

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%	-	-	-
Consolidated Quarter (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 FY02/2020		2,878	(214)	(217)	(158)	-	-	-
Q2 FY02/2020		3,939	218	223	150	-	-	-
Q3 FY02/2020		4,293	89	105	45	-	-	-
Q4 FY02/2020		5,662	465	471	343	-	-	-
Q1 FY02/2021		3,076	(165)	(154)	(121)	-	-	-
Q1 FY02/2021	YoY	6.9%	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (7 August 2020)


Reversal of Performance

FREUND CORPORATION, developing, manufacturing and selling equipment as well as chemicals, is seeing a short-term reversal of its performance. In Q1 FY02/2021, sales in Japan on the Equipment side surged over the same period of the previous year, having driven sales as a whole for the Company and thus resulted in reduced operating loss. Meanwhile, the Company's 8th Midterm Management Plan is calling for CAGR of 6.3% for prospective sales and 37.8% for earnings through FY02/2021 to FY02/2023. In light of the fact that the Company suffered from decreased sales and earnings over the past three years in a row, it is the case that a reversal of performance is to persist longer term. A risk is that FY02/2021 Company forecasts do not assume the impacts stemming from COVID-19. While the same applies to the midterm plan, the Company argues that it was too hard to quantify the impacts stemming from COVID-19, when both of them were formulated. On the other hand, the Company saw some cases in Q1 FY02/2021 that sales were actually delayed due to the impacts stemming from COVID-19. During the same period, the Company did see a reversal of short-term performance as above-mentioned, but rather below assumptions of Company forecasts, according to the Company. At the same time, the Company suggests a sluggishness for order intake on the Equipment side in Q2, given restrained sales promotions due to the impacts stemming from COVID-19.

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2.0 Company Profile

Equipment and Chemicals

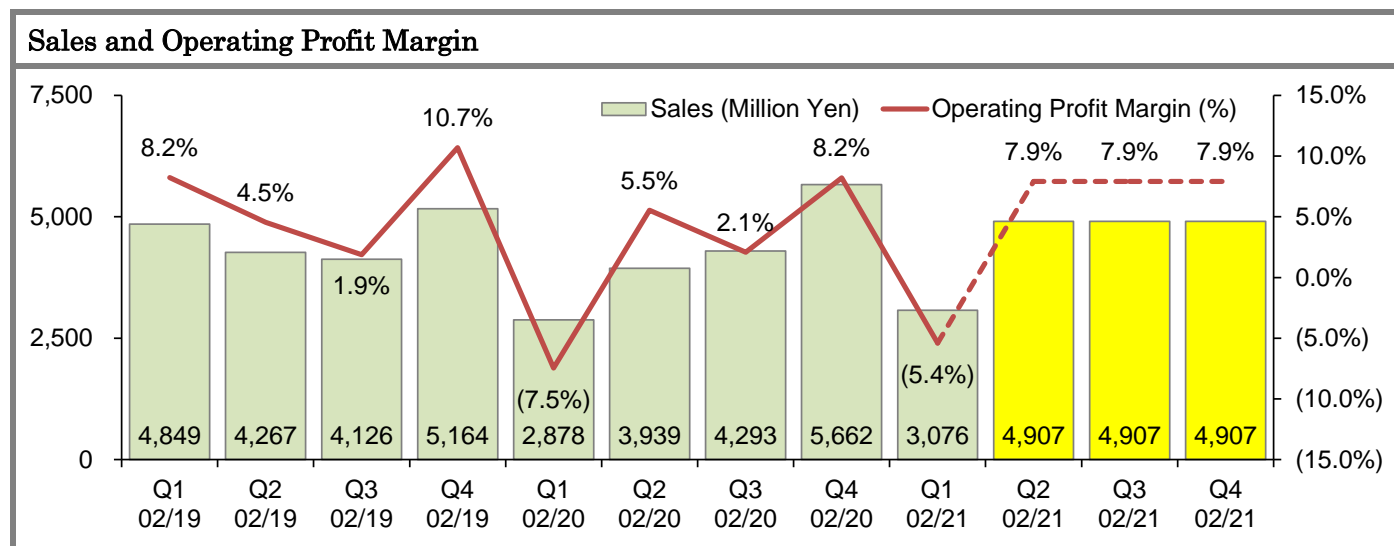
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of May 2020)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of May 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%● Focus on non-pharmaceuticals (chemicals, foods, dietary supplements, etc.)● On the Chemicals side, the mainstay pharmaceutical excipients, the key earning source	
Business Segments	I . Equipment II . Chemicals	
Top Management	President and CEO: Iwao Fusejima	
Shareholders	Fusejima Yokosha 9.84%, Yasutoyo Fusejima 7.62%, MUFG Bank 4.99% (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: 389, Parent: 236 (as of the end of May 2020)	

