) | (14) | +56 |
| Profit before Income Taxes | 500 | 705 | 792 | 1,255 | (210) | 17 | 94 | 568 | 568 | (687) |
| Total Income Taxes | 153 | 239 | 269 | 412 | (52) | 24 | 56 | 187 | 187 | (225) |
| Profit Attributable to Owners of Parent | 347 | 466 | 523 | 843 | (158) | (7) | 37 | 381 | 381 | (462) |
| Sales YoY | +8.4% | (6.9%) | (3.7%) | (7.0%) | (40.6%) | (25.2%) | (16.1%) | (8.9%) | (8.9%) | - |
| Operating Profit YoY | +3.0% | (44.8%) | (41.9%) | (37.9%) | - | (99.4%) | (86.1%) | (54.3%) | (54.3%) | - |
| Recurring Profit YoY | +20.3% | (37.3%) | (34.4%) | (33.5%) | - | (99.1%) | (85.5%) | (56.1%) | (56.1%) | - |
| Profit Attributable to Owners of Parent YoY | +26.6% | (36.5%) | (38.4%) | (42.9%) | - | - | (92.8%) | (54.8%) | (54.8%) | - |
| Gross Profit Margin | 33.1% | 33.1% | 33.0% | 33.6% | 36.4% | 35.4% | 34.0% | 32.4% | 32.4% | (1.3%) |
| Sales to SG&A Expenses Ratio | 24.8% | 26.6% | 27.9% | 27.0% | 43.9% | 35.4% | 33.2% | 29.0% | 29.0% | +2.1% |
| Operating Profit Margin | 8.2% | 6.5% | 5.1% | 6.6% | (7.5%) | 0.0% | 0.8% | 3.3% | 3.3% | (3.3%) |
| Recurring Profit Margin | 9.9% | 7.5% | 5.8% | 7.2% | (7.6%) | 0.1% | 1.0% | 3.5% | 3.5% | (3.7%) |
| Profit Attributable to Owners of Parent Margin | 7.2% | 5.1% | 4.0% | 4.6% | (5.5%) | (0.1%) | 0.3% | 2.3% | 2.3% | (2.3%) |
| Total Income Taxes/Profit before Income Taxes | 30.6% | 33.9% | 34.0% | 32.8% | - | 145.1% | 60.0% | 32.9% | 32.9% | +0.1% |
| 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 | Q4 | Net Chg. |
| | 02/2019 | 02/2019 | 02/2019 | 02/2019 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | |
| Sales | 4,849 | 4,267 | 4,126 | 5,164 | 2,878 | 3,939 | 4,293 | 5,662 | 5,662 | +497 |
| Cost of Sales | 3,245 | 2,855 | 2,773 | 3,345 | 1,830 | 2,570 | 2,930 | 4,012 | 4,012 | +667 |
| Gross Profit | 1,604 | 1,412 | 1,352 | 1,819 | 1,047 | 1,368 | 1,362 | 1,649 | 1,649 | (170) |
| SG&A Expenses | 1,204 | 1,218 | 1,275 | 1,266 | 1,262 | 1,150 | 1,272 | 1,183 | 1,183 | (82) |
| Operating Profit | 399 | 193 | 77 | 552 | (214) | 218 | 89 | 465 | 465 | (87) |
| Non Operating Balance | 79 | 11 | 8 | 2 | (2) | 5 | 15 | 6 | 6 | +3 |
| Recurring Profit | 478 | 205 | 86 | 555 | (217) | 223 | 105 | 471 | 471 | (84) |
| Extraordinary Balance | 21 | 0 | 0 | (92) | 7 | 3 | (27) | 2 | 2 | +95 |
| Profit before Income Taxes | 500 | 205 | 86 | 462 | (210) | 227 | 77 | 474 | 474 | +11 |
| Total Income Taxes | 153 | 86 | 29 | 142 | (52) | 76 | 31 | 130 | 130 | (12) |
| Profit Attributable to Owners of Parent | 347 | 118 | 57 | 319 | (158) | 150 | 45 | 343 | 343 | +23 |
| Sales YoY | +8.4% | (19.7%) | +4.3% | (14.7%) | (40.6%) | (7.7%) | +4.0% | +9.6% | +9.6% | - |
| Operating Profit YoY | +3.0% | (71.8%) | (0.9%) | (32.5%) | - | +12.5% | +15.8% | (15.8%) | (15.8%) | - |
| Recurring Profit YoY | +20.3% | (70.4%) | +4.3% | (32.2%) | - | +8.7% | +21.9% | (15.2%) | (15.2%) | - |
| Profit Attributable to Owners of Parent YoY | +26.6% | (74.1%) | (50.1%) | (49.1%) | - | +26.3% | (20.7%) | +7.5% | +7.5% | - |
| Gross Profit Margin | 33.1% | 33.1% | 32.8% | 35.2% | 36.4% | 34.7% | 31.7% | 29.1% | 29.1% | (6.1%) |
| Sales to SG&A Expenses Ratio | 24.8% | 28.5% | 30.9% | 24.5% | 43.9% | 29.2% | 29.7% | 20.9% | 20.9% | (3.6%) |
| Operating Profit Margin | 8.2% | 4.5% | 1.9% | 10.7% | (7.5%) | 5.5% | 2.1% | 8.2% | 8.2% | (2.5%) |
| Recurring Profit Margin | 9.9% | 4.8% | 2.1% | 10.8% | (7.6%) | 5.7% | 2.5% | 8.3% | 8.3% | (2.4%) |
| Profit Attributable to Owners of Parent Margin | 7.2% | 2.8% | 1.4% | 6.2% | (5.5%) | 3.8% | 1.1% | 6.1% | 6.1% | (0.1%) |
| Total Income Taxes/Profit before Income Taxes | 30.6% | 42.1% | 34.0% | 30.9% | - | 33.9% | 41.1% | 27.5% | 27.5% | (3.4%) |

