

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 Half Year (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q2 FY02/2020		6,817	3	6	(7)	-	-	-
Q3 to Q4 FY02/2020		9,955	555	576	389	-	-	-
Q1 to Q2 FY02/2021		7,043	251	271	183	-	-	-
Q3 to Q4 FY02/2021CoE		10,756	748	728	516	-	-	-
Q1 to Q2 FY02/2021	YoY	3.3%	-	-	-	-	-	-
Q3 to Q4 FY02/2021CoE	YoY	8.0%	34.9%	26.3%	32.6%	-	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (17 November 2020)


Company Forecasts to be Met

FREUND CORPORATION, developing, manufacturing and selling equipment as well as chemicals, is likely to achieve prospective performance assumed in Company forecasts for FY02/2021. In Q1 to Q2, the Company saw strengths for order intake on the Equipment side, despite the impacts stemming from COVID-19. It appears that prospective sales are to be in line with assumptions of initial Company forecasts, if there are no delays in the timing of delivery towards the end of the fiscal year. Meanwhile, the Company has suffered from plummeting sales of food preservatives on the Chemicals side due to the impacts stemming from COVID-19, having become the key reason to account for decreased segment profit in Q1 to Q2. Sales of confectioneries sold as souvenirs in tourist sites, theme parks, department stores, etc. are rapidly declining and thus inevitably sales of the Company's food preservatives which are adopted for all those confectionaries. However, a sufficient compensating factor has occurred on the Equipment side. The subsidiary based in the United States, FREUND-VECTOR CORPORATION, received a subsidy of US\$2.1m (some ¥230m) from the local government, having increased operating profit as a whole for the Company by this amount in Q2.

IR Representative: Corporate Planning Division (81-(0)3-6890-0767 / ir@freund.co.jp)

2.0 Company Profile

Equipment and Chemicals

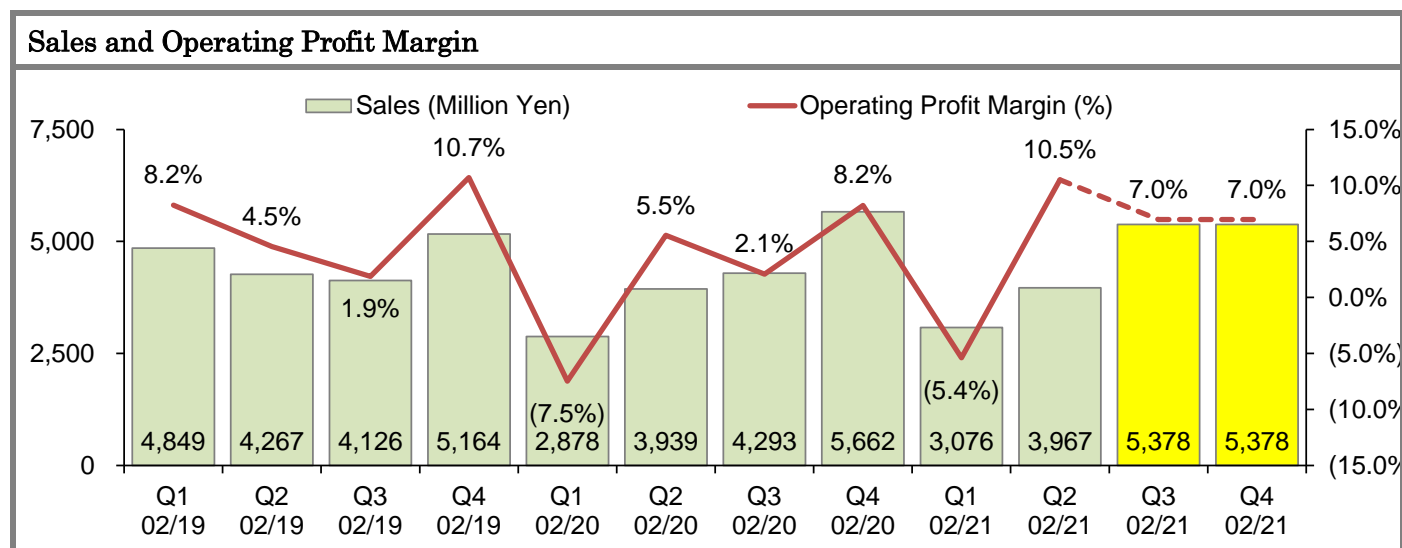
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese) 
Established	22 April 1964
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)
Capital	¥1,035m (as of the end of August 2020)
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of August 2020)
Main Features	<ul style="list-style-type: none"> ● Leading the market for granulation and coating equipment with market share of 60% to 70% in Japan ● Focus on industrial-related (mainly chemicals and foods) on top of the mainstay pharmaceutical-related ● 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 August 2020, but for treasury shares)
Headquarters	FREUND Building, 6-25-13 Nishishinjuku Shinjuku-ku Tokyo, JAPAN
No. of Employees	Consolidated: 384, Parent: 234 (as of the end of August 2020)

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q2 FY02/2021 Results

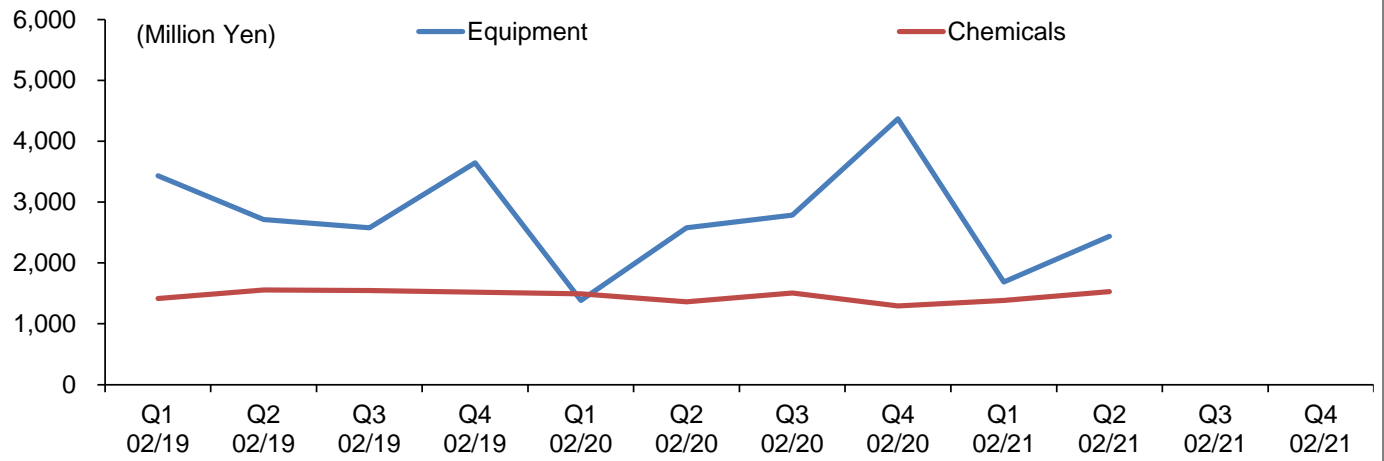
In Q1 to Q2 FY02/2021, sales came in at ¥7,043m (up 3.3% YoY), operating profit ¥251m (versus ¥3m during the same period of the previous year), recurring profit ¥271m (¥6m) and profit attributable to owners of parent ¥183m (minus ¥7m), while operating profit margin 3.6% (up 3.5% points).



