

FREUND CORPORATION

STANDARD
TOKYO

(Securities code: 6312)

Results of Operations for the Fiscal Year Ended February 28, 2023

May 17, 2023

 **FREUND**

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Consolidated Financial Summary for FY2/23



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Consolidated Financial Summary

Net sales

Net sales increased compared to the previous year. The machinery business experienced significant revenue growth, supported in part by higher yen translations of sales at overseas subsidiaries resulting from the depreciation of yen. The chemicals business maintained a strong performance both in pharmaceutical excipients and food preservatives.

Profit

- Profit was lower than in the previous year, mainly in the U.S. subsidiary. The decline can be attributed to factors such as the long time needed to procure parts/materials, shipment delays, and high raw material prices in the machinery business.
- Impairment losses of about 900 million yen as extraordinary losses for goodwill associated with consolidated subsidiary Cos. Mec S.r.l.

(Millions of yen)	FY2/22 Actual	FY2/23			YoY change		Compared to initial plan
		Initial plan (4/13/22)	Revised plan (1/12/23)	Actual	Amount	%	
Net sales	17,632	18,500	19,500	19,658	2,026	11.5%	1,158
Operating profit	981	700	150	451	(530)	(54.0)%	(249)
Ordinary profit	1,032	720	200	559	(473)	(45.9)%	(161)
Profit	543	450	100	(538)	(1,081)	-	(988)
Earnings per share (yen)	32.46	26.87	5.97	(32)	(65)	-	(59)
ROA	2.5%	-	-	(2.4)%	(4.9)%	-	-
ROE	3.9%	-	-	(3.8)%	(7.7)%	-	-

Machinery Business: Overview

Net sales

- In Japan, net sales were negatively affected by shipment delays resulting from factors such as prolonged procurement of components.
- In other countries, particularly at the U.S. subsidiary, net sales exceeded the previous year. This growth, combined with the depreciation of yen offset the decline in sales in Japan.

Operating profit

Operating profit decreased significantly as the U.S. subsidiary incurred losses, which were influenced by the following factors.

- Long time needed to procure components due to a labor shortage and supply chain disruptions in the U.S.; and
- Decrease in profit margin due to higher cost of raw materials caused by rapid inflation.

Orders received and order backlog

- Orders received were strong, driven by the substantial investments in large-scale equipment by generic drug manufacturers in Japan.
- The order backlog reached a record high during the fiscal year and remains high.

(Millions of yen)	FY2/22	FY2/23	YoY change	
			Amount	%
Net sales	11,836	13,448	1,612	13.6%
Operating profit	623	59	(563)	(90.5)%
Orders received	15,621	14,630	(990)	(6.3)%
Order backlog	10,574	12,826	2,252	21.3%

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

Freund Corporation	Sales declined significantly due to the extended lead time for procuring semiconductors and other components as well as for shipments. The rise in raw materials prices had a negative impact on profitability, resulting in lower earnings.
Freund-Turbo	Despite an increase in sales, earnings decreased due to the limited growth in sales of high-margin products and a delay in recognizing certain sales.
Freund-Vector	Despite the significant increase in sales, partly attributed to the depreciation of yen, the company incurred a large loss. This was caused by the tight labor supply, long lead times for procuring parts and materials, and rising cost of raw materials.
Cos.Mec	The company achieved record-high sales and returned to profitability after incurring a loss in the prior year as it successfully completed sales to customers in emerging countries.

(Millions of yen) Before elimination for consolidation	FY2/22	FY2/23	YoY change	
			Amount	%
Net sales	11,836	13,448	1,612	13.6%
Freund Corporation	6,865	5,634	(1,231)	(17.9)%
Freund-Turbo	1,529	1,600	70	4.6%
Freund-Vector	3,135	5,348	2,210	70.5%
Cos.Mec	937	1,714	775	82.7%
Operating profit	623	59	(563)	(90.5)%
Freund Corporation	840	421	(418)	(49.8)%
Freund-Turbo	83	50	(33)	(39.9)%
Freund-Vector	(50)	(410)	(360)	-
Cos.Mec	(162)	95	258	-