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 | 11,118 | (1,249) | |
| Chemicals | 1,416 | 2,971 | 4,519 | 6,040 | 1,491 | 2,852 | 4,360 | 5,654 | (386) | |
| Sales | 4,849 | 9,117 | 13,243 | 18,408 | 2,878 | 6,817 | 11,110 | 16,772 | (1,635) | |
| Equipment | +7.4% | (14.3%) | (10.5%) | (14.1%) | (59.6%) | (35.5%) | (22.6%) | (10.1%) | - | |
| Chemicals | +11.1% | +13.5% | +13.0% | +11.9% | +5.3% | (4.0%) | (3.5%) | (6.4%) | - | |
| Sales (YoY) | +8.4% | (6.9%) | (3.7%) | (7.0%) | (40.6%) | (25.2%) | (16.1%) | (8.9%) | - | |
| Equipment | 70.8% | 67.4% | 65.9% | 67.2% | 48.2% | 58.2% | 60.8% | 66.3% | - | |
| Chemicals | 29.2% | 32.6% | 34.1% | 32.8% | 51.8% | 41.8% | 39.2% | 33.7% | - | |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |
| Equipment | 278 | 291 | 295 | 737 | (267) | (119) | (142) | 311 | (426) | |
| Chemicals | 259 | 556 | 781 | 1,024 | 187 | 382 | 652 | 781 | (243) | |
| Segment Profit | 537 | 847 | 1,076 | 1,762 | (79) | 262 | 510 | 1,092 | (669) | |
| Elimination | (138) | (254) | (406) | (538) | (135) | (259) | (417) | (534) | +4 | |
| Operating Profit | 399 | 592 | 670 | 1,223 | (214) | 3 | 93 | 558 | (664) | |
| Equipment | (14.8%) | (66.5%) | (67.5%) | (54.8%) | - | - | - | (57.8%) | - | |
| Chemicals | +32.5% | +32.1% | +31.5% | +27.9% | (27.8%) | (31.3%) | (16.5%) | (23.7%) | - | |
| Segment Profit (YoY) | +2.9% | (34.3%) | (28.4%) | (27.6%) | - | (69.0%) | (52.6%) | (38.0%) | - | |
| Equipment | 51.7% | 34.4% | 27.5% | 41.8% | - | (45.7%) | (27.9%) | 28.5% | - | |
| Chemicals | 48.3% | 65.6% | 72.5% | 58.2% | - | 145.7% | 127.9% | 71.5% | - | |
| Segment Profit (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |
| Equipment | 8.1% | 4.7% | 3.4% | 6.0% | (19.3%) | (3.0%) | (2.1%) | 2.8% | (3.2%) | |
| Chemicals | 18.3% | 18.7% | 17.3% | 17.0% | 12.6% | 13.4% | 15.0% | 13.8% | (3.2%) | |
| Elimination | (2.9%) | (2.8%) | (3.1%) | (2.9%) | (4.7%) | (3.8%) | (3.8%) | (3.2%) | (0.3%) | |
| Operating Profit Margin | 8.2% | 6.5% | 5.1% | 6.6% | (7.5%) | 0.0% | 0.8% | 3.3% | (3.3%) | |