Source: Company Data

3.0 Recent Trading and Prospects

Q1 FY02/2021 Results

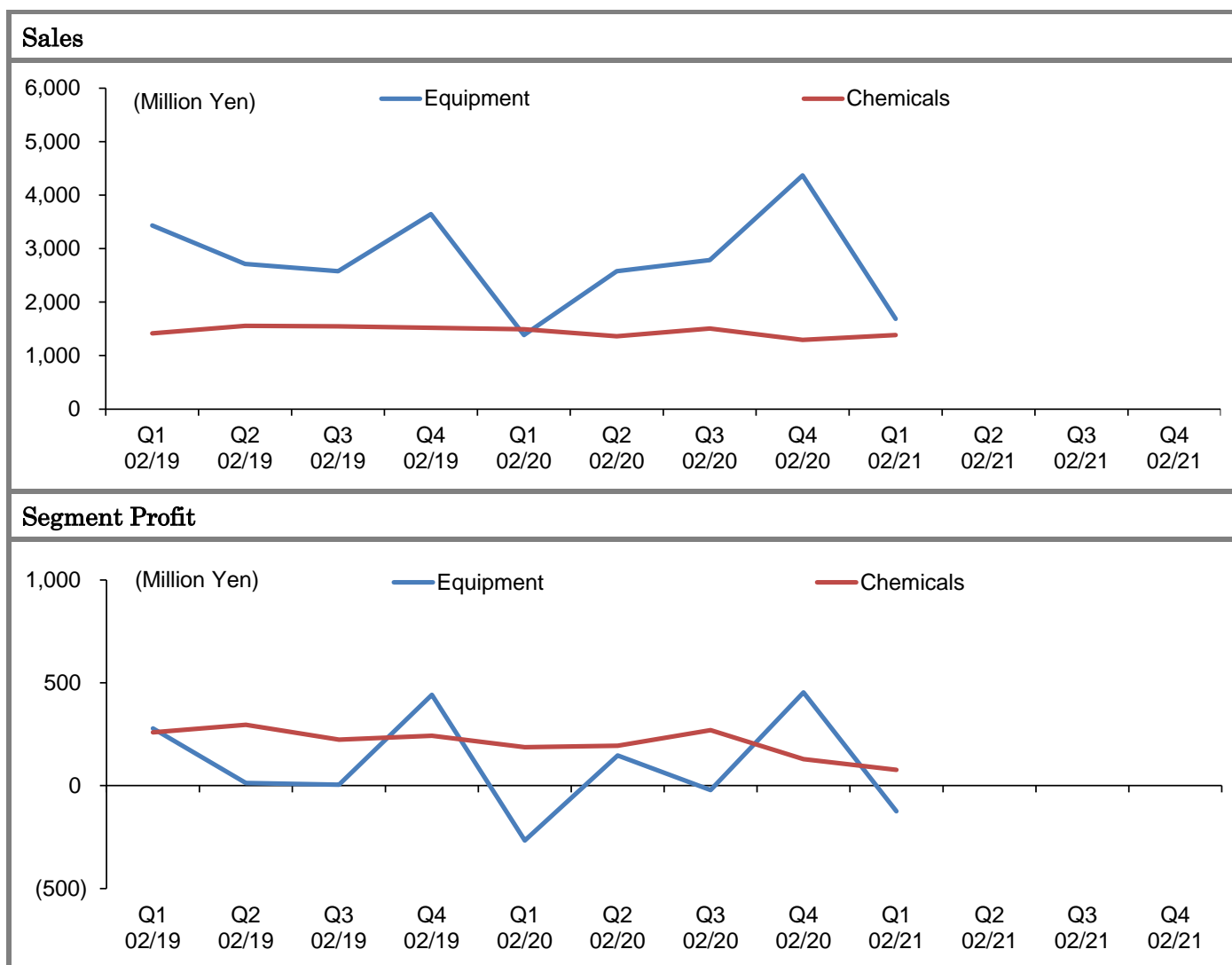
In Q1 FY02/2021, sales came in at ¥3,076m (up 6.9% YoY), operating profit minus ¥165m (versus minus ¥214m during the same period of the previous year), recurring profit minus ¥154m (minus ¥217m) and profit attributable to owners of parent minus ¥121m (minus ¥158m), while operating profit margin minus 5.4% (up 2.1% points).



Source: Company Data, WRJ Calculation (Q2 to Q4 FY02/2021 : Company forecasts during the same period, pro rata)

On the Equipment side, FY02/2021 Company forecasts assume that the delivery for deals are to concentrate in H2 (particularly in Q4) as in the case of FY02/2020 in the first place. In this respect, it was originally expected not to see sales enough to fully compensate for fixed costs in Q1. Meanwhile, the amount of operating loss decreased over the same period of the previous year, but not as much as originally expected, according to the Company. This is due mainly to an occurrence of the impacts stemming from COVID-19, which was not assumed in Company forecasts.

By business segment, sales came in at ¥1,689m (up 21.9%), segment profit minus ¥125m (minus ¥267m) and segment profit margin minus 7.4% (up 11.9%) on the Equipment side, while sales ¥1,386m (down 7.1%), segment profit ¥77m (down 58.5%) and segment profit margin 5.6% (down 7.0%) on the Chemicals side. The Company suggests that the impacts stemming from COVID-19 have appeared also on the Chemicals side.