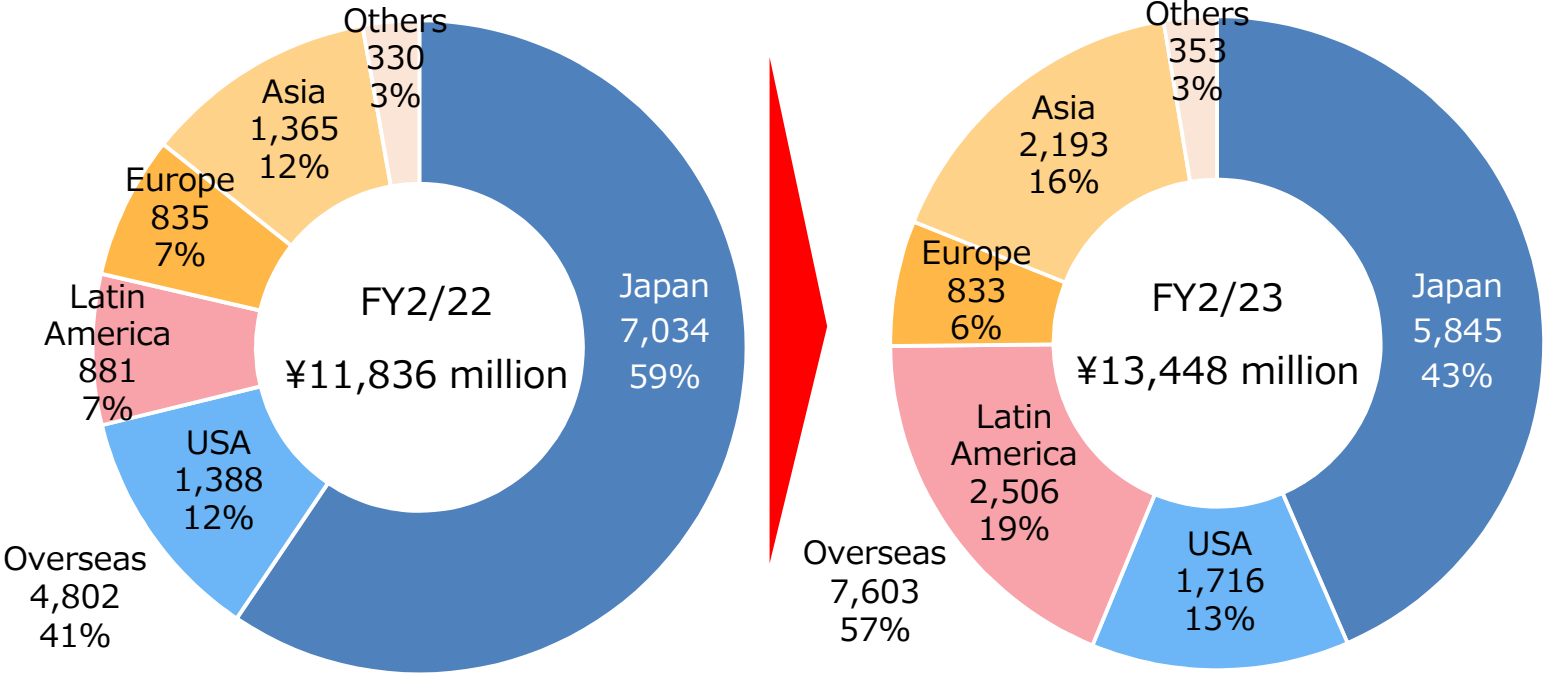
Machinery Business: Group Company Performance (Orders Received/Order Backlog)

Freund Corporation	Order volume surpassed the previous fiscal year, and the order backlog remained high due to many investments in large-scale facilities by generic drug companies in Japan.
Freund-Turbo	The order backlog exceeded the previous fiscal year's performance, partly because of advance orders from customers anticipating extended delivery times caused by the shortage of electronic components.
Freund-Vector	The order backlog decreased compared to the previous fiscal year's record high as products were sold and the volume of new orders was controlled.
Cos.Mec	Although orders and order backlog are below the record-high of the previous fiscal year, the company still has major projects in Asia and Africa.

