

Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 29, 2020
(Nine Months Ended November 30, 2019)

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: January 9, 2020

Scheduled date of payment of dividend: -

Preparation of supplementary materials for quarterly financial results: None

Holding of quarterly financial results meeting: None

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

1. Consolidated Financial Results for the Third Quarter (March 1, 2019 – November 30, 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	%
Nine months ended Nov. 30, 2019	11,110	(16.1)	93	(86.1)	111	(85.5)	37	(92.8)
Nine months ended Nov. 30, 2018	13,243	(3.7)	670	(41.9)	770	(34.4)	523	(38.4)

Note: Comprehensive income
 Nine months ended Nov. 30, 2019: 5 million yen (down 99.1%)
 Nine months ended Nov. 30, 2018: 628 million yen (down 25.9%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2019	2.25	-
Nine months ended Nov. 30, 2018	31.08	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2019	18,182	12,921	71.1	771.70
As of Feb. 28, 2019	17,448	13,250	75.9	791.34

Reference: Equity capital As of Nov. 30, 2019: 12,921 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	-	0.00	-	-	-
Fiscal year ending Feb. 29, 2020 (forecast)	-	-	-	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	17,000	(7.7)	600	(50.9)	600	(54.8)	350	(58.5)	20.90

Note: Revision to the most recently announced consolidated forecast: Yes

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): None

Newly added: - Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: Yes

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Nov. 30, 2019:	18,400,000 shares	As of Feb. 28, 2019:	18,400,000 shares
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2) Number of treasury shares at the end of the period

As of Nov. 30, 2019:	1,655,480 shares	As of Feb. 28, 2019:	1,655,480 shares
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3) Average number of shares outstanding during the period

Nine months ended Nov. 30, 2019:	16,744,520 shares	Nine months ended Nov. 30, 2018:	16,846,340 shares
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The current financial report is not subject to quarterly review by certified public accountants or auditing firms.

Cautionary statement with respect to forecasts of future performance and other special items

Forecasts regarding future performance in these materials are based on certain assumptions judged to be valid and information currently available to the Company. Actual performance may differ significantly from these forecasts for a number of reasons. Please refer to the section "Explanation of Consolidated Forecast and Other Forward-looking Statements" on page 3 of the attachments regarding preconditions or other related matters for forecasts shown above.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Forecast and Other Forward-looking Statements	3
2. Quarterly Consolidated Financial Statements and Notes	4
(1) Quarterly Consolidated Balance Sheet	4
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	6
(3) Notes to Quarterly Consolidated Financial Statements	8
Going Concern Assumption	8
Significant Changes in Shareholders' Equity	8
Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements	8
Additional Information	8
Segment and Other Information	9
3. Others	11
Orders and Sales	11

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first nine months of the current fiscal year, a slowdown in exports, chiefly to China, impacted Japan's manufacturing sector. On the other hand, however, the Japanese economy continued to recover slowly overall as the non-manufacturing sectors were firm due to solid domestic demand and firm employment and personal income, compensating for the slowdown in the manufacturing sector.

On the other hand, multiple uncertainties including U.S.-China trade friction, economic outlook in China, problems involving Brexit and the Mid-East situation are clouding the global economy. An unexpected slowdown in the global economy, may lead to financial market turmoil, and weakness in business and consumer confidence. As a result, events affecting the global economy must be monitored cautiously.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, the increase in measures taken by the Japanese government to hold down healthcare expenditures, such as national health insurance drug price revisions and the use of more generic drugs, rising cost of R&D, and higher risks associated with developing new drugs are forcing companies to implement structural reforms.

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. Establish an infrastructure for the production 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 16.1% year-over-year to 11,110 million yen, operating profit decreased 86.1% to 93 million yen, ordinary profit was down 85.5% to 111 million yen, and profit attributable to owners of parent was down 92.8% to 37 million yen.

Results by business segment were as follows.