| Segmented Information (Million Yen) | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY Net Chg. |
|---|---------------|----------------|---------------|----------------|----------------|---------------|---------------|----------------|---------------|-----------------|
| | Q1 02/2019 | 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 | 4,368 | +724 | |
| Chemicals | 1,416 | 1,555 | 1,548 | 1,520 | 1,491 | 1,360 | 1,508 | 1,293 | (227) | |
| Sales | 4,849 | 4,267 | 4,126 | 5,164 | 2,878 | 3,939 | 4,293 | 5,662 | +497 | |
| Equipment | +7.4% | (31.7%) | +0.1% | (21.7%) | (59.6%) | (5.0%) | +8.0% | +19.9% | - | |
| Chemicals | +11.1% | +15.8% | +12.1% | +8.6% | +5.3% | (12.5%) | (2.6%) | (14.9%) | - | |
| Sales (YoY) | +8.4% | (19.7%) | +4.3% | (14.7%) | (40.6%) | (7.7%) | +4.0% | +9.6% | - | |
| Equipment | 70.8% | 63.6% | 62.5% | 70.6% | 48.2% | 65.5% | 64.9% | 77.2% | - | |
| Chemicals | 29.2% | 36.4% | 37.5% | 29.4% | 51.8% | 34.5% | 35.1% | 22.8% | - | |
| Sales (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |
| Equipment | 278 | 13 | 4 | 441 | (267) | 147 | (22) | 453 | +11 | |
| Chemicals | 259 | 296 | 224 | 243 | 187 | 194 | 270 | 129 | (114) | |
| Segment Profit | 537 | 309 | 229 | 685 | (79) | 342 | 247 | 582 | (102) | |
| Elimination | (138) | (116) | (151) | (132) | (135) | (124) | (158) | (116) | +15 | |
| Operating Profit | 399 | 193 | 77 | 552 | (214) | 218 | 89 | 465 | (87) | |
| Equipment | (14.8%) | (97.5%) | (90.0%) | (38.7%) | - | - | - | +2.6% | - | |
| Chemicals | +32.5% | +31.9% | +30.0% | +17.5% | (27.8%) | (34.3%) | +20.1% | (47.0%) | - | |
| Segment Profit (YoY) | +2.9% | (59.6%) | +6.6% | (26.2%) | - | +10.4% | +8.2% | (15.0%) | - | |
| Equipment | 51.7% | 4.3% | 1.8% | 64.5% | - | 43.0% | (9.0%) | 77.8% | - | |
| Chemicals | 48.3% | 95.7% | 98.2% | 35.5% | - | 57.0% | 109.0% | 22.2% | - | |
| Segment Profit (Composition Ratio) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |
| Equipment | k | 0.5% | 0.2% | 12.1% | (19.3%) | 5.7% | (0.8%) | 10.4% | (1.7%) | |
| Chemicals | 18.3% | 19.1% | 14.5% | 16.0% | 12.6% | 14.3% | 17.9% | 10.0% | (6.0%) | |
| Elimination | (2.9%) | (2.7%) | (3.7%) | (2.6%) | (4.7%) | (3.2%) | (3.7%) | (2.1%) | +0.5% | |
| Operating Profit Margin | 8.2% | 4.5% | 1.9% | 10.7% | (7.5%) | 5.5% | 2.1% | 8.2% | (2.5%) | |

Source: Company Data, WRJ Calculation

Sales of Equipment by Region (Cumulative/Quarterly)

| Sales of Equipment by Region (Million Yen) | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY Net Chg. |
|---|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | Q1 | Q1 to Q2 | Q1 to Q3 | Q1 to Q4 | | |
| | 02/2019 | 02/2019 | 02/2019 | 02/2019 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | | |
| Japan | 2,783 | 4,352 | 5,846 | 7,312 | 894 | 2,557 | 4,265 | 6,696 | (616) | |
| North & Latin Americas | 289 | 1,007 | 1,726 | 3,352 | 308 | 1,005 | 1,743 | 2,915 | (436) | |
| Europe & Africa | 80 | 141 | 270 | 397 | 81 | 150 | 236 | 452 | +54 | |
| Middle East, Asia & Oceania | 279 | 643 | 879 | 1,306 | 101 | 251 | 509 | 1,054 | (251) | |
| Overseas | 649 | 1,793 | 2,876 | 5,055 | 491 | 1,407 | 2,489 | 4,422 | (632) | |
| Sales | 3,433 | 6,145 | 8,723 | 12,368 | 1,386 | 3,964 | 6,749 | 11,118 | (1,249) | |
| Japan | +8.5% | (4.5%) | (0.6%) | (13.9%) | (67.9%) | (41.2%) | (27.0%) | (8.4%) | - | |
| North & Latin Americas | (12.7%) | (10.0%) | (3.8%) | +12.5% | +6.7% | (0.2%) | +1.0% | (13.0%) | - | |
| Europe & Africa | (62.0%) | (86.1%) | (79.0%) | (77.7%) | +1.2% | +6.2% | (12.7%) | +13.8% | - | |
| Middle East, Asia & Oceania | +215.0% | +35.8% | +12.5% | +13.8% | (63.6%) | (61.0%) | (42.1%) | (19.2%) | - | |
| Overseas | +2.9% | (31.4%) | (25.6%) | (14.5%) | (24.3%) | (21.5%) | (13.5%) | (12.5%) | - | |
| Sales (YoY) | +7.4% | (14.3%) | (10.5%) | (14.1%) | (59.6%) | (35.5%) | (22.6%) | (10.1%) | - | |
| Japan | 81.1% | 70.8% | 67.0% | 59.1% | 64.5% | 64.5% | 63.2% | 60.2% | - | |
| North & Latin Americas | 8.4% | 16.4% | 19.8% | 27.1% | 22.3% | 25.4% | 25.8% | 26.2% | - | |
| Europe & Africa | 2.3% | 2.3% | 3.1% | 3.2% | 5.9% | 3.8% | 3.5% | 4.1% | - | |
| Middle East, Asia & Oceania | 8.2% | 10.5% | 10.1% | 10.6% | 7.3% | 6.3% | 7.5% | 9.5% | - | |
| Overseas | 18.9% | 29.2% | 33.0% | 40.9% | 35.5% | 35.5% | 36.9% | 39.8% | - | |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |

