

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending February 29, 2020
(Three Months Ended May 31, 2019)

[Japanese GAAP]

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(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter (March 1, 2019 – May 31, 2019) of the Fiscal Year Ending February 29, 2020

(1) Consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended May 31, 2019	2,878	(40.6)	(214)	-	(217)	-	(158)	-
Three months ended May 31, 2018	4,849	8.4	399	3.0	478	20.3	347	26.6

Note: Comprehensive income
 Three months ended May 31, 2019: (192) million yen (-%)
 Three months ended May 31, 2018: 366 million yen (up 52.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2019	(9.44)	-
Three months ended May 31, 2018	20.37	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2019	17,227	12,723	73.9	759.85
As of Feb. 28, 2019	17,448	13,250	75.9	791.34

Reference: Equity capital
 As of May 31, 2019: 12,723 million yen
 As of Feb. 28, 2019: 13,250 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2019	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 29, 2020	-	-	-	-	-
Fiscal year ending Feb. 29, 2020 (forecast)	-	0.00	-	20.00	20.00

Note: Revision to the most recently announced dividend forecast: None

3. Consolidated Forecast for the Fiscal Year Ending February 29, 2020 (March 1, 2019 – February 29, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	17,500	(4.9)	1,000	(18.2)	1,000	(24.6)	700	(17.0)	41.80

Note: Revision to the most recently announced consolidated forecast: None

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first quarter of the current fiscal year, declines in exports, mainly to China, and production weighed on earnings in Japan's manufacturing sector. However, Japan's economy was supported by strong earnings in non-manufacturing sectors due to solid domestic demand and by firm employment and personal income.

There is considerable uncertainty about the global economy due to continuing tension between the U.S. and China involving U.S. trade protectionism and concerns about Britain's departure from the EU.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, companies need to take many actions in response to measures by the Japanese government to hold down healthcare expenditures, such as national health insurance drug price revisions and an increase in the use of generic drugs, the rising cost of R&D, and higher risks associated with the development of new drugs.

This fiscal year is the third year of the Freund Group's Seventh Medium-term Management Plan which covers the five-year period ending February 2022. All group companies will take many vigorous actions during the second half of this plan in order to accomplish its goals.

To build a base of operations for future growth, the Freund Group is focusing on the following goals during the current fiscal year.

1. Establish a stronger foundation for growth in Asia (India, China), the United States, South America and Europe
2. Develop global strategic products and establish global supply chains
3. Build a new factory to increase output of pharmaceutical excipients
4. More collaboration with academic institutions based on open innovation
5. More skills and knowledge for the Freund Group workforce by using technology exchanges and other activities

Net sales decreased 40.6% year-over-year to 2,878 million yen, operating loss was 214 million yen (compared with operating profit of 399 million yen in the same period of the previous fiscal year), ordinary loss was 217 million yen (compared with ordinary profit of 478 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 158 million yen (compared with profit attributable to owners of parent of 347 million yen in the same period of the previous fiscal year).

Results by business segment were as follows.

Machinery Business Segment

In the machinery sector, where granulating and coating devices are the main products, there was a loss in the first quarter as losses increased at both Freund-Turbo Corporation and Freund-Vector Corporation because of investments for future growth.

Net sales decreased 59.6% year-over-year to 1,386 million yen and segment loss was 267 million yen (compared with segment profit of 278 million yen in the same period of the previous fiscal year).

Although there was a brief but significant decline in sales, the volume of orders received is remaining strong and the order backlog is increasing.

Chemicals Business Segment

Growth of pharmaceutical excipients used in oral agents is gaining momentum due to increasing demand in Japan and other countries. To meet this demand, we started a project for the construction of a new factory at the Hamamatsu factory.

There were many activities for selling food preservatives in more overseas markets, but sales and operating profit in this category decreased because of intense competition.

As a result, net sales increased 5.3% year-over-year to 1,491 million yen and segment profit decreased 27.8% to 187 million yen.

(2) Explanation of Financial Position

Effective from the beginning of the first quarter of the current fiscal year, the Company has adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and other related pronouncements. Prior-year figures have been adjusted retroactively to conform with this accounting standard in order to facilitate comparisons and analysis. Total assets and liabilities at the end of the previous fiscal year decreased by 17 million yen, respectively.

