

FREUND CORPORATION

Selected by the Japanese Ministry of Economy, Trade
and Industry as a Global Niche Top 100 Company

JASDAQ

(Securities code: 6312)

Results of Operations
for the First Quarter of the Fiscal Year Ending
February 29, 2020

July 12, 2019

 **FREUND**

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Consolidated Financial Summary for 1Q of FY2/20



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Consolidated Financial Summary

- The benefits of the government's policy of raising the generic drug share to 80% (GE80%) have come to an end, and the impact is greater than expected
- Freund-Vector Corporation has started off with a heavy second-half overweighting
- Freund-Turbo's lithium-ion battery machinery business is decelerating rapidly
- Sales and profits in the Chemicals Business are on track

(Millions of yen)

	FY2/19	FY2/20	YoY change		FY2/20
	Q1	Q1	Amount	%	Forecasts
	Actual	Actual			(as of 4/9/19)
Net sales	4,849	2,878	(1,971)	(40.6)	17,500
Operating profit	399	(214)	(613)	(153.8)	1,000
Ordinary profit	478	(217)	(696)	(145.4)	1,000
Profit	347	(158)	(505)	(145.5)	700
Earnings per share (yen)	20.37	(9.44)	(29.81)	(146.3)	41.80
Capital investment	174	204	+30	17.6	700
Depreciation	79	84	+5	6.6	350
R&D expenses	230	204	(26)	(11.5)	750

Machinery Business: Overview

● Sales By Product Field

- ❑ Pharmaceutical products: New products unable to cover the post-GE80% reactionary decline
Demand for equipment in Japan showing signs of bottoming out but the number of projects is on a declining trend
- ❑ Industrial products: Rapid slowdown in the lithium-ion battery machinery business for China, working to transition into covering other areas

● Segment Profit

- ❑ Freund-Vector: Due to the second-half overweighting, fixed expenses could not be absorbed resulting in a 1Q loss
- ❑ Freund Turbo: Same as above

(Millions of yen)

	FY2/19	FY2/20	YoY change		FY2/20
	Q1	Q1	Amount	%	Forecasts
	Actual	Actual			(as of 4/9/19)
Net sales	3,433	1,386	(2,046)	(59.6)	11,000
Pharmaceutical Products	2,993	1,146	(1,847)	(61.7)	—
Industrial Products	439	240	(198)	(45.3)	—
Operating profit	278	(267)	(545)	(196.1)	—
Orders received	2,553	2,583	+29	+1.2	—
Pharmaceutical Products	1,924	2,148	+224	+11.7	—
Industrial Products	629	434	(194)	(30.9)	—
Order backlog	4,928	6,657	+1,729	+35.1	—
Pharmaceutical Products	3,915	6,047	+2,131	+54.4	—
Industrial Products	1,012	610	(402)	(39.7)	—
Yen/dollar rate (+ is yen depreciation)	107.8	111.0	+3.2 yen/dollar	+3.0	105.0

Machinery Business: Group Company Performance

- Freund Corporation: Bigger than expected decline in reaction to domestic capital investment which has run its course
- Freund-Vector: Starts off with a heavy second-half overweighting
- Freund-Turbo: Rapid deceleration in the environment for industrial-machine orders

(Millions of yen)

	FY2/19 Q1 Actual	FY2/20 Q1 Actual	YoY change		FY2/20 Forecasts (as of 4/9/19)
			Amount	%	
Net sales	3,433	1,386	(2,046)	(59.6)	11,000
FREUND CORPORATION*	2,803	843	(1,959)	(69.9)	—
FREUND-VECTOR*	360	415	+55	+15.3	—
FREUND-TURBO*	321	178	(142)	(44.4)	—
Operating profit	278	(267)	(545)	(196.1)	—
FREUND-VECTOR*	(107)	(157)	(49)	—	—
FREUND-TURBO*	(58)	(69)	(11)	—	—
Orders received	2,553	2,583	+29	+1.2	—
FREUND CORPORATION	1,322	1,395	+72	+5.5	—
FREUND-VECTOR	691	920	+229	+33.2	—
FREUND-TURBO	539	267	(272)	(50.4)	—
Order backlog	4,928	6,657	+1,729	+35.1	—
FREUND CORPORATION	2,554	4,554	+1,999	+78.3	—
FREUND-VECTOR	1,521	1,763	+242	+16.0	—
FREUND-TURBO	853	339	(513)	(60.2)	—

*Figures are before consolidation eliminations.