Machinery Business Segment

The machinery segment, where granulating and coating devices are the main products, had a loss in the fiscal year's first nine months. Fixed expenses for the third quarter could not be offset because the majority of deliveries tend to take place in the fourth quarter of each fiscal year at the Freund Group, including Freund-Turbo Corporation and Freund-Vector Corporation.

Net sales decreased 22.6% year-over-year to 6,749 million yen and segment loss was 142 million yen (compared with segment profit of 295 million yen in the same period of the previous fiscal year).

Chemicals Business Segment

Sales and operating profit of pharmaceutical excipients used in oral agents decreased slightly despite a strong performance in Japan because of the impact of a decline in production at a large overseas customer that uses Freund excipients.

There were many activities for selling food preservatives in more overseas markets, but sales and operating profit in this category decreased due to the competitive situation in the market.

As a result, net sales decreased 3.5% year-over-year to 4,360 million yen and segment profit decreased 16.5% to 652 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 increased 734 million yen from the end of the previous fiscal year to 18,182 million yen at the end of the third quarter. This mainly reflected increases in work in process of 1,158 million yen, and other, net under property, plant and equipment including machinery, equipment and vehicles of 469 million yen and merchandise and finished goods of 160 million yen, while there was a decrease in cash and deposits of 1,302 million yen.

Total liabilities increased 1,063 million yen from the end of the previous fiscal year to 5,260 million yen at the end of the third quarter. This mainly reflected increases in advances received of 771 million yen and electronically recorded obligations-operating of 685 million yen.

Net assets decreased 328 million yen from the end of the previous fiscal year to 12,921 million yen at the end of the third quarter. This mainly reflected a decrease of 297 million yen in retained earnings.

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

Based on the results of operations in the first nine months of the current fiscal year, the Company has revised 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. For more information, please refer to the press release titled “Notice of Revisions to Consolidated Forecasts” that was announced today (January 9, 2020).

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

	(Thousands of yen)	
	FY2/19 (As of Feb. 28, 2019)	Third quarter of FY2/20 (As of Nov. 30, 2019)
Assets		
Current assets		
Cash and deposits	5,534,431	4,232,255
Notes and accounts receivable-trade	4,172,348	4,167,322
Electronically recorded monetary claims-operating	160,222	153,152
Merchandise and finished goods	414,397	575,274
Work in process	1,053,685	2,212,108
Raw materials and supplies	1,007,294	1,083,380
Prepaid expenses	138,074	132,179
Other	239,599	330,974
Allowance for doubtful accounts	(8,869)	(5,478)
Total current assets	12,711,184	12,881,169
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,162,954	1,131,261
Land	1,239,674	1,239,432
Other, net	1,366,441	1,835,824
Total property, plant and equipment	3,769,070	4,206,518
Intangible assets		
Other	16,349	96,468
Total intangible assets	16,349	96,468
Investments and other assets		
Deferred tax assets	160,556	218,413
Other	796,334	785,281
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	951,491	998,294
Total non-current assets	4,736,911	5,301,282
Total assets	17,448,096	18,182,451
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,587,769	1,516,133
Electronically recorded obligations-operating	582,051	1,267,847
Income taxes payable	151,746	-
Advances received	666,802	1,438,719
Provision for bonuses	212,735	133,417
Provision for directors' bonuses	30,000	6,750
Other	707,653	656,381
Total current liabilities	3,938,759	5,019,249
Non-current liabilities		
Net defined benefit liability	162,460	169,665
Asset retirement obligations	35,131	35,248
Other	61,092	36,580
Total non-current liabilities	258,685	241,494
Total liabilities	4,197,445	5,260,743

(Thousands of yen)