| Sales of Equipment by Region (Million Yen) | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY Net Chg. |
|---|---------------|----------------|---------------|----------------|----------------|---------------|---------------|---------------|-------------|-----------------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | | |
| | 02/2019 | 02/2019 | 02/2019 | 02/2019 | 02/2020 | 02/2020 | 02/2020 | 02/2020 | | |
| Japan | 2,783 | 1,568 | 1,494 | 1,466 | 894 | 1,662 | 1,707 | 2,431 | +965 | |
| North & Latin Americas | 289 | 718 | 718 | 1,625 | 308 | 696 | 737 | 1,172 | (453) | |
| Europe & Africa | 80 | 61 | 129 | 66 | 81 | 69 | 86 | 215 | +149 | |
| Middle East, Asia & Oceania | 279 | 363 | 235 | 486 | 101 | 149 | 258 | 545 | +58 | |
| Overseas | 649 | 1,143 | 1,083 | 2,178 | 491 | 915 | 1,081 | 1,933 | (245) | |
| Sales | 3,433 | 2,712 | 2,577 | 3,644 | 1,386 | 2,578 | 2,785 | 4,368 | +724 | |
| Japan | +8.5% | (21.3%) | +12.9% | (43.8%) | (67.9%) | +6.0% | +14.3% | +65.8% | - | |
| North & Latin Americas | (12.7%) | (8.8%) | +6.4% | +37.2% | +6.7% | (3.0%) | +2.6% | (27.9%) | - | |
| Europe & Africa | (62.0%) | (92.4%) | (52.0%) | (86.6%) | +1.2% | +12.8% | (33.4%) | +224.4% | - | |
| Middle East, Asia & Oceania | +215.0% | (5.5%) | (23.4%) | +33.0% | (63.6%) | (59.0%) | +9.7% | +12.0% | - | |
| Overseas | +2.9% | (42.3%) | (13.5%) | +6.5% | (24.3%) | (20.0%) | (0.1%) | (11.3%) | - | |
| Sales (YoY) | +7.4% | (31.7%) | +0.1% | (21.7%) | (59.6%) | (5.0%) | +8.0% | +19.9% | - | |
| Japan | 81.1% | 57.8% | 58.0% | 40.2% | 64.5% | 64.5% | 61.2% | 55.7% | - | |
| North & Latin Americas | 8.4% | 26.5% | 27.9% | 44.6% | 22.3% | 27.0% | 26.4% | 26.9% | - | |
| Europe & Africa | 2.3% | 2.3% | 5.0% | 1.8% | 5.9% | 2.7% | 3.1% | 4.9% | - | |
| Middle East, Asia & Oceania | 8.2% | 13.4% | 9.1% | 13.4% | 7.3% | 5.8% | 9.3% | 12.5% | - | |
| Overseas | 18.9% | 42.2% | 42.0% | 59.8% | 35.5% | 35.5% | 38.8% | 44.3% | - | |
| Sales (Composition) | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | - | |