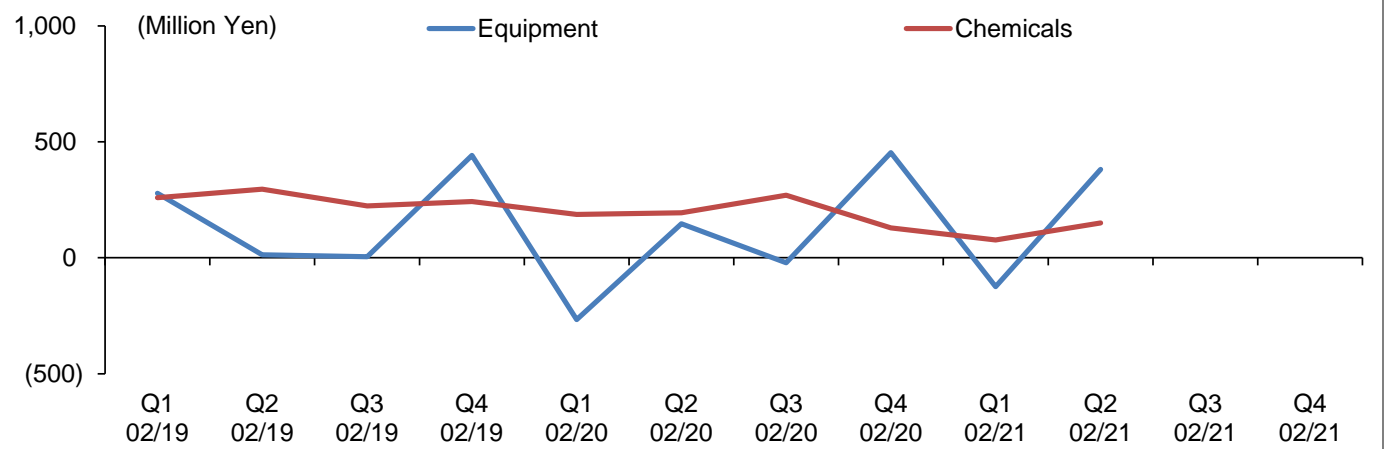
Source: Company Data, WRJ Calculation (Q3 & Q4 FY02/2021 : H2 Company forecasts, pro rata)

Following on from FY02/2020, the Company is expected to see performance with intensive focus on H2 (Q4) in FY02/2021, because concentration of booking for sales in H2 (Q4) is inclined to persist on the Equipment side in FY02/2021. However, in Q2 FY02/2021, the Company saw operating profit margin of no less than 10.5%, which was an unexpectedly high level. According to the Company, this was attributable to a factor that the subsidiary based in the United States, FREUND-VECTOR CORPORATION, received a subsidy of US\$2.1m (some ¥230m) from the local government, having increased operating profit as a whole for the Company by this amount. In light of the deteriorating employment conditions due to the impacts stemming from COVID-19, the government of the United States has provided subsidies to maintain local employment with local companies, including FREUND-VECTOR CORPORATION which has received the said amount. Therefore, by business segment, the Company saw add-on earnings to a corresponding extent on the Equipment side.