Machinery Business: Sales by Region

- Japan: Huge impact from changes in market environment (post-GE80%)
- North America: Difficult struggle with US projects
- Asia: Macro impact from projects for China and South Korea
(Freund Corporation → South Korea; Freund-Vector → China)

(Millions of yen)

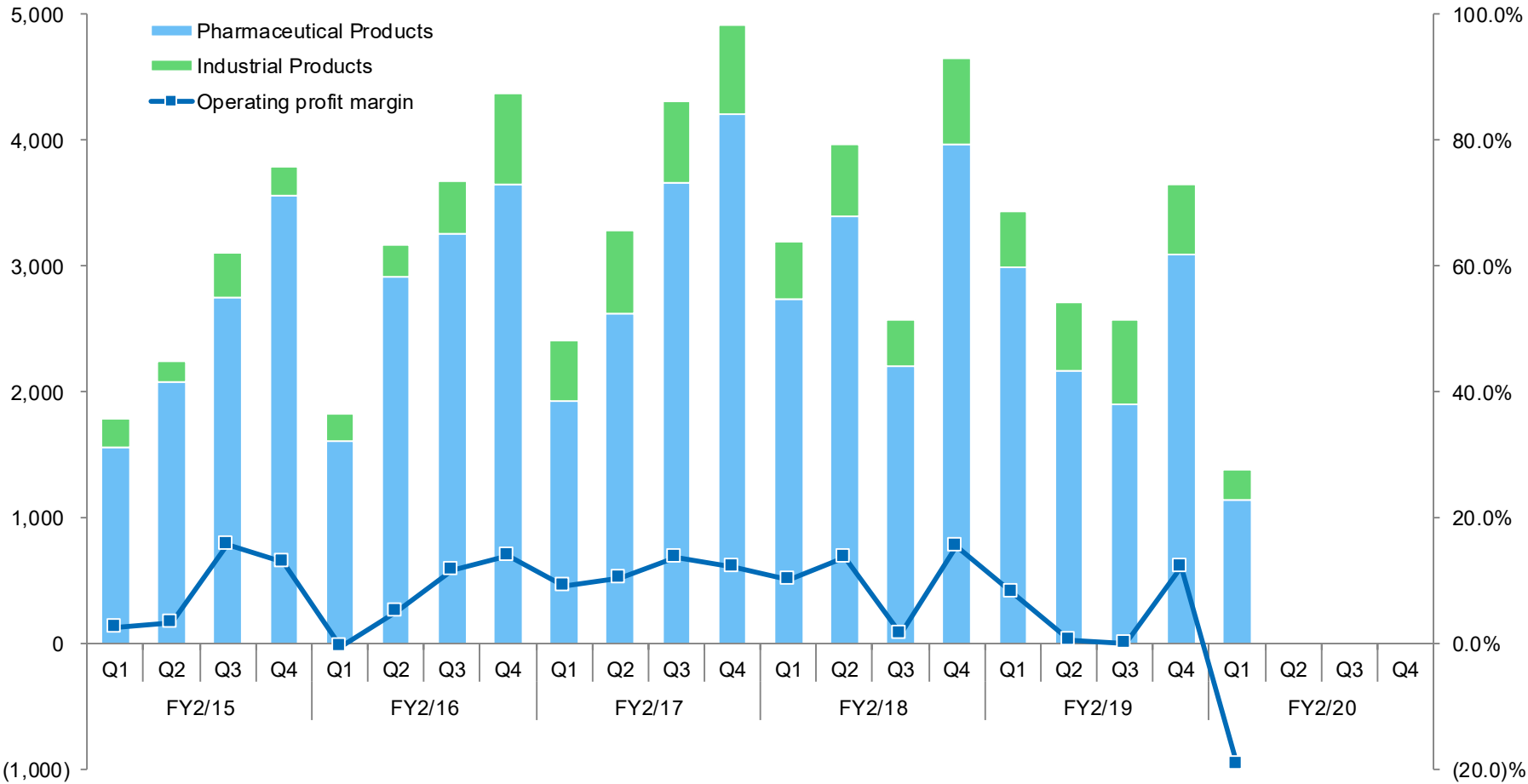
	FY2/19	FY2/20	YoY change		FY2/20
	Q1 Actual	Q1 Actual	Amount	%	Forecasts (as of 4/9/19)
Net sales	3,433	1,386	(2,046)	(59.6)	11,000
Japan	2,783	894	(1,888)	(67.9)	—
Overseas	649	491	(157)	(24.3)	—
North and South Americas	289	308	+19	+6.7	—
Europe and Africa	80	81	+0	+1.2	—
Middle East, Asia and Pacific	279	101	(178)	(63.6)	—