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

| Balance Sheet (Million Yen) | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | Cons.Act | YoY Net Chg. |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|
| | Q1 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 | 4,314 | (1,220) | |
| Accounts Receivables | 4,576 | 4,377 | 4,499 | 4,332 | 4,039 | 3,800 | 4,320 | 5,431 | +1,098 | |
| Inventory | 2,998 | 2,802 | 3,220 | 2,475 | 3,308 | 3,447 | 3,870 | 3,051 | +576 | |
| Other | 545 | 566 | 653 | 368 | 387 | 443 | 457 | 396 | +27 | |
| Current Assets | 13,356 | 12,991 | 13,208 | 12,711 | 12,342 | 12,721 | 12,881 | 13,193 | +482 | |
| Tangible Assets | 3,471 | 3,554 | 3,580 | 3,769 | 3,857 | 3,997 | 4,206 | 4,209 | +440 | |
| Intangible Assets | 96 | 91 | 93 | 16 | 17 | 16 | 96 | 96 | +79 | |
| Investments and Other Assets | 860 | 847 | 843 | 951 | 1,009 | 978 | 998 | 1,006 | +54 | |
| Fixed Assets | 4,428 | 4,493 | 4,517 | 4,736 | 4,885 | 4,992 | 5,301 | 5,311 | +575 | |
| Total Assets | 17,784 | 17,484 | 17,726 | 17,448 | 17,227 | 17,713 | 18,182 | 18,505 | +1,057 | |
| Accounts Payables | 2,510 | 2,142 | 2,343 | 2,169 | 2,043 | 2,350 | 2,783 | 3,121 | +952 | |
| Short Term Debt | - | - | - | - | - | - | - | 32 | +32 | |
| Other | 2,258 | 2,169 | 2,105 | 1,768 | 2,216 | 2,317 | 2,235 | 1,869 | +100 | |
| Current Liabilities | 4,768 | 4,312 | 4,449 | 3,938 | 4,259 | 4,668 | 5,019 | 5,023 | +1,085 | |
| Long Term Debt | - | - | - | - | - | - | - | - | - | |
| Other | 323 | 319 | 323 | 258 | 244 | 238 | 241 | 237 | (21) | |
| Fixed Liabilities | 323 | 319 | 323 | 258 | 244 | 238 | 241 | 237 | (21) | |