Total assets decreased 220 million yen from the end of the previous fiscal year to 17,227 million yen at the end of the fiscal year under review. This mainly reflected decreases in cash and deposits of 927 million yen, and notes and accounts receivable-trade of 430 million yen, while there were increases in electronically recorded monetary claims-operating of 137 million yen, work in process of 779 million yen, and deferred tax assets of 51 million yen.

Total liabilities increased 306 million yen from the end of the previous fiscal year to 4,504 million yen at the end of the fiscal year under review. This mainly reflected increases in electronically recorded obligations-operating of 217 million yen, advances received of 577 million yen, and provision for bonuses of 99 million yen, while there were decreases in notes and accounts payable-trade of 343 million yen, and income taxes payable of 132 million yen.

Net assets decreased 527 million yen from the end of the previous fiscal year to 12,723 million yen at the end of the fiscal year under review. This mainly reflected a decrease of 492 million yen in retained earnings.

(3) Explanation of Consolidated Forecast and Other Forward-looking Statements

There are no revisions to the full year consolidated forecasts for the fiscal year ending February 29, 2020, which was disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 28, 2019 dated April 9, 2019.

2. Quarterly Consolidated Financial Statements and Notes
(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY2/19 (As of Feb. 28, 2019)	First quarter of FY2/20 (As of May 31, 2019)
Assets		
Current assets		
Cash and deposits	5,534,431	4,607,087
Notes and accounts receivable-trade	4,172,348	3,741,572
Electronically recorded monetary claims-operating	160,222	297,447
Merchandise and finished goods	414,397	426,622
Work in process	1,053,685	1,833,125
Raw materials and supplies	1,007,294	1,048,643
Prepaid expenses	138,074	142,728
Other	239,599	253,559
Allowance for doubtful accounts	(8,869)	(8,748)
Total current assets	12,711,184	12,342,038
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,162,954	1,144,664
Land	1,239,674	1,239,395
Other, net	1,366,441	1,473,669
Total property, plant and equipment	3,769,070	3,857,729
Intangible assets		
Other	16,349	17,930
Total intangible assets	16,349	17,930
Investments and other assets		
Deferred tax assets	160,556	211,867
Other	796,334	803,433
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	951,491	1,009,901
Total non-current assets	4,736,911	4,885,561
Total assets	17,448,096	17,227,600
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,587,769	1,244,367
Electronically recorded obligations-operating	582,051	799,227
Income taxes payable	151,746	19,608
Advances received	666,802	1,244,489
Provision for bonuses	212,735	312,570
Provision for directors' bonuses	30,000	8,250
Other	707,653	631,224
Total current liabilities	3,938,759	4,259,737
Non-current liabilities		
Net defined benefit liability	162,460	164,862
Asset retirement obligations	35,131	35,170
Other	61,092	44,476
Total non-current liabilities	258,685	244,509
Total liabilities	4,197,445	4,504,246

(Thousands of yen)

	FY2/19 (As of Feb. 28, 2019)	First quarter of FY2/20 (As of May 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	11,918,177	11,425,241
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,469,928	12,976,992
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,459	29,541
Foreign currency translation adjustment	(265,653)	(293,813)
Remeasurements of defined benefit plans	10,917	10,633
Total accumulated other comprehensive income	(219,276)	(253,639)
Total net assets	13,250,651	12,723,353
Total liabilities and net assets	17,448,096	17,227,600

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income****(For the Three-month Period)**

(Thousands of yen)

	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)
Net sales	4,849,505	2,878,390
Cost of sales	3,245,489	1,830,603
Gross profit	1,604,016	1,047,786
Selling, general and administrative expenses	1,204,967	1,262,594
Operating profit (loss)	399,048	(214,808)
Non-operating income		
Interest income	1,092	2,190
Dividend income	60,795	4,783
Technical support fee	1,965	1,219
Foreign exchange gains	1,556	-
Other	14,775	3,170
Total non-operating income	80,185	11,364
Non-operating expenses		
Interest expenses	321	3,091
Foreign exchange losses	-	5,675
Other	264	5,145
Total non-operating expenses	586	13,913
Ordinary profit (loss)	478,647	(217,357)
Extraordinary income		
Gain on sales of non-current assets	-	8,180
Gain on redemption of investment securities	23,874	-
Total extraordinary income	23,874	8,180
Extraordinary losses		
Impairment loss	-	95
Loss on retirement of non-current assets	2,184	7
Loss on valuation of investment securities	-	825
Total extraordinary losses	2,184	927
Profit (loss) before income taxes	500,337	(210,104)
Income taxes	153,021	(52,065)
Profit (loss)	347,315	(158,038)
Profit (loss) attributable to owners of parent	347,315	(158,038)

