

FREUND CORPORATION

STANDARD
TOKYO

(Securities code: 6312)

Results of Operations for the First Half of the Fiscal Year Ending February 28, 2023

October 25, 2022

 **FREUND**

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Consolidated Financial Summary for 1H of FY2/23



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Consolidated Financial Summary

- Sales were up and earnings were down YoY, resulting in an operating loss and a bottom-line loss.
- Machinery business sales remained almost unchanged while chemicals business sales increased driven by strong sales of both pharmaceutical excipients and food preservatives.
- In the machinery business, earnings were down as shipping finished products delayed mainly in the U.S. as a result of prolonging time to purchase parts/materials, and the cost of raw materials increased due to rapid inflation.

(Millions of yen)	FY2/22 1H	FY2/23 1H	YoY change	
			Amount	%
Net sales	8,048	8,534	+486	+6.0
Operating profit	293	(67)	(361)	-
Ordinary profit	314	32	(282)	(89.6)
Profit	204	(17)	(222)	-
Earnings per share (yen)	12.24	(1.02)	(13.26)	-
Orders received	7,695	8,409	+714	+9.3
Order backlog	9,034	14,275	+5,241	+58.0
Capital investment	239	329	+89	+37.4
Depreciation	299	275	(23)	(7.9)
R&D expenses	308	301	(6)	(2.2)

Machinery Business: Overview

- Net sales
 - Basically no change in sales from 1H FY2/22.
 - In Japan, sales decreased because of delays in the timing of some sales and the long time needed to purchase semiconductors and other parts/materials.
 - Higher sales at the U.S. subsidiary offset the sales decline in Japan.
- Operating profit
 - An operating loss mainly due to the loss at the U.S. subsidiary for the following reasons:
 - ✓ Continuing delays in the procurement of parts and materials caused by U.S. labor shortages and supply chain disruptions
 - ✓ Lower profit margins as inflation rapidly raises the cost of raw materials
- Orders received and order backlog
 - Orders were strong, mainly in Japan, and the order backlog significantly increased to an all-time high.

(Millions of yen)	FY2/22	FY2/23	YoY change	
	1H	1H		%
Net sales	5,366	5,420	54	+1.0
Operating profit	210	(268)	(478)	-
Orders received	7,695	8,409	+714	+9.3
Order backlog	9,034	14,275	+5,241	+58.0

Machinery Business: Group Company Performance (Sales/Operating Profit)

- Freund Corporation: Sales and earnings in Japan were down as a result of delays in some projects and sluggish overseas sales.
- Freund-Vector: Despite the year-on-year increase in sales, operating loss was recorded due to a decline in profit margin caused mainly by delayed shipments and soaring raw material prices.
- Freund-Turbo: While sales slightly decreased from the previous year, an operating loss was recorded due to a decline in gross profit margin caused by a delay in the production of high-margin products.
- Cos.Mec: An operating loss was recorded as fixed costs could not be absorbed due to sluggish sales in 2Q. However, the deficit improved.

(Millions of yen)	FY2/22	FY2/23	YoY change	
	1H	1H		%
Net sales	5,366	5,420	+54	+1.0
FREUND CORPORATION	2,903	2,468	(434)	(15.0)
FREUND-VECTOR	1,516	2,165	+648	+42.8
FREUND-TURBO	773	739	(34)	(4.4)
Cos.Mec	422	439	+17	+4.1
Operating profit	210	(268)	(478)	—
FREUND CORPORATION	250	62	(187)	(74.9)
FREUND-VECTOR	(3)	(252)	(248)	—
FREUND-TURBO	56	(17)	(74)	—
Cos.Mec	(61)	(27)	+33	—

Machinery Business: Group Company Performance (Orders Received/Order Backlog)

- Freund Corporation: The order backlog increased to an all-time high due to the receipt of large orders from generic drug companies.
- Freund-Vector: A big decline in orders compared to one year earlier, in which a large order was received, but the order backlog remains high.
- Freund-Turbo: Large volume of orders and order backlog, mainly for the chemical industries.
- Cos.Mec: Big increase in the order backlog to the level exceeding sales in the previous fiscal year.

(Millions of yen)	FY2/22	FY2/23	YoY change	
	1H	1H		%
Orders received	7,695	8,409	+714	+9.3
FREUND CORPORATION	3,454	5,294	+1,839	+53.2
FREUND-VECTOR	3,382	1,993	(1,389)	(41.1)
FREUND-TURBO	659	908	+249	+37.9
Cos.Mec	365	349	(16)	(4.5)
Order backlog	9,034	14,275	+5,241	+58.0
FREUND CORPORATION	5,212	8,005	+2,793	+53.6
FREUND-VECTOR	2,838	4,248	+1,410	+49.7
FREUND-TURBO	518	969	+450	+86.9
Cos.Mec	619	1,176	+557	+89.9