(Millions of yen) Before elimination for consolidation	FY2/22	FY2/23	YoY change	
			Amount	%
Orders received	15,621	14,630	(990)	(6.3)%
Freund Corporation	7,416	8,157	740	10.0%
Freund-Turbo	1,366	1,517	150	11.1%
Freund-Vector	5,588	3,645	(1,943)	(34.8)%
Cos.Mec	1,447	1,310	(136)	(9.5)%
Order backlog	10,574	12,826	2,252	21.3%
Freund Corporation	5,212	7,835	2,622	50.3%
Freund-Turbo	620	839	219	35.3%
Freund-Vector	3,710	3,173	(536)	-
Cos.Mec	1,183	977	(206)	-

Machinery Business: Sales by Region

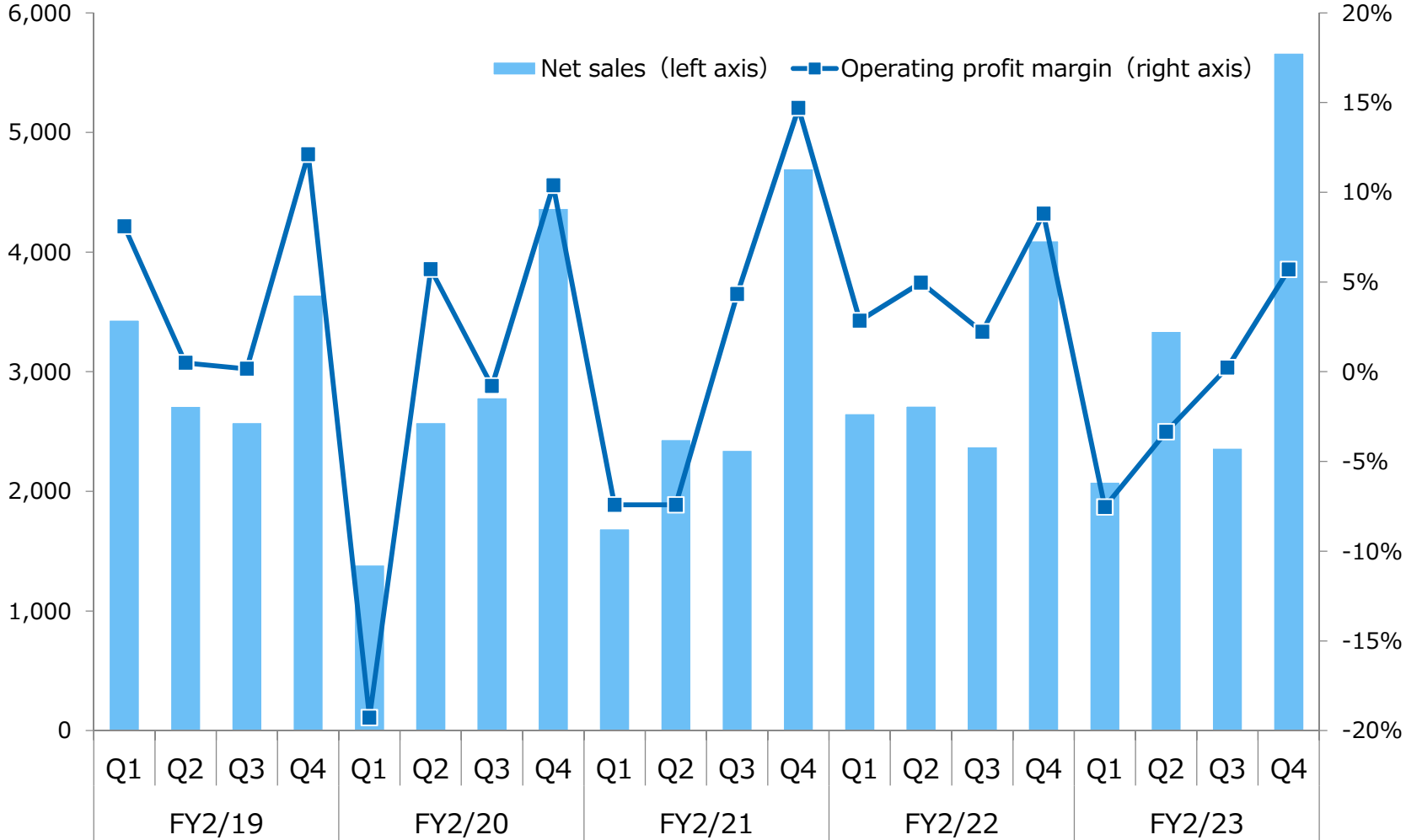
Japan	Sales decreased significantly YoY due to the long lead times for procurement and shipments.
Overseas	At Freund-Vector, sales to Latin America and Asia contributed to their performance. Cos.Mec also benefited from major projects in Latin America and Asia. In addition, the depreciation of the yen contributed to an increase in yen-denominated sales.