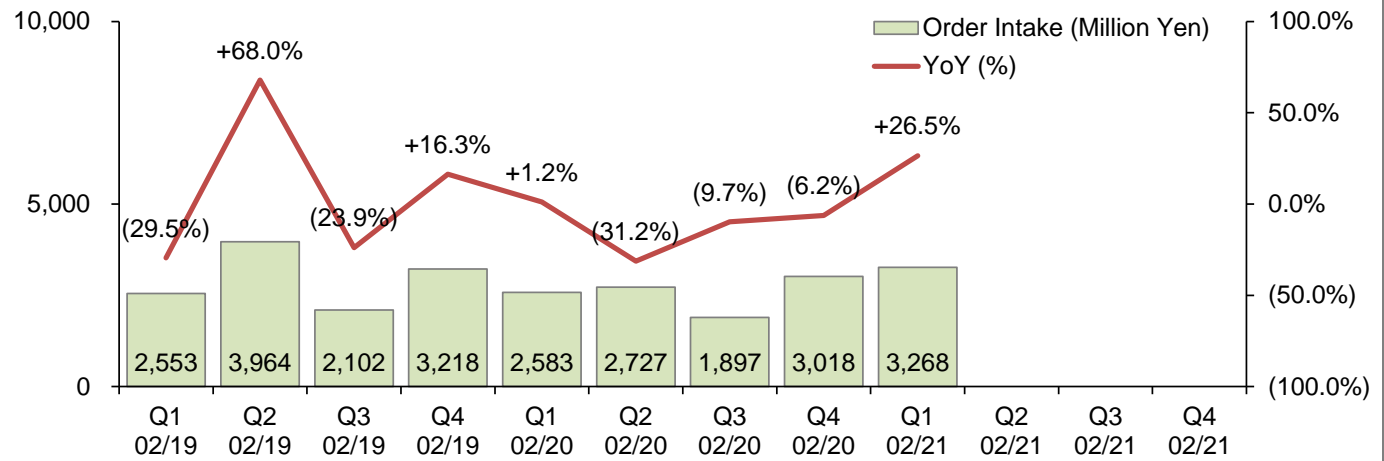
Source: Company Data, WRJ Calculation

Performance on the Equipment side

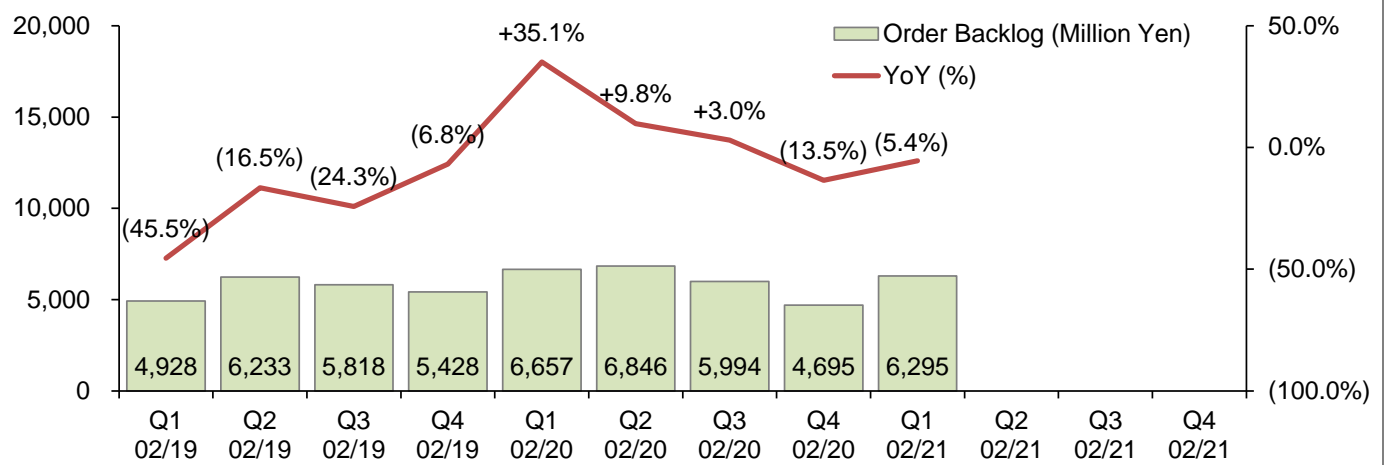
On the Equipment side, where pharmaceutical-related accounted for 88.8% of sales and industrial-related \doteq non-pharmaceuticals for the remaining 11.2%, order intake came in at ¥3,268m (up 26.5%) versus sales of ¥1,689m (up 21.9%), while order backlog stood at ¥6,295m (down 5.4%) as of the end of Q1. Sales in Japan came in at ¥1,354m (up 51.3%) and sales overseas ¥355m (down 31.7%), while order intake in Japan ¥2,158m (up 53.7%) and order intake overseas ¥1,110m (down 5.9%), implying a strength in Japan in terms of both sales and order intake by region. Meanwhile, industrial-related \doteq non-pharmaceuticals saw decreased sales and decreased order intake. Restrictions on travel and other factors are thought to have a significant impact on sales activities in China and South Korea.

In Japan, from where 80.1% of sales was derived, sales of a large-scale deal were booked for granulation and coating equipment accounting for almost everything of pharmaceutical-related or the mainstay by application, while order intake was firm. Meanwhile, sales overseas having accounted for the remaining 19.9% of total were delayed as an underlying trend. The Company saw sales of ¥193m (down 37.2%) in North & Latin Americas, sales of ¥27m (down 66.2%) in Europe & Africa and sales of ¥114m (up 12.4%) in Middle East, Asia & Oceania. The decline in sales overseas was largely attributable to that of North & Latin Americas.

Order Intake on the Equipment side



Order Backlog on the Equipment side

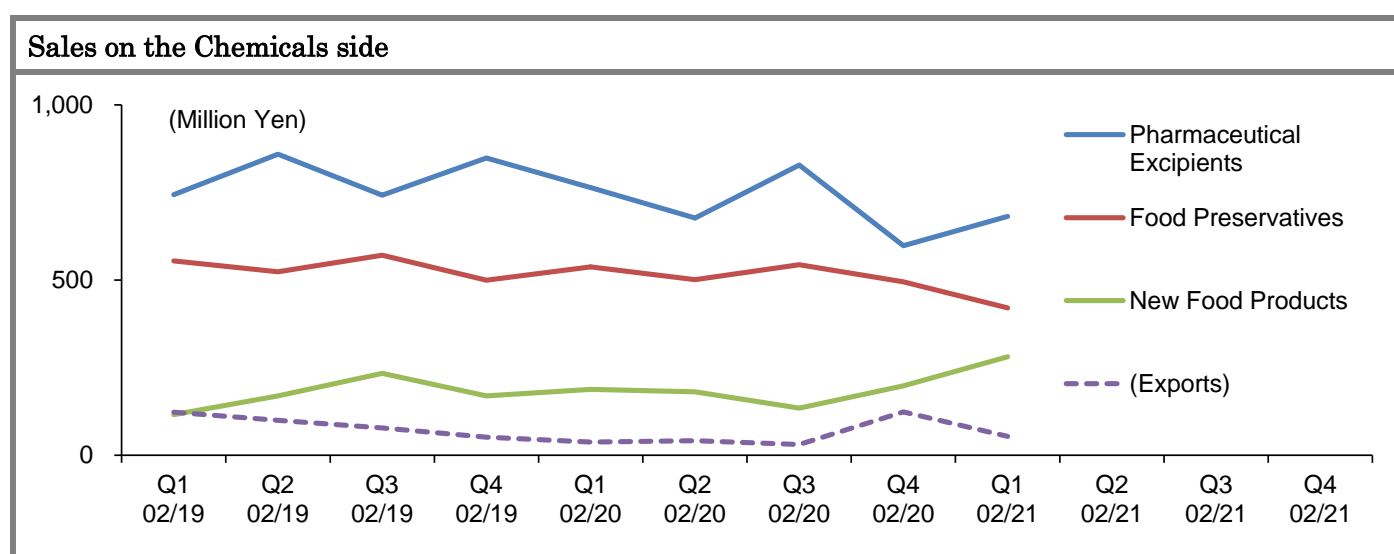


Source: Company Data, WRJ Calculation

Sales in North & Latin mainly comprise those of the United States and Brazil. The former currently ranks first in terms of the number of COVID-19 infections and fatalities and the latter second by country or region. In both of them, the overall stagnation in economic activity is conspicuous. For the Company, acceptance inspections for equipment have been forced to stagnate or delayed, while the impacts stemming from COVID-19 have also affected to the Company's sales activities. For example, demonstration tests and others in the Company's laboratory facilities by prospective customers are indispensable for new order intake to be confirmed, but it has been difficult to carry them out for some time.

Performance on the Chemicals side

On the Chemicals side, sales of pharmaceutical excipients came in at ¥682m (down 10.7%), sales of food preservatives ¥421m (down 21.6%) and sales of new food products (dietary supplements) ¥281m (up 49.2%). Meanwhile, sales stemming from exports came in at ¥54m (up 42.5%), comprising exports bound for India, South Korea, Taiwan, etc. This is disclosed as sales included in all those above-mentioned three subsegments and almost everything is of pharmaceutical excipients. Simply assuming that exports are all those of pharmaceutical excipients, it is implied that sales of pharmaceutical excipients in Japan came in at ¥628m (down 13.5%).



Source: Company Data, WRJ Calculation

As a whole for this business segment, the decline in sales has made it difficult to absorb fixed costs, while changes in sales mix appear to have lower profit margin. Further, although sales on the Chemicals side accounted for decreased ratio out of sales as a whole for the Company, i.e., down 6.8% points to 45.1% from 51.8% during the same period of the previous year, the Company spots that there was an aspect that “earnings were reduced by the increased ratio to allocate fixed costs such as head office expenses”. At the end of the day, earnings came down more than suggested by the decline in sales, while segment profit margin came down sharply.