Machinery Business: Sales by Region

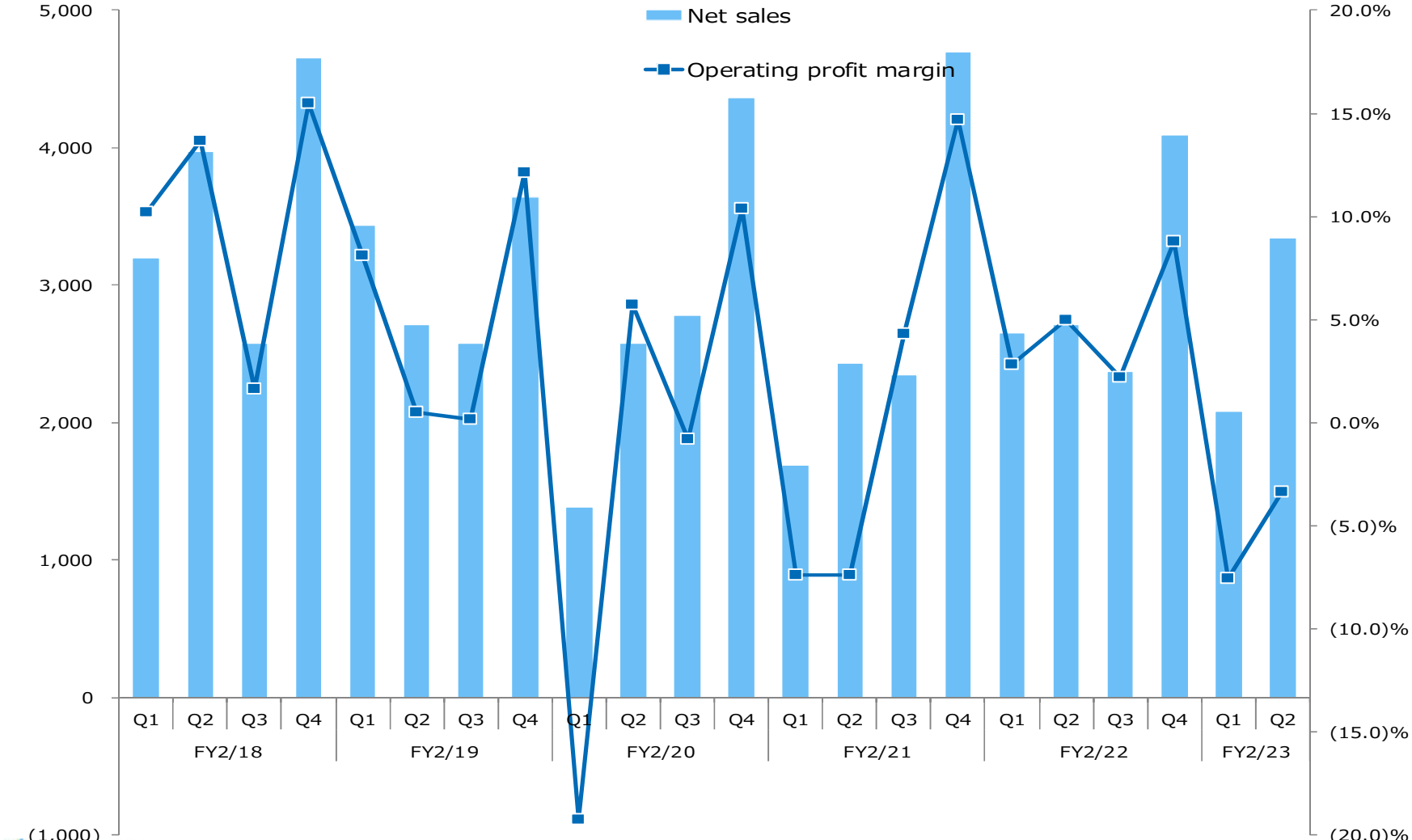
- Japan: Sales down mainly because of a delay in the recognition of some sales.
- Overseas: A big increase in sales due to higher sales in the U.S. subsidiary to Latin America and Asia.
In Latin America, sales in Brazil were strong and in Asia sales in China and India were strong.

(Millions of yen)	FY2/22 1H		FY2/23 1H	
	Amount	YoY change (%)	Amount	YoY change (%)
Net sales	5,366	+30.1	5,420	+1.0
Japan	3,095	+3.5	2,574	(16.8)
Overseas	2,270	+99.8	2,846	+25.4
USA	777	+94.1	677	(12.8)
Latin America	442	+269.5	717	+62.0
Europe	396	+185.2	275	(30.5)
Asia	513	+49.2	1,119	+117.9
Others	139	+5.6	56	(59.8)