Machinery Business: Quarterly Results

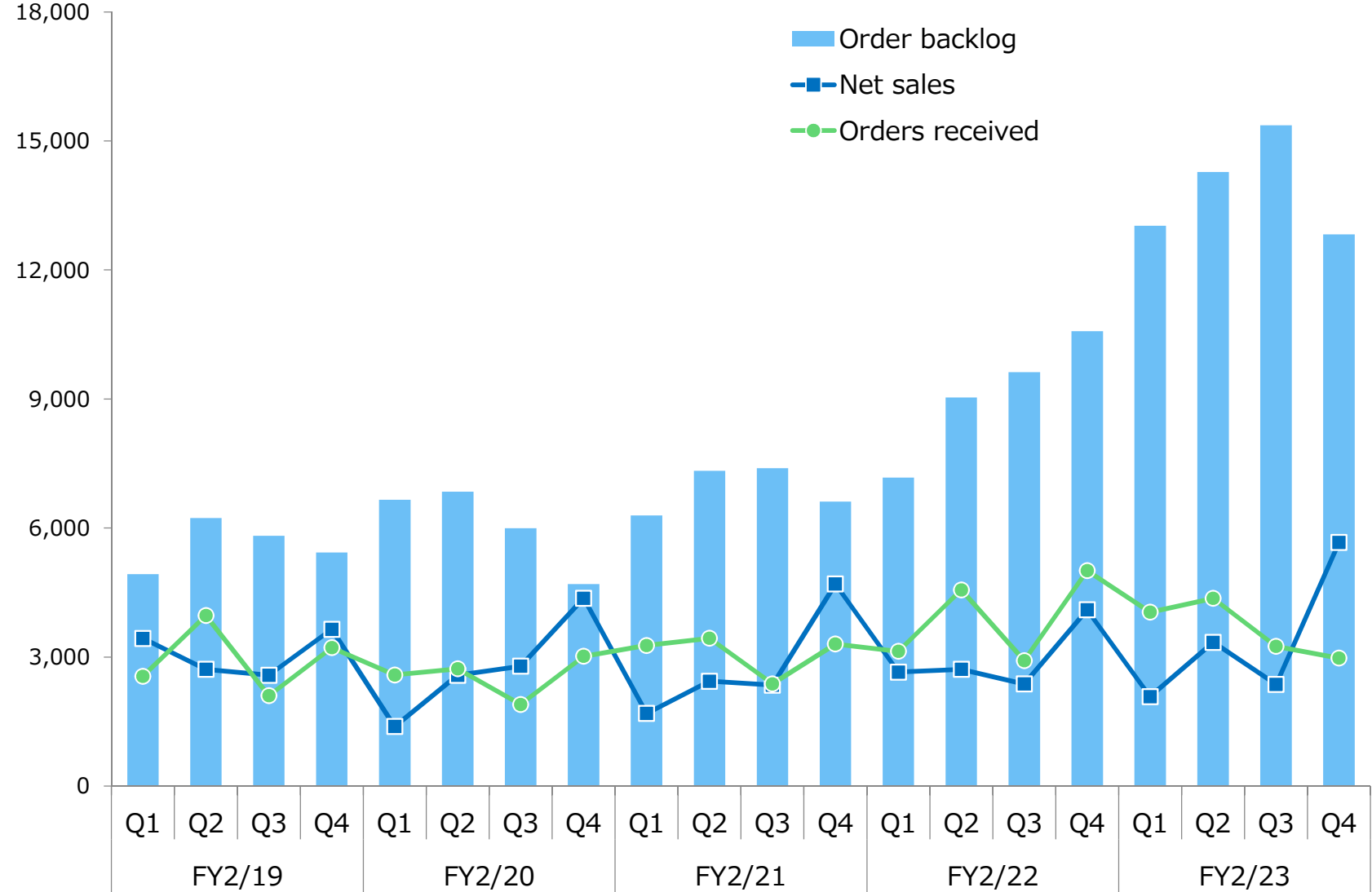
Net sales
(Millions of yen)

Operating profit margin



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

(Millions of yen)



Chemicals Business: Overview

Net sales

Pharmaceutical excipients : Sales remained strong both in Japan and other countries, surpassing the previous year's all-time high.

