

Consolidated Financial Results for the Fiscal Year Ended February 29, 2020

[Japanese GAAP]

Company name: Freund Corporation

Listing: Tokyo (JASDAQ)

Securities code: 6312

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Scheduled date of Annual General Meeting of Shareholders: May 28, 2020

Scheduled date of filing of Annual Securities Report: May 29, 2020

Scheduled date of payment of dividend: May 29, 2020

Preparation of supplementary materials for financial results: Yes

Holding of financial results meeting: Yes (only video distribution)

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

1. Consolidated Financial Results for the Fiscal Year Ended February 29, 2020

(March 1, 2019 – 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	%
Fiscal year ended Feb. 29, 2020	16,772	(8.9)	558	(54.3)	582	(56.1)	381	(54.8)
Fiscal year ended Feb. 28, 2019	18,408	(7.0)	1,223	(37.9)	1,326	(33.5)	843	(42.9)

Note: Comprehensive income Fiscal year ended Feb. 29, 2020: 328 million yen (down 64.5%)

Fiscal year ended Feb. 28, 2019: 925 million yen (down 34.0%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
	Yen	Yen	%	%	%
Fiscal year ended Feb. 29, 2020	22.79	-	2.9	3.2	3.3
Fiscal year ended Feb. 28, 2019	50.15	-	6.4	7.2	6.6

Reference: Equity in earnings of affiliates Fiscal year ended Feb. 29, 2020: - million yen

Fiscal year ended Feb. 28, 2019: - million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 29, 2020	18,505	13,243	71.6	790.94
As of Feb. 28, 2019	17,448	13,250	75.9	791.34

Reference: Equity capital As of Feb. 29, 2020: 13,243 million yen As of Feb. 28, 2019: 13,250 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 29, 2020	(27)	(852)	(325)	4,314
Fiscal year ended Feb. 28, 2019	435	(566)	(921)	5,534

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Feb. 28, 2019	-	0.00	-	20.00	20.00	334	39.9	2.6
Fiscal year ended Feb. 29, 2020	-	0.00	-	20.00	20.00	334	87.8	2.5
Fiscal year ending Feb. 28, 2021 (forecast)	-	-	-	-	-	-	-	-

Note: Dividend forecast for the fiscal year ending February 28, 2021 has not been determined at this time.

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2021 (March 1, 2020 – February 28, 2021)

(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	17,800	6.1	1,000	79.1	1,000	71.6	700	83.5	41.80

*** 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) Changes in accounting policies and accounting-based estimates, and restatements

- 1) Changes in accounting policies due to revisions in accounting standards, others: Yes
 2) Changes in accounting policies other than 1) above: None
 3) Changes in accounting-based estimates: None
 4) Restatements: None

Note: Please refer to page 13 “(5) Notes to Consolidated Financial Statements, Changes in Accounting Policies” for details.

(3) Number of outstanding shares (common stock)

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

As of Feb. 29, 2020: 18,400,000 shares As of Feb. 28, 2019: 18,400,000 shares

2) Number of treasury shares at the end of the period

As of Feb. 29, 2020: 1,655,480 shares As of Feb. 28, 2019: 1,655,480 shares

3) Average number of shares outstanding during the period

Fiscal year ended Feb. 29, 2020: 16,744,520 shares Fiscal year ended Feb. 28, 2019: 16,821,233 shares

Reference: Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended February 29, 2020

(March 1, 2019 – February 29, 2020)

(1) Non-consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 29, 2020	11,908	(9.2)	534	(54.7)	588	(54.4)	361	(60.2)
Fiscal year ended Feb. 28, 2019	13,114	(8.2)	1,180	(31.7)	1,290	(33.7)	907	(39.6)

	Net income per share		Diluted net income per share	
	Yen		Yen	
Fiscal year ended Feb. 29, 2020	21.56		-	
Fiscal year ended Feb. 28, 2019	53.94		-	

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio		Net assets per share	
	Million yen		Million yen		%		Yen	
As of Feb. 29, 2020	16,930		12,514		73.9		747.39	
As of Feb. 28, 2019	15,581		12,510		80.3		747.12	

Reference: Shareholders' equity As of Feb. 29, 2020: 12,514 million yen As of Feb. 28, 2019: 12,510 million yen

This financial report is not subject to audit 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 “1. Overview of Results of Operations (4) Outlook” on page 4 of the attachments regarding preconditions or other related matters for forecasts shown above.