	FY2/19 (As of Feb. 28, 2019)	Third quarter of FY2/20 (As of Nov. 30, 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	11,621,029
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,469,928	13,172,779
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,459	31,463
Foreign currency translation adjustment	(265,653)	(292,600)
Remeasurements of defined benefit plans	10,917	10,065
Total accumulated other comprehensive income	(219,276)	(251,072)
Total net assets	13,250,651	12,921,707
Total liabilities and net assets	17,448,096	18,182,451

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

(Thousands of yen)

	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)
Net sales	13,243,297	11,110,801
Cost of sales	8,874,332	7,331,451
Gross profit	4,368,964	3,779,350
Selling, general and administrative expenses	3,698,631	3,686,287
Operating profit	670,332	93,062
Non-operating income		
Interest income	3,029	3,992
Dividend income	63,727	6,242
Technical support fee	5,579	4,969
Foreign exchange gains	9,025	-
Other	21,667	9,568
Total non-operating income	103,028	24,772
Non-operating expenses		
Interest expenses	767	243
Foreign exchange losses	-	2,607
Compensation expenses	-	1,623
Other	1,945	1,963
Total non-operating expenses	2,712	6,438
Ordinary profit	770,648	111,397
Extraordinary income		
Gain on sales of non-current assets	662	9,997
Gain on sales of investment securities	-	2,200
Gain on redemption of investment securities	23,874	-
Total extraordinary income	24,537	12,197
Extraordinary losses		
Impairment loss	-	2,188
Loss on retirement of non-current assets	2,297	26,085
Loss on valuation of investment securities	-	875
Total extraordinary losses	2,297	29,148
Profit before income taxes	792,888	94,446
Income taxes	269,242	56,697
Profit	523,646	37,748
Profit attributable to owners of parent	523,646	37,748

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

	(Thousands of yen)	
	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)
Profit	523,646	37,748
Other comprehensive income		
Valuation difference on available-for-sale securities	(9,558)	(3,995)
Foreign currency translation adjustment	111,937	(26,947)
Remeasurements of defined benefit plans, net of tax	1,976	(852)
Total other comprehensive income	104,356	(31,795)
Comprehensive income	628,002	5,953
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	628,002	5,953

(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 falls, and multiplying that rate by the profit before income taxes for the period. 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 nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 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	8,723,378	4,519,918	13,243,297	-	13,243,297
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	8,723,378	4,519,918	13,243,297	-	13,243,297
Segment profit	295,628	781,214	1,076,843	(406,511)	670,332

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 406,511 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	United States	Latin America	Europe	Other	Total
10,064,892	1,089,652	626,236	251,209	1,211,305	13,243,297

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) Latin America: Brazil, etc.
- (2) Europe: France, UK, etc.
- (3) Other: Asia, etc.

II First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 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	6,749,900	4,360,900	11,110,801	-	11,110,801
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	6,749,900	4,360,900	11,110,801	-	11,110,801
Segment profit (loss)	(142,204)	652,630	510,426	(417,363)	93,062

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 417,363 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

The Company has recognized impairment losses related to non-current assets of 203 thousand yen in the Machinery Business segment and 1,984 thousand yen in the Chemicals Business segment.

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	United States	Latin America	Europe	Other	Total
8,514,237	1,188,351	535,034	307,249	565,929	11,110,801

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) Latin America: Brazil, etc.
- (2) Europe: France, UK, etc.
- (3) Other: Asia, etc.

3. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	First nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)		First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	8,620,929	98.6	7,208,524	83.6
Chemicals Business	554,167	116.0	489,765	88.4
Total	9,175,096	99.5	7,698,290	83.9

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 nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)		First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	5,818,175	75.7	5,994,478	103.0
Chemicals Business	115,464	88.1	109,997	95.3
Total	5,933,639	75.9	6,104,475	102.9

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 nine months of FY2/19 (Mar. 1, 2018 – Nov. 30, 2018)		First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	8,723,378	65.9	6,749,900	60.8
Chemicals Business	4,519,918	34.1	4,360,900	39.2
Total	13,243,297	100.0	11,110,801	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.