Food preservatives: Sales remained strong due to increased demand in the confectionery and on-line bread sales sectors. Just as for pharmaceutical excipients, sales exceeded the year's all-time high.

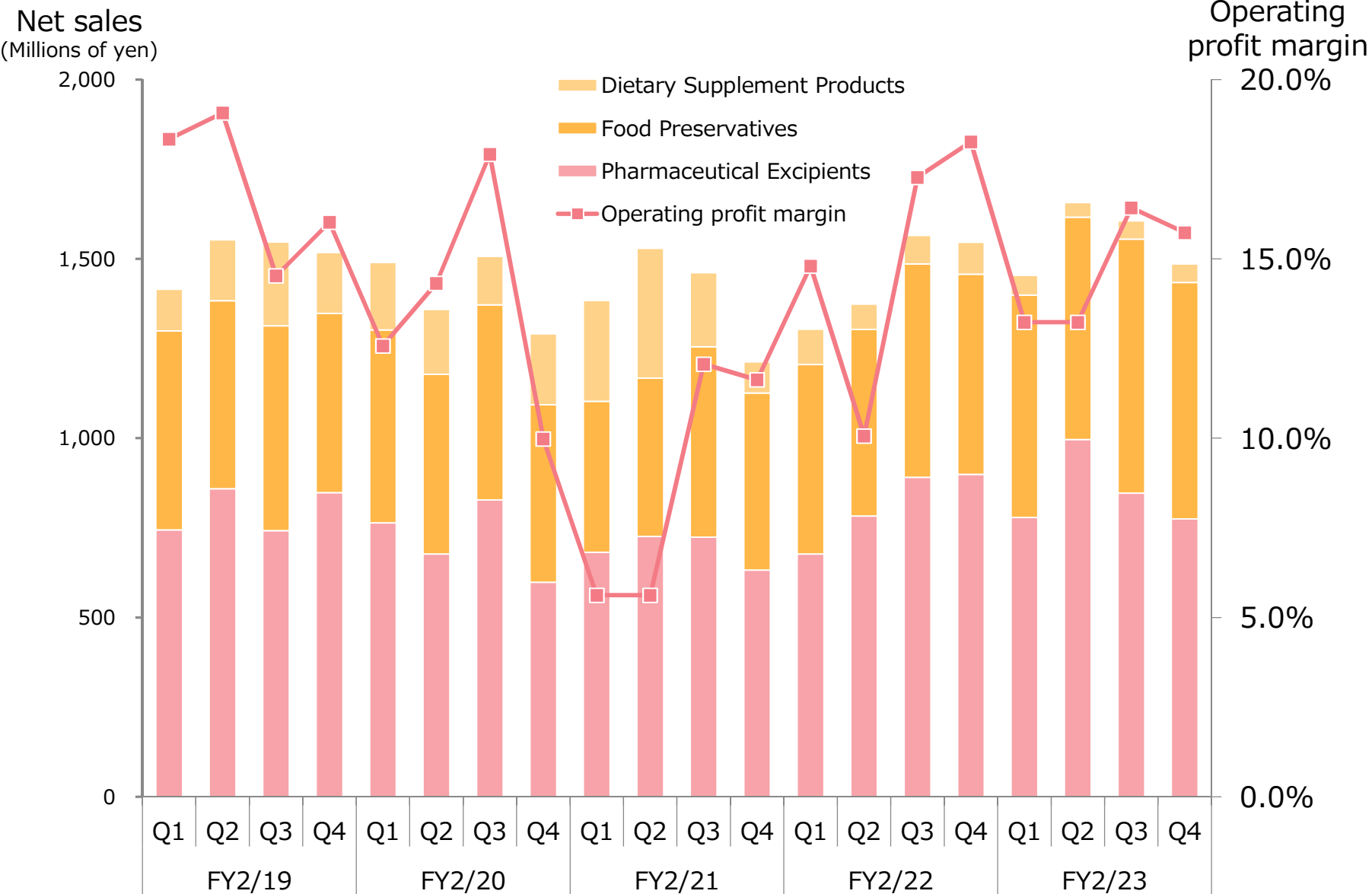
Dietary supplement: Sales declined due to the termination of a contract with a major customer.