| Total Liabilities | 5,092 | 4,632 | 4,772 | 4,197 | 4,504 | 4,906 | 5,260 | 5,261 | +1,063 | |
| Shareholders' Equity | 12,973 | 13,092 | 13,149 | 13,469 | 12,976 | 13,127 | 13,172 | 13,516 | +46 | |
| Adjustments | (281) | (240) | (196) | (219) | (253) | (319) | (251) | (272) | (52) | |
| Total Assets | 12,691 | 12,852 | 12,953 | 13,250 | 12,723 | 12,807 | 12,921 | 13,243 | (6) | |
| Total Liabilities and Net Assets | 17,784 | 17,484 | 17,726 | 17,448 | 17,227 | 17,713 | 18,182 | 18,505 | +1,057 | |
| Equity Capital | 12,691 | 12,852 | 12,953 | 13,250 | 12,723 | 12,807 | 12,921 | 13,243 | (7) | |
| Interest Bearing Debt | - | - | - | - | - | - | - | 32 | +32 | |
| Net Debt | (5,236) | (5,245) | (4,834) | (5,534) | (4,607) | (5,030) | (4,232) | (4,281) | +1,253 | |
| Equity Capital Ratio | 71.4% | 73.5% | 73.1% | 75.9% | 73.9% | 72.3% | 71.1% | 71.6% | - | |
| Net-Debt-Equity Ratio | (41.3%) | (40.8%) | (37.3%) | (41.8%) | (36.2%) | (39.3%) | (32.8%) | (32.3%) | - | |
| ROE (12 months) | 12.5% | 9.5% | 9.0% | 6.4% | 2.7% | 2.9% | 2.8% | 2.9% | - | |
| ROA (12 months) | 11.5% | 8.7% | 8.5% | 7.3% | 3.6% | 3.7% | 3.7% | 3.2% | - | |
| Total Assets Turnover | 109% | 98% | 93% | 118% | 67% | 89% | 94% | 122% | - | |
| Inventory Turnover | 4.3 | 4.1 | 3.4 | 5.4 | 2.2 | 3.0 | 3.0 | 5.3 | - | |
| Days of Inventory | 84 | 90 | 106 | 68 | 165 | 122 | 121 | 69 | - | |
| Quick Ratio | 206% | 223% | 210% | 251% | 203% | 189% | 170% | 194% | - | |
| Current Ratio | 280% | 301% | 297% | 323% | 290% | 273% | 257% | 263% | - | |

Source: Company Data, WRJ Calculation

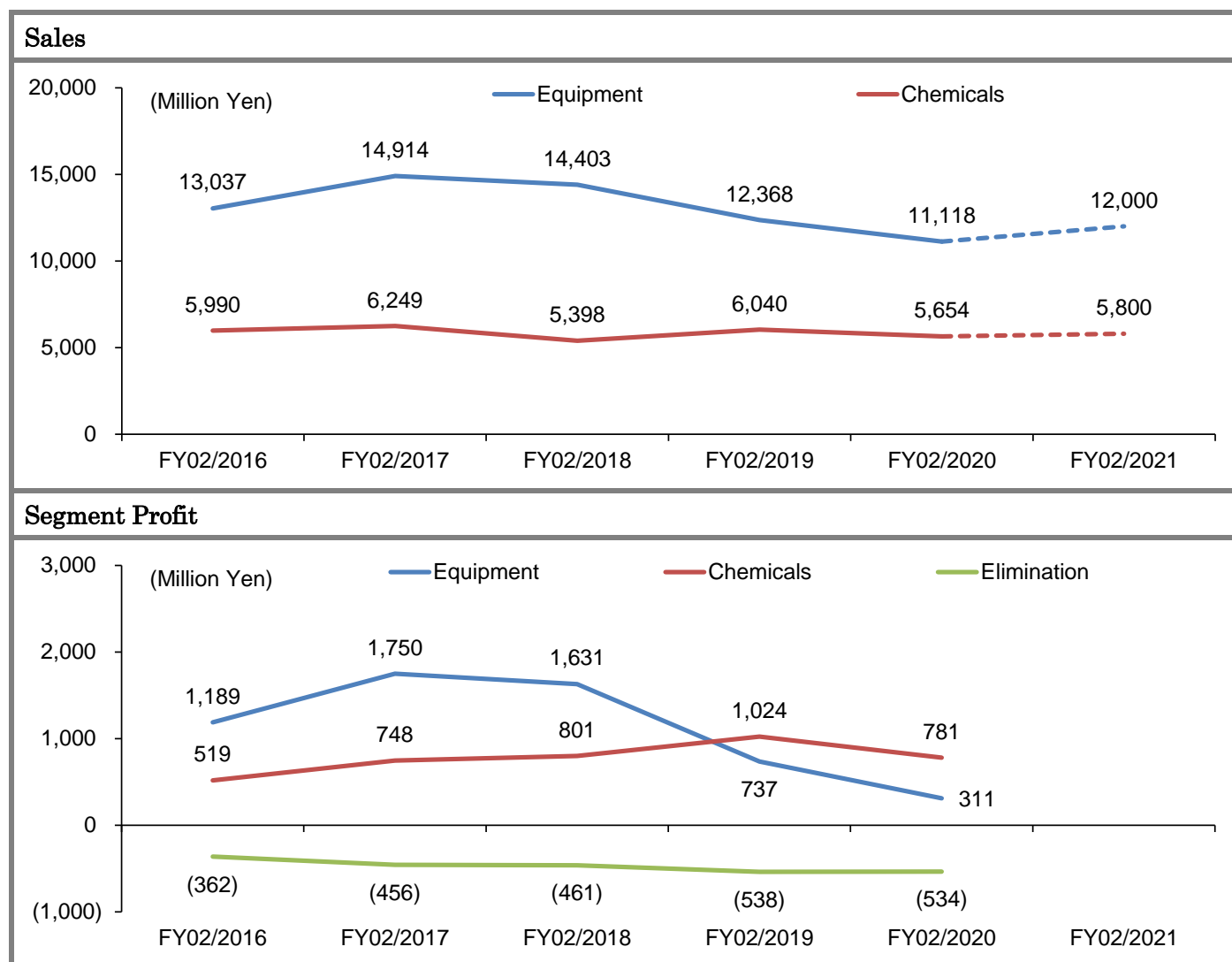
Cash Flow Statement (Cumulative)

