

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	20.00	-
FY02/2020		YoY	(8.9%)	(54.3%)	(56.1%)	(54.8%)	-	-
FY02/2021CoE		YoY	6.1%	79.1%	71.6%	83.5%	-	-
Consolidated Q1 to Q3 (Million Yen)		Sales	Operating Profit	Recurring Profit	Profit Attributable to Owners of Parent	EPS (Yen)	DPS (Yen)	BPS (Yen)
Q1 to Q3 FY02/2020		11,110	93	111	37	-	-	-
Q1 to Q3 FY02/2021		10,852	391	435	277	-	-	-
Q1 to Q3 FY02/2021		YoY	(2.3%)	320.4%	290.9%	634.0%	-	-

Source: Company Data, WRJ Calculation

1.0 Executive Summary (25 February 2021)


Growth Investment

FREUND CORPORATION, developing, manufacturing and selling equipment as well as chemicals, is investing to beef up its long-term growth potential. In FY02/2021, the Company is to see a substantial improvement in earnings, while it appears that upward trend for its performance is to persist thereafter too. On 5 November 2020, the Company announced that it had invested some ¥1,200m to acquire a pharmaceutical manufacturing equipment manufacturer based in Italy (Cos.Mec S.r.l.) as wholly-owned subsidiary. The Company suggests that this is to bring about add-on sales of ¥300m to ¥400m for Q4 (December to February), while roughly breaking even for earnings after goodwill amortization. For FY02/2021 and thereafter, the Company is going for major synergies stemming from a factor that there are overlaps rather limited for product lineup and regions for sale. That is to say, the Company is looking to pursue opportunities to promote sales of material handling system and other equipment corresponding to needs in emerging countries, in which Cos.Mec S.r.l. has expertise, by means of utilizing sales network of the Freund Group, for example. Further, on 1 December 2020, the Company announced that it had concluded a contract to set up a joint company in China (capitalized at RMB 50m or some ¥800m: 49%-owned). This joint company is expected to start up its operations around May 2021, while the Company is to aggressively capture ever-increasing local needs for improvement of quality with pharmaceuticals, etc.

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

2.0 Company Profile

Equipment and Chemicals

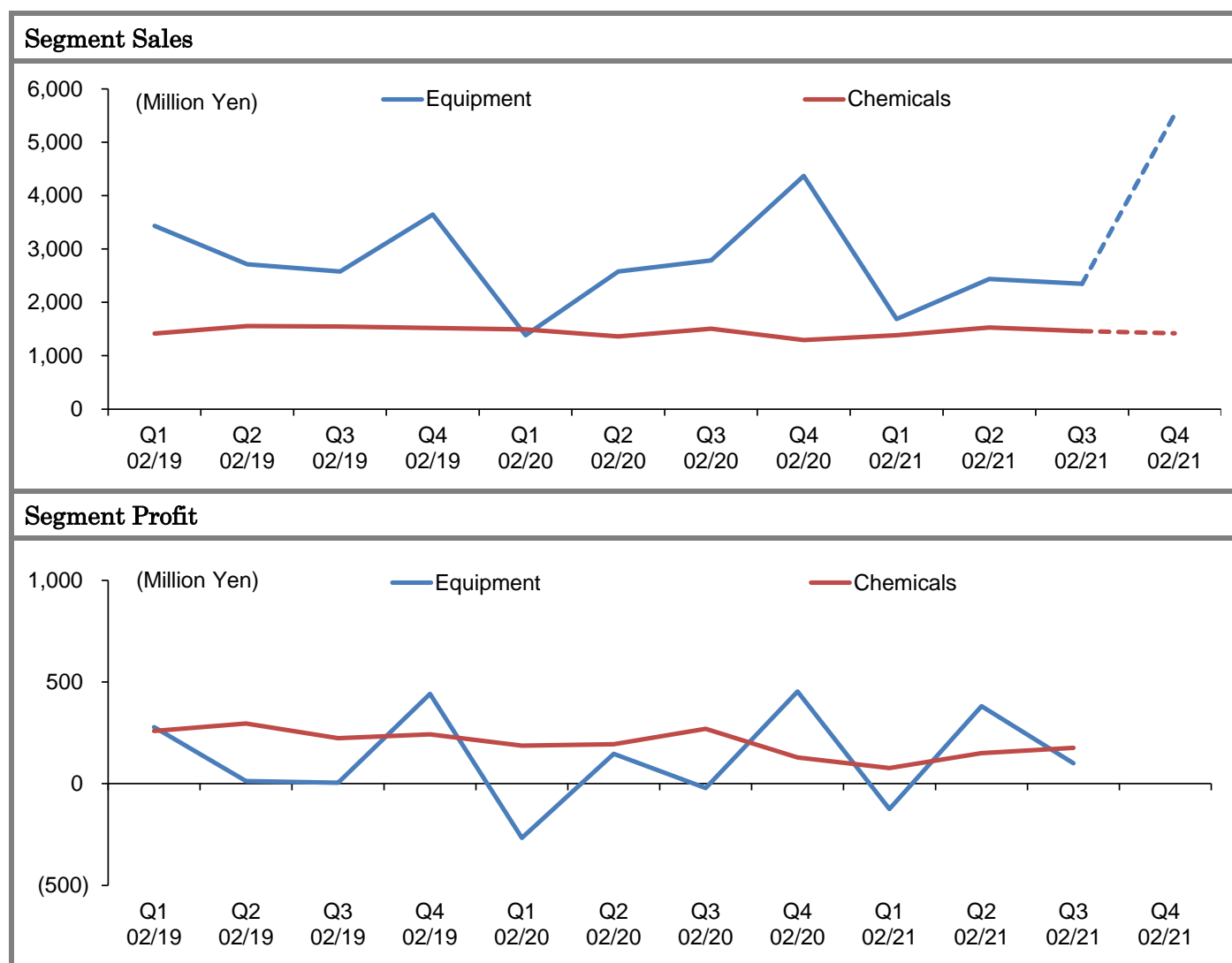
Company Name	FREUND CORPORATION Company Website IR Information Share Price (Japanese)	
Established	22 April 1964	
Listing	24 July 1996: Tokyo Stock Exchange JASDAQ Standard (ticker: 6312)	
Capital	¥1,035m (as of the end of November 2020)	
No. of Shares	18,400,000 shares, including 1,655,480 treasury shares (as of the end of November 2020)	
Main Features	<ul style="list-style-type: none"> ● Leading the market in Japan for pharmaceutical-related granulation & coating equipment with market share of 60% to 70% ● Focus also on industrial-related equipment (mainly for chemical and food industries) ● On the Chemicals side, the mainstay pharmaceutical excipients, the key earnings 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: 432, Parent: 233 (as of the end of November 2020)	

Source: Company Data

3.0 Recent Trading and Prospects

Q1 to Q3 FY02/2021

In Q1 to Q3 FY02/2021, sales came in at ¥10,852m (down 2.3% YoY), operating profit ¥391m (up 320.4%), recurring profit ¥435m (up 290.9%) and profit attributable to owners of parent ¥277m (up 634.0%), while operating profit margin 3.6% (up 2.8% points). Although the rate of progress against full-year Company forecasts remains low, it appears that sales on the Equipment side are assumed to concentrate in Q4 as has happened in the past.