Operating profit:

Despite the increase in raw material prices, earnings increased because of a combination of sales growth and improved operating efficiency.

(Millions of yen)	FY2/22	FY2/23	YoY change	
			Amount	%
Net sales	5,795	6,209	413	7.1%
Pharmaceutical Excipients	3,251	3,399	148	4.5%
Food Preservatives	2,204	2,609	405	18.3%
Dietary Supplement Products	340	200	(139)	(41.0)%
(Export sales)	326	339	13	4.0%
Operating profit	884	976	91	10.3%

Chemicals Business: Quarterly Results (by Product Field)



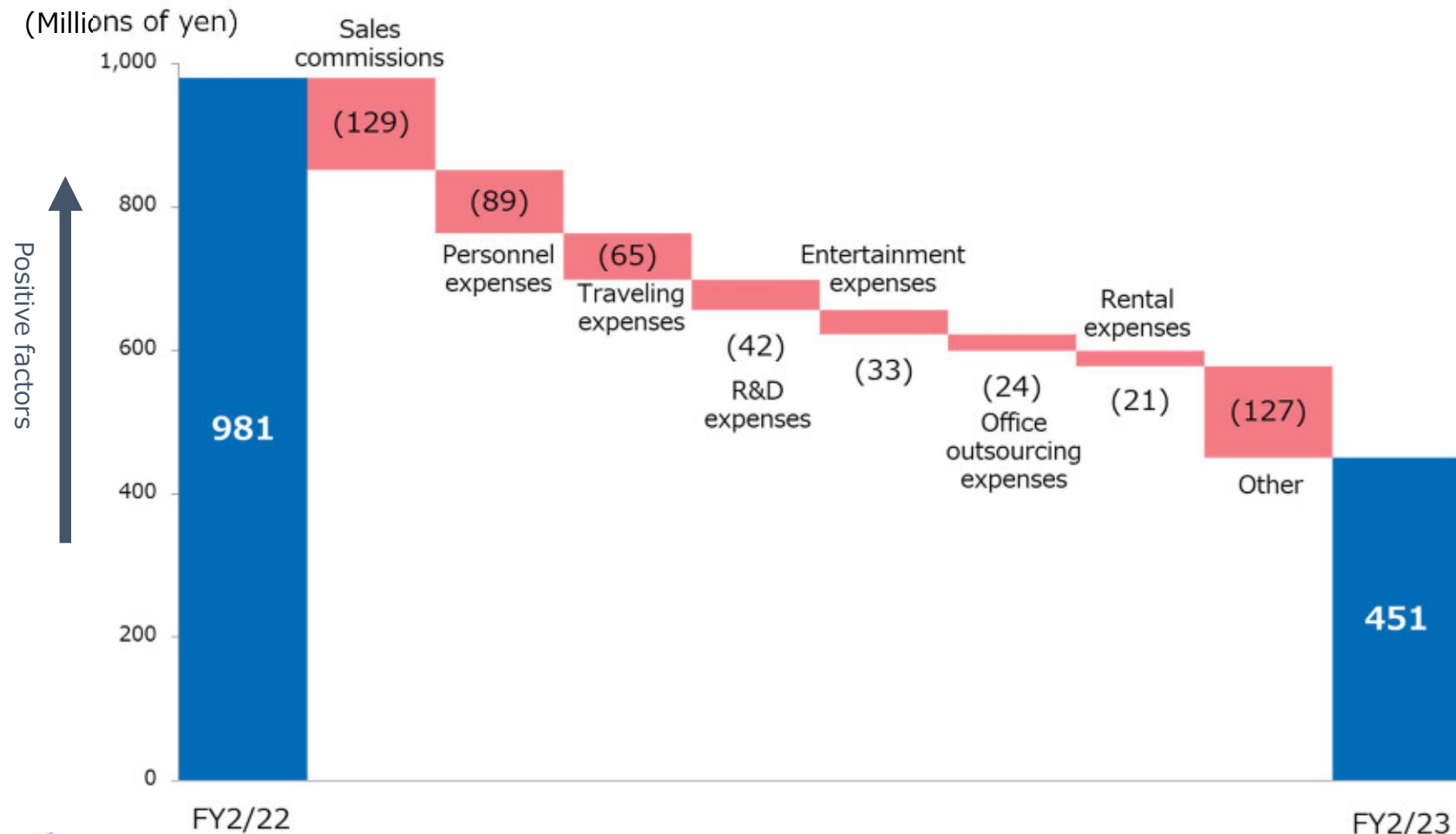
Summary of Consolidated Statement of Income

- The cost of sales ratio increased because of rising prices of raw materials in Japan and other countries, resulting in a decrease in the gross profit margin.
- Despite a significant rise in SG&A expenses, a key factor driving this increase is the higher yen conversions resulting from the depreciation of yen.
- There was a significant foreign exchange gain as non-operating income and impairment losses for goodwill and other items in extraordinary losses were also recognized.