Machinery Business: Quarterly Results (by Product Field)

Net sales

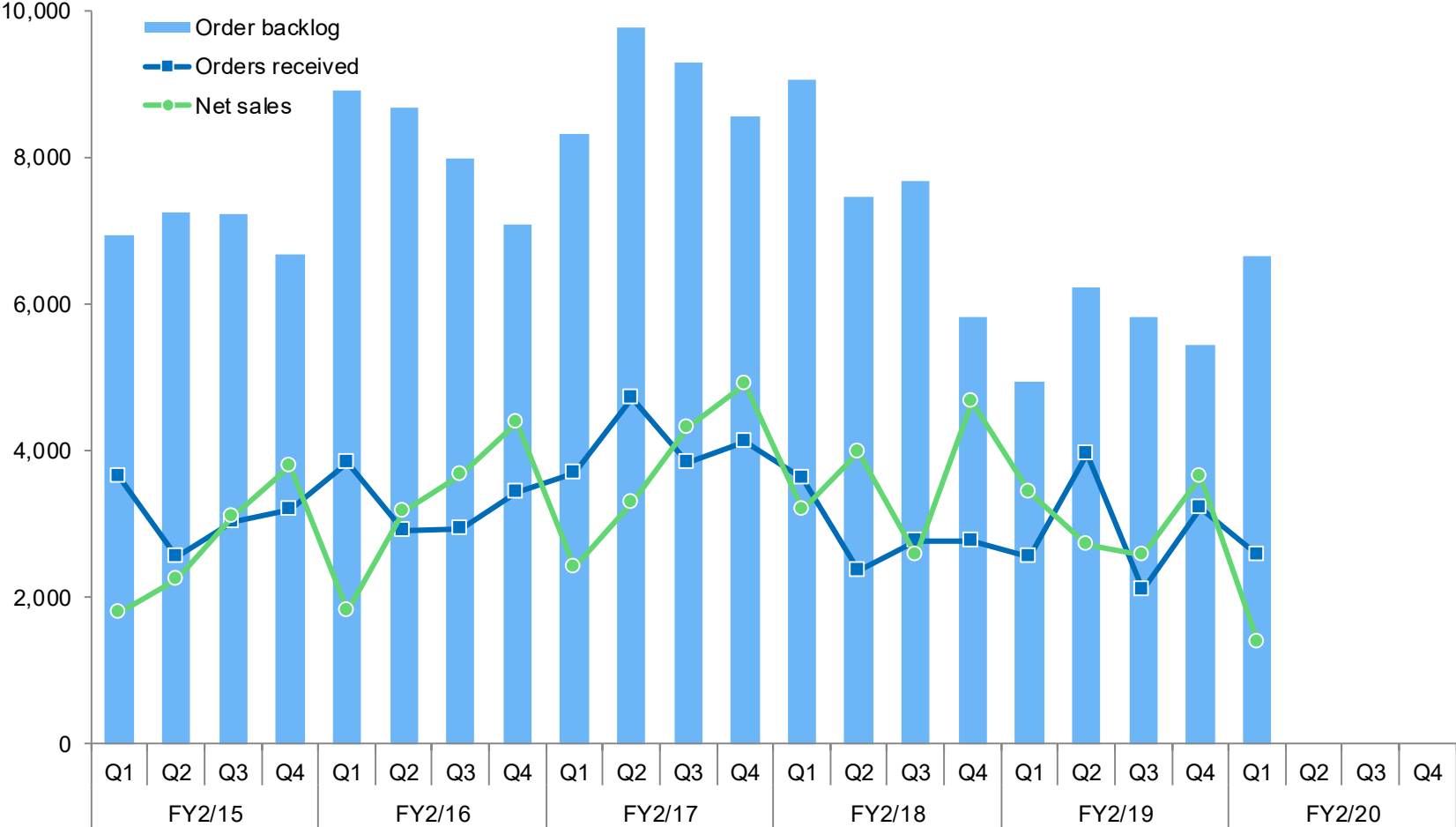
Operating profit margin

(Millions of yen)