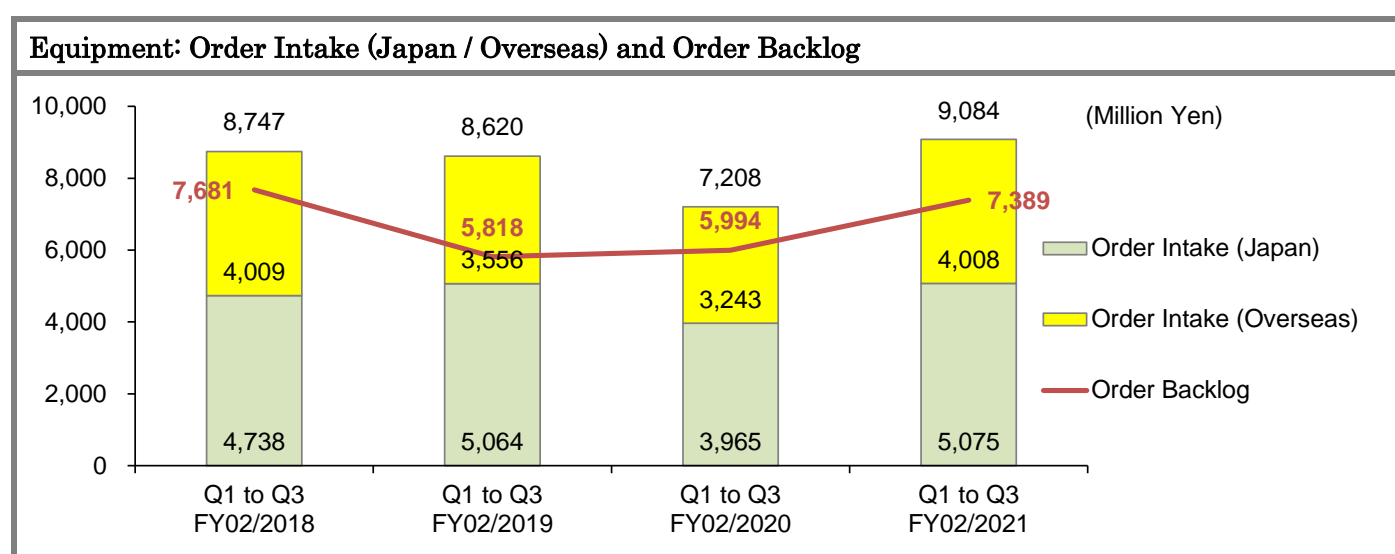


Source: Company Data, WRJ Calculation

Meanwhile, gross profit came in at ¥3,529m (down 6.6%) and SG&A expenses ¥3,138m (down 14.9%), implying gross profit margin of 32.5% (down 1.5% points) and sales to SG&A expenses ratio of 28.9% (down 4.3% points). In other words, the reason why operating profit margin has improved a lot in spite of decreased sales is that SG&A expenses declined sharply. Having cut back on costs on a group basis, the Company also benefited from a factor that Freund-Vector Corporation in charge of operations on the Equipment side mainly in North & South Americas, i.e., the Company's subsidiary based in the United States, had received some US\$2.1m (some ¥230m) as subsidies from the local government to combat COVID-19, which had reduced SG&A expenses as a whole for the Company by this amount. Basically, it appears that personnel expenses on the Equipment side had been offset by this amount.

Equipment

On the Equipment side, where the Company mainly develops, manufactures and sells pharmaceutical-related granulation & coating equipment, segment sales came in at ¥6,472m (down 4.1%), segment profit ¥357m (versus minus ¥142m during the same period of the previous year) and segment profit margin 5.5% (up 7.6% points). By region, sales in Japan came in at ¥4,232m (down 0.8%), sales in North & South Americas ¥1,014m (down 41.8%), sales in Europe & Africa ¥258m (up 9.5%) and sales in Middle East, Asia & Oceania ¥966m (up 89.7%). For North & South Americas, the Company saw plummeting sales in Brazil, where it suffered from the impacts stemming from COVID-19 and from dollar appreciation against the local currency at the same time. Meanwhile, for Middle East, Asia & Oceania, the Company saw surging sales in China. As a result, sales as a whole for the segment have marginally declined over the same period of the previous year, but earnings have improved a lot due to subsidies to combat COVID-19 received by its subsidiary based in the United States.



Source: Company Data, WRJ Calculation

Order intake came in at ¥9,084m (up 26.0%) and order backlog stood at ¥7,389m (up 23.3%). Strengths here are largely attributable to that order intake came in at ¥7,874m (up 32.9%) for the mainstay pharmaceutical-related. Order intake came in at ¥1,209m (down 5.8%) for industrial-related (mainly for chemical and food industries). By region, order intake increased favorably both in Japan and overseas. However, the Company suggests that prospects are not very clear for Japan, given a trend of suppressed capital expenditures amongst pharmaceutical manufacturers which are worried about selling price cuts due to NHI price revision. Meanwhile, for overseas, the Company is seeing continued strengths mainly in China, planning to focus on cultivating markets overseas from a long-term perspective as found in the latest growth investment.