With respect to pharmaceutical excipients, sales inevitably came down as domestic user adopting the Company’s products here for the manufacture of own pharmaceuticals were cutting back on the manufacture of the said own pharmaceuticals for inventory adjustment. With respect to food preservatives, sales associated with the mainstay application, i.e., confectionary, are slowing due to the impacts stemming from COVID-19. For example, there has been a sharp decline in the number of visitors at theme parks and department stores and the same is true of demand for confectionery sold on-site. With respect to new food products (dietary supplements), the Company suggests that changes in sales have a limited impact to earnings in that the manufacture is all outsourced and that the Company sees low gross profit margin in the first place. Meanwhile, exports surged in Q4 FY02/2020. This is due to a one-off factor, which is not to reappear.

Income Statement (Cumulative/Quarterly)

Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4	Q1	Q1 to Q2	Q1 to Q3	Q1 to Q4		Net Chg.
	02/2020	02/2020	02/2020	02/2020	02/2021	02/2021	02/2021	02/2021		
Sales	2,878	6,817	11,110	16,772	3,076	-	-	-	-	+197
Cost of Sales	1,830	4,400	7,331	11,344	2,130	-	-	-	-	+299
Gross Profit	1,047	2,416	3,779	5,428	945	-	-	-	-	(101)
SG&A Expenses	1,262	2,413	3,686	4,870	1,111	-	-	-	-	(150)
Operating Profit	(214)	3	93	558	(165)	-	-	-	-	+48
Non Operating Balance	(2)	2	18	24	10	-	-	-	-	+13
Recurring Profit	(217)	6	111	582	(154)	-	-	-	-	+62
Extraordinary Balance	7	11	(16)	(14)	0	-	-	-	-	(7)
Profit before Income Taxes	(210)	17	94	568	(155)	-	-	-	-	+54
Total Income Taxes	(52)	24	56	187	(33)	-	-	-	-	+18
Profit Attributable to Owners of Parent	(158)	(7)	37	381	(121)	-	-	-	-	+36
Sales YoY	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	-	-	-	-	-
Operating Profit YoY	-	(99.4%)	(86.1%)	(54.3%)	-	-	-	-	-	-
Recurring Profit YoY	-	(99.1%)	(85.5%)	(56.1%)	-	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	(92.8%)	(54.8%)	-	-	-	-	-	-
Gross Profit Margin	36.4%	35.4%	34.0%	32.4%	30.7%	-	-	-	-	(5.7%)
Sales to SG&A Expenses Ratio	43.9%	35.4%	33.2%	29.0%	36.1%	-	-	-	-	(7.7%)
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	-	-	-	-	+2.1%
Recurring Profit Margin	(7.6%)	0.1%	1.0%	3.5%	(5.0%)	-	-	-	-	+2.5%
Profit Attributable to Owners of Parent Margin	(5.5%)	(0.1%)	0.3%	2.3%	(4.0%)	-	-	-	-	+1.5%
Total Income Taxes/Profit before Income Taxes	-	145.1%	60.0%	32.9%	-	-	-	-	-	-
Income Statement	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY
(Million Yen)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		Net Chg.
	02/2020	02/2020	02/2020	02/2020	02/2021	02/2021	02/2021	02/2021		
Sales	2,878	3,939	4,293	5,662	3,076	-	-	-	-	+197
Cost of Sales	1,830	2,570	2,930	4,012	2,130	-	-	-	-	+299
Gross Profit	1,047	1,368	1,362	1,649	945	-	-	-	-	(101)
SG&A Expenses	1,262	1,150	1,272	1,183	1,111	-	-	-	-	(150)
Operating Profit	(214)	218	89	465	(165)	-	-	-	-	+48
Non Operating Balance	(2)	5	15	6	10	-	-	-	-	+13
Recurring Profit	(217)	223	105	471	(154)	-	-	-	-	+62
Extraordinary Balance	7	3	(27)	2	0	-	-	-	-	(7)
Profit before Income Taxes	(210)	227	77	474	(155)	-	-	-	-	+54
Total Income Taxes	(52)	76	31	130	(33)	-	-	-	-	+18
Profit Attributable to Owners of Parent	(158)	150	45	343	(121)	-	-	-	-	+36
Sales YoY	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	-	-	-	-	-
Operating Profit YoY	-	+12.5%	+15.8%	(15.8%)	-	-	-	-	-	-
Recurring Profit YoY	-	+8.7%	+21.9%	(15.2%)	-	-	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	+26.3%	(20.7%)	+7.5%	-	-	-	-	-	-
Gross Profit Margin	36.4%	34.7%	31.7%	29.1%	30.7%	-	-	-	-	(5.7%)
Sales to SG&A Expenses Ratio	43.9%	29.2%	29.7%	20.9%	36.1%	-	-	-	-	(7.7%)
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	-	-	-	-	+2.1%
Recurring Profit Margin	(7.6%)	5.7%	2.5%	8.3%	(5.0%)	-	-	-	-	+2.5%
Profit Attributable to Owners of Parent Margin	(5.5%)	3.8%	1.1%	6.1%	(4.0%)	-	-	-	-	+1.5%
Total Income Taxes/Profit before Income Taxes	-	33.9%	41.1%	27.5%	-	-	-	-	-	-

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 02/2020	Q1 to Q2 02/2020	Q1 to Q3 02/2020	Q1 to Q4 02/2020	Q1 02/2021	Q1 to Q2 02/2021	Q1 to Q3 02/2021	Q1 to Q4 02/2021		
Equipment	1,386	3,964	6,749	11,118	1,689	-	-	-	-	+303
Chemicals	1,491	2,852	4,360	5,654	1,386	-	-	-	-	(105)
Sales	2,878	6,817	11,110	16,772	3,076	-	-	-	-	+197
Equipment	(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	-	-	-	-	-
Chemicals	+5.3%	(4.0%)	(3.5%)	(6.4%)	(7.1%)	-	-	-	-	-
Sales (YoY)	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	-	-	-	-	-
Equipment	48.2%	58.2%	60.8%	66.3%	54.9%	-	-	-	-	-
Chemicals	51.8%	41.8%	39.2%	33.7%	45.1%	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Equipment	(267)	(119)	(142)	311	(125)	-	-	-	-	+141
Chemicals	187	382	652	781	77	-	-	-	-	(109)
Segment Profit	(79)	262	510	1,092	(47)	-	-	-	-	+32
Elimination	(135)	(259)	(417)	(534)	(118)	-	-	-	-	+16
Operating Profit	(214)	3	93	558	(165)	-	-	-	-	+48
Equipment	-	-	-	(57.8%)	-	-	-	-	-	-
Chemicals	(27.8%)	(31.3%)	(16.5%)	(23.7%)	(58.5%)	-	-	-	-	-
Segment Profit (YoY)	-	(69.0%)	(52.6%)	(38.0%)	-	-	-	-	-	-
Equipment	-	(45.7%)	(27.9%)	28.5%	-	-	-	-	-	-
Chemicals	-	145.7%	127.9%	71.5%	-	-	-	-	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Equipment	(19.3%)	(3.0%)	(2.1%)	2.8%	(7.4%)	-	-	-	-	+11.9%
Chemicals	12.6%	13.4%	15.0%	13.8%	5.6%	-	-	-	-	(7.0%)
Elimination	(4.7%)	(3.8%)	(3.8%)	(3.2%)	(3.9%)	-	-	-	-	+0.8%
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	-	-	-	-	+2.1%