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1. Overview of Results of Operations

(1) Results of Operations

In the first half of the fiscal year that ended February 29, 2020, a slowdown in exports, chiefly to China, impacted Japan's manufacturing sector but this was offset by strength in non-manufacturing sectors due to solid demand within Japan supported by firm employment and personal income. In the fiscal year's second half, a consumption tax increase, a powerful typhoon and warm winter weather held down consumer spending and caused a downturn in corporate earnings. In addition, from early in 2020, the novel coronavirus (COVID-19) outbreak had an increasingly severe impact on consumer activity in Japan. This crisis created concerns about a decline in economic activity in Japan because of a drop in the number of foreign tourists, supply chain disruptions in China and other problems.

During the fiscal year, there were multiple uncertainties that held back global economic growth, such as U.S.-China trade friction, slower economic growth in China, Brexit and turmoil in the Middle East. Furthermore, the COVID-19 pandemic has dramatically reduced economic activity worldwide.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, companies must take actions in response to changes in the business climate. Changes include heightened measures to hold down healthcare expenditures, such as national health insurance drug price revisions and the increasing use of generic drugs, and the rising cost of R&D programs as well as the associated risk. In addition, the benefits of measures by the Japanese government to increase the use of generic drugs are declining, resulting in a slow decline in the growth rate of the generic drug market.

This fiscal year was 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 are taking 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 focused on the following goals during the current fiscal year (March 1, 2019 to February 29, 2020).

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 8.9% year-over-year to 16,772 million yen, operating profit decreased 54.3% to 558 million yen, ordinary profit was down 56.1% to 582 million yen, and profit attributable to owners of parent was down 54.8% to 381 million yen.

Results by business segment were as follows.

Machinery Business Segment

In the machinery segment, where granulating and coating equipment are the main products, sales and operating profit decreased despite a high level of sales activities. One reason is the negative effect on capital expenditures of slowing growth of the generic drug market and other events. In addition, the pace of sales growth for tablet printers and other new products was slower than planned. Performance was also affected by delays to the next fiscal year of some machinery exported to China because of the COVID-19 crisis in China.

At U.S. subsidiary Freund-Vector Corporation, sales and operating profit decreased because of a large order with low profitability and an increase in fixed expenses. During the fiscal year, this company made substantial capital expenditures aimed at growth, such as expenditures for equipment for displaying and testing products and updating equipment that is displayed.

At Freund-Turbo Corporation, where milling equipment is the core product, sales decreased because China's battery market did not grow as had been expected. This company succeeded at becoming profitable by posting an operating profit due to an increase in sales of products with high profit margins, the result of extensive sales activities.

As a result, net sales decreased 10.1% year-over-year to 11,118 million yen and segment profit decreased 57.8% to 311 million yen.

Chemicals Business Segment

Pharmaceutical excipients used for oral drugs performed well in Japan as demand increased. However, sales and operating profit decreased due to delays at some companies used for outsourced production and a decline in the production volume of 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 intense competition.

As a result, net sales decreased 6.4% year-over-year to 5,654 million yen and segment profit decreased 23.7% to 781 million yen.

(2) Financial Position

Effective from the beginning 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 1,057 million yen from the end of the previous fiscal year to 18,505 million yen at the end of the current fiscal year. This mainly reflected increases in notes and accounts receivable-trade of 841 million yen, work in process of 336 million yen, merchandise and finished goods of 233 million yen, electronically recorded monetary claims-operating of 257 million yen, buildings and structures, net of 255 million yen and machinery, equipment and vehicles, net of 129 million yen, while there was a decrease in cash and deposits of 1,220 million yen.

Total liabilities increased 1,063 million yen from the end of the previous fiscal year to 5,261 million yen at the end of the current fiscal year. This mainly reflected increases in electronically recorded obligations-operating of 785 million yen and notes and accounts payable-trade of 166 million yen.