Segment Sales



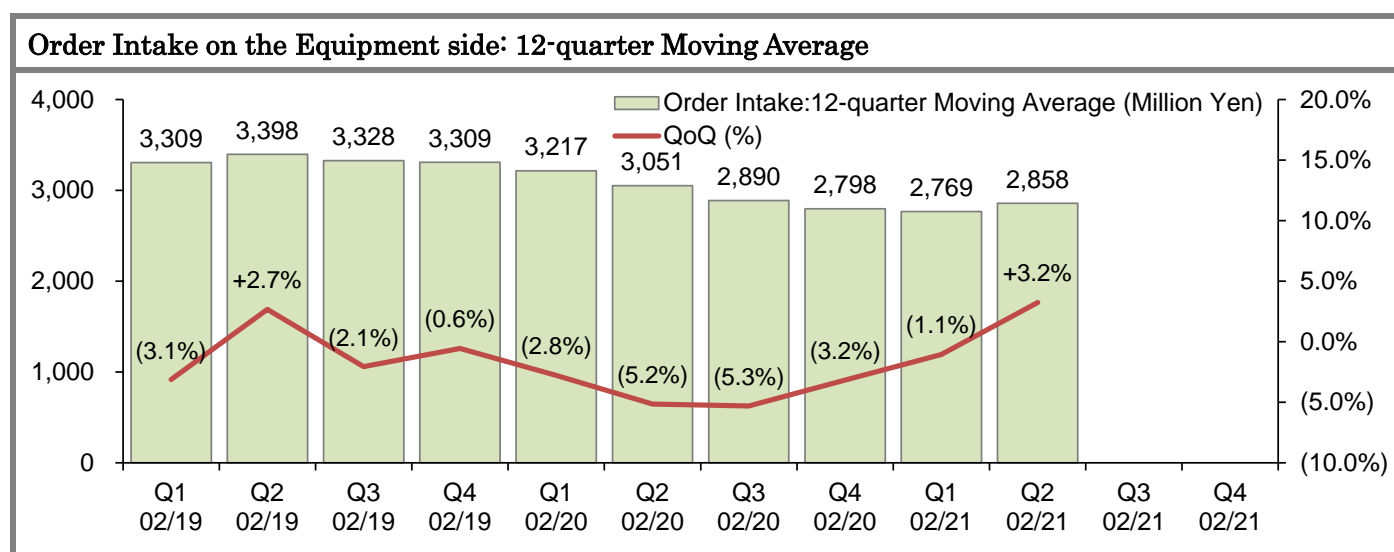
Segment Profit



Source: Company Data, WRJ Calculation

Equipment

On the Equipment side, segment sales came in at ¥4,125m (up 4.1%), segment profit ¥255m (minus ¥119m) and segment profit margin 6.2% (up 9.2% points). Segment sales comprised those of ¥3,441m (up 3.0%) for pharmaceutical-related and ¥683m (up 10.0%) for industrial-related. Meanwhile, sales in Japan came in at ¥2,989m (up 16.9%) and sales overseas ¥1,136m (down 19.3%). Sales overseas came down due mainly to plummeting sales in South America where the impacts stemming from COVID-19 have been substantial. Meanwhile, as a whole for the Equipment side, order intake came in at ¥6,705m (up 26.3%) and order backlog stood at ¥7,330m (up 7.1%). As for industrial-related, order intake associated with lithium-ion battery in China is adjusting substantially, but it appears that this has been more than compensated for by strengths on the mainstay pharmaceutical-related. The Company suggests it currently takes some 6 months for order intake to book sales.

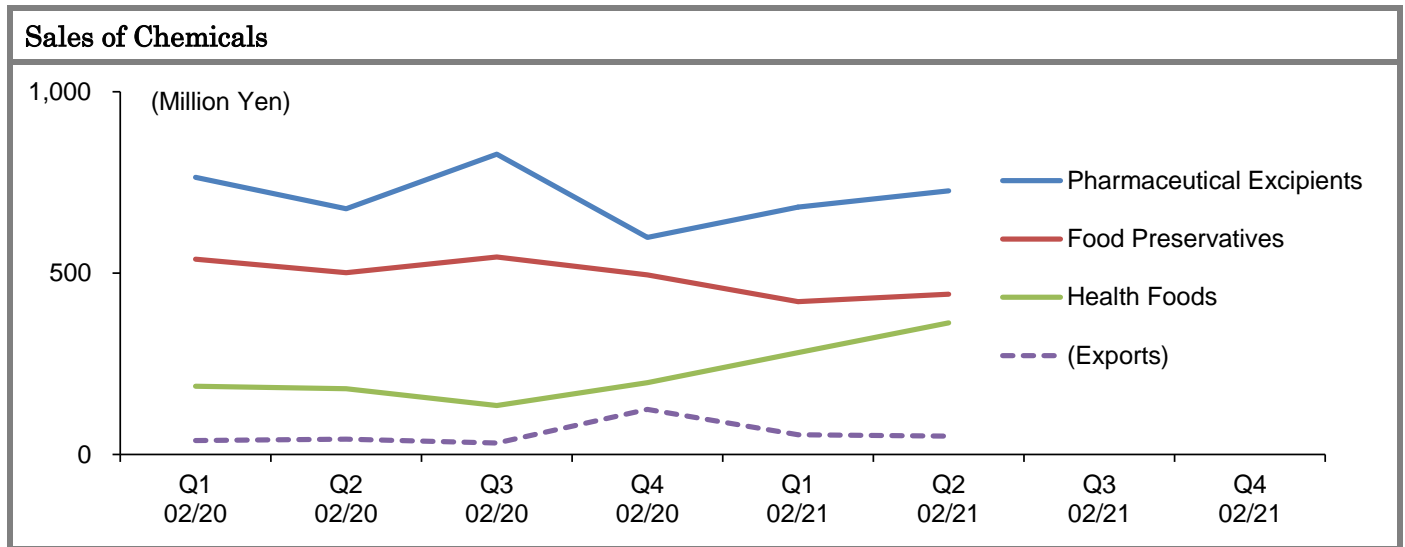


Source: Company Data, WRJ Calculation

We calculate 12-quarter moving average for order intake on the Equipment side with the aim of ascertaining tendency of order intake in a midterm perspective, which came in at ¥2,858m (up 3.2% QoQ) in Q2. Prior to this quarter, it had consistently suffered from decline on a quarter on quarter basis for 7 quarters in a row, suggesting that there is a tendency now for order intake to have entered the process of recovery from the bottom in a midterm perspective. The background to this is that, despite the impacts stemming from COVID-19, the Company has started to successfully capture customer needs with respect to its sales activities in Japan for the mainstay pharmaceutical-related, having booked order intake on a large-scale project together with some other successes. However, the future capital investment in Japan's generic pharmaceutical industry, which is considered to form the core of the customer base on the Equipment side, are uncertain and thus unpredictable, according to the Company. The market share of generic pharmaceuticals has almost reached 80% on a volume basis to date, i.e., the previous target already been effectively achieved, while there are concerns about the impacts of drug price revisions. On top of this, it is taken for granted that the future impacts stemming from COVID-19 are also uncertain and thus unpredictable.

Chemicals

On the Chemicals side, sales came in at ¥2,917m (up 2.3%), segment profit ¥228m (down 40.2%) and segment profit margin 7.8% (down 5.6% points). Segment sales comprised those of ¥1,409m (down 2.3%) for pharmaceutical excipients, ¥863m (down 16.9%) for food preservatives and ¥644m (up 73.8%) for health foods. Meanwhile, exports came in at ¥104m (up 29.5%). Most of exports is of pharmaceutical excipients mainly bound for India and China, while exports are included in sales of all those above-mentioned constituents of this business segment, e.g., pharmaceutical excipients.



Source: Company Data, WRJ Calculation

Pharmaceutical excipients, which have a large contribution to segment profit, suffered from decreased earnings due to a slight decline in sales driven by one-time factors. More importantly, however, this was literally attributable to one-time factors, while the underlying sales trends are “firm”, according to the Company. Meanwhile, sales of food preservatives came down sharply due to the impacts stemming from COVID-19, having suffered from decreased earnings more than pharmaceutical excipients. With respect to health foods, sales continued to show steady growth, reflecting continued inventory accumulation by users. However, due to the lower gross profit margin, the significant increase in sales of health foods is said to have had a negative impact on segment profit margin due to the deterioration in product mix.