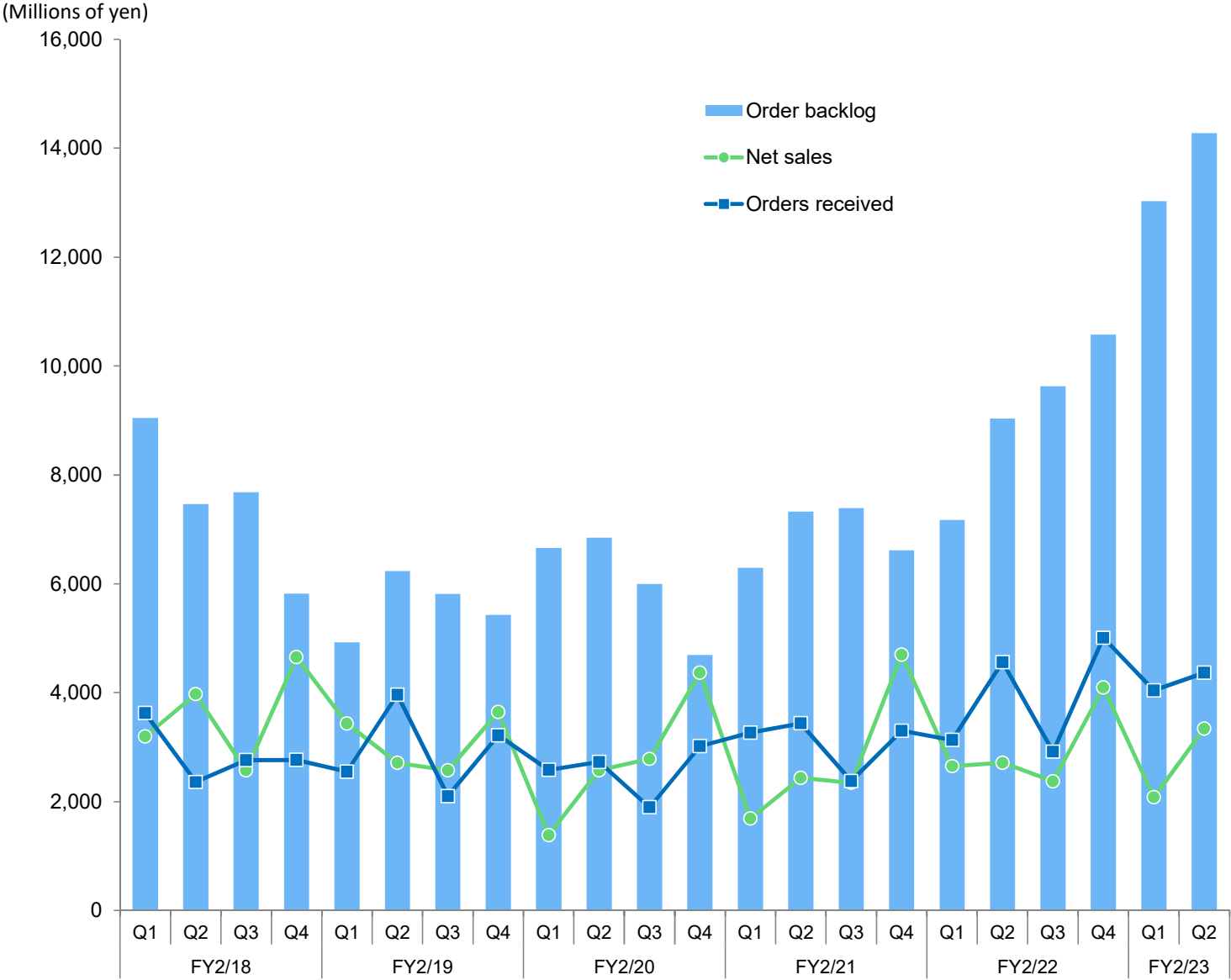
Machinery Business: Quarterly Results

Net sales
(Millions of yen)

Operating profit margin



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



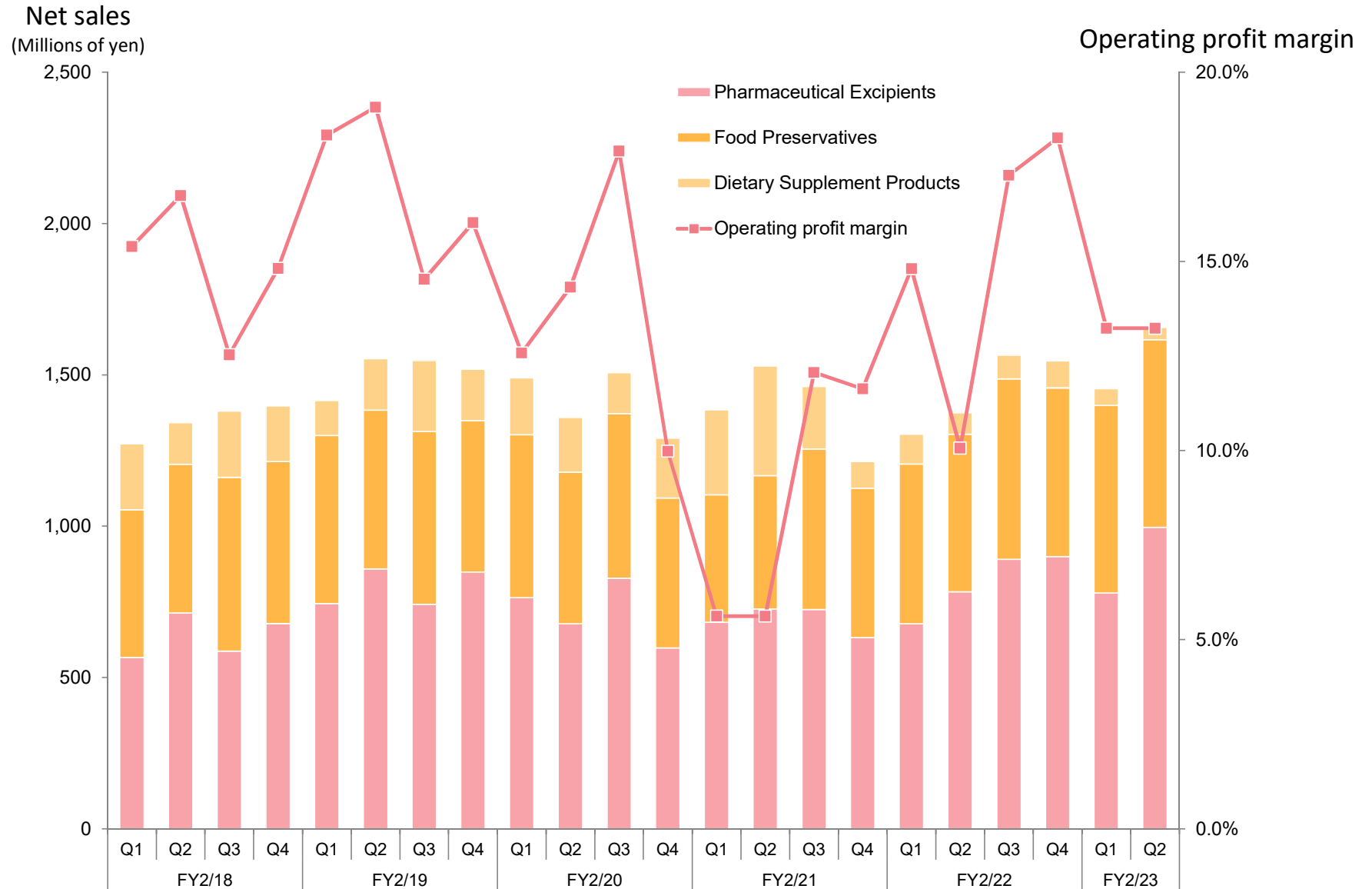
Chemicals Business: Overview

- Net sales
 - ▣ Pharmaceutical excipients: Sales increased in Japan and other countries and are growing at a pace that is expected to result in fiscal year sales that surpass the prior fiscal year's all-time high.
 - ▣ Food preservatives: Higher sales driven by increasing demand in the confectionery and e-commerce bread sales categories. Sales at a level that is expected to exceed the prior fiscal year's all-time high.
 - ▣ Dietary supplement: Sales declined following the termination of a contract from a major customer.
 - ▣ Export: Strong sales to customers in Europe and India.
- Operating profit: Increased due to sales growth and measures to improve the profitability of food preservatives