Net assets decreased 6 million yen from the end of the previous fiscal year to 13,243 million yen at the end of the current fiscal year.

(3) Cash Flows

The balance of cash and cash equivalents at the end of the current fiscal year was 4,314 million yen, down 1,220 million yen over the end of the previous fiscal year (this compares with a decrease of 1,033 million yen in the previous fiscal year).

The cash flow components during the current fiscal year and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash used in operating activities was 27 million yen (compared with net cash provided of 435 million yen in the previous fiscal year). Although there were positive factors including an increase in notes and accounts payable-trade of 921 million yen and depreciation of 386 million yen, there were negative factors including increases in notes and accounts receivable-trade of 1,106 million yen and inventories of 590 million yen.

Cash flows from investing activities

Net cash used in investing activities was 852 million yen (compared with net cash used of 566 million yen in the previous fiscal year). There was a payment for the purchase of property, plant and equipment of 835 million yen.

Cash flows from financing activities

Net cash used in financing activities was 325 million yen (compared with net cash used of 921 million yen in the previous fiscal year). This was mainly the result of cash dividends paid of 333 million yen.

(4) Outlook

The COVID-19 pandemic has sharply reduced economic activity in Japan and around the world. Determining an outlook for the economy is difficult because of uncertainty about when this crisis will end. Upcoming developments will have to be watched closely.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, sales volumes are expected to climb as the populations of countries worldwide age. However, drug price revisions are likely to bring down prices of drugs in Japan. In addition, the benefits of measures by the Japanese government to increase the use of generic drugs are declining, resulting in a slow decline in the growth rate of the generic drug market.

Due to the current business climate, the Freund Group reexamined the Seventh Medium-term Management Plan, which covers the five-year period ending in February 2022, and replaced this plan with the Eighth Medium-term Management Plan, which covers the three-year period ending in February 2023. Further strengthening sales capabilities in the machinery and chemicals businesses is one goal of the new plan. Another goal is building an infrastructure for utilizing the group's technologies for meeting customers' most important needs. All of these initiatives will create a sound base for even more aggressive product development and sales activities worldwide.

Based on these strategies, we expect sales to increase 6.1% year-over-year to 17,800 million yen and operating profit, ordinary profit, and profit attributable to owners of parent to increase 79.1%, 71.6% and 83.5% to 1,000 million yen, 1,000 million yen, and 700 million yen, respectively.

This forecast does not incorporate the possibility of the COVID-19 outbreak becoming a long-term crisis.

For the performance of foreign subsidiaries, we assume an average exchange rate of 105 yen to the U.S. dollar during the fiscal year.

(5) Basic Policy for Profit Distribution, and Dividends in the Current and Next Fiscal Years

Maximizing shareholder value is the highest priority of the Freund. Our policy is to use the benefits of higher shareholder value for earnings distributions to shareholders while retaining earnings for making the company stronger in order to adapt swiftly and accurately to changes in the operating environment.

The basic policy for the distribution of earnings is to make distributions based on results of operations. The target for the annual consolidated dividend payout ratio is 30%. We will maintain stable distributions while taking into account the need for retained earnings in order to build a stronger base of operations and take actions aimed at growth.

For the current fiscal year, we plan to pay an ordinary year-end dividend of 20 yen per share, the same as for the previous fiscal year. Although the consolidated dividend payout ratio increased significantly because of the big decline in earnings, there is no change in the dividend due to the policy of consistently paying a stable dividend.

The dividend forecast for the fiscal year ending February 28, 2021 has not been determined at this time.

2. Basic Approach to the Selection of Accounting Standards

The Group has a policy of preparing its consolidated financial statements using Japanese GAAP to permit comparisons with other fiscal years as well as comparisons with the performance of other Japanese companies.