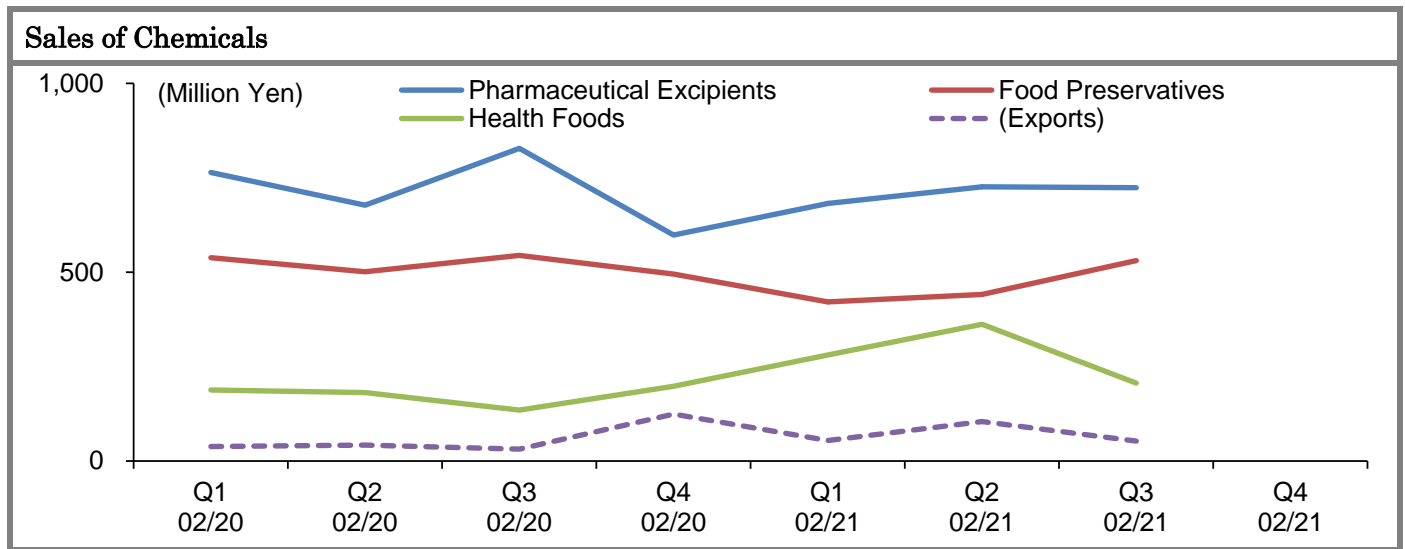
Having acquired Cos.Mec S.r.l., which is an unlisted pharmaceutical manufacturing equipment manufacturer based in Milan, Italy, as wholly-owned subsidiary, the Company is now starting to enhance its coverage of the market for pharmaceutical-related on a globally basis, including emerging countries, by means of running the quadrupolar sales scheme, comprising sales promotions by subsidiaries in the United States (Freund-Vector Corporation), in Europe (Cos.Mec S.r.l.) and India (Parle-Freund Machinery) on top of those of Japan (the parent company Freund Corporation). As of the end of Q3, Cos.Mec S.r.l. was consolidated on balance sheet for its assets and liabilities and sales and earnings are to be consolidated in Q4 (December to February) and thereafter.

Cos.Mec S.r.l. has been developing, manufacturing and selling so-called material handling system, while having been involved with granulation & drying system similar to equivalent of the Company at the same time. With respect to the former, the Company obtains a new product lineup and the same for the latter in a sense. Basically, the Company has been involved with granulation equipment which is of high specifications and highly-priced for the market in Japan, while of relatively low specifications and inexpensively-priced for Cos.Mec S.r.l. Meanwhile, Cos.Mec S.r.l. has been seen sales mainly in Europe and Latin America as well as in emerging countries. That is to say, the Company has obtains an additional sales network in emerging countries as well as pharmaceutical-related equipment with which it has not been involved and that of being more suitable than before to cultivate markets in emerging countries. With all those factors, the Company suggests that it plans to accelerate cultivations of markets in emerging countries.

Meanwhile, the Company has revealed its plan to set up a joint company in Shanghai, China, with Chineway (Shanghai Chineway Pharmaceutical Technology Co., Ltd.) based in China and to start up the operations around May 2021. The joint company Freund-Chineway Pharmaceutical Technology Center Co., Ltd. (51% of capital fund held by Chineway and 49% by the Company) is expected to work as the Company's local research facilities for its equipment and pharmaceutical excipients, while the Company will set it up with objectives of enhancing services to support the development of pharmaceuticals by local pharmaceutical manufacturers and of strengthening local awareness on the Company's above-mentioned equipment by means of providing facilities to test them all together in one lump. In other words, the Company is looking to benefit from increased opportunities to further promote sales in China, stemming from here.

Chemicals

On the Chemicals side, segment sales came in at ¥4,379m (up 0.4%), segment profit ¥404m (down 38.0%) and segment profit margin 9.2% (down 5.7% points). The Company saw sales of ¥2,133m (down 6.1%) for pharmaceutical excipients, sales of ¥1,395m (down 11.9%) for food preservatives and sales of ¥851m (up 68.1%) for health foods. Meanwhile, the Company saw sales of ¥157m (up 40.8%) for exports mainly of pharmaceutical excipients (included in sales of the sub-segments and mainly bound for South Korea, India and Taiwan). It appears that segment profit declined sharply due to a rather large decline in sales of food preservatives and to decreased sales of pharmaceutical excipients said to carry high gross profit margin.



Source: Company Data, WRJ Calculation

For pharmaceutical excipients, the Company suggests that it was inevitable to suffer from decreased sales and earnings over the same period of the previous year as some users were in the process of production adjustments. For food preservatives, the Company suggests that sales and earnings declined over the same period of the previous year, given the impacts stemming from COVID-19 to a large extent. Demand for souvenir sweet treats and those of being sold at department stores slowed down sharply and thus that of the Company's food preservatives used in all those sweet treats likewise. Meanwhile, for health foods, both sales and earnings have increased over the same period of the previous year. Still, the Company saw limited impacts stemming from here for the performance as a whole for the business segment as the scale of sales is rather smaller, while they carry low gross profit margin. As the background for increased sales here, the Company suggests that the customer to consign the manufacture for the Company was building up inventory, but this is not continuing most recently.