Quarterly Consolidated Statement of Comprehensive Income
(For the Three-month Period)

	(Thousands of yen)	
	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)
Profit (loss)	347,315	(158,038)
Other comprehensive income		
Valuation difference on available-for-sale securities	(6,362)	(5,917)
Foreign currency translation adjustment	24,787	(28,160)
Remeasurements of defined benefit plans, net of tax	658	(284)
Total other comprehensive income	19,083	(34,362)
Comprehensive income	366,399	(192,401)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	366,399	(192,401)

(3) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements

The tax expenses are calculated by first estimating the effective tax rate after the application of tax effect accounting with respect to profit before income taxes during the fiscal year in which the period under review falls, and multiplying that rate by the profit before income taxes for the period under review. However, the Company uses the statutory effective tax rate to calculate tax expenses for cases in which using the estimated tax rate gives a noticeably irrational result.

Additional Information

Effective from the beginning of the first quarter of the current fiscal year, the Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

Segment and Other Information**Segment information**

I First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	3,433,095	1,416,410	4,849,505	-	4,849,505
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	3,433,095	1,416,410	4,849,505	-	4,849,505
Segment profit	278,123	259,741	537,864	(138,816)	399,048

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 138,816 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

3. Information by region

Net sales

In addition to the disclosure of information required by the “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” for the purpose of providing investors with useful information.

(Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
4,076,223	250,317	39,672	89,115	394,177	4,849,505

Notes: 1. Classification of net sales is based on the location of the client and categorized by country or region.

2. Groupings of countries and regions other than Japan are determined by geographic proximity and mutual operational relationships. Major countries and regions in each geographic segment are as follows.

- (1) North America: US and Canada
(2) Latin America: Brazil, etc.
(3) Europe: France, UK, etc.
(4) Other: Asia, etc.

II First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	1,386,636	1,491,753	2,878,390	-	2,878,390
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	1,386,636	1,491,753	2,878,390	-	2,878,390
Segment profit (loss)	(267,263)	187,563	(79,700)	(135,107)	(214,808)

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 135,107 thousand yen to segment profit (loss) includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

2. Segment profit (loss) is adjusted to be consistent with operating profit recorded in the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

In the Machinery Business segment, the Company has recognized impairment losses related to non-current assets of 95 thousand yen.

3. Information by region

Net sales

In addition to the disclosure of information required by the “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” for the purpose of providing investors with useful information.

(Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
2,348,108	241,518	67,280	108,437	113,045	2,878,390

Notes: 1. Classification of net sales is based on the location of the client and categorized by country or region.

2. Groupings of countries and regions other than Japan are determined by geographic proximity and mutual operational relationships. Major countries and regions in each geographic segment are as follows.

- (1) North America: US and Canada
- (2) Latin America: Brazil, etc.
- (3) Europe: France, UK, etc.
- (4) Other: Asia, etc.

3. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)		First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	2,553,941	70.5	2,583,632	101.2
Chemicals Business	127,578	152.6	197,001	154.4
Total	2,681,520	72.3	2,780,633	103.7

Notes: 1. Orders received in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured based on sales plans rather than specific orders.

2. Orders received are based on selling prices; inter-segment transactions have been eliminated.

3. Orders received do not include consumption taxes.

(2) Order backlog

(Thousands of yen)

Operating segment	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)		First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	4,928,840	54.5	6,657,884	135.1
Chemicals Business	94,731	100.0	134,661	142.2
Total	5,023,572	55.0	6,792,546	135.2

Notes: 1. Order backlog in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured based on sales plans rather than specific orders.

2. Order backlog is based on selling prices; inter-segment transactions have been eliminated.

3. Order backlog does not include consumption taxes.

(3) Sales

(Thousands of yen)

Operating segment	First three months of FY2/19 (Mar. 1, 2018 – May 31, 2018)		First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	3,433,095	70.8	1,386,636	48.2
Chemicals Business	1,416,410	29.2	1,491,753	51.8
Total	4,849,505	100.0	2,878,390	100.0

Notes: 1. Sales are based on selling prices; inter-segment transactions have been eliminated.

2. Sales do not include consumption taxes.

This summary report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.