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

(Thousands of yen)

	FY2/19 (As of Feb. 28, 2019)	FY2/20 (As of Feb. 29, 2020)
Assets		
Current assets		
Cash and deposits	5,534,431	4,314,123
Notes and accounts receivable-trade	4,172,348	5,013,789
Electronically recorded monetary claims-operating	160,222	417,513
Merchandise and finished goods	414,397	647,754
Work in process	1,053,685	1,390,426
Raw materials and supplies	1,007,294	1,013,444
Prepaid expenses	138,074	139,944
Other	239,599	261,804
Allowance for doubtful accounts	(8,869)	(5,471)
Total current assets	12,711,184	13,193,328
Non-current assets		
Property, plant and equipment		
Buildings and structures	2,982,319	3,327,759
Accumulated depreciation	(1,819,365)	(1,909,199)
Buildings and structures, net	1,162,954	1,418,559
Machinery, equipment and vehicles	1,759,916	2,026,554
Accumulated depreciation	(1,253,108)	(1,390,508)
Machinery, equipment and vehicles, net	506,807	636,046
Land	1,239,674	1,231,252
Construction in progress	431,499	530,193
Other	1,419,431	1,423,302
Accumulated depreciation	(991,297)	(1,029,473)
Other, net	428,134	393,828
Total property, plant and equipment	3,769,070	4,209,880
Intangible assets		
Software	15,912	19,811
Other	436	76,270
Total intangible assets	16,349	96,081
Investments and other assets		
Investment securities	351,259	319,151
Business insurance funds	279,209	269,227
Deferred tax assets	160,556	208,497
Retirement benefit asset	1,244	1,530
Other	164,620	213,029
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	951,491	1,006,036
Total non-current assets	4,736,911	5,311,999
Total assets	17,448,096	18,505,327

	(Thousands of yen)	
	FY2/19 (As of Feb. 28, 2019)	FY2/20 (As of Feb. 29, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,587,769	1,754,324
Electronically recorded obligations-operating	582,051	1,367,537
Short-term loans payable	-	32,829
Income taxes payable	151,746	61,729
Accrued expenses	362,769	333,886
Advances received	666,802	775,289
Provision for bonuses	212,735	237,693
Provision for bonuses for directors (and other officers)	30,000	6,000
Other	344,884	454,630
Total current liabilities	3,938,759	5,023,920
Non-current liabilities		
Long-term accounts payable-other	44,064	35,547
Retirement benefit liability	162,460	165,114
Asset retirement obligations	35,131	31,683
Other	17,027	5,113
Total non-current liabilities	258,685	237,458
Total liabilities	4,197,445	5,261,378
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	11,964,299
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,469,928	13,516,050
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,459	13,680
Foreign currency translation adjustment	(265,653)	(298,749)
Remeasurements of defined benefit plans	10,917	12,967
Total accumulated other comprehensive income	(219,276)	(272,101)
Total net assets	13,250,651	13,243,948
Total liabilities and net assets	17,448,096	18,505,327

(2) Consolidated Statements of Income and Comprehensive Income**Consolidated Statement of Income**

(Thousands of yen)

	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)	FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)
Net sales	18,408,237	16,772,877
Cost of sales	12,220,111	11,344,395
Gross profit	6,188,126	5,428,481
Selling, general and administrative expenses	4,964,993	4,870,030
Operating profit	1,223,132	558,450
Non-operating income		
Interest income	5,436	4,380
Dividend income	64,922	7,547
Technical support fee	6,474	5,974
Rent income	1,393	1,266
Foreign exchange gains	2,423	786
Other	24,880	15,442
Total non-operating income	105,530	35,397
Non-operating expenses		
Interest expenses	914	719
Compensation expenses	-	8,373
Other	1,408	1,888
Total non-operating expenses	2,322	10,981
Ordinary profit	1,326,340	582,866
Extraordinary income		
Gain on sales of non-current assets	662	14,231
Gain on sales of investment securities	-	2,200
Gain on redemption of investment securities	23,874	-
Total extraordinary income	24,537	16,431
Extraordinary losses		
Loss on retirement of non-current assets	2,297	26,445
Loss on sales of non-current assets	1,422	1,155
Loss on valuation of investment securities	-	950
Impairment loss	91,520	2,188
Total extraordinary losses	95,239	30,739
Profit before income taxes	1,255,638	568,558
Income taxes-current	400,395	237,283
Income taxes-deferred	11,668	(50,252)
Total income taxes	412,063	187,030
Profit	843,575	381,528
Profit attributable to owners of parent	843,575	381,528