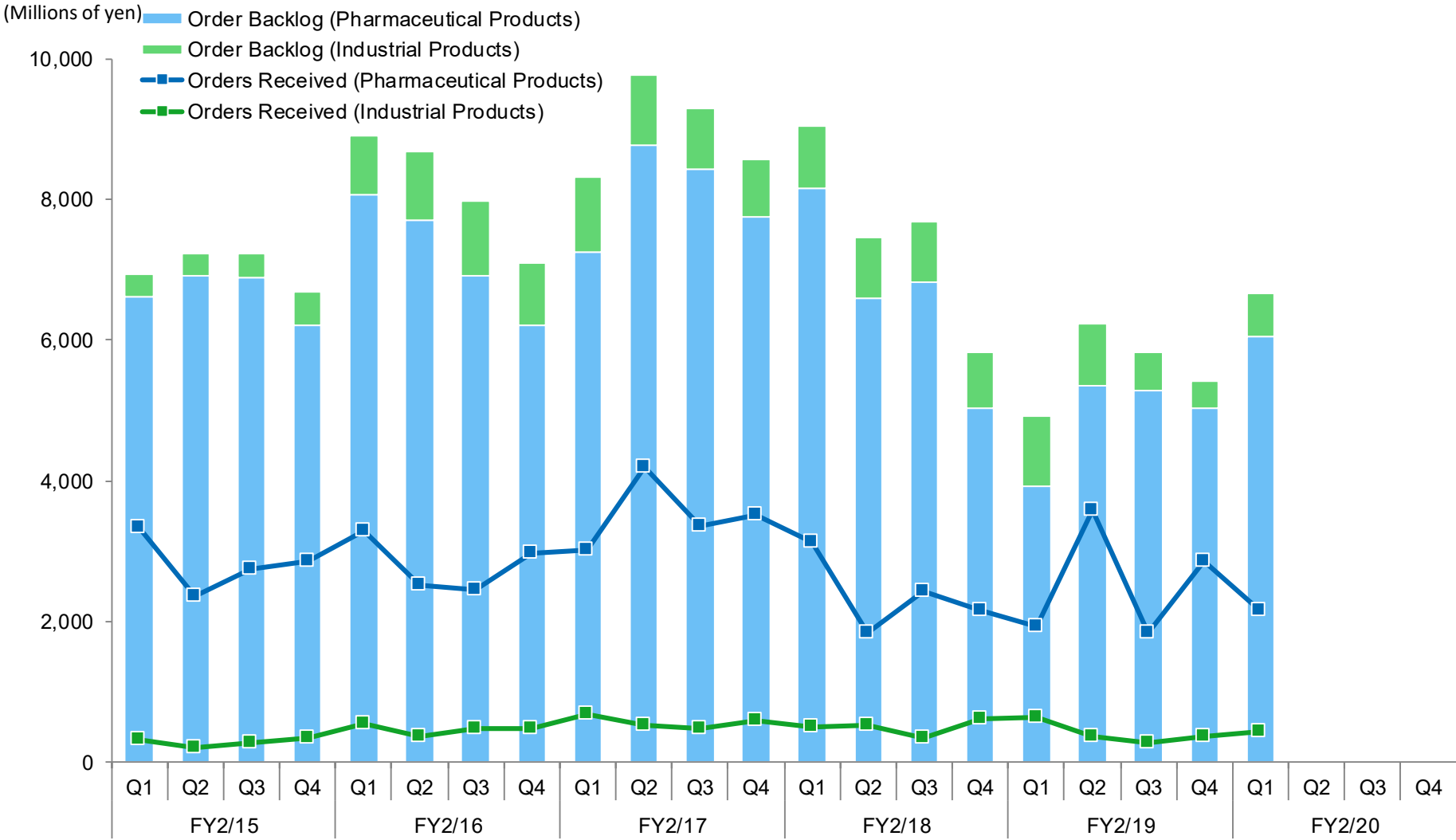


Machinery Business: Quarterly Results (Net Sales/Orders Received/Order Backlog)

(Millions of yen)



Machinery Business: Quarterly Results (Orders Received and Order Backlog by Product Field)



Chemicals Business: Overview

- Net Sales

- ❑ Pharmaceutical excipients: Sales and profits increased - mainly centering on GE manufacturers
 - ❑ Food preservatives: Sales increasing as planned
 - ❑ Export: Slowdown because of inventory adjustment for India

- Segment Profit: At previous year level due to improvement in the sales mix but profit declining as the burden of common expenses increases