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	02/2021	
Sales	2,878	6,817	11,110	16,772	3,076	7,043	10,852	-	-	(258)
Cost of Sales	1,830	4,400	7,331	11,344	2,130	4,779	7,323	-	-	(8)
Gross Profit	1,047	2,416	3,779	5,428	945	2,263	3,529	-	-	(250)
SG&A Expenses	1,262	2,413	3,686	4,870	1,111	2,012	3,138	-	-	(548)
Operating Profit	(214)	3	93	558	(165)	251	391	-	-	+298
Non Operating Balance	(2)	2	18	24	10	20	44	-	-	+25
Recurring Profit	(217)	6	111	582	(154)	271	435	-	-	+324
Extraordinary Balance	7	11	(16)	(14)	0	(4)	(15)	-	-	+1
Profit before Income Taxes	(210)	17	94	568	(155)	266	419	-	-	+325
Total Income Taxes	(52)	24	56	187	(33)	82	142	-	-	+85
Profit Attributable to Owners of Parent	(158)	(7)	37	381	(121)	183	277	-	-	+239
Sales YoY	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	+3.3%	(2.3%)	-	-	-
Operating Profit YoY	-	(99.4%)	(86.1%)	(54.3%)	-	-	+320.4%	-	-	-
Recurring Profit YoY	-	(99.1%)	(85.5%)	(56.1%)	-	-	+290.9%	-	-	-
Profit Attributable to Owners of Parent YoY	-	-	(92.8%)	(54.8%)	-	-	+634.0%	-	-	-
Gross Profit Margin	36.4%	35.4%	34.0%	32.4%	30.7%	32.1%	32.5%	-	-	(1.5%)
Sales to SG&A Expenses Ratio	43.9%	35.4%	33.2%	29.0%	36.1%	28.6%	28.9%	-	-	(4.3%)
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	3.6%	3.6%	-	-	+2.8%
Recurring Profit Margin	(7.6%)	0.1%	1.0%	3.5%	(5.0%)	3.9%	4.0%	-	-	+3.0%
Profit Attributable to Owners of Parent Margin	(5.5%)	(0.1%)	0.3%	2.3%	(4.0%)	2.6%	2.6%	-	-	+2.2%
Total Income Taxes/Profit before Income Taxes	-	145.1%	60.0%	32.9%	-	31.0%	34.0%	-	-	(26.1%)
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		Net Chg.
	02/2020	02/2020	02/2020	02/2020	02/2021	02/2021	02/2021	02/2021	02/2021	
Sales	2,878	3,939	4,293	5,662	3,076	3,967	3,808	-	-	(484)
Cost of Sales	1,830	2,570	2,930	4,012	2,130	2,649	2,543	-	-	(387)
Gross Profit	1,047	1,368	1,362	1,649	945	1,317	1,265	-	-	(97)
SG&A Expenses	1,262	1,150	1,272	1,183	1,111	900	1,125	-	-	(147)
Operating Profit	(214)	218	89	465	(165)	417	140	-	-	+50
Non Operating Balance	(2)	5	15	6	10	9	23	-	-	+8
Recurring Profit	(217)	223	105	471	(154)	426	164	-	-	+58
Extraordinary Balance	7	3	(27)	2	0	(4)	(10)	-	-	+17
Profit before Income Taxes	(210)	227	77	474	(155)	421	153	-	-	+76
Total Income Taxes	(52)	76	31	130	(33)	115	60	-	-	+28
Profit Attributable to Owners of Parent	(158)	150	45	343	(121)	305	93	-	-	+47
Sales YoY	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	+0.7%	(11.3%)	-	-	-
Operating Profit YoY	-	+12.5%	+15.8%	(15.8%)	-	+91.2%	+56.1%	-	-	-
Recurring Profit YoY	-	+8.7%	+21.9%	(15.2%)	-	+90.7%	+55.9%	-	-	-
Profit Attributable to Owners of Parent YoY	-	+26.3%	(20.7%)	+7.5%	-	+103.4%	+105.0%	-	-	-
Gross Profit Margin	36.4%	34.7%	31.7%	29.1%	30.7%	33.2%	33.2%	-	-	+1.5%
Sales to SG&A Expenses Ratio	43.9%	29.2%	29.7%	20.9%	36.1%	22.7%	29.5%	-	-	(0.1%)
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	10.5%	3.7%	-	-	+1.6%
Recurring Profit Margin	(7.6%)	5.7%	2.5%	8.3%	(5.0%)	10.7%	4.3%	-	-	+1.9%
Profit Attributable to Owners of Parent Margin	(5.5%)	3.8%	1.1%	6.1%	(4.0%)	7.7%	2.4%	-	-	+1.4%
Total Income Taxes/Profit before Income Taxes	-	33.9%	41.1%	27.5%	-	27.5%	39.2%	-	-	(2.0%)

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	6,472	-	(277)	
Chemicals	1,491	2,852	4,360	5,654	1,386	2,917	4,379	-	+19	
Sales	2,878	6,817	11,110	16,772	3,076	7,043	10,852	-	(258)	
Equipment	(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	+4.1%	(4.1%)	-	-	
Chemicals	+5.3%	(4.0%)	(3.5%)	(6.4%)	(7.1%)	+2.3%	+0.4%	-	-	
Sales (YoY)	(40.6%)	(25.2%)	(16.1%)	(8.9%)	+6.9%	+3.3%	(2.3%)	-	-	
Equipment	48.2%	58.2%	60.8%	66.3%	54.9%	58.6%	59.6%	-	-	
Chemicals	51.8%	41.8%	39.2%	33.7%	45.1%	41.4%	40.4%	-	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	(267)	(119)	(142)	311	(125)	255	357	-	+499	
Chemicals	187	382	652	781	77	228	404	-	(247)	
Segment Profit	(79)	262	510	1,092	(47)	484	762	-	+251	
Elimination	(135)	(259)	(417)	(534)	(118)	(233)	(371)	-	+46	
Operating Profit	(214)	3	93	558	(165)	251	391	-	+298	
Equipment	-	-	-	(57.8%)	-	-	-	-	-	
Chemicals	(27.8%)	(31.3%)	(16.5%)	(23.7%)	(58.5%)	(40.2%)	(38.0%)	-	-	
Segment Profit (YoY)	-	(69.0%)	(52.6%)	(38.0%)	-	+84.6%	+49.4%	-	-	
Equipment	-	(45.7%)	(27.9%)	28.5%	-	52.8%	46.9%	-	-	
Chemicals	-	145.7%	127.9%	71.5%	-	47.2%	53.1%	-	-	
Segment Profit (Composition Ratio)	100.0%	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%	5.5%	-	+7.6%	
Chemicals	12.6%	13.4%	15.0%	13.8%	5.6%	7.8%	9.2%	-	(5.7%)	
Elimination	(4.7%)	(3.8%)	(3.8%)	(3.2%)	(3.9%)	(3.3%)	(3.4%)	-	+0.3%	
Operating Profit Margin	(7.5%)	0.0%	0.8%	3.3%	(5.4%)	3.6%	3.6%	-	+2.8%	

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	2,346	-	(438)	
Chemicals	1,491	1,360	1,508	1,293	1,386	1,531	1,462	-	(46)	
Sales	2,878	3,939	4,293	5,662	3,076	3,967	3,808	-	(484)	
Equipment	(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	(5.5%)	(15.8%)	-	-	
Chemicals	+5.3%	(12.5%)	(2.6%)	(14.9%)	(7.1%)	+12.5%	(3.1%)	-	-	
Sales (YoY)	(40.6%)	(7.7%)	+4.0%	+9.6%	+6.9%	+0.7%	(11.3%)	-	-	
Equipment	48.2%	65.5%	64.9%	77.2%	54.9%	61.4%	61.6%	-	-	
Chemicals	51.8%	34.5%	35.1%	22.8%	45.1%	38.6%	38.4%	-	-	
Sales (Composition Ratio)	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	-	-	
Equipment	(267)	147	(22)	453	(125)	381	101	-	+123	
Chemicals	187	194	270	129	77	150	176	-	(93)	
Segment Profit	(79)	342	247	582	(47)	531	277	-	+29	
Elimination	(135)	(124)	(158)	(116)	(118)	(114)	(137)	-	+20	
Operating Profit	(214)	218	89	465	(165)	417	140	-	+50	
Equipment	-	-	-	+2.6%	-	+158.9%	-	-	-	
Chemicals	(27.8%)	(34.3%)	+20.1%	(47.0%)	(58.5%)	(22.7%)	(34.7%)	-	-	
Segment Profit (YoY)	-	+10.4%	+8.2%	(15.0%)	-	+55.5%	+12.1%	-	-	
Equipment	-	43.0%	(9.0%)	77.8%	-	71.7%	36.5%	-	-	
Chemicals	-	57.0%	109.0%	22.2%	-	28.3%	63.5%	-	-	
Segment Profit (Composition Ratio)	100.0%	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%	4.3%	-	+5.1%	
Chemicals	12.6%	14.3%	17.9%	10.0%	5.6%	9.8%	12.1%	-	(5.9%)	
Elimination	(4.7%)	(3.2%)	(3.7%)	(2.1%)	(3.9%)	(2.9%)	(3.6%)	-	+0.1%	
Operating Profit Margin	(7.5%)	5.5%	2.1%	8.2%	(5.4%)	10.5%	3.7%	-	+1.6%	