(Millions of yen)	FY2/22 1H		FY2/23 1H	
	Amount	YoY change (%)	Amount	YoY change (%)
Net sales	2,682	(8.1)	3,113	+16.1
Pharmaceutical Excipients	1,461	+3.7	1,775	+21.6
Food Preservatives	1,049	+21.5	1,241	+18.3
Dietary Supplement Products	171	(73.4)	96	(43.8)
(Export sales)*1	123	+18.2	171	+38.5
Operating profit	331	+45.2	478	+44.1

*1: Sales to Europe, India, South Korea, China and Taiwan, etc.

Chemicals Business: Quarterly Results (by Product Field)



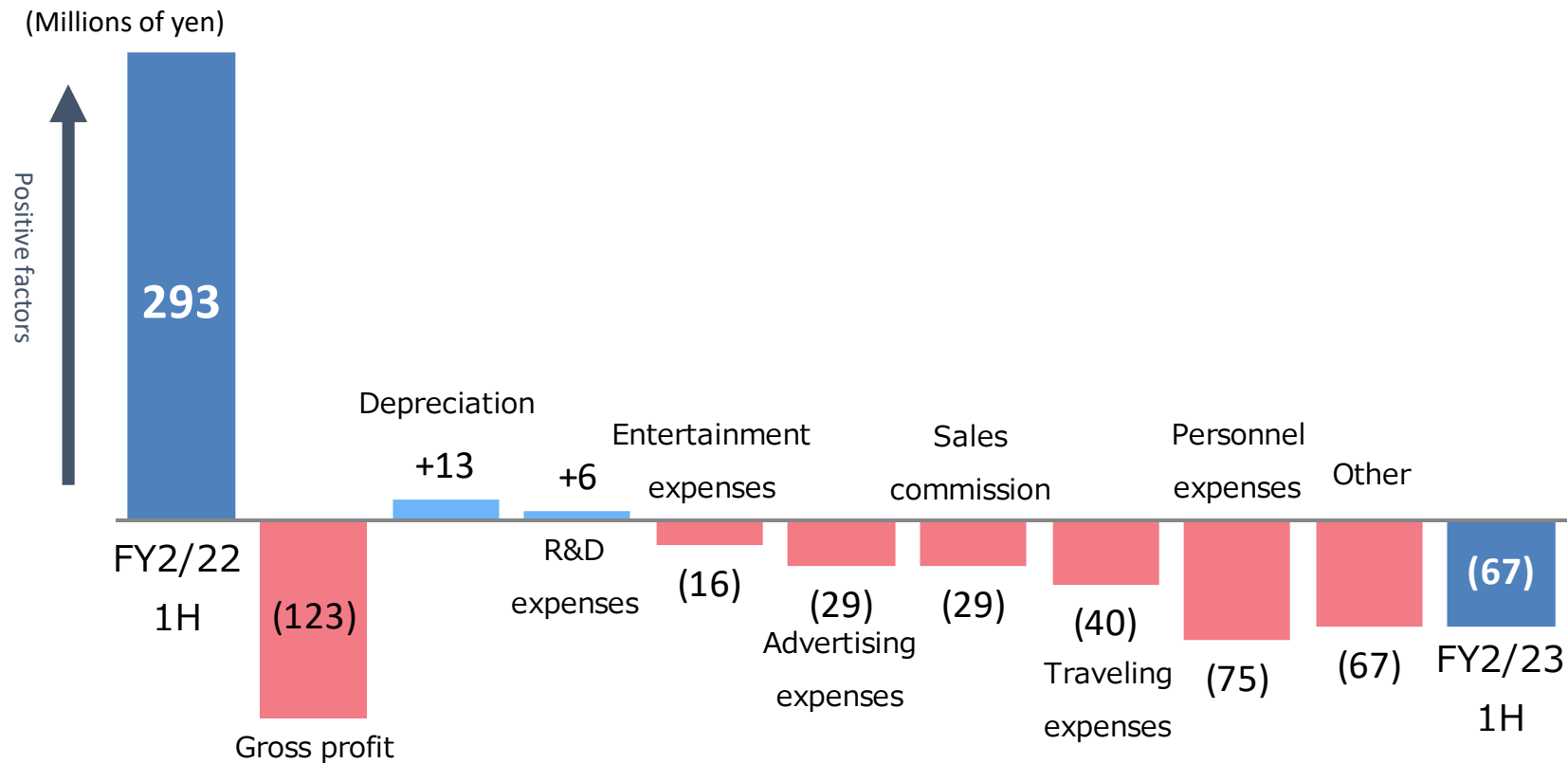
Summary of Consolidated Statement of Income

- An operating loss as a result of higher SG&A expenses and a lower gross profit due to the higher cost of sales ratio as prices of raw materials rose in Japan and other countries.
- An ordinary profit because of a foreign exchange gain of 95 million yen, which is non-operating income.