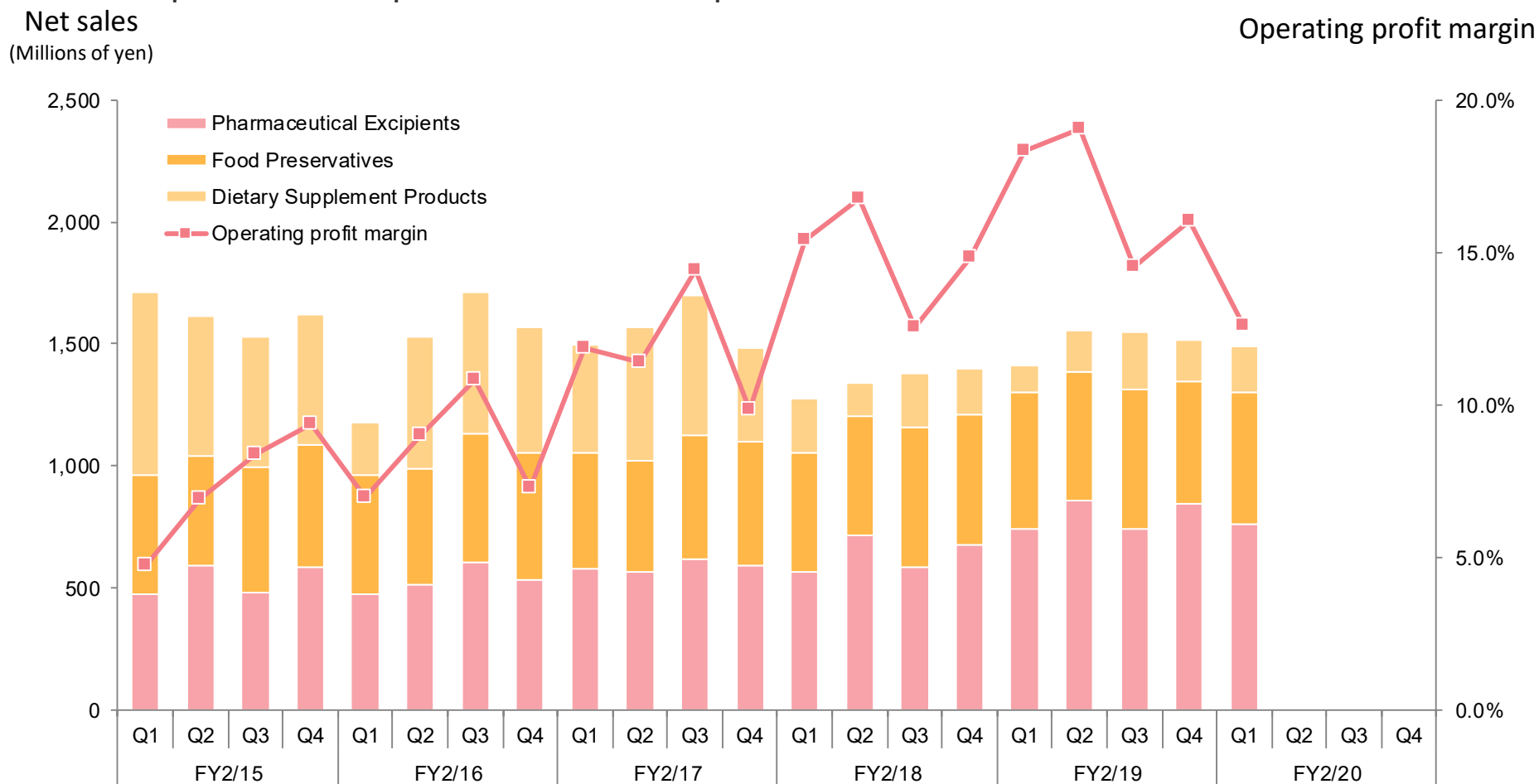
(Millions of yen)

	FY2/19	FY2/20	YoY change		FY2/20
	Q1	Q1	Amount	%	Forecasts (as of 4/9/19)
	Actual	Actual			
Net sales	1,416	1,491	+75	+ 5.3	6,500
Pharmaceutical Excipients	744	764	+20	+2.7	—
Food Preservatives	555	538	(16)	(3.0)	—
Dietary Supplement Products	116	188	+71	+61.5	—
(Export sales)*1	123	38	(85)	(68.9)	—
Operating profit	259	187	(72)	(27.8)	—

***1: Sales to India, South Korea and Taiwan**

Chemicals Business: Quarterly Results (by Product Field)