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	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	4,232	-	(32)
North & South Americas		308	1,005	1,743	2,915	193	553	1,014	-	(728)
Europe & Africa		81	150	236	452	27	139	258	-	+22
Middle East, Asia & Oceania		101	251	509	1,054	114	443	966	-	+457
Overseas		491	1,407	2,489	4,422	335	1,136	2,240	-	(248)
Sales		1,386	3,964	6,749	11,118	1,689	4,125	6,472	-	(277)
Japan		(67.9%)	(41.2%)	(27.0%)	(8.4%)	+51.3%	+16.9%	(0.8%)	-	-
North & South Americas		+6.7%	(0.2%)	+1.0%	(13.0%)	(37.2%)	(45.0%)	(41.8%)	-	-
Europe & Africa		+1.2%	+6.2%	(12.7%)	+13.8%	(66.2%)	(7.4%)	+9.5%	-	-
Middle East, Asia & Oceania		(63.6%)	(61.0%)	(42.1%)	(19.2%)	+12.4%	+76.8%	+89.7%	-	-
Overseas		(24.3%)	(21.5%)	(13.5%)	(12.5%)	(31.7%)	(19.3%)	(10.0%)	-	-
Sales (YoY)		(59.6%)	(35.5%)	(22.6%)	(10.1%)	+21.9%	+4.1%	(4.1%)	-	-
Japan		64.5%	64.5%	63.2%	60.2%	80.1%	72.5%	65.4%	-	-
North & South Americas		22.3%	25.4%	25.8%	26.2%	11.5%	13.4%	15.7%	-	-
Europe & Africa		5.9%	3.8%	3.5%	4.1%	1.6%	3.4%	4.0%	-	-
Middle East, Asia & Oceania		7.3%	6.3%	7.5%	9.5%	6.8%	10.8%	14.9%	-	-
Overseas		35.5%	35.5%	36.9%	39.8%	19.9%	27.5%	34.6%	-	-
Sales (Composition)		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	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	1,242	-	(464)
North & South Americas		308	696	737	1,172	193	359	461	-	(275)
Europe & Africa		81	69	86	215	27	111	119	-	+33
Middle East, Asia & Oceania		101	149	258	545	114	329	522	-	+264
Overseas		491	915	1,081	1,933	335	800	1,103	-	+21
Sales		1,386	2,578	2,785	4,368	1,689	2,436	2,346	-	(438)
Japan		(67.9%)	+6.0%	+14.3%	+65.8%	+51.3%	(1.6%)	(27.2%)	-	-
North & South Americas		+6.7%	(3.0%)	+2.6%	(27.9%)	(37.2%)	(48.5%)	(37.4%)	-	-
Europe & Africa		+1.2%	+12.8%	(33.4%)	+224.4%	(66.2%)	+61.8%	+39.1%	-	-
Middle East, Asia & Oceania		(63.6%)	(59.0%)	+9.7%	+12.0%	+12.4%	+120.8%	+102.2%	-	-
Overseas		(24.3%)	(20.0%)	(0.1%)	(11.3%)	(31.7%)	(12.6%)	+2.0%	-	-
Sales (YoY)		(59.6%)	(5.0%)	+8.0%	+19.9%	+21.9%	(5.5%)	(15.8%)	-	-
Japan		64.5%	64.5%	61.2%	55.7%	80.1%	67.1%	53.0%	-	-
North & South Americas		22.3%	27.0%	26.4%	26.9%	11.5%	14.7%	19.7%	-	-
Europe & Africa		5.9%	2.7%	3.1%	4.9%	1.6%	4.6%	5.1%	-	-
Middle East, Asia & Oceania		7.3%	5.8%	9.3%	12.5%	6.8%	13.5%	22.3%	-	-
Overseas		35.5%	35.5%	38.8%	44.3%	19.9%	32.9%	47.0%	-	-
Sales (Composition)		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 02/2020	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	4,009	-	(222)	
Accounts Receivables	4,039	3,800	4,320	5,431	4,207	4,193	4,124	-	(196)	
Inventory	3,308	3,447	3,870	3,051	3,161	3,056	3,888	-	+17	
Other	387	443	457	396	262	331	687	-	+229	
Current Assets	12,342	12,721	12,881	13,193	12,338	12,325	12,708	-	(172)	
Tangible Assets	3,857	3,997	4,206	4,209	4,192	4,094	4,520	-	+313	
Intangible Assets	17	16	96	96	92	90	1,188	-	+1,091	
Investments and Other Assets	1,009	978	998	1,006	1,082	1,015	1,036	-	+38	
Fixed Assets	4,885	4,992	5,301	5,311	5,367	5,200	6,744	-	+1,443	
Total Assets	17,227	17,713	18,182	18,505	17,706	17,525	19,453	-	+1,271	
Accounts Payables	2,043	2,350	2,783	3,121	2,346	1,866	2,506	-	(277)	
Short Term Debt	-	-	-	32	-	-	50	-	+50	
Other	2,216	2,317	2,235	1,869	2,136	2,415	3,101	-	+865	
Current Liabilities	4,259	4,668	5,019	5,023	4,483	4,281	5,657	-	+638	
Long Term Debt	-	-	-	-	230	-	-	-	-	
Other	244	238	241	237	247	246	726	-	+485	
Fixed Liabilities	244	238	241	237	477	246	726	-	+485	
Total Liabilities	4,504	4,906	5,260	5,261	4,961	4,528	6,384	-	+1,123	
Shareholders' Equity	12,976	13,127	13,172	13,516	13,059	13,364	13,458	-	+285	
Adjustments	(253)	(319)	(251)	(272)	(314)	(367)	(388)	-	(137)	
Total Assets	12,723	12,807	12,921	13,243	12,744	12,997	13,069	-	+147	
Total Liabilities and Net Assets	17,227	17,713	18,182	18,505	17,706	17,525	19,453	-	+1,271	
Equity Capital	12,723	12,807	12,921	13,243	12,744	12,997	13,069	-	+148	
Interest Bearing Debt	-	-	-	32	230	-	50	-	+50	
Net Debt	(4,607)	(5,030)	(4,232)	(4,281)	(4,476)	(4,743)	(3,959)	-	+273	
Equity Capital Ratio	73.9%	72.3%	71.1%	71.6%	72.0%	74.2%	67.2%	-	-	
Net-Debt-Equity Ratio	(36.2%)	(39.3%)	(32.8%)	(32.3%)	(35.1%)	(36.5%)	(30.3%)	-	-	
ROE (12 months)	2.7%	2.9%	2.8%	2.9%	3.3%	4.4%	4.8%	-	-	
ROA (12 months)	3.6%	3.7%	3.7%	3.2%	3.7%	4.8%	4.8%	-	-	
Total Assets Turnover	67%	89%	94%	122%	69%	91%	78%	-	-	
Inventory Turnover	2.2	3.0	3.0	5.3	2.7	3.5	2.6	-	-	
Days of Inventory	165	122	121	69	135	105	140	-	-	
Quick Ratio	203%	189%	170%	194%	199%	209%	144%	-	-	
Current Ratio	290%	273%	257%	263%	275%	288%	225%	-	-	