Consolidated Statement of Comprehensive Income

	(Thousands of yen)	
	FY2/19	FY2/20
	(Mar. 1, 2018 – Feb. 28, 2019)	(Mar. 1, 2019 – Feb. 29, 2020)
Profit	843,575	381,528
Other comprehensive income		
Valuation difference on available-for-sale securities	(15,673)	(21,778)
Foreign currency translation adjustment	66,601	(33,096)
Remeasurements of defined benefit plans, net of tax	30,824	2,050
Total other comprehensive income	81,752	(52,825)
Comprehensive income	925,328	328,703
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	925,328	328,703

(3) Consolidated Statement of Changes in Equity

FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,035,600	1,289,513	11,419,492	(201,361)	13,543,245
Cumulative effects of changes in accounting policies					-
Restated balance	1,035,600	1,289,513	11,419,492	(201,361)	13,543,245
Changes of items during period					
Dividends of surplus			(344,890)		(344,890)
Profit attributable to owners of parent			843,575		843,575
Purchase of treasury shares				(572,001)	(572,001)
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	498,684	(572,001)	(73,316)
Balance at end of current period	1,035,600	1,289,513	11,918,177	(773,363)	13,469,928

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	51,132	(332,254)	(19,907)	(301,029)	13,242,215
Cumulative effects of changes in accounting policies					-
Restated balance	51,132	(332,254)	(19,907)	(301,029)	13,242,215
Changes of items during period					
Dividends of surplus					(344,890)
Profit attributable to owners of parent					843,575
Purchase of treasury shares					(572,001)
Net changes of items other than shareholders' equity	(15,673)	66,601	30,824	81,752	81,752
Total changes of items during period	(15,673)	66,601	30,824	81,752	8,436
Balance at end of current period	35,459	(265,653)	10,917	(219,276)	13,250,651

FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,035,600	1,289,513	11,918,177	(773,363)	13,469,928
Cumulative effects of changes in accounting policies			(515)		(515)
Restated balance	1,035,600	1,289,513	11,917,661	(773,363)	13,469,412
Changes of items during period					
Dividends of surplus			(334,890)		(334,890)
Profit attributable to owners of parent			381,528		381,528
Purchase of treasury shares					-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	46,637	-	46,637
Balance at end of current period	1,035,600	1,289,513	11,964,299	(773,363)	13,516,050

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	35,459	(265,653)	10,917	(219,276)	13,250,651
Cumulative effects of changes in accounting policies					(515)
Restated balance	35,459	(265,653)	10,917	(219,276)	13,250,136
Changes of items during period					
Dividends of surplus					(334,890)
Profit attributable to owners of parent					381,528
Purchase of treasury shares					-
Net changes of items other than shareholders' equity	(21,778)	(33,096)	2,050	(52,825)	(52,825)
Total changes of items during period	(21,778)	(33,096)	2,050	(52,825)	(6,187)
Balance at end of current period	13,680	(298,749)	12,967	(272,101)	13,243,948