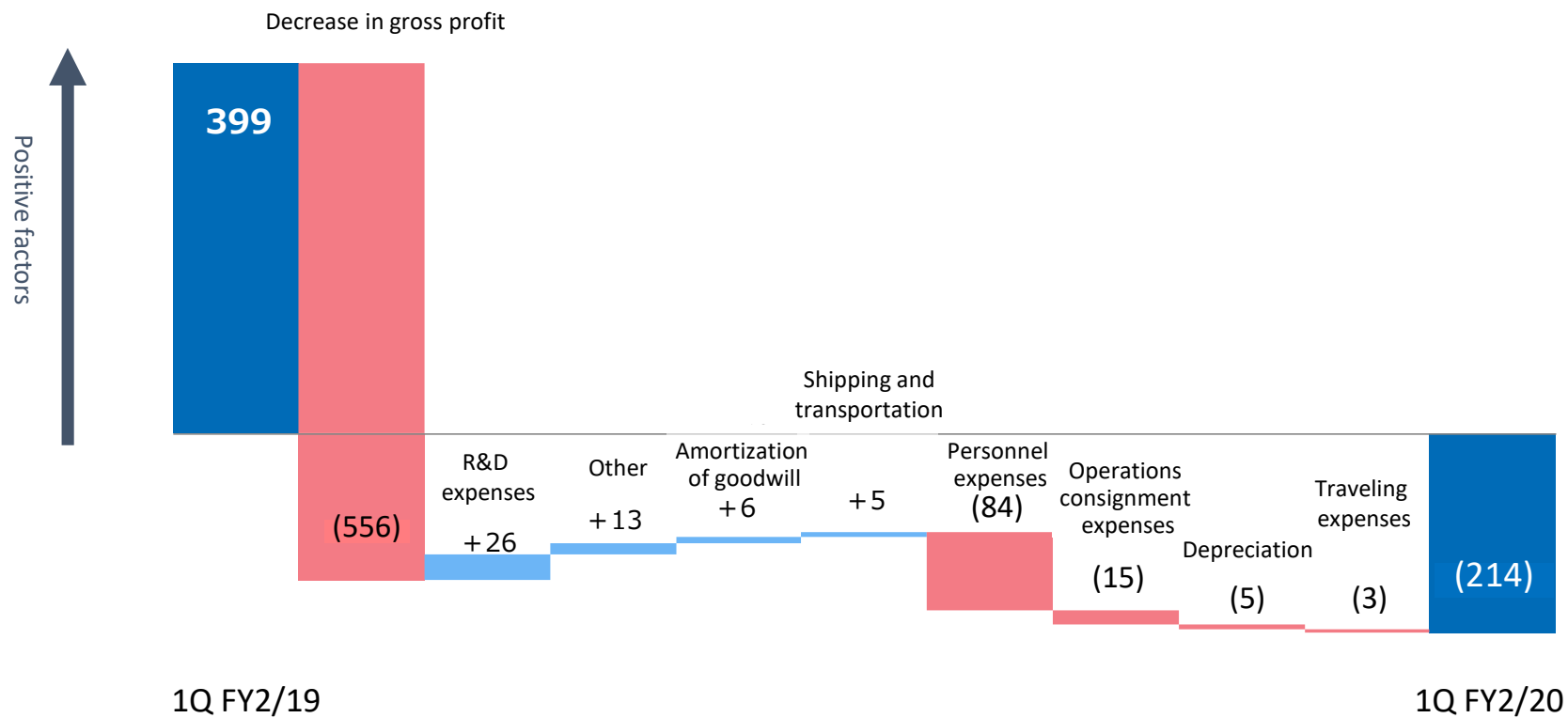
- Pharmaceutical excipients saw increased sales with highly-profitable products mainly from GE manufacturers
- Expand sales of pharmaceutical excipients overseas



Change in Consolidated Operating Profit

- Earnings decreased as cost reductions unable to compensate for the decrease in the top line
- Share of Machinery and Chemicals reversed

(Millions of yen)



Major Goals and Progress Report for FY2/20



Major Goals for FY2/20

- Machinery

- ❑ Resumed activities to increase sales of the new product (tablet printer)
- ❑ Improve the profitability of Freund-Vector
- ❑ Target opportunities outside the pharmaceuticals market (nutritional supplements and other high-potential markets)
- ❑ Strengthen maintenance services
- ❑ Capture repeat orders for production machinery used by lithium-ion battery companies
→ Struggling to deal with the impact of macro influences

- Chemicals

- ❑ Increase sales of excipients outside Japan
- ❑ Develop ink for tablet printers used overseas
- ❑ Prepare to start a CDO business
- ❑ Increase the efficiency of food preservative production

Machinery Business: Progress Report

- Many activities to receive orders for the new continuous production system
- Strong sales in Brazil and a large project in China
- Sales of production machinery for lithium-ion batteries slowed down

Pharmaceuticals	
Increase sales of the new product (tablet printer)	△ Just started
Improve the profitability of Freund-Vector	△ Just started
Strengthen maintenance services	△ Just started