(Millions of yen)	FY2/22 1H		FY2/23 1H		YoY change	
	Amount	Composition ratio	Amount	Composition ratio	Amount	%
Net sales	8,048	100.0	8,534	100.0	+486	+6.0
Cost of sales	5,243	65.2	5,853	68.6	+609	+11.6
Gross profit	2,804	34.8	2,681	31.4	(123)	(4.4)
SG&A expenses	2,510	31.2	2,748	32.2	+238	+9.5
Operation profit	293	3.7	(67)	(0.8)	(361)	-
Non-operating income and expenses	20	0.3	100	1.2	+79	+383.3
Ordinary profit	314	3.9	32	0.4	(282)	(89.6)
Extraordinary income and losses	(2)	-	8	0.1	+10	-
Profit before income taxes	312	3.9	40	0.5	(271)	(86.9)
Profit	204	2.5	(17)	(0.2)	(222)	-

Analysis of Change in Consolidated Operating Profit

- The main reason for the operating loss was a smaller gross profit caused by rising prices of raw materials.
- SG&A expenses increased 238 million yen primarily because of higher overseas expenses due to the yen's depreciation and an increase in promotional expenses as the pandemic continues as well as an increase in personnel expenses.



Summary of Consolidated Balance Sheet

- Inventories and short-term loans payable increased because of delays in shipments at the U.S. subsidiary caused by the long time needed to purchase parts and materials.

(Millions of yen)	FY2/22-End	FY2/23 1H	Change
Current assets	15,004	15,296	+291
Cash and deposits	4,145	3,638	(506)
Accounts receivable	5,228	4,508	(720)
Inventories	5,090	6,344	+1,254
Non-current assets	7,269	7,735	+465
Property, plant and equipment	4,562	4,710	+147
Intangible assets	1,434	1,649	+214
Investments and other assets	1,271	1,375	+103
Total assets	22,273	23,031	+757
Current liabilities	7,035	7,450	+414
Accounts payable	2,743	2,138	(605)
Short-term loans payable	27	990	+963
Contract liabilities (Advances received)	2,805	2,962	+156
Non-current liabilities	883	886	+3
Total liabilities	7,919	8,337	+418
Total net assets	14,354	14,694	+339
Total liabilities and net assets	22,273	23,031	+757

Summary of Consolidated Statement of Cash Flows

- Negative operating cash flows because of higher inventories; internal cash and loans were used to offset the negative free cash flow.

(Millions of yen)	FY2/22 1H	FY2/23 1H
Cash flows from operating activities	504	(946)
Profit before income taxes	312	40
Depreciation	299	275
Decrease (increase) in notes and accounts receivable - trade	824	884
Decrease (increase) in inventories	(680)	(717)
Increase (decrease) in notes and accounts payable - trade	(762)	(674)
Income taxes paid	(196)	(236)
Cash flows from investing activities	(351)	(270)
Purchase of property, plant and equipment	(310)	(130)
Purchase of intangible assets	(67)	(160)
Cash flows from financing activities	(416)	541
Short-term loans payable	(43)	900
Cash dividends paid	(334)	(334)
Net increase (decrease) in cash and cash equivalents	(239)	(506)
Cash and cash equivalents at end of period	4,258	3,638
Free cash flow	153	(1,217)

Consolidated Earnings and Dividend Forecasts for FY2/23



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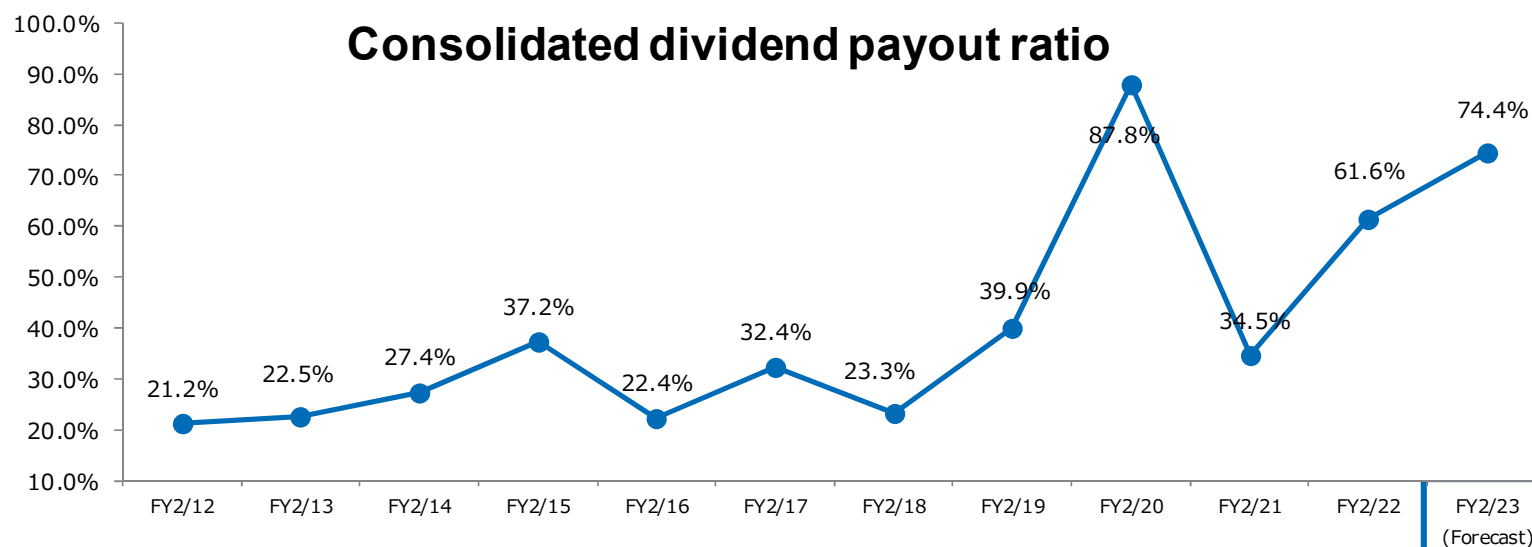
Summary of Consolidated Forecasts

- The full year consolidated forecasts remain unchanged from the forecast announced at the beginning of the fiscal year.
- Focusing on deliveries and closings of existing orders during the second half as tight supplies of parts/materials in Japan and other countries extend lead times and prices of parts/materials are expected to remain high.