Source: Company Data, WRJ Calculation

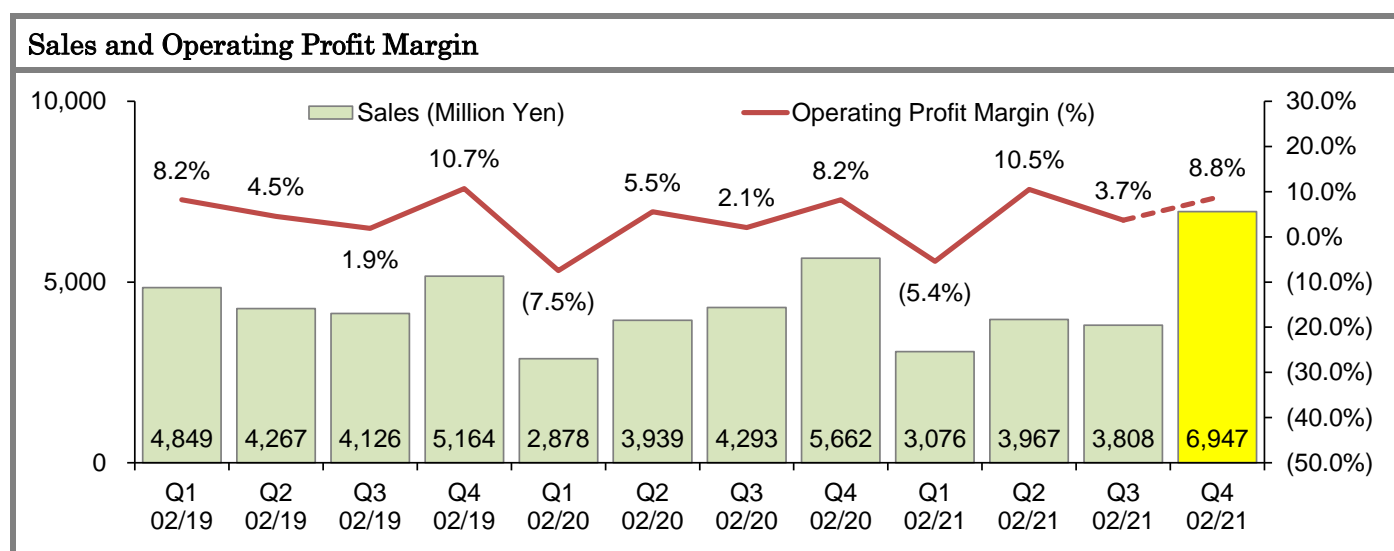
Cash Flow Statement (Cumulative)

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	-	-	-	
Investment Cash Flow	-	(414)	-	(852)	-	(171)	-	-	-	
Operating CF and Investment CF	-	(124)	-	(880)	-	805	-	-	-	
Financing Cash Flow	-	(359)	-	(325)	-	(366)	-	-	-	

Source: Company Data, WRJ Calculation

FY02/2021 Company Forecasts

FY02/2021 initial Company forecasts (announced on 24 April 2020) 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). As mentioned earlier, it appears that the Company is to see sales concentrated on the Equipment side for Q4.