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	7,043	-	-	-	+226
Cost of Sales	1,830	4,400	7,331	11,344	2,130	4,779	-	-	-	+379
Gross Profit	1,047	2,416	3,779	5,428	945	2,263	-	-	-	(152)
SG&A Expenses	1,262	2,413	3,686	4,870	1,111	2,012	-	-	-	(400)
Operating Profit	(214)	3	93	558	(165)	251	-	-	-	+247
Non Operating Balance	(2)	2	18	24	10	20	-	-	-	+17
Recurring Profit	(217)	6	111	582	(154)	271	-	-	-	+265
Extraordinary Balance	7	11	(16)	(14)	0	(4)	-	-	-	(16)
Profit before Income Taxes	(210)	17	94	568	(155)	266	-	-	-	+249
Total Income Taxes	(52)	24	56	187	(33)	82	-	-	-	+57
Profit Attributable to Owners of Parent	(158)	(7)	37	381	(121)	183	-	-	-	+191
Sales YoY	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	+3.3%	-	-	-	-
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%	32.1%	-	-	-	(3.3%)
Sales to SG&A Expenses Ratio	43.9%	35.4%	33.2%	29.0%	36.1%	28.6%	-	-	-	(6.8%)
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	3.6%	-	-	-	+3.5%
Recurring Profit Margin	(7.6%)	0.1%	1.0%	3.5%	(5.0%)	3.9%	-	-	-	+3.8%
Profit Attributable to Owners of Parent Margin	(5.5%)	(0.1%)	0.3%	2.3%	(4.0%)	2.6%	-	-	-	+2.7%
Total Income Taxes/Profit before Income Taxes	-	145.1%	60.0%	32.9%	-	31.0%	-	-	-	(114.2%)
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	3,967	-	-	-	+28
Cost of Sales	1,830	2,570	2,930	4,012	2,130	2,649	-	-	-	+79
Gross Profit	1,047	1,368	1,362	1,649	945	1,317	-	-	-	(50)
SG&A Expenses	1,262	1,150	1,272	1,183	1,111	900	-	-	-	(249)
Operating Profit	(214)	218	89	465	(165)	417	-	-	-	+198
Non Operating Balance	(2)	5	15	6	10	9	-	-	-	+3
Recurring Profit	(217)	223	105	471	(154)	426	-	-	-	+202
Extraordinary Balance	7	3	(27)	2	0	(4)	-	-	-	(8)
Profit before Income Taxes	(210)	227	77	474	(155)	421	-	-	-	+194
Total Income Taxes	(52)	76	31	130	(33)	115	-	-	-	+38
Profit Attributable to Owners of Parent	(158)	150	45	343	(121)	305	-	-	-	+155
Sales YoY	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	+0.7%	-	-	-	-
Operating Profit YoY	-	+12.5%	+15.8%	(15.8%)	-	+91.2%	-	-	-	-
Recurring Profit YoY	-	+8.7%	+21.9%	(15.2%)	-	+90.7%	-	-	-	-
Profit Attributable to Owners of Parent YoY	-	+26.3%	(20.7%)	+7.5%	-	+103.4%	-	-	-	-
Gross Profit Margin	36.4%	34.7%	31.7%	29.1%	30.7%	33.2%	-	-	-	(1.5%)
Sales to SG&A Expenses Ratio	43.9%	29.2%	29.7%	20.9%	36.1%	22.7%	-	-	-	(6.5%)
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	10.5%	-	-	-	+5.0%
Recurring Profit Margin	(7.6%)	5.7%	2.5%	8.3%	(5.0%)	10.7%	-	-	-	+5.1%
Profit Attributable to Owners of Parent Margin	(5.5%)	3.8%	1.1%	6.1%	(4.0%)	7.7%	-	-	-	+3.9%
Total Income Taxes/Profit before Income Taxes	-	33.9%	41.1%	27.5%	-	27.5%	-	-	-	(6.4%)

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 02/2020	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	4,125	-	-	-	+161
Chemicals	1,491	2,852	4,360	5,654	1,386	2,917	-	-	-	+65
Sales	2,878	6,817	11,110	16,772	3,076	7,043	-	-	-	+226
Equipment	(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	+4.1%	-	-	-	-
Chemicals	+5.3%	(4.0%)	(3.5%)	(6.4%)	(7.1%)	+2.3%	-	-	-	-
Sales (YoY)	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	+3.3%	-	-	-	-
Equipment	48.2%	58.2%	60.8%	66.3%	54.9%	58.6%	-	-	-	-
Chemicals	51.8%	41.8%	39.2%	33.7%	45.1%	41.4%	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Equipment	(267)	(119)	(142)	311	(125)	255	-	-	-	+375
Chemicals	187	382	652	781	77	228	-	-	-	(153)
Segment Profit	(79)	262	510	1,092	(47)	484	-	-	-	+221
Elimination	(135)	(259)	(417)	(534)	(118)	(233)	-	-	-	+25
Operating Profit	(214)	3	93	558	(165)	251	-	-	-	+247
Equipment	-	-	-	(57.8%)	-	-	-	-	-	-
Chemicals	(27.8%)	(31.3%)	(16.5%)	(23.7%)	(58.5%)	(40.2%)	-	-	-	-
Segment Profit (YoY)	-	(69.0%)	(52.6%)	(38.0%)	-	+84.6%	-	-	-	-
Equipment	-	(45.7%)	(27.9%)	28.5%	-	52.8%	-	-	-	-
Chemicals	-	145.7%	127.9%	71.5%	-	47.2%	-	-	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Equipment	(19.3%)	(3.0%)	(2.1%)	2.8%	(7.4%)	6.2%	-	-	-	+9.2%
Chemicals	12.6%	13.4%	15.0%	13.8%	5.6%	7.8%	-	-	-	(5.6%)
Elimination	(4.7%)	(3.8%)	(3.8%)	(3.2%)	(3.9%)	(3.3%)	-	-	-	+0.5%
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	3.6%	-	-	-	+3.5%