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 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020	Q1 02/2021	Q2 02/2021	Q3 02/2021	Q4 02/2021		
Equipment	1,386	2,578	2,785	4,368	1,689	-	-	-	-	+303
Chemicals	1,491	1,360	1,508	1,293	1,386	-	-	-	-	(105)
Sales	2,878	3,939	4,293	5,662	3,076	-	-	-	-	+197
Equipment	(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	-	-	-	-	-
Chemicals	+5.3%	(12.5%)	(2.6%)	(14.9%)	(7.1%)	-	-	-	-	-
Sales (YoY)	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	-	-	-	-	-
Equipment	48.2%	65.5%	64.9%	77.2%	54.9%	-	-	-	-	-
Chemicals	51.8%	34.5%	35.1%	22.8%	45.1%	-	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Equipment	(267)	147	(22)	453	(125)	-	-	-	-	+141
Chemicals	187	194	270	129	77	-	-	-	-	(109)
Segment Profit	(79)	342	247	582	(47)	-	-	-	-	+32
Elimination	(135)	(124)	(158)	(116)	(118)	-	-	-	-	+16
Operating Profit	(214)	218	89	465	(165)	-	-	-	-	+48
Equipment	-	-	-	+2.6%	-	-	-	-	-	-
Chemicals	(27.8%)	(34.3%)	+20.1%	(47.0%)	(58.5%)	-	-	-	-	-
Segment Profit (YoY)	-	+10.4%	+8.2%	(15.0%)	-	-	-	-	-	-
Equipment	-	43.0%	(9.0%)	77.8%	-	-	-	-	-	-
Chemicals	-	57.0%	109.0%	22.2%	-	-	-	-	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
Equipment	(19.3%)	5.7%	(0.8%)	10.4%	(7.4%)	-	-	-	-	+11.9%
Chemicals	12.6%	14.3%	17.9%	10.0%	5.6%	-	-	-	-	(7.0%)
Elimination	(4.7%)	(3.2%)	(3.7%)	(2.1%)	(3.9%)	-	-	-	-	+0.8%
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	-	-	-	-	+2.1%

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.
	02/2020	02/2020	02/2020	02/2020	02/2021	02/2021	02/2021	02/2021	02/2021	
Japan	894	2,557	4,265	6,696	1,354	-	-	-	-	+459
North & Latin Americas	308	1,005	1,743	2,915	193	-	-	-	-	(114)
Europe & Africa	81	150	236	452	27	-	-	-	-	(53)
Middle East, Asia & Oceania	101	251	509	1,054	114	-	-	-	-	+12
Overseas	491	1,407	2,489	4,422	335	-	-	-	-	(155)
Sales	1,386	3,964	6,749	11,118	1,689	-	-	-	-	+303
Japan	(67.9%)	(41.2%)	(27.0%)	(8.4%)	+51.3%	-	-	-	-	-
North & Latin Americas	+6.7%	(0.2%)	+1.0%	(13.0%)	(37.2%)	-	-	-	-	-
Europe & Africa	+1.2%	+6.2%	(12.7%)	+13.8%	(66.2%)	-	-	-	-	-
Middle East, Asia & Oceania	(63.6%)	(61.0%)	(42.1%)	(19.2%)	+12.4%	-	-	-	-	-
Overseas	(24.3%)	(21.5%)	(13.5%)	(12.5%)	(31.7%)	-	-	-	-	-
Sales (YoY)	(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	-	-	-	-	-
Japan	64.5%	64.5%	63.2%	60.2%	80.1%	-	-	-	-	-
North & Latin Americas	22.3%	25.4%	25.8%	26.2%	11.5%	-	-	-	-	-
Europe & Africa	5.9%	3.8%	3.5%	4.1%	1.6%	-	-	-	-	-
Middle East, Asia & Oceania	7.3%	6.3%	7.5%	9.5%	6.8%	-	-	-	-	-
Overseas	35.5%	35.5%	36.9%	39.8%	19.9%	-	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-
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.
	02/2020	02/2020	02/2020	02/2020	02/2021	02/2021	02/2021	02/2021	02/2021	
Japan	894	1,662	1,707	2,431	1,354	-	-	-	-	+459
North & Latin Americas	308	696	737	1,172	193	-	-	-	-	(114)
Europe & Africa	81	69	86	215	27	-	-	-	-	(53)
Middle East, Asia & Oceania	101	149	258	545	114	-	-	-	-	+12
Overseas	491	915	1,081	1,933	335	-	-	-	-	(155)
Sales	1,386	2,578	2,785	4,368	1,689	-	-	-	-	+303
Japan	(67.9%)	+6.0%	+14.3%	+65.8%	+51.3%	-	-	-	-	-
North & Latin Americas	+6.7%	(3.0%)	+2.6%	(27.9%)	(37.2%)	-	-	-	-	-
Europe & Africa	+1.2%	+12.8%	(33.4%)	+224.4%	(66.2%)	-	-	-	-	-
Middle East, Asia & Oceania	(63.6%)	(59.0%)	+9.7%	+12.0%	+12.4%	-	-	-	-	-
Overseas	(24.3%)	(20.0%)	(0.1%)	(11.3%)	(31.7%)	-	-	-	-	-
Sales (YoY)	(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	-	-	-	-	-
Japan	64.5%	64.5%	61.2%	55.7%	80.1%	-	-	-	-	-
North & Latin Americas	22.3%	27.0%	26.4%	26.9%	11.5%	-	-	-	-	-
Europe & Africa	5.9%	2.7%	3.1%	4.9%	1.6%	-	-	-	-	-
Middle East, Asia & Oceania	7.3%	5.8%	9.3%	12.5%	6.8%	-	-	-	-	-
Overseas	35.5%	35.5%	38.8%	44.3%	19.9%	-	-	-	-	-
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-	-