(Millions of yen)	FY2/22	FY2/23	YoY change	
	(Actual)	(Forecast)	Amount	%
Net sales	17,632	18,500	+867	+4.9
Operating profit	981	700	(281)	(28.7)
Ordinary profit	1,032	720	(312)	(30.3)
Profit	543	450	(93)	(17.2)
Earnings per share (yen)	32.46	26.87	(5.59)	(17.2)

Summary of Dividend Forecasts

- Dividend per share for FY2/22 was 20 yen.
- To maintain dividend stability, forecast no change in the dividend for FY2/23.



Profit (¥ million)	608	765	787	695	961	1,064	1,477	843	381	970	543	450
Dividend per share (yen)	7.5	10.0	12.5	15.0	12.5	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Number of shares outstanding (Thousand shares)	9,200	9,200	9,200	9,200	9,200	18,400	18,400	18,400	18,400	18,400	18,400	18,400

Note: Freund conducted a 2-for-1 common stock split on June 1, 2009 and March 1, 2016.
The dividends per share for FY2/16 and earlier have been adjusted to reflect the stock split.

(Supplementary Materials)

- Company Overview
- Segment Information

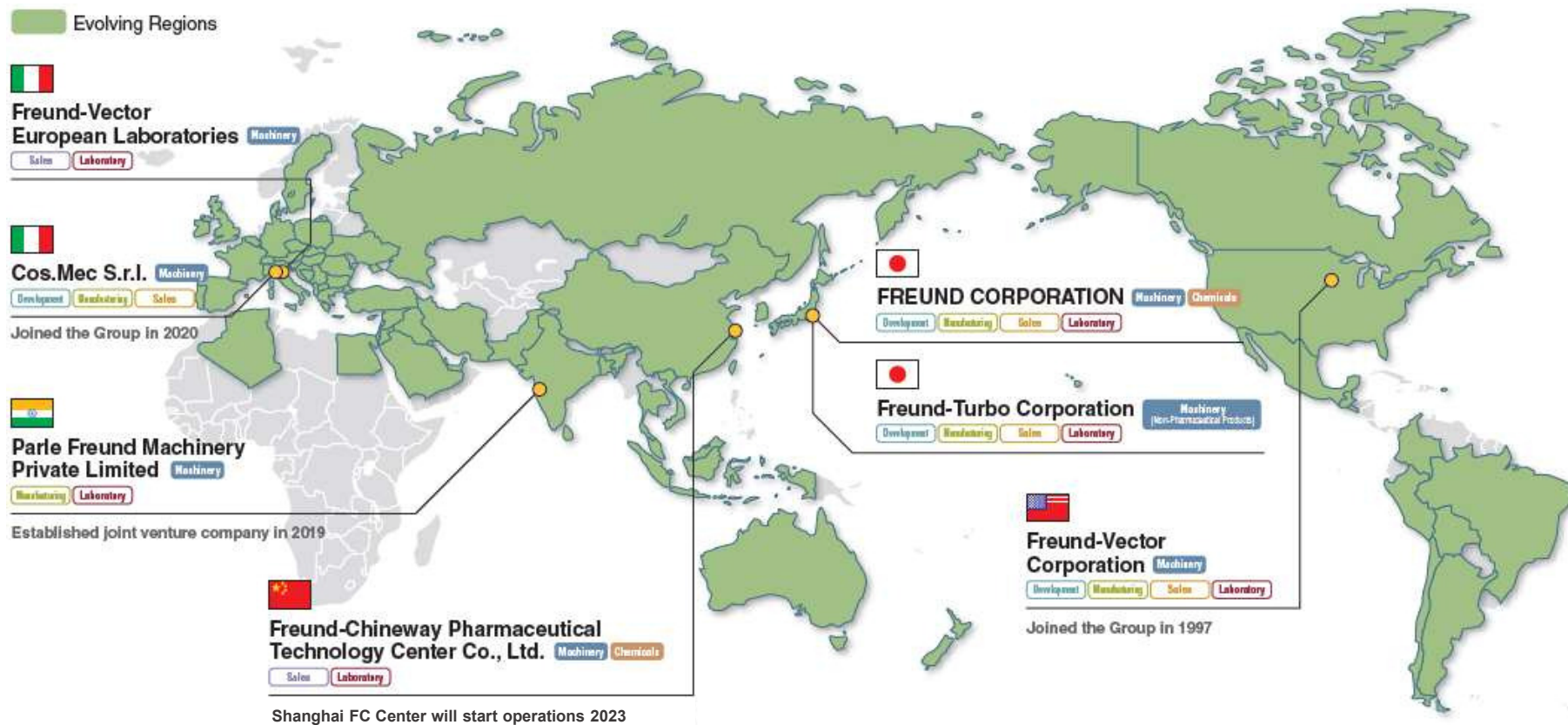


Company Overview

● Company name	:	Freund Corporation
● Established	:	April 1964
● Representative	:	Iwao Fusejima, President & CEO
● Location	:	6-25-13 Nishi-shinjuku, Shinjuku-ku, Tokyo, Japan
● Paid-in capital	:	1,035,600,000 yen (As of August 31, 2022)
● Sales	:	17,600 million yen (Fiscal year ended February 2022, consolidated)
● Number of employees	:	482 (As of August 31, 2022, consolidated)
● Business	:	Machinery business- Manufacturing and sales of granulation and coating equipment and others Chemicals business- Manufacturing and sales of pharmaceutical excipients, food preservatives, and others
● Group companies	:	Freund-Vector Corporation, Freund-Turbo Corporation, Cos.Mec s.r.l., Parle Freund Machinery Private Limited Freund-Chineway Pharmaceutical Technology Center Co.,Ltd.