| 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 | - | (27) | (463) | |
| Investment Cash Flow | - | (190) | - | (566) | - | (414) | - | (852) | (285) | |
| Operating CF and Investment CF | - | (420) | - | (130) | - | (124) | - | (880) | (749) | |
| Financing Cash Flow | - | (918) | - | (921) | - | (359) | - | (325) | +595 | |

Source: Company Data, WRJ Calculation

FY02/2021 Company Forecasts

FY02/2021 Company forecasts are going for prospective sales of ¥17,800m (up 6.1% YoY), operating profit of ¥1,000m (up 79.1%), recurring profit of ¥1,000m (up 71.6%) and profit attributable to owners of parent of ¥700m (up 83.5%), while operating profit margin of 5.6% (up 2.3% points). On the other hand, prospective dividend has not been decided to date, because of uncertainty stemming from the spread of new coronavirus infections. Still, the Company has revealed its intention to keep the target of achieving payout ratio of 30% as well as the policy to consistently pay dividend with a stability.



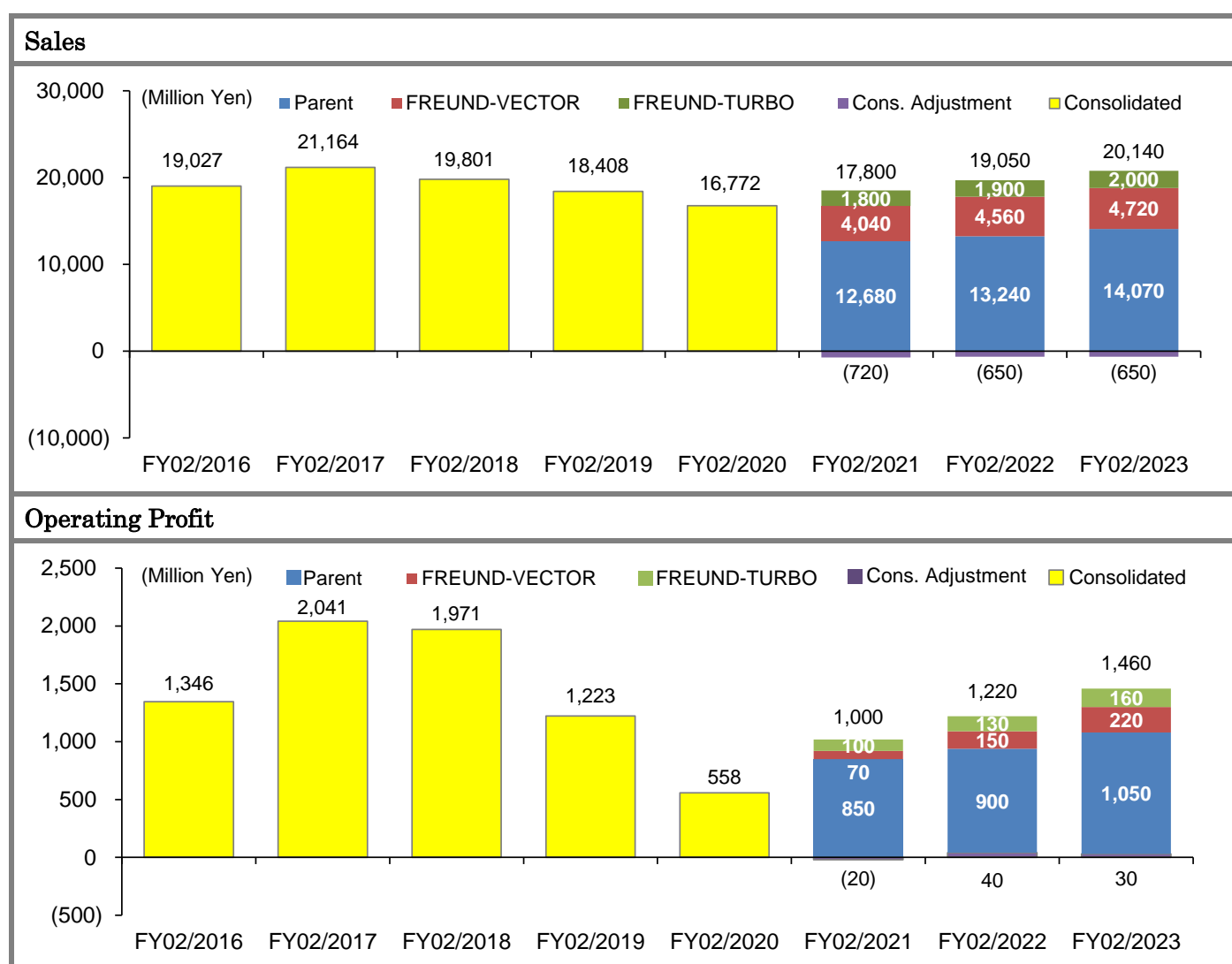
Source: Company Data, WRJ Calculation

Company forecasts assume sales of ¥12,000m (up 7.9%) on the Equipment side and sales of ¥5,800m (up 2.6%) on the Chemicals side. On the Equipment side, the Company aims to expand sales in non-pharmaceutical domains (chemicals, foods, dietary supplements, etc.) as well as to improve accuracy in acquiring order intake, while trying to beef up maintenance services. Further, the Company plans to focus on expanding sales overseas at the same time. On the Chemicals side, the Company plans to continue focusing on pharmaceutical excipients or the key earning driver in this business segment, promoting sales in Japan and aggressively making progress in acquisition of new projects overseas at the same time.

Given the spread of new coronavirus infections, it is spotted that sales on the Equipment side may be marginally delayed in regards to some projects. The Company says that it sees a high possibility to do so for those of overseas whose order intake was placed towards the end of FY02/2020. Still, more importantly, the situations of order intake so far in FY02/2021 are rather favorable, according to the Company, having made progress in project whose order placement was delayed and gained order intake on large-scale project. Presumably with this as a key factor, Company forecasts do not assume “impacts stemming from continued spread of new coronavirus infections”. Meanwhile, the Company has not observed any major impacts stemming from here also on the Chemicals side so far.

Long-Term Prospects

On 11 May 2020, the Company has announced the 8th Midterm Management Plan (FY02/2021 to FY02/2023), calling for prospective sales of ¥20,140m and operating profit of ¥1,460m in FY02/2023 or the last year of the plan, i.e., CAGR of 6.3% for sales and 37.8% for operating profit during the same period. By business segment, prospective sales have not been disclosed, but it appears that sales growth rate on the Equipment side is to exceed that of the Chemicals side as assumed in FY02/2021 Company forecasts. On the Equipment side, the Company is going for sales promotions particularly in non-pharmaceutical domain (chemicals, foods, dietary supplements, etc.)



Source: Company Data, WRJ Calculation

In the 7th Midterm Management Plan "ONE FREUND" (FY02/2018 to FY02/2022), withdraw this time around, the Company was calling for prospective sales of ¥30,000m and operating profit of ¥3,000m for the last year of the plan, i.e., FY02/2022. However, the results for the first three years were lower than assumptions made here, having consistently suffered from decreased sales and earnings, due mainly to those on the Equipment side. Since the first year, sales and earnings have been performing like in FY02/2020 as described in depth earlier. In light of this, the Company has formulated and disclosed the 8th Midterm Management Plan, which is based on the current situations.

In the briefing of the 8th Midterm Management Plan (held on 1 May 2020), the Company has mentioned, “the market for pharmaceuticals on a global basis”, “over-the-counter & dietary supplements” and “lithium-ion batteries” as the domains to which it is exposed. All of them have good opportunities for demand to grow for the future and thus the Company is keen on capturing the growth from them. Meanwhile, in order to achieve the target business performance of the 8th Midterm Management Plan (FY02/2021 to FY02/2023), the Company will thoroughly implement the basic strategy of "aiming to realize a management structure that sustainably increases earnings by coping with customers' true needs with technological capabilities", based on its corporate philosophy of "pioneering the future with creativity" and on its existing management visions. Further, the Company has set up “7 new management goals”, comprising “group collaboration”, etc. and thus it is also keen on achieving all those goals at the same time.