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	Cons.Act	YoY Net Chg.
	Q1 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020	Q1 02/2021	Q2 02/2021	Q3 02/2021	Q4 02/2021		
Cash and Deposit	4,607	5,030	4,232	4,314	4,707	-	-	-	-	+99
Accounts Receivables	4,039	3,800	4,320	5,431	4,207	-	-	-	-	+168
Inventory	3,308	3,447	3,870	3,051	3,161	-	-	-	-	(146)
Other	387	443	457	396	262	-	-	-	-	(125)
Current Assets	12,342	12,721	12,881	13,193	12,338	-	-	-	-	(3)
Tangible Assets	3,857	3,997	4,206	4,209	4,192	-	-	-	-	+334
Intangible Assets	17	16	96	96	92	-	-	-	-	+75
Investments and Other Assets	1,009	978	998	1,006	1,082	-	-	-	-	+72
Fixed Assets	4,885	4,992	5,301	5,311	5,367	-	-	-	-	+481
Total Assets	17,227	17,713	18,182	18,505	17,706	-	-	-	-	+478
Accounts Payables	2,043	2,350	2,783	3,121	2,346	-	-	-	-	+303
Short Term Debt	-	-	-	32	-	-	-	-	-	-
Other	2,216	2,317	2,235	1,869	2,136	-	-	-	-	(79)
Current Liabilities	4,259	4,668	5,019	5,023	4,483	-	-	-	-	+223
Long Term Debt	-	-	-	-	230	-	-	-	-	+230
Other	244	238	241	237	247	-	-	-	-	+2
Fixed Liabilities	244	238	241	237	477	-	-	-	-	+233
Total Liabilities	4,504	4,906	5,260	5,261	4,961	-	-	-	-	+457
Shareholders' Equity	12,976	13,127	13,172	13,516	13,059	-	-	-	-	+82
Adjustments	(253)	(319)	(251)	(272)	(314)	-	-	-	-	(60)
Total Assets	12,723	12,807	12,921	13,243	12,744	-	-	-	-	+21
Total Liabilities and Net Assets	17,227	17,713	18,182	18,505	17,706	-	-	-	-	+478
Equity Capital	12,723	12,807	12,921	13,243	12,744	-	-	-	-	+21
Interest Bearing Debt	-	-	-	32	230	-	-	-	-	+230
Net Debt	(4,607)	(5,030)	(4,232)	(4,281)	(4,476)	-	-	-	-	+130
Equity Capital Ratio	73.9%	72.3%	71.1%	71.6%	72.0%	-	-	-	-	-
Net-Debt-Equity Ratio	(36.2%)	(39.3%)	(32.8%)	(32.3%)	(35.1%)	-	-	-	-	-
ROE (12 months)	2.7%	2.9%	2.8%	2.9%	3.3%	-	-	-	-	-
ROA (12 months)	3.6%	3.7%	3.7%	3.2%	3.7%	-	-	-	-	-
Total Assets Turnover	67%	89%	94%	122%	69%	-	-	-	-	-
Inventory Turnover	2.2	3.0	3.0	5.3	2.7	-	-	-	-	-
Days of Inventory	165	122	121	69	135	-	-	-	-	-
Quick Ratio	203%	189%	170%	194%	199%	-	-	-	-	-
Current Ratio	290%	273%	257%	263%	275%	-	-	-	-	-

Source: Company Data, WRJ Calculation

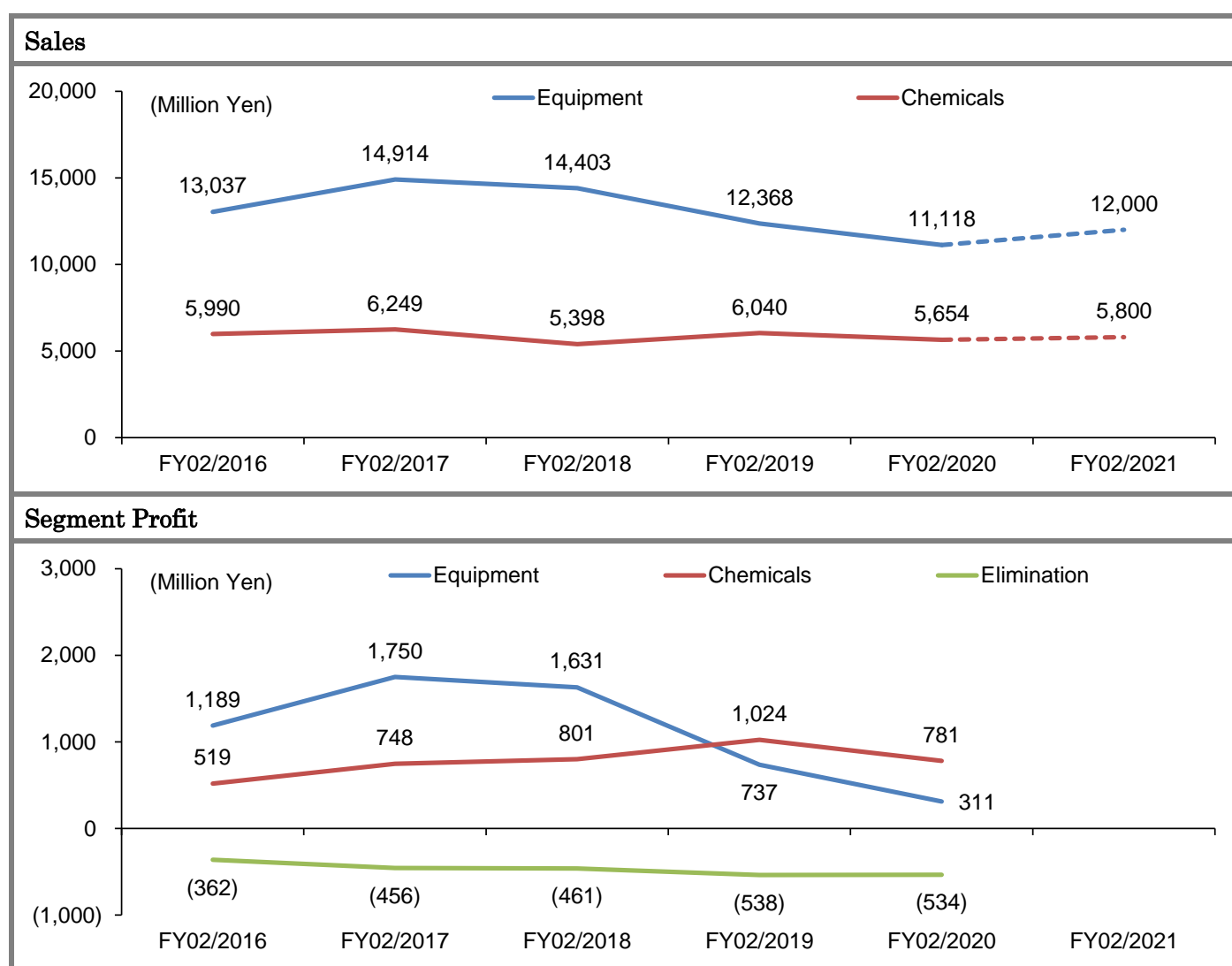
Cash Flow Statement (Cumulative)

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 02/2020	Q1 to Q2 02/2020	Q1 to Q3 02/2020	Q1 to Q4 02/2020	Q1 02/2021	Q1 to Q2 02/2021	Q1 to Q3 02/2021	Q1 to Q4 02/2021		
Operating Cash Flow	-	289	-	(27)	-	-	-	-	-	-
Investment Cash Flow	-	(414)	-	(852)	-	-	-	-	-	-
Operating CF and Investment CF	-	(124)	-	(880)	-	-	-	-	-	-
Financing Cash Flow	-	(359)	-	(325)	-	-	-	-	-	-

Source: Company Data, WRJ Calculation

FY02/2021 Company Forecasts

FY02/2021 initial Company forecasts have remained unchanged, 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). With respect to prospective dividend, Company forecasts have remained undecided since the initial stage as the impacts stemming from COVID-19 have remained unclear. More importantly, however, the Company is going for payout ratio of 30% as the target and it has revealed its dividend policy to consistently pay dividend with a stability.