Using innovative technologies for rapid growth outside Japan

Dedicated to creating new value unique to the Freund Group while basing operations on the group's "ONE FREUND" philosophy for our values.



Our “Pen” (Machinery) and “Ink” (Chemicals) Business Model

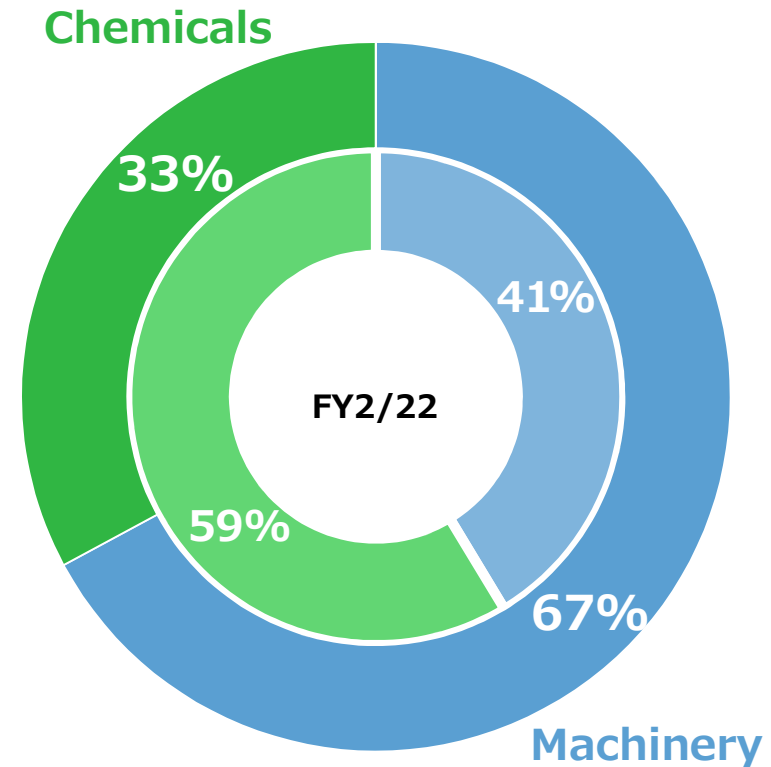
1. Machinery Business Segment

- Manufacturing and sales of **granulation and coating equipment** for the pharmaceutical, food, and fine chemical industries.
- For coating equipment, Freund **ranks first in Japan** and sales growth is accelerating in Asian market and in Freund-Vector’s US and European operations. **No other company in the world has expertise in both drug formulation technologies and the associated machinery.**
- Aiming to increase sales of machinery for industrial applications too by **combining granulating and coating technologies with milling and sieving technologies.**

2. Chemicals Business Segment

- Manufacturing and sales of **pharmaceutical excipients, food preservatives, nutritional supplements, and others.**
- Freund uses **Good Manufacturing Practice (GMP) compliant equipment** to produce pharmaceutical excipients.
- Food preservatives made by Freund help ensure the safety of food by maintaining the quality of many types of products.
- By using its granulating and coating technologies, Freund has worked with customers to develop and commercialize nutritional supplements and seamless mini-capsules.

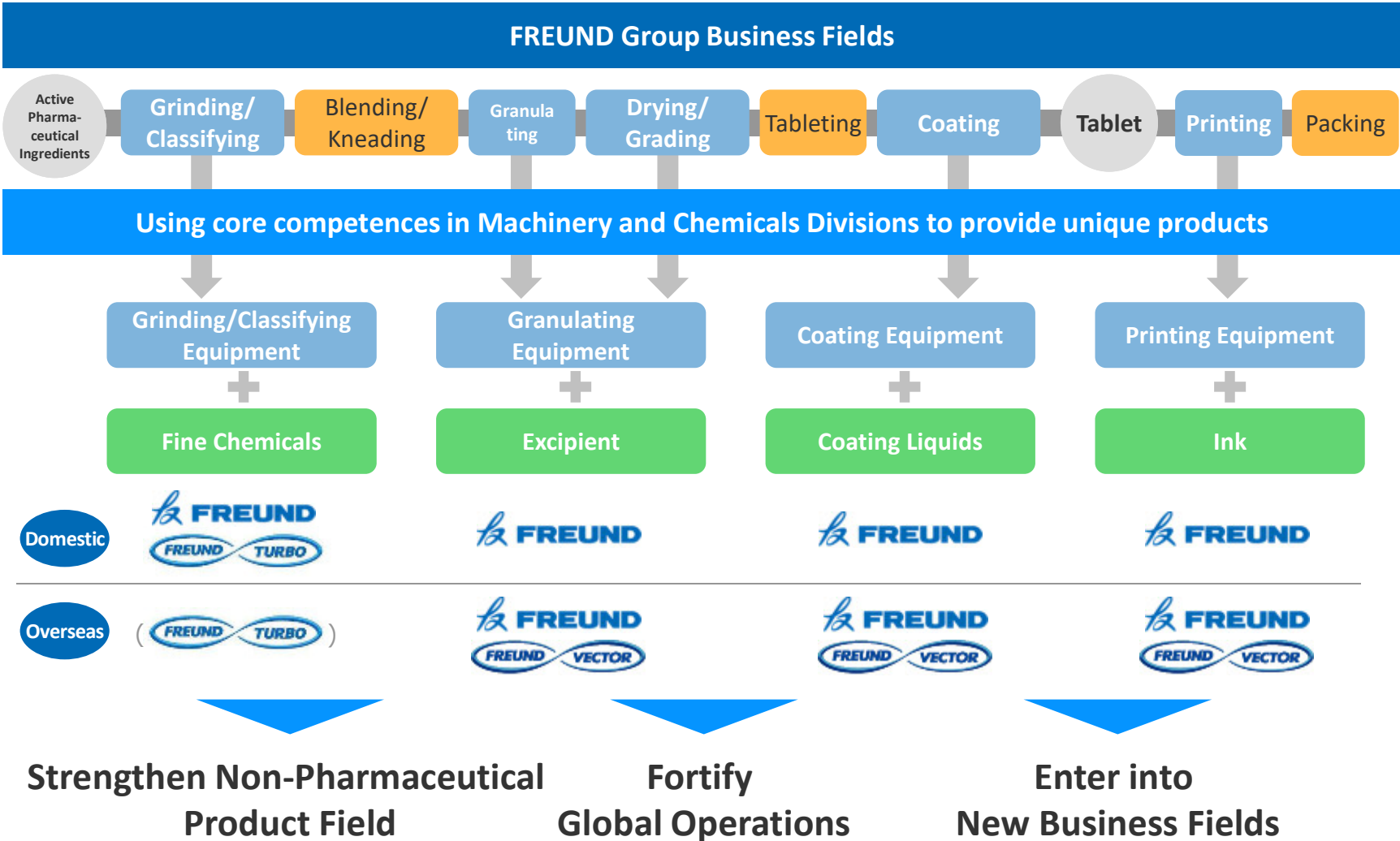
Composition of Net Sales and Profit by Segment