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	2,436	-	-	-	(142)
Chemicals	1,491	1,360	1,508	1,293	1,386	1,531	-	-	-	+170
Sales	2,878	3,939	4,293	5,662	3,076	3,967	-	-	-	+28
Equipment	(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	(5.5%)	-	-	-	-
Chemicals	+5.3%	(12.5%)	(2.6%)	(14.9%)	(7.1%)	+12.5%	-	-	-	-
Sales (YoY)	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	+0.7%	-	-	-	-
Equipment	48.2%	65.5%	64.9%	77.2%	54.9%	61.4%	-	-	-	-
Chemicals	51.8%	34.5%	35.1%	22.8%	45.1%	38.6%	-	-	-	-
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Equipment	(267)	147	(22)	453	(125)	381	-	-	-	+234
Chemicals	187	194	270	129	77	150	-	-	-	(44)
Segment Profit	(79)	342	247	582	(47)	531	-	-	-	+189
Elimination	(135)	(124)	(158)	(116)	(118)	(114)	-	-	-	+9
Operating Profit	(214)	218	89	465	(165)	417	-	-	-	+198
Equipment	-	-	-	+2.6%	-	+158.9%	-	-	-	-
Chemicals	(27.8%)	(34.3%)	+20.1%	(47.0%)	(58.5%)	(22.7%)	-	-	-	-
Segment Profit (YoY)	-	+10.4%	+8.2%	(15.0%)	-	+55.5%	-	-	-	-
Equipment	-	43.0%	(9.0%)	77.8%	-	71.7%	-	-	-	-
Chemicals	-	57.0%	109.0%	22.2%	-	28.3%	-	-	-	-
Segment Profit (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	-
Equipment	(19.3%)	5.7%	(0.8%)	10.4%	(7.4%)	15.7%	-	-	-	+9.9%
Chemicals	12.6%	14.3%	17.9%	10.0%	5.6%	9.8%	-	-	-	(4.5%)
Elimination	(4.7%)	(3.2%)	(3.7%)	(2.1%)	(3.9%)	(2.9%)	-	-	-	+0.3%
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	10.5%	-	-	-	+5.0%

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 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		
Japan	894	2,557	4,265	6,696	1,354	2,989	-	-	+432	
North & Latin Americas	308	1,005	1,743	2,915	193	553	-	-	(452)	
Europe & Africa	81	150	236	452	27	139	-	-	(11)	
Middle East, Asia & Oceania	101	251	509	1,054	114	443	-	-	+192	
Overseas	491	1,407	2,489	4,422	335	1,136	-	-	(270)	
Sales	1,386	3,964	6,749	11,118	1,689	4,125	-	-	+161	
Japan	(67.9%)	(41.2%)	(27.0%)	(8.4%)	+51.3%	+16.9%	-	-	-	
North & Latin Americas	+6.7%	(0.2%)	+1.0%	(13.0%)	(37.2%)	(45.0%)	-	-	-	
Europe & Africa	+1.2%	+6.2%	(12.7%)	+13.8%	(66.2%)	(7.4%)	-	-	-	
Middle East, Asia & Oceania	(63.6%)	(61.0%)	(42.1%)	(19.2%)	+12.4%	+76.8%	-	-	-	
Overseas	(24.3%)	(21.5%)	(13.5%)	(12.5%)	(31.7%)	(19.3%)	-	-	-	
Sales (YoY)	(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	+4.1%	-	-	-	
Japan	64.5%	64.5%	63.2%	60.2%	80.1%	72.5%	-	-	-	
North & Latin Americas	22.3%	25.4%	25.8%	26.2%	11.5%	13.4%	-	-	-	
Europe & Africa	5.9%	3.8%	3.5%	4.1%	1.6%	3.4%	-	-	-	
Middle East, Asia & Oceania	7.3%	6.3%	7.5%	9.5%	6.8%	10.8%	-	-	-	
Overseas	35.5%	35.5%	36.9%	39.8%	19.9%	27.5%	-	-	-	
Sales (Composition)	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 02/2020	Q2 02/2020	Q3 02/2020	Q4 02/2020	Q1 02/2021	Q2 02/2021	Q3 02/2021	Q4 02/2021		
Japan	894	1,662	1,707	2,431	1,354	1,635	-	-	(27)	
North & Latin Americas	308	696	737	1,172	193	359	-	-	(337)	
Europe & Africa	81	69	86	215	27	111	-	-	+42	
Middle East, Asia & Oceania	101	149	258	545	114	329	-	-	+180	
Overseas	491	915	1,081	1,933	335	800	-	-	(114)	
Sales	1,386	2,578	2,785	4,368	1,689	2,436	-	-	(142)	
Japan	(67.9%)	+6.0%	+14.3%	+65.8%	+51.3%	(1.6%)	-	-	-	
North & Latin Americas	+6.7%	(3.0%)	+2.6%	(27.9%)	(37.2%)	(48.5%)	-	-	-	
Europe & Africa	+1.2%	+12.8%	(33.4%)	+224.4%	(66.2%)	+61.8%	-	-	-	
Middle East, Asia & Oceania	(63.6%)	(59.0%)	+9.7%	+12.0%	+12.4%	+120.8%	-	-	-	
Overseas	(24.3%)	(20.0%)	(0.1%)	(11.3%)	(31.7%)	(12.6%)	-	-	-	
Sales (YoY)	(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	(5.5%)	-	-	-	
Japan	64.5%	64.5%	61.2%	55.7%	80.1%	67.1%	-	-	-	
North & Latin Americas	22.3%	27.0%	26.4%	26.9%	11.5%	14.7%	-	-	-	
Europe & Africa	5.9%	2.7%	3.1%	4.9%	1.6%	4.6%	-	-	-	
Middle East, Asia & Oceania	7.3%	5.8%	9.3%	12.5%	6.8%	13.5%	-	-	-	
Overseas	35.5%	35.5%	38.8%	44.3%	19.9%	32.9%	-	-	-	
Sales (Composition)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	-	

Source: Company Data, WRJ Calculation

Balance Sheet (Quarterly)