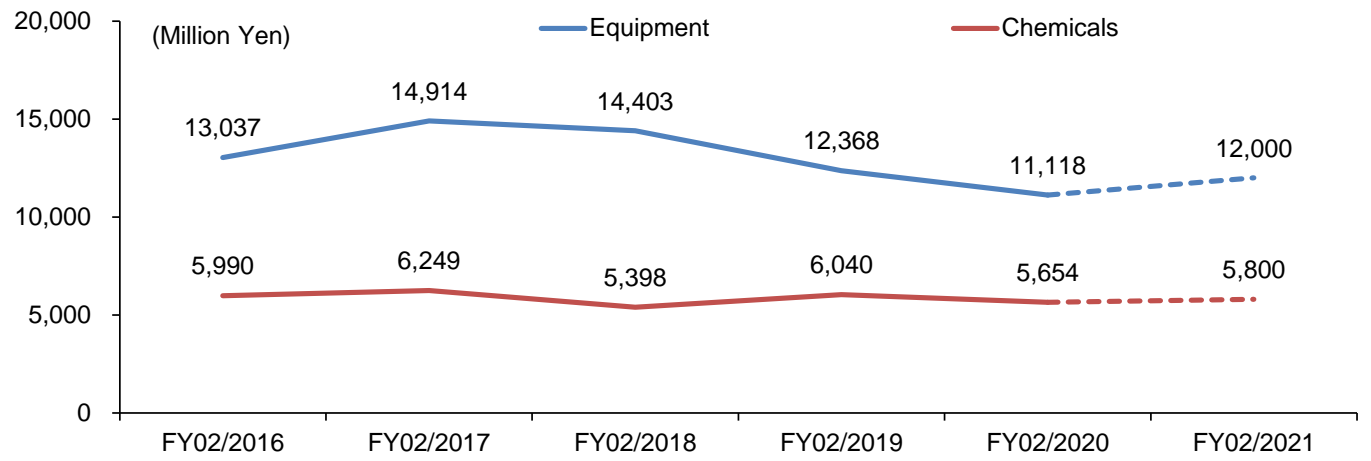


Source: Company Data, WRJ Calculation

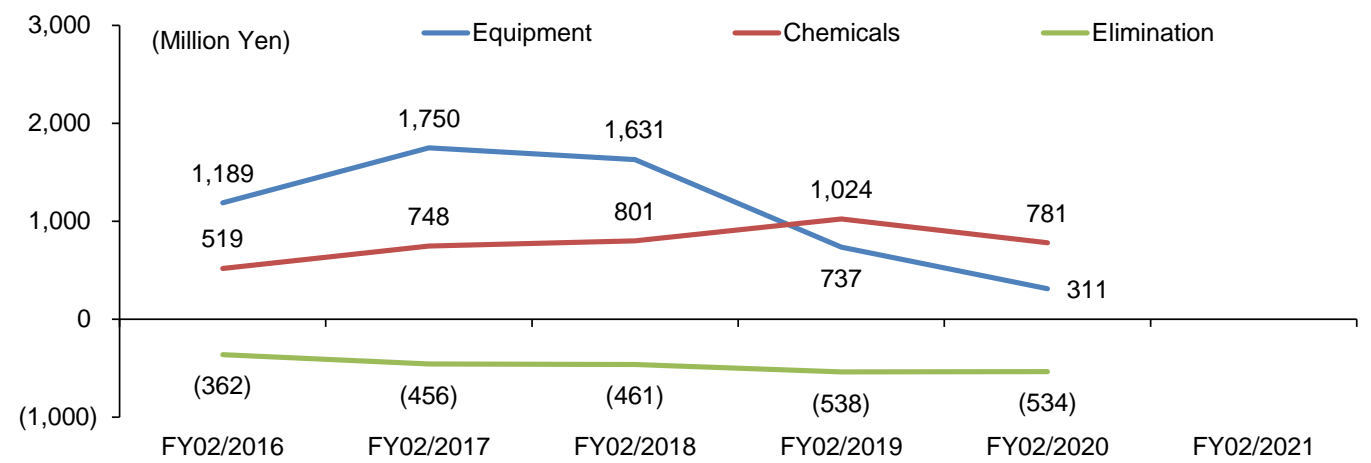
At the beginning of the fiscal year, the impacts stemming from COVID-19 was unclear, so Company forecasts were undecided for prospective dividend, but it was announced that the Company was going to pay yearend dividend of ¥20.00, implying payout ratio of 47.8%, on the occasion of the release of Q1 to Q3 actual results. The Company aims for payout ratio of 30% and also for stability of dividend at the same time. For FY02/2021, it appears that the Company places importance on the latter rather than the former.

Company forecasts assume prospective segment sales of ¥12,000m (up 7.9%) on the Equipment side and segment sales of ¥5,800m (up 2.6%) on the Chemicals side. On the Equipment side, there are concerns on a possibility for shipment to delay due to the impacts stemming from COVID-19, but the Company is trying hard to steady implement delivery by the appointed day. Meanwhile, on the Chemicals side, there are concerns on slowing sales for food preservatives, given the recent declaration of a state of emergency, but the Company focuses on pharmaceutical excipients, i.e., the key driver for earnings. On top of promoting sales in Japan, the Company is aggressively seeking opportunities to acquire new projects overseas at the same time.