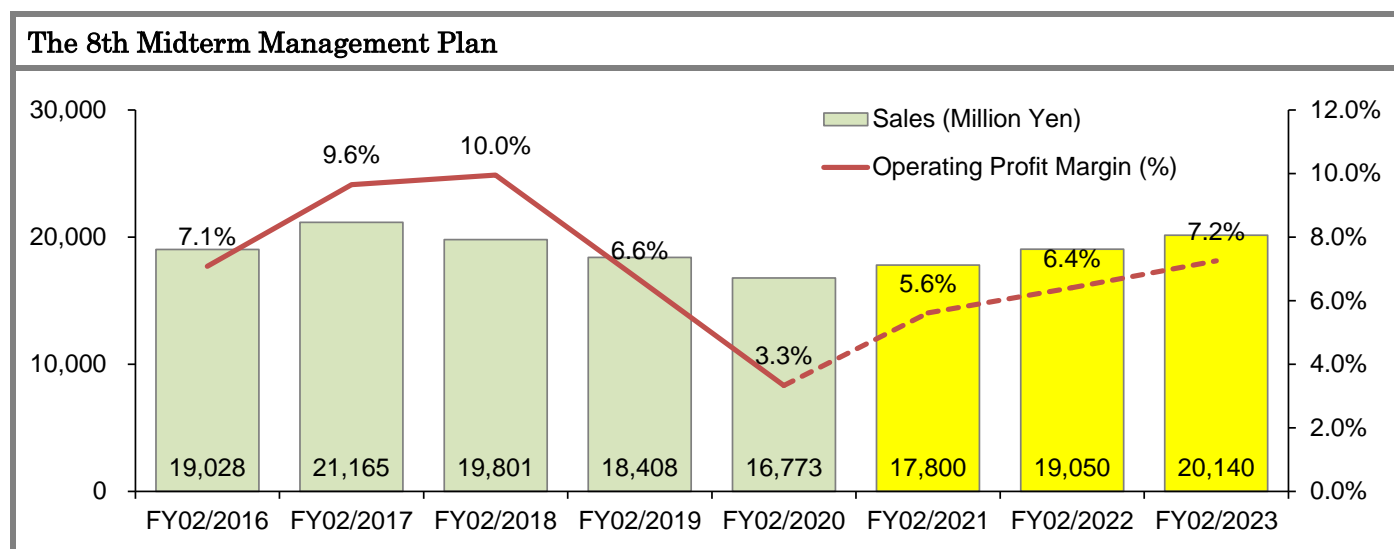


Source: Company Data, WRJ Calculation

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-pharmaceuticals (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 acquisitions of new deals overseas at the same time.

Long-Term Prospects

On 1 May 2020, the Company has announced the 8th Midterm Management Plan (FY02/2021 to FY02/2023), calling for prospective sales of ¥20,140m, operating profit of ¥1,460m and operating profit margin of 7.2% in FY02/2023 or the last year of the plan, suggesting CAGR of 6.3% for sales and 37.8% for earnings 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-pharmaceuticals (chemicals, foods, dietary supplements, etc.). Meanwhile, for both of the business segments, the midterm plan assumes sales overseas to expand.