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)	FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)
Cash flows from operating activities		
Profit before income taxes	1,255,638	568,558
Depreciation	344,822	386,491
Impairment loss	91,520	2,188
Compensation expenses	-	8,373
Amortization of goodwill	24,027	-
Increase (decrease) in provision for bonuses	1,593	25,126
Increase (decrease) in provision for bonuses for directors (and other officers)	(24,300)	(24,000)
Increase (decrease) in allowance for doubtful accounts	(2,209)	(3,270)
Interest and dividend income	(70,358)	(11,927)
Interest expenses	914	719
Foreign exchange losses (gains)	(3,767)	(1,827)
Loss (gain) on sales of property, plant and equipment	759	(13,075)
Loss (gain) on sales of investment securities	-	(2,200)
Loss (gain) on redemption of investment securities	(23,874)	-
Loss (gain) on valuation of investment securities	-	950
Loss (gain) on cancellation of insurance contract	-	321
Loss on retirement of property, plant and equipment	2,297	26,445
Decrease (increase) in notes and accounts receivable-trade	138,522	(1,106,299)
Decrease (increase) in inventories	615,597	(590,227)
Decrease (increase) in other assets	103,788	(94,541)
Increase (decrease) in notes and accounts payable-trade	(700,493)	921,933
Increase (decrease) in advances received	(843,139)	114,548
Increase (decrease) in other liabilities	65,368	66,026
Other, net	(8,157)	(352)
Subtotal	968,548	273,960
Interest and dividend income received	70,358	11,927
Interest expenses paid	(914)	(719)
Proceeds from insurance income	8,312	-
Income taxes refund	-	19,469
Income taxes paid	(610,406)	(324,133)
Other, net	-	(8,373)
Net cash provided by (used in) operating activities	435,898	(27,868)
Cash flows from investing activities		
Purchase of property, plant and equipment	(569,687)	(835,378)
Proceeds from sales of property, plant and equipment	662	30,470
Payments for retirement of property, plant and equipment	(112)	(585)
Purchase of intangible assets	(14,497)	(56,637)
Purchase of investment securities	(4,271)	(2,502)
Proceeds from sales of investment securities	-	4,200
Proceeds from redemption of investment securities	23,874	-
Purchase of insurance funds	(2,913)	-
Proceeds from cancellation of insurance funds	-	9,661
Payments for guarantee deposits	(580)	(1,697)
Proceeds from collection of guarantee deposits	1,185	147
Collection of investments in capital	10	-
Net cash provided by (used in) investing activities	(566,329)	(852,322)

	(Thousands of yen)	
	FY2/19	FY2/20
	(Mar. 1, 2018 – Feb. 28, 2019)	(Mar. 1, 2019 – Feb. 29, 2020)
Cash flows from financing activities		
Increase in short-term loans payable	-	36,389
Purchase of treasury shares	(572,001)	-
Repayments of lease obligations	(5,847)	(3,653)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(25,398)
Cash dividends paid	(343,872)	(333,131)
Net cash provided by (used in) financing activities	(921,721)	(325,794)
Effect of exchange rate change on cash and cash equivalents	18,533	(14,323)
Net increase (decrease) in cash and cash equivalents	(1,033,619)	(1,220,308)
Cash and cash equivalents at beginning of period	6,568,050	5,534,431
Increase in cash and cash equivalents resulting from merger	-	-
Cash and cash equivalents at end of period	5,534,431	4,314,123

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Accounting Policies

ASC Topic 606, Revenue from Contracts with Customers

Consolidated subsidiary Freund-Vector Corporation, which uses U.S. accounting standards, has adopted “Revenue from Contracts with Customers” (ASC Topic 606) effective from the current fiscal year.

Due to the application of this standard, revenue is recognized at an amount that reflects the consideration to which the company expects to be entitled in exchange for promised goods or services when the goods or services are transferred to the customer. The cumulative effect of initially applying this standard is recognized at the date of initial application and included in retained earnings as of that time in accordance with the transitional measures of ASC Topic 606.

The effect of this change is insignificant in the current fiscal year.

Reclassifications

Effective from the beginning 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

1. Overview of reportable segment

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The primary business activities of the Group include manufacture and sale of machinery and chemical products. Consequently, the Group has two reportable business segments: the Machinery Business and the Chemicals Business.

Main products and services of each reportable segment

Machinery Business: Granulating devices; construction of granulating machinery plants; measuring instruments and parts; and outsourced granulation of synthetic resins

Chemicals Business: Pharmaceutical excipients and dietary supplements; food preservatives; R&D, formulation studies and other projects for pharmaceuticals, food, chemicals and other products; and development and technology licensing of new dosage forms of pharmaceutical products

2. Calculation method for net sales, profit or loss, assets, liabilities, and other items for each reportable segment

The accounting policies for reportable business segments are generally the same as those described in “Significant Accounting Policies in the Preparation of Consolidated Financial Statements.”

Segment profit (loss) for reportable business segments are based on operating profit (loss).

Inter-segment sales are based on prices used for third-party transactions.