Balance Sheet (Million Yen)	Cons.Act	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	4,743	-	-	(287)	
Accounts Receivables	4,039	3,800	4,320	5,431	4,207	4,193	-	-	+393	
Inventory	3,308	3,447	3,870	3,051	3,161	3,056	-	-	(391)	
Other	387	443	457	396	262	331	-	-	(111)	
Current Assets	12,342	12,721	12,881	13,193	12,338	12,325	-	-	(396)	
Tangible Assets	3,857	3,997	4,206	4,209	4,192	4,094	-	-	+97	
Intangible Assets	17	16	96	96	92	90	-	-	+73	
Investments and Other Assets	1,009	978	998	1,006	1,082	1,015	-	-	+37	
Fixed Assets	4,885	4,992	5,301	5,311	5,367	5,200	-	-	+208	
Total Assets	17,227	17,713	18,182	18,505	17,706	17,525	-	-	(188)	
Accounts Payables	2,043	2,350	2,783	3,121	2,346	1,866	-	-	(484)	
Short Term Debt	-	-	-	32	-	-	-	-	-	
Other	2,216	2,317	2,235	1,869	2,136	2,415	-	-	+97	
Current Liabilities	4,259	4,668	5,019	5,023	4,483	4,281	-	-	(386)	
Long Term Debt	-	-	-	-	230	-	-	-	-	
Other	244	238	241	237	247	246	-	-	+8	
Fixed Liabilities	244	238	241	237	477	246	-	-	+8	
Total Liabilities	4,504	4,906	5,260	5,261	4,961	4,528	-	-	(378)	
Shareholders' Equity	12,976	13,127	13,172	13,516	13,059	13,364	-	-	+237	
Adjustments	(253)	(319)	(251)	(272)	(314)	(367)	-	-	(47)	
Total Assets	12,723	12,807	12,921	13,243	12,744	12,997	-	-	+189	
Total Liabilities and Net Assets	17,227	17,713	18,182	18,505	17,706	17,525	-	-	(188)	
Equity Capital	12,723	12,807	12,921	13,243	12,744	12,997	-	-	+190	
Interest Bearing Debt	-	-	-	32	230	-	-	-	-	
Net Debt	(4,607)	(5,030)	(4,232)	(4,281)	(4,476)	(4,743)	-	-	+287	
Equity Capital Ratio	73.9%	72.3%	71.1%	71.6%	72.0%	74.2%	-	-	-	
Net-Debt-Equity Ratio	(36.2%)	(39.3%)	(32.8%)	(32.3%)	(35.1%)	(36.5%)	-	-	-	
ROE (12 months)	2.7%	2.9%	2.8%	2.9%	3.3%	4.4%	-	-	-	
ROA (12 months)	3.6%	3.7%	3.7%	3.2%	3.7%	4.8%	-	-	-	
Total Assets Turnover	67%	89%	94%	122%	69%	91%	-	-	-	
Inventory Turnover	2.2	3.0	3.0	5.3	2.7	3.5	-	-	-	
Days of Inventory	165	122	121	69	135	105	-	-	-	
Quick Ratio	203%	189%	170%	194%	199%	209%	-	-	-	
Current Ratio	290%	273%	257%	263%	275%	288%	-	-	-	

Source: Company Data, WRJ Calculation

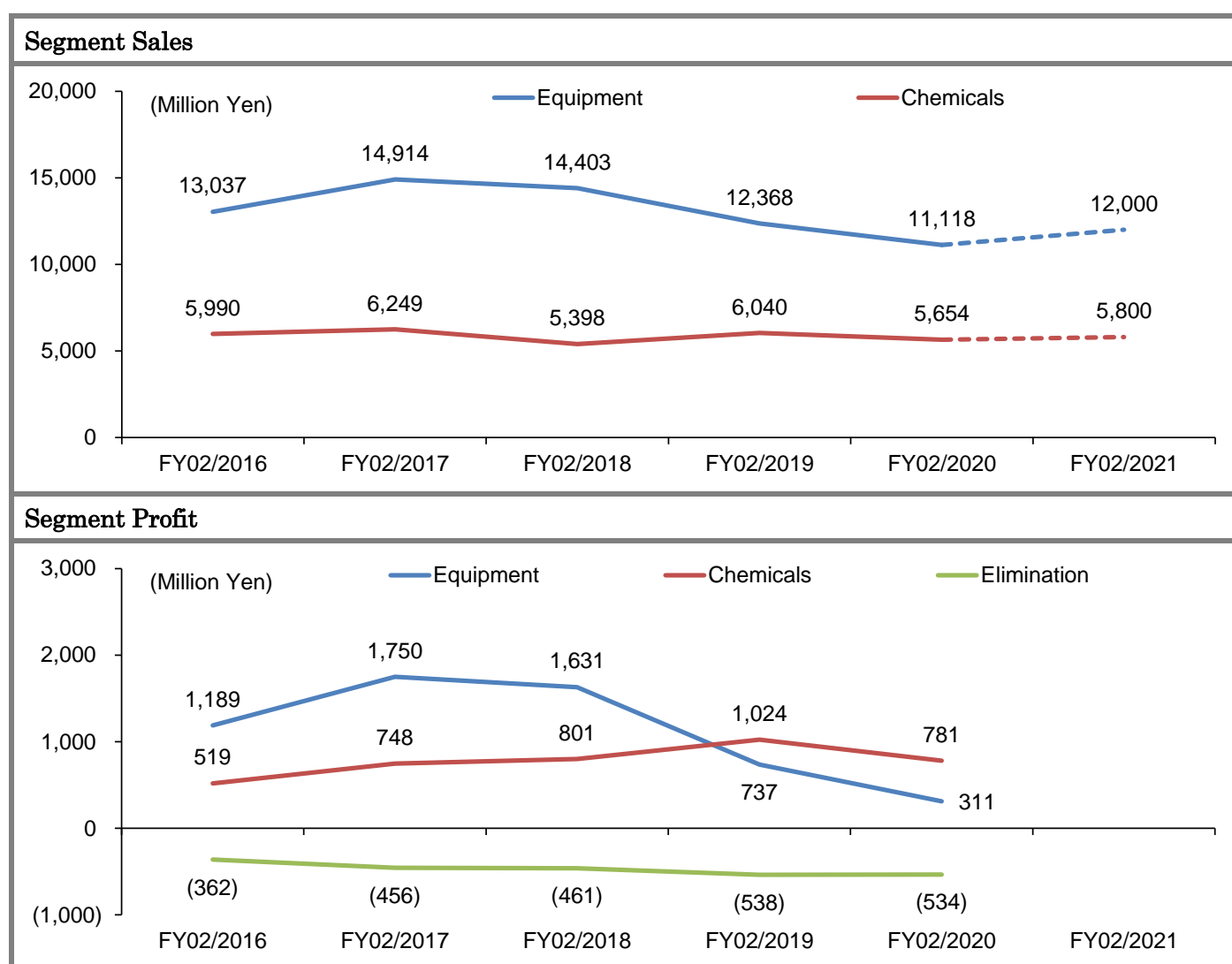
Cash Flow Statement (Cumulative)

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)	-	977	-	-	+687	
Investment Cash Flow	-	(414)	-	(852)	-	(171)	-	-	+242	
Operating CF and Investment CF	-	(124)	-	(880)	-	805	-	-	+930	
Financing Cash Flow	-	(359)	-	(325)	-	(366)	-	-	(7)	

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.