Segment Sales



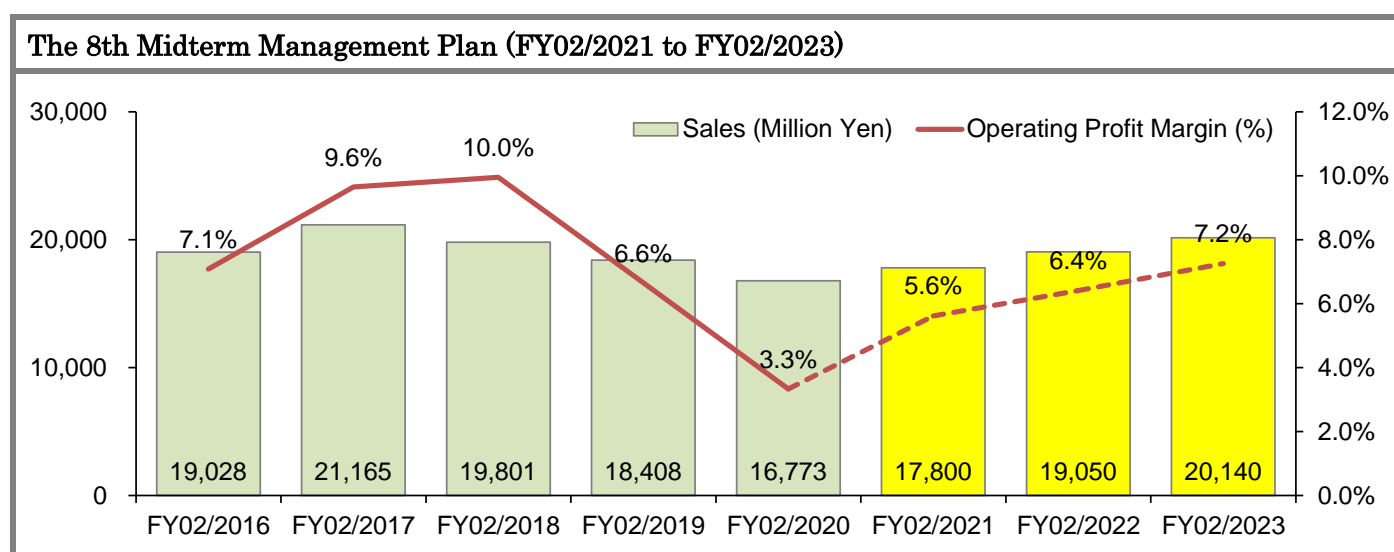
Segment Profit



Source: Company Data, WRJ Calculation

Long-Term Prospects

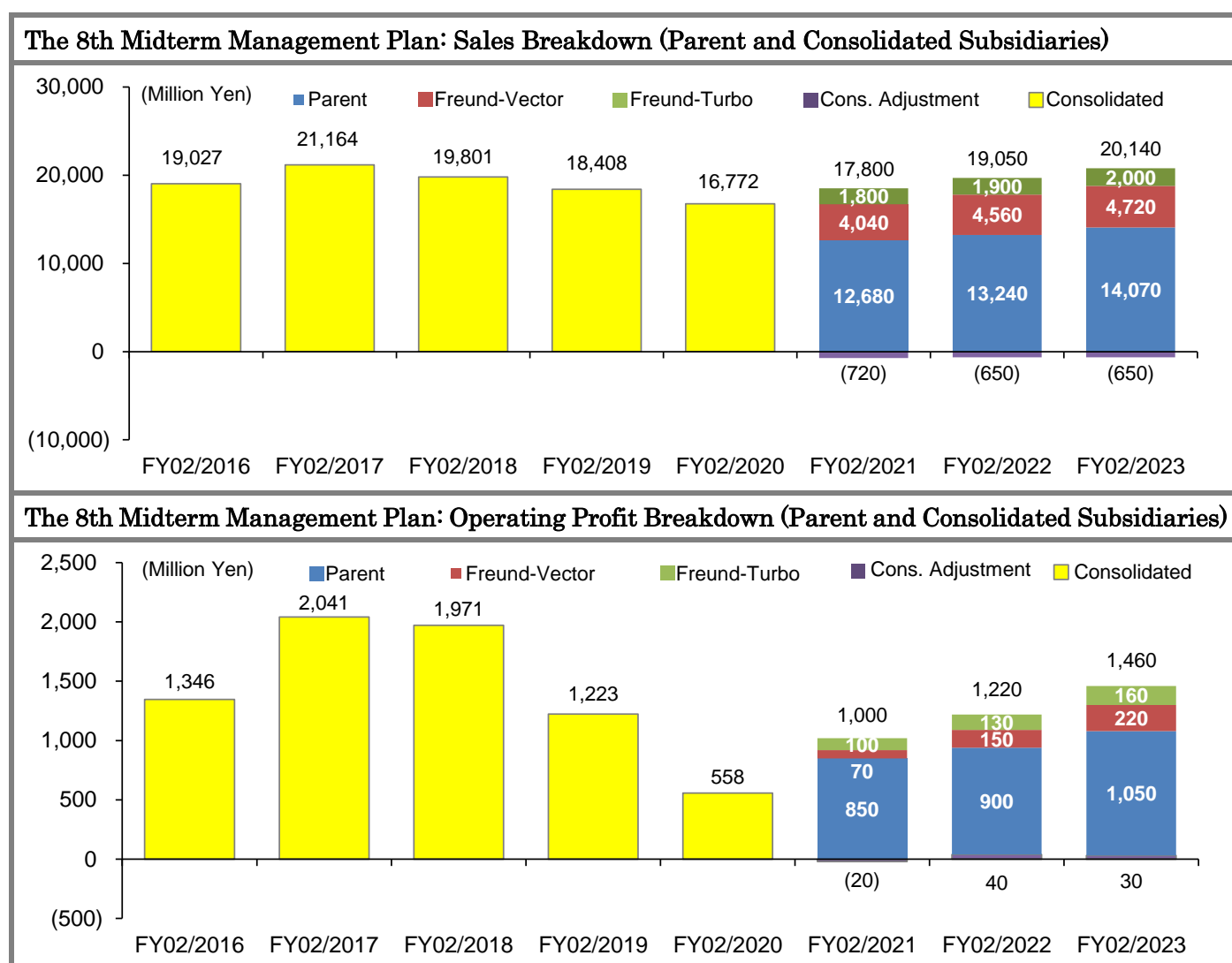
On 1 May 2020, the Company has announced the 8th Midterm Management Plan (FY02/2021 to FY02/2023), calling for prospective sales of ¥20,140m, operating profit of ¥1,460m and operating profit margin of 7.2% in FY02/2023 or the last year of the plan, suggesting CAGR of 6.3% for sales and 37.8% for earnings during the same period. Meanwhile, it has been newly revealed, as mentioned earlier, that the Company is to develop its operations by means of running the quadrupolar sales scheme, comprising Japan (the parent company Freund Corporation), United States (Freund-Vector Corporation), Europe (Cos.Mec S.r.l.) and India (Parle-Freund Machinery). On top of this, the Company is to accelerate operations in China by means of focusing on those of joint company in China (Freund-Chineway Pharmaceutical Technology Center Co., Ltd.), suggesting a policy to develop markets overseas on the Equipment side and on the Chemicals side.



Source: Company Data, WRJ Calculation

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 actual 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 expenditures after those 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 here. 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.



Source: Company Data, WRJ Calculation

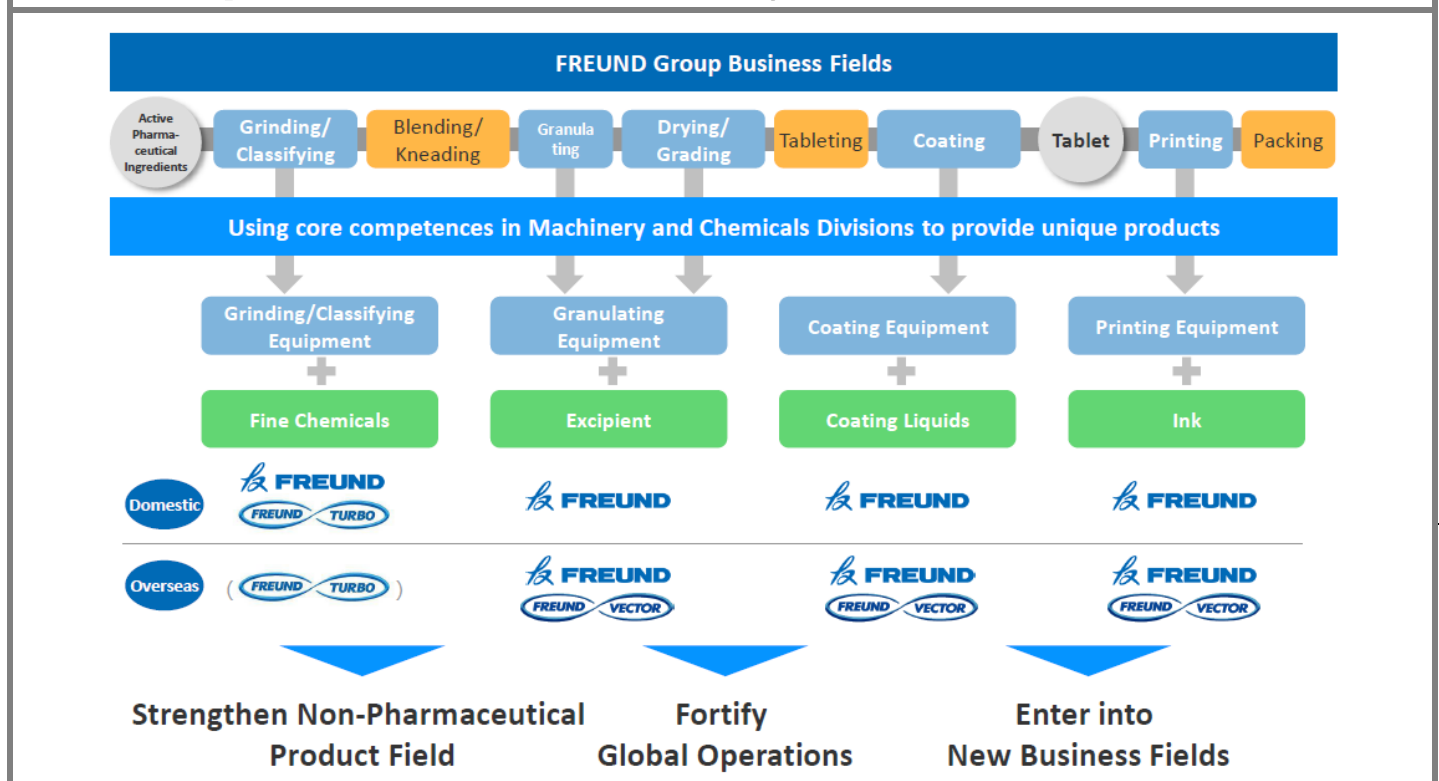
For the sake of achieving above-mentioned target performance, the Company will place emphasis on the following four issues in particular, i.e., “operational management together with the group's subsidiaries”, “improving customer satisfaction from the user's perspective”, “developing innovative products” 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 & 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%. Together with Powrex Corporation (unlisted) which sells equivalents based on technology licensed by Glatt GmbH, the Company says that it almost commands the market in Japan.




FREUND Group Business Fields Based on Manufacturing Processes of Pharmaceuticals



Source: Company Data

Granulation & 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 & Coating Equipment	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 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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