Manufacturing	
Target opportunities outside the pharmaceuticals market (nutritional supplements and other high-potential markets)	△ Just started
Capture repeat orders for production machinery used by lithium-ion battery companies	△ Just started
Start operations at the Nishinomiya Testing Center (for equipment involving lithium-ion batteries)	△ Just started

Chemicals Business: Progress Report

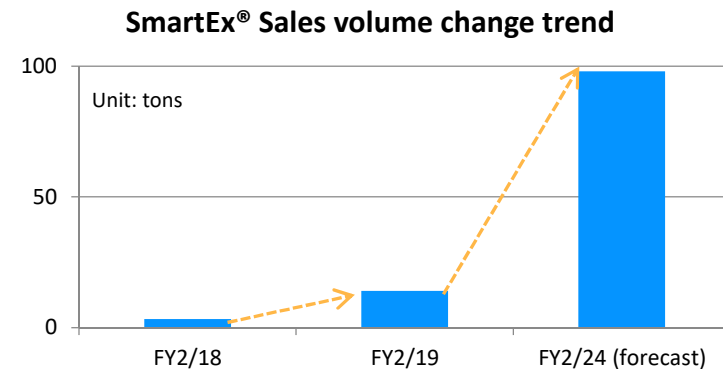
- Operating capacity rates for pharmaceutical excipients remain high
- In the food preservative business, the new mixing equipment at the Hamamatsu factory started operating

Pharmaceutical excipients		Food preservatives	
Increase sales of excipients outside Japan	○ Producing benefits	Increase overseas sales of food preservatives	△ Just started
Prepare to start a CDO business	△ Just started	Start selling products in food sectors other than the confectionery category	△ Just started
Develop ink for tablet printers used overseas	△ Just started	Consider making water activity meters for overseas markets	△ Just started
Strengthen output capacity	○ Producing benefits	Increase output capacity at the Hamamatsu factory	○ Producing benefits
Increase efficiency of production equipment	△ Just started	Establish a quality management system	△ Just started

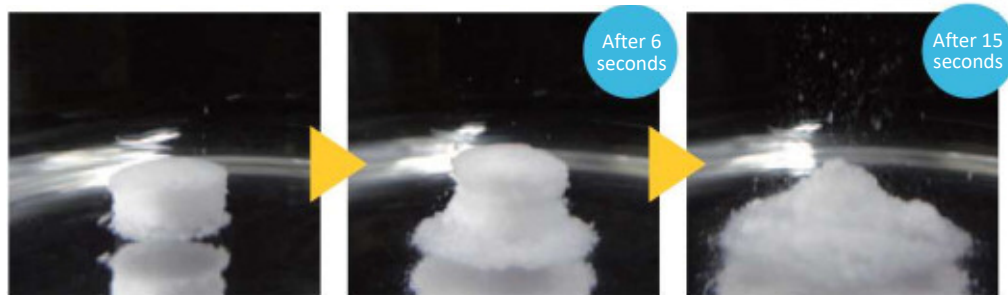
Topic 1: Open Innovation

Through full-scale open innovation, we are promoting the commercialization of SmartEx[®], a pharmaceutical excipient for direct compression process

“If we could combine the functional materials of Shin-Etsu Chemical Co., Ltd. with the Freund's industrial granulation technology, we could create a revolutionary excipient.” This joint discussion between the engineers of the two companies held at a symposium of a certain academic society triggered the joint development of SmartEx[®], an excipient for direct compression and orally disintegrating (OD) tablet. This project has become a new collaborative model in which Freund is responsible for manufacturing and Shin-Etsu Chemical is responsible for sales.



Disintegration of drug using SmartEx[®]



Features of SmartEx[®]

High degree of formability	Applicable for drugs with low formability
Excellent disintegration	10 seconds of disintegration time with a small amount of water in the oral cavity
Excellent intraoral intake	Smooth texture
High flowability	Tablets with little variation even in high-speed tableting processes
Excellent stability	Automatic packaging without reducing hardness or delayed disintegration

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