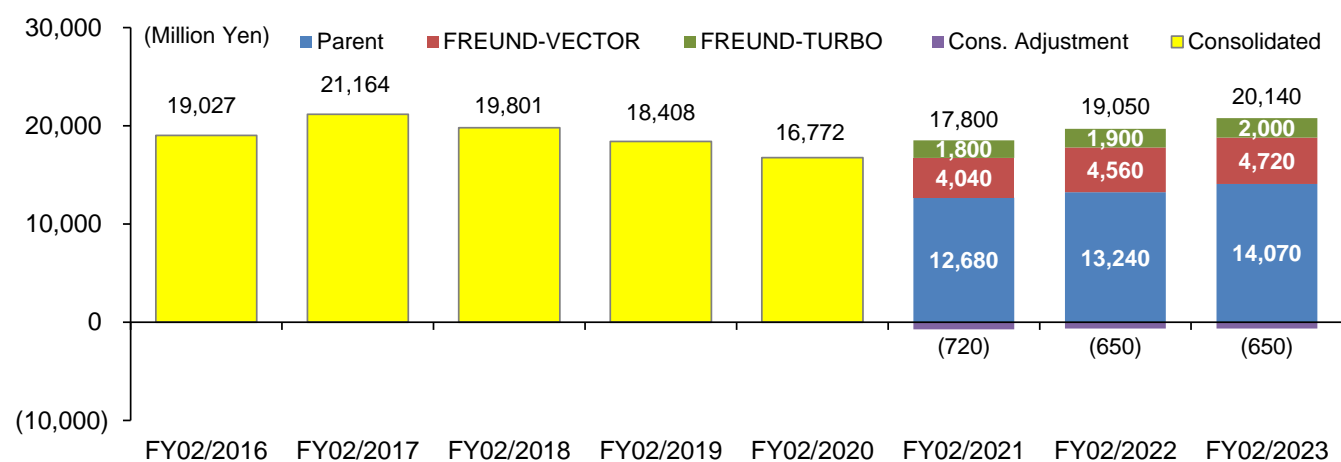
Source: Company Data, WRJ Calculation

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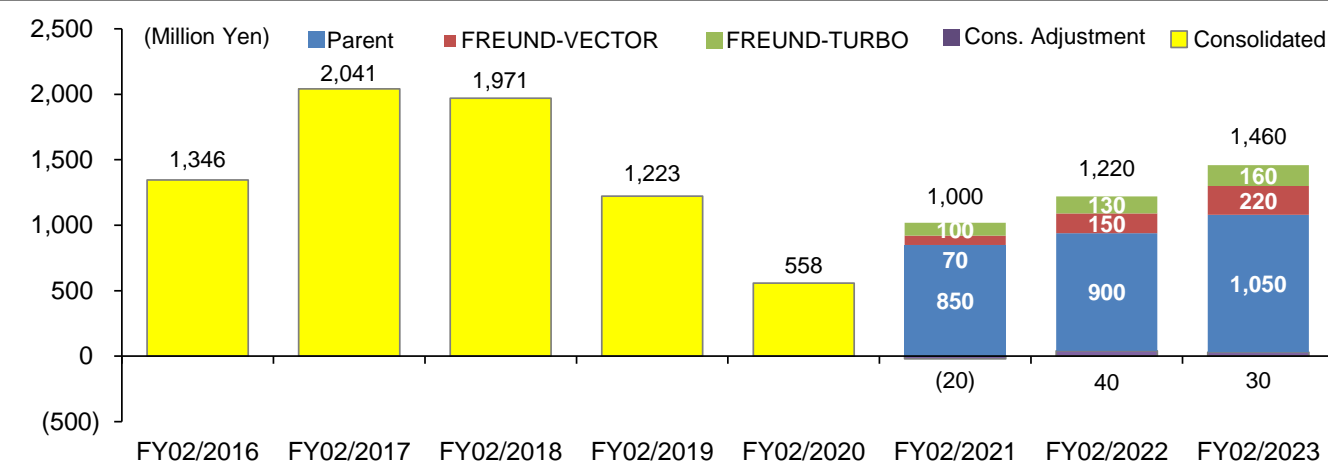
The 7th Midterm Management Plan ONE FREUND (FY02/2018 to FY02/2022), withdrawn in line with the announcement of the 8th Midterm Management Plan (FY02/2021 to FY02/2023), were calling for prospective sales of ¥30,000m, operating profit of ¥3,000m and operating profit margin of 10.0% for the last year of the plan, i.e., FY02/2022. However, the results for the first three years were lower than assumptions, having resulted in consistently decreased sales and earnings. This is basically in line with decreased sales and earnings on the Equipment side, negatively affected mainly by slowing capex after booming driven by the move to achieve 80% penetration rate in volume for generic drugs in Japan.

In the briefing on video for the 8th Midterm Management Plan, released 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 in the future and thus the Company is keen on capturing the growth from there. Meanwhile, in order to achieve the target 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, etc. Further, the Company has newly set up “the 7 new management goals”, comprising “group collaboration”, etc. and thus it is also keen on achieving all those goals at the same time.

The 8th Midterm Management Plan: Sales Breakdown



The 8th Midterm Management Plan: Operating Profit Breakdown



Source: Company Data, WRJ Calculation

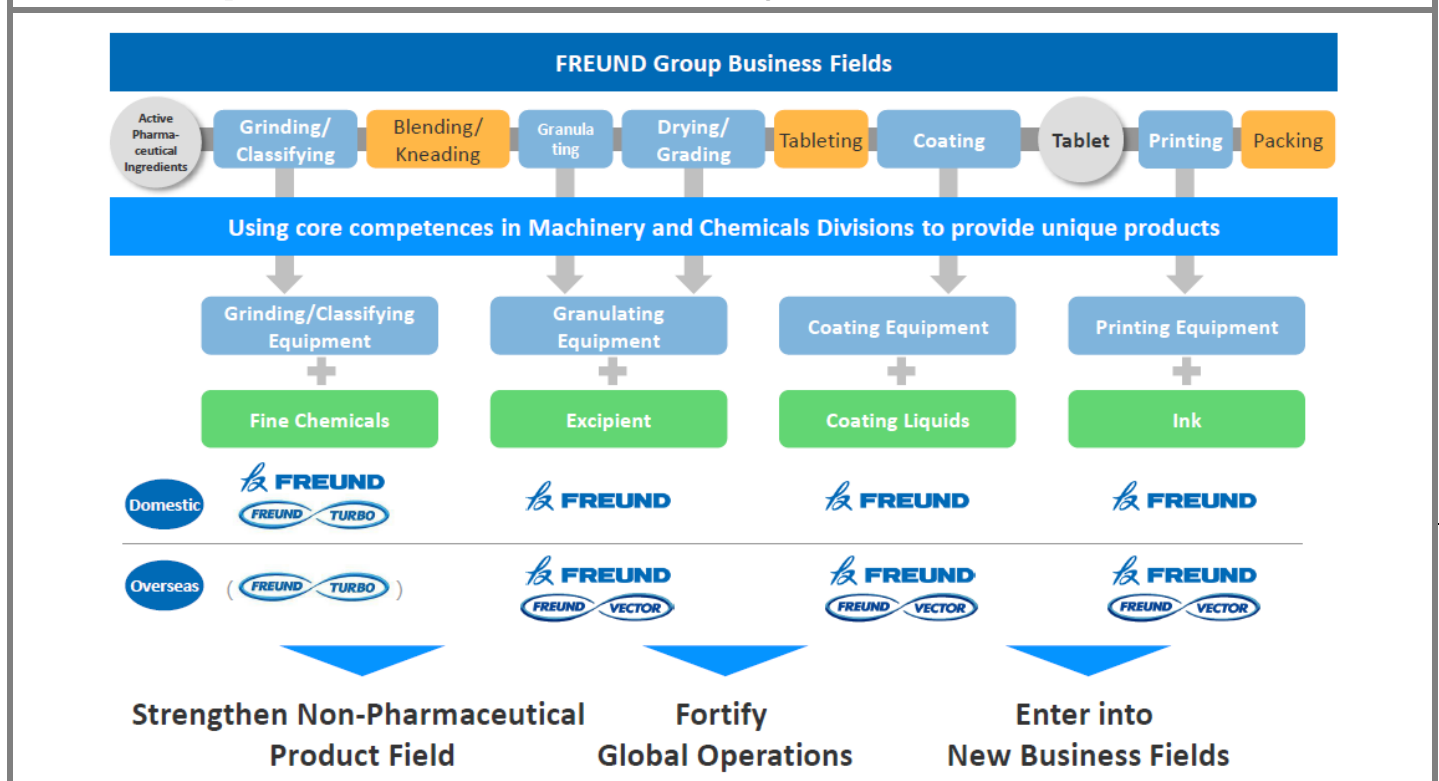
For the sake of achieving above-mentioned target performance, the Company will place emphasis on the following four issues in particular, i.e., "operational management together with the group's subsidiaries", "improving customer satisfaction from the user's perspective", "developing innovative products" 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 performance exceeding the record highs in FY02/2017 (sales of ¥21,164m, operating profit of ¥2,041m and operating profit margin of 9.6%) 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, the Company is the largest in Japan 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 the 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 R&D institute of government-related in the field of pharmaceuticals has placed order for the second one more recently, having already completed the delivery to date. In addition, the third one was also delivered in Q1 FY02/2021.

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 used to believe that manufacturers of pharmaceuticals both new and generic were to keep on investing in equipment to do “ink-jet-type printing”, going forward. However, it appears that demand has been below initial expectations as users have become cost conscious more than before.

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>Granulating, 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. According to the Company, sales associated with the in-house manufacture account for 60% to 70% of total, while outsourcing the remaining 30% to 40%.

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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