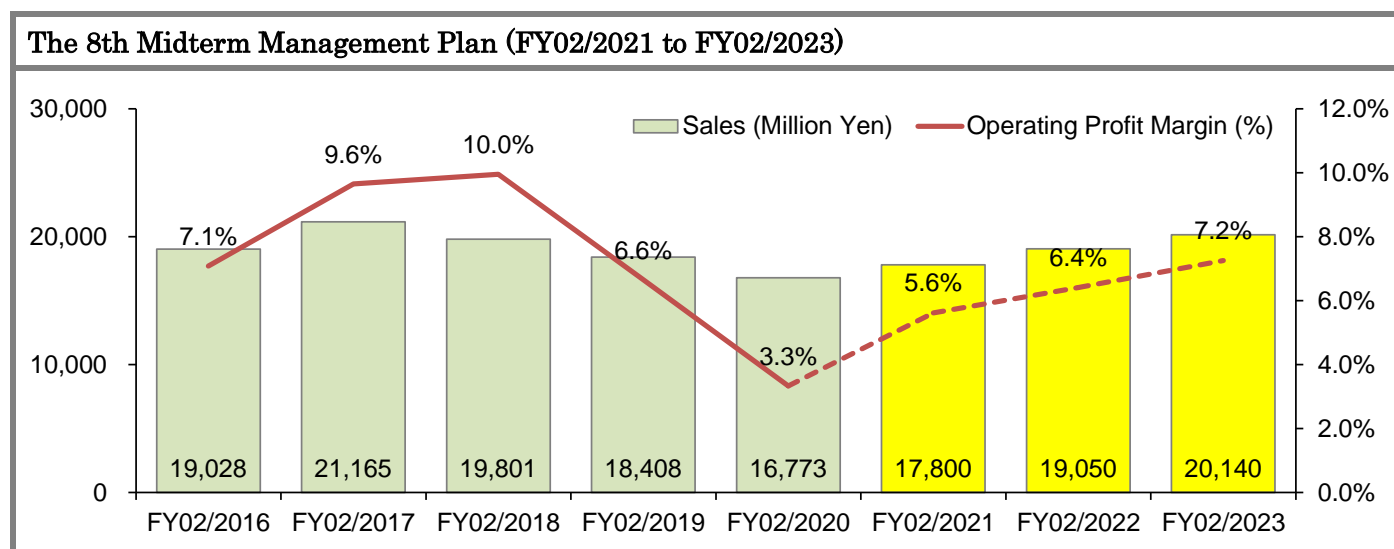


Source: Company Data, WRJ Calculation

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 for industrial-related (mainly chemicals and foods) as well as to improve accuracy in acquiring order intake, while trying to beef up maintenance services as well as sales overseas. 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 trying to make progress with 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 for industrial-related (mainly chemicals and foods). Meanwhile, for both of the business segments, the midterm management plan assumes sales overseas to expand.



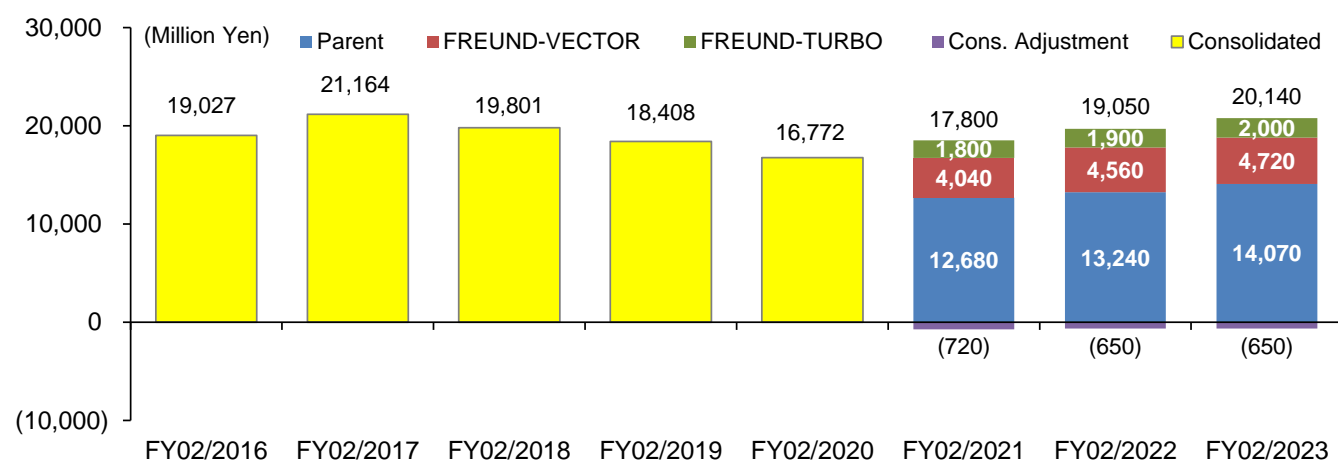
Source: Company Data, WRJ Calculation

12

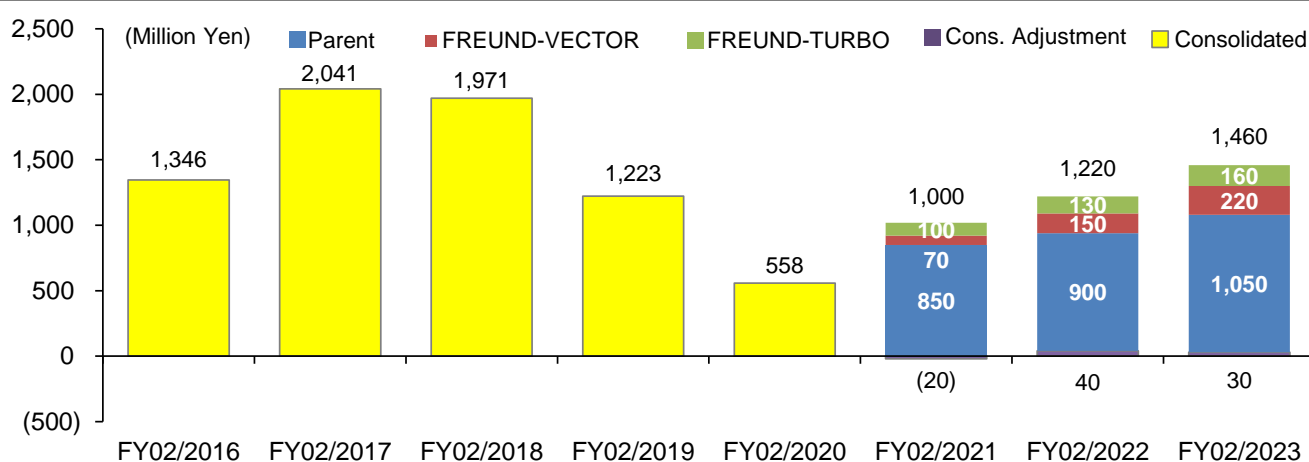
The 7th Midterm Management Plan ONE FREUND (FY02/2018 to FY02/2022), withdrawn in line with the announcement of the 8th Midterm Management Plan (FY02/2021 to FY02/2023), was calling for prospective sales of ¥30,000m, operating profit of ¥3,000m and operating profit margin of 10.0% for the last year of the plan, i.e., FY02/2022. However, the results for the initial three years were lower than assumptions, having suffered from consistently decreased sales and earnings all through the period. This was basically attributable to consistently decreased sales and earnings on the Equipment side, negatively affected mainly by slowing capital investment after that of 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 & health foods” and “lithium-ion battery” 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 being 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