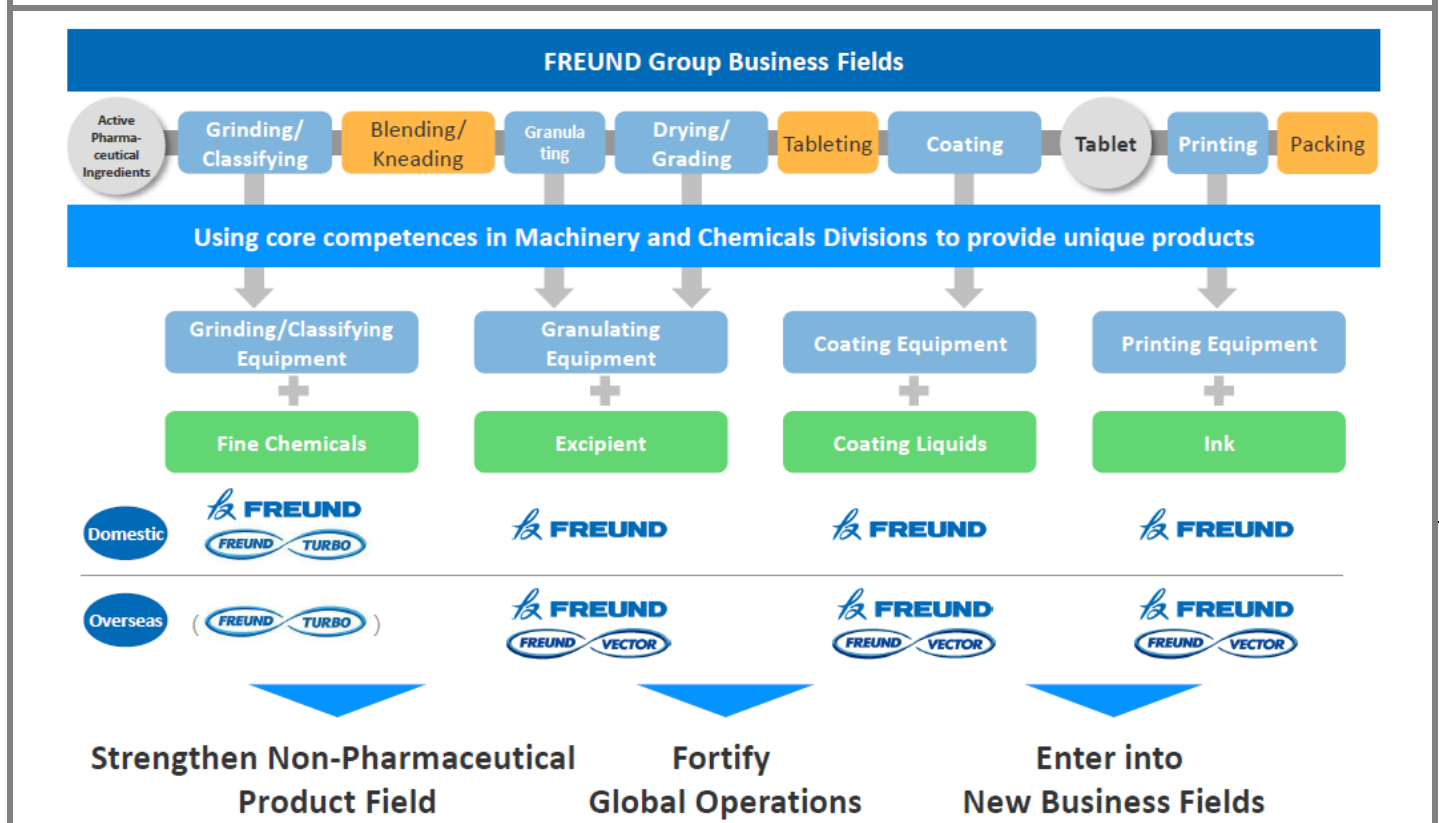
For the sake of achieving above-mentioned target of business performance, the Company will place emphasis on the following four issues in particular, i.e., “operational management together with the Group's subsidiaries”, "improving customer satisfaction from the user's perspective", "developing innovative products" and "expanding business on a global basis". Meanwhile, during the period of the 8th Midterm Management Plan (FY02/2021 to FY02/2023), the Company is aiming to establish a business structure that will enable the Company to achieve business performance exceeding the record highs in FY02/2017 (sales of ¥21,164m and operating profit of ¥2,041m) as soon as possible.

4.0 Business Model

Proprietary Formulation, the Key Technology

The Company's mainstay business is of developing, manufacturing and selling pharmaceuticals-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 Business Fields based on Manufacturing Processes of Pharmaceuticals



Source: Company Data

Granulation and coating equipment, accounting for the bulk of sales of the mainstay pharmaceuticals-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 pharmaceuticals-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.

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

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 (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. In particular, the Company is highly competitive in the domain of orally disintegrating tablets. The Company internally manufactures the mainstay Nonpareil® and SmartEx™ (codeveloped with Shin-Etsu Chemical) with facilities developed by itself, implying a high barrier to enter, while taking advantage of outsourced manufacture for pharmaceutical excipients with added value lower.

Disclaimer

Information here is a summary of “IR Information” of the Company, compiled by Walden Research Japan, from a neutral and professional standing point, in the form of a report. “IR Information” of the Company comprises a) contents of our interview with the Company, b) contents of presentations for institutional investors, c) contents of timely disclosed information and d) contents of the homepage, etc.

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