(Millions of yen)	FY2/22		FY2/23		YoY change	
	Amount	Composition ratio	Amount	Composition ratio	Amount	%
Net sales	17,632	100.0	19,658	100.0	2,026	11.5%
Cost of sales	11,620	65.9	13,665	69.5	2,044	17.6%
Gross profit	6,011	34.1	5,993	30.5	(18)	(0.3)%
SG&A expenses	5,030	28.5	5,541	28.2	511	10.2%
Operation profit	981	5.6	451	2.3	(530)	(54.0)%
Non-operating income and expenses	50	0.3	107	0.5	56	114.0%
Ordinary profit	1,032	5.9	559	2.8	(473)	(45.8)%
Extraordinary income and losses	(204)	(1.2)	(965)	(4.9)	(761)	-
Profit before income taxes	828	4.7	(406)	(2.1)	(1,234)	-
Profit	543	3.1	(538)	(2.7)	(1,081)	-

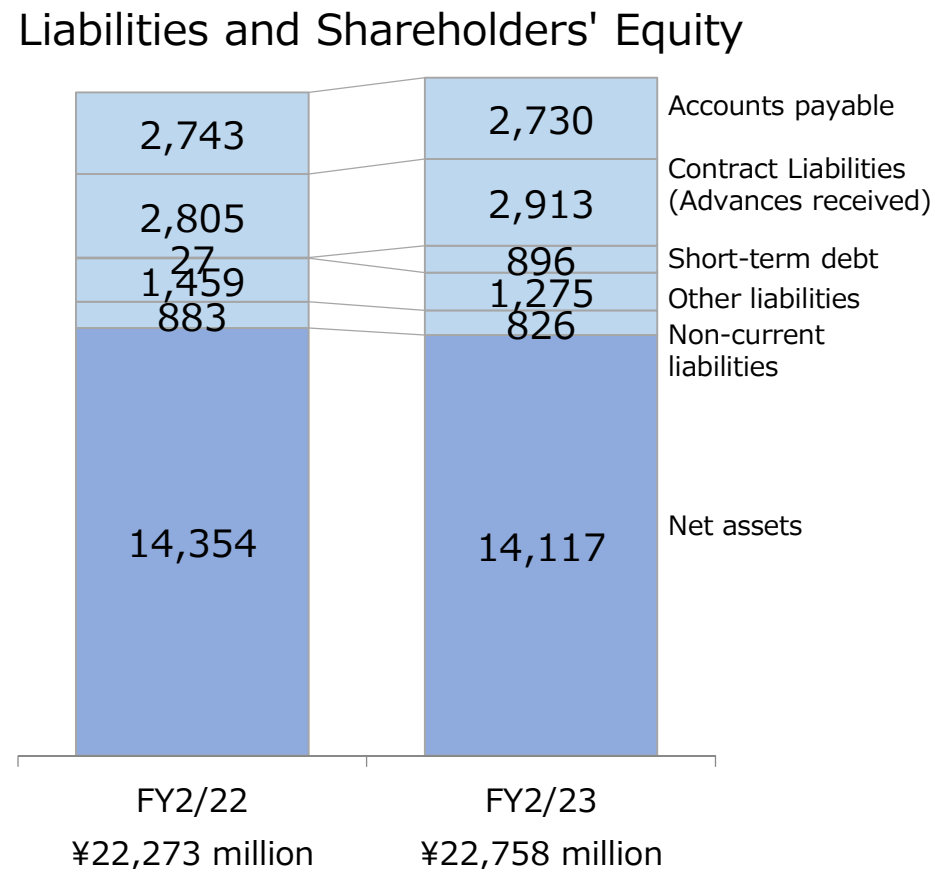