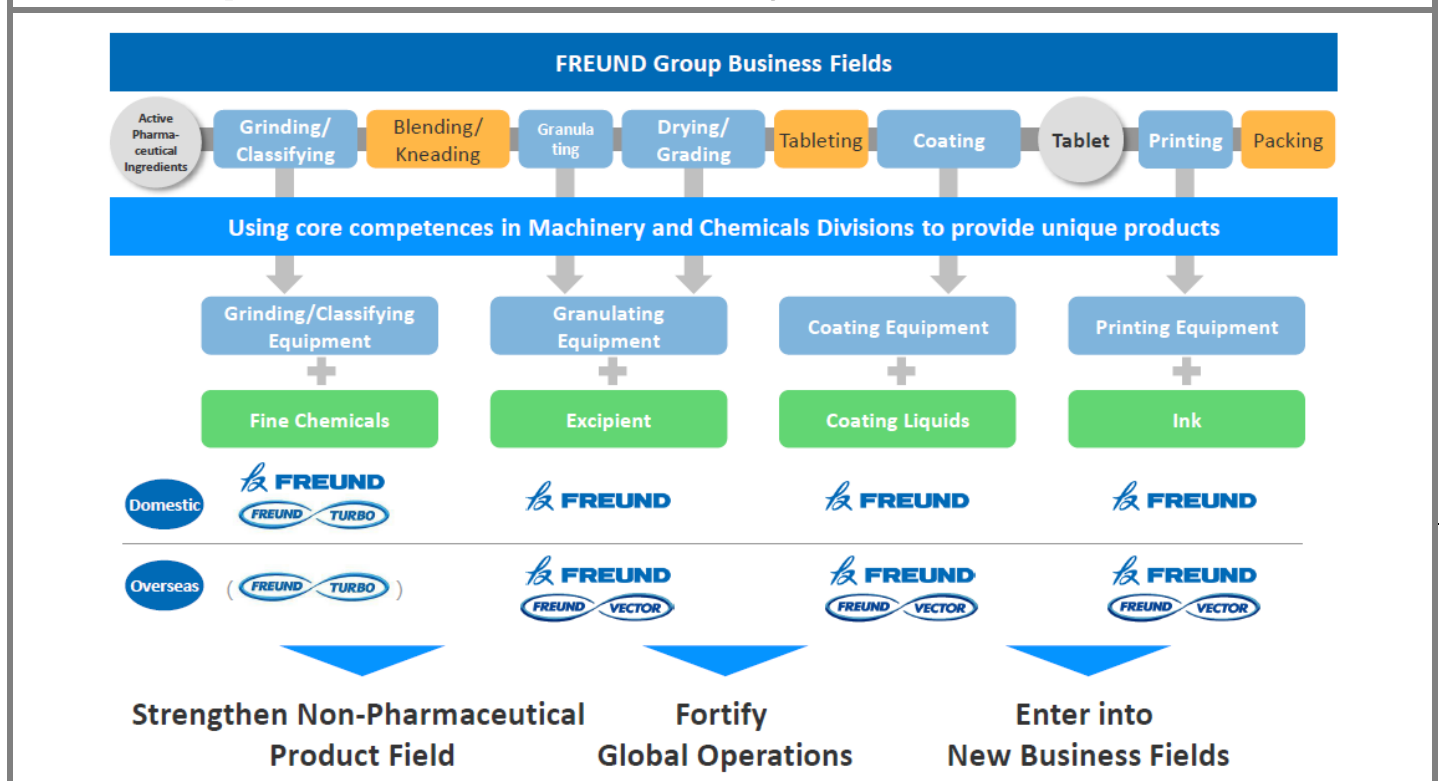
For the sake of achieving above-mentioned target performance, the Company will place emphasis on the following four issues in particular, i.e., “operational management together with the group's subsidiaries”, "improving customer satisfaction from the user's perspective", "developing innovative products" 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 at establishing 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 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, the Company is the largest in Japan with a 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 pharmaceutical-related on the Equipment side, is 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 ratio. 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 an 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 introduction of the first-made one, the Company completed delivery of the second one to a R&D institute of government-related in the field of pharmaceuticals in Q1 FY02/2021.

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 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 is now clear that the adoption of this equipment has an aspect of increasing expenses for pharmaceutical manufacturers, resulting in demand lower than expectations.

Granulation and Coating Equip.	Tablet-Printing Equipment	Pharmaceutical Excipients
 <p data-bbox="140 943 544 1021">Granuformer (Serial Manufacturing System)</p>	 <p data-bbox="775 965 898 999">TABREX</p>	 <p data-bbox="1233 987 1382 1021">Nonpareil®</p>
<p data-bbox="108 1059 576 1137">Granulating, mixing and drying all on a serial basis</p>	<p data-bbox="603 1059 1058 1281">Printing identification information on the surface of tablets with an objective to avoid accidental ingestions and/or erroneous prescriptions</p>	<p data-bbox="1094 1059 1477 1281">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 sale of pharmaceutical excipients, food preservatives and health foods. 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 outsourcing for the manufacture of ones with added value lower. According to the Company, sales associated with the in-house manufacture account for 60% to 70% of total, while outsourcing for 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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