Consolidated sales: ¥17.63 billion
Consolidated operating profit: ¥0.98 billion

Freund Group's Business Fields

- FREUND Group's business fields based upon pharmaceutical products manufacturing processes



The Freund Group Disclosure Policy

1. Basic disclosure policy

Freund positions the transparency of management as an important responsibility in order to be a company that can be a trusted member of society. To maintain this transparency, we always disclose information about the company in a manner that is fair and timely from the standpoint of all stakeholders.

2. Standard for disclosure

Freund discloses information in compliance with the Companies Act, Financial Instruments and Exchange Act, and other applicable laws and regulations. Disclosure also complies with the timely disclosure rules of securities exchanges where the company's stock is traded. In addition, Freund discloses information that is not covered by these laws and regulations and exchange rules in cases where the information is believed to be necessary for investment decisions.

3. Disclosure methods

Freund discloses information by using the Timely Disclosure network (TDnet) of the Tokyo Stock Exchange. To ensure the timeliness and fairness of information announced using TDnet, this information is posted promptly on Freund's website. In addition, press releases and other information are promptly posted on Freund's website and made available in other ways to ensure disclosure fairness and speed. Furthermore, information in Japanese is supplied in English as much as possible to make information available to a large number of stakeholders.

4. Prevention of insider trading

For the prevention of insider trading, Freund's internal rules include provisions concerning basic items that must be observed regarding the proper management of internal information, Freund stock transactions and other matters. There are also activities for ensuring that Freund personnel understand insider trading restrictions and for overseeing stock and other transactions.

5. Silent period

To prevent leaks of information about earnings announcements, as well as to comply with laws and regulations and ensure the fairness of these announcements, Freund has a "silent period" that begins on the day following the end of each fiscal year quarter and ends on the day of the earnings announcement for that quarter. Freund will not reply to any questions concerning results of operations during this period. However, in the event of the possibility that results of operations will differ significantly from the forecast, Freund may disclose this information in accordance with timely disclosure rules.

6. Forward-looking statements

Information disclosed by Freund may contain information about the future other than sales and earnings forecasts, such as information about strategies and business plans. This information is based on the decisions of management by using information that was available at that time. As a result, actual performance may differ significantly from forward-looking statements due to changes in the economy and market conditions and other reasons.

(Established on March 27, 2017)

Investor Relations Policy

Policy concerning constructive dialogues with shareholders and other investors

Freund has a strong commitment to conducting constructive dialogues with shareholders and other investors in order to contribute to the company's sustained growth and mid- to long-term growth in corporate value. By providing clear explanations of management policies, business operations and the corporate culture, Freund aims to earn the understanding of shareholders and other investors in order to continue to receive their support as "Freund fans."

- 1. Investor relations framework** – The Corporate Planning Division responsible for investor relations oversees dialogues with shareholders and other investors under the direct supervision of the company's president. In addition, the president is assisted by a director who is in charge of investor relations.
To support these dialogues, Freund departments involved with dialogues cooperate, such as by preparing and checking disclosure materials and, as needed, sharing information, so that information is disclosed with fairness and speed.
- 2. Stakeholder dialogues** – Freund holds information meetings about results of operations and other subjects following the end of the second quarter and fiscal year. Small meetings are held after the first and third quarters. Information provided at these meetings is posted on Freund's website. When a medium or long-term management plan is established, the company provides a clear explanation of strategic goals and business plans. In addition, Freund frequently visits institutional investors to explain its goals and performance. Freund also participates in investor forums held by securities companies, holds information meetings for individual investors, and conducts other activities for stakeholder dialogues.
The FREUND Integrated Report and other IR documents are distributed to shareholders and posted on Freund's website. This publication contains business and financial information as well as about the company's strengths that do not appear in the financial statements. By providing more information about the Freund Group, this publication aims to help the public understand the true corporate value of the group.
- 3. Feedback of shareholder/investor opinions** – Opinions and other statements by shareholders and other investors at dialogues are passed on to the president, directors and others and the information is shared as needed.
- 4. Management of insider information** – There are no shareholder/investor dialogues during each silent period, which begins on the day following the end of each fiscal year quarter and ends on the day of the earnings announcement for that quarter. Freund handles insider information strictly in compliance with internal rules concerning the management of internal information and restrictions on transactions by Freund personnel.

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