3. Information related to net sales, profit or loss, assets, liabilities, and other items for each reportable segment

FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	12,368,175	6,040,062	18,408,237	-	18,408,237
Inter-segment sales and transfers	-	-	-	-	-
Total	12,368,175	6,040,062	18,408,237	-	18,408,237
Segment profit	737,344	1,024,775	1,762,119	(538,986)	1,223,132
Segment assets	7,687,008	4,131,509	11,818,518	5,646,788	17,465,307
Other items					
Depreciation	216,401	122,252	338,653	6,168	344,822
Increase in property, plant and equipment and intangible assets	431,179	194,543	625,723	1,872	627,595

Notes: 1. Contents of adjustments are as follows.

- (1) The negative adjustment of 538,986 thousand yen to segment profit is 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) The 5,646,788 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of the Company's surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of the Company.
- (3) The 6,168 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.
- (4) The 1,872 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.

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

FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	11,118,858	5,654,018	16,772,877	-	16,772,877
Inter-segment sales and transfers	-	-	-	-	-
Total	11,118,858	5,654,018	16,772,877	-	16,772,877
Segment profit	311,116	781,690	1,092,806	(534,356)	558,450
Segment assets	9,167,797	4,197,371	13,365,169	5,140,158	18,505,327
Other items					
Depreciation	250,634	130,195	380,829	5,662	386,491
Increase in property, plant and equipment and intangible assets	660,048	290,799	950,848	348	951,196

Notes: 1. Contents of adjustments are as follows.

- (1) The negative adjustment of 534,356 thousand yen to segment profit is 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) The 5,140,158 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of the Company's surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of the Company.
 - (3) The 5,662 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.
 - (4) The 348 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.
2. Segment profit is adjusted to be consistent with operating profit recorded in the consolidated statement of income.

Related information

FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales

(Thousands of yen)

Japan	US	Latin America	Europe	Other	Total
12,999,738	1,495,414	1,826,445	410,294	1,676,345	18,408,237

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

(2) Property, plant and equipment

(Thousands of yen)

Japan	US	Italy	Total
2,781,445	883,173	104,451	3,769,070

3. Information by major client

Not applicable.

FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales (Thousands of yen)

Japan	US	Latin America	Europe	Other	Total
12,195,441	1,393,026	1,502,174	557,828	1,124,406	16,772,877

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

(2) Property, plant and equipment (Thousands of yen)

Japan	US	Italy	Total
2,973,552	1,147,321	89,006	4,209,880

3. Information by major client

Not applicable.

Information related to impairment losses on non-current assets for each reportable segment

FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)

In the Machinery Business segment, Freund-Turbo Corporation has recognized impairment losses related to non-current assets of 23,443 thousand yen as this company's earnings are no longer expected to reach the levels indicated in the initial plan.

FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)

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.

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)

Goodwill amortization of 24,027 thousand yen was recorded in the Machinery Business segment. The Company recognized an impairment loss of 68,076 thousand yen and no unamortized balance.

FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)

Not applicable.

Information related to gain on bargain purchase for each reportable segment

Not applicable.

Per Share Information

(Yen)

	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)	FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)
Net assets per share	791.34	790.94
Net income per share	50.15	22.79

Notes: 1. Diluted net income per share is not presented since the Company has no outstanding dilutive shares.

2. The basis of calculating the net income per share is as follows:

(Thousands of yen)

	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)	FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)
Profit attributable to owners of the parent	843,575	381,528
Amounts not attributable to common shareholders	-	-
Profit attributable to common shareholders of parent	843,575	381,528
Average number of common shares outstanding during the period (Thousand shares)	16,821	16,744

Subsequent Events

Not applicable.

4. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)		FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	11,839,221	102.8	10,227,445	86.4
Chemicals Business	735,777	119.5	779,421	105.9
Total	12,574,998	103.7	11,006,867	87.5

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	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)		FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	5,428,628	93.2	4,695,673	86.5
Chemicals Business	126,632	150.5	201,345	159.0
Total	5,555,261	94.0	4,897,018	88.2

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	FY2/19 (Mar. 1, 2018 – Feb. 28, 2019)		FY2/20 (Mar. 1, 2019 – Feb. 29, 2020)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	12,368,175	67.2	11,118,858	66.3
Chemicals Business	6,040,062	32.8	5,654,018	33.7
Total	18,408,237	100.0	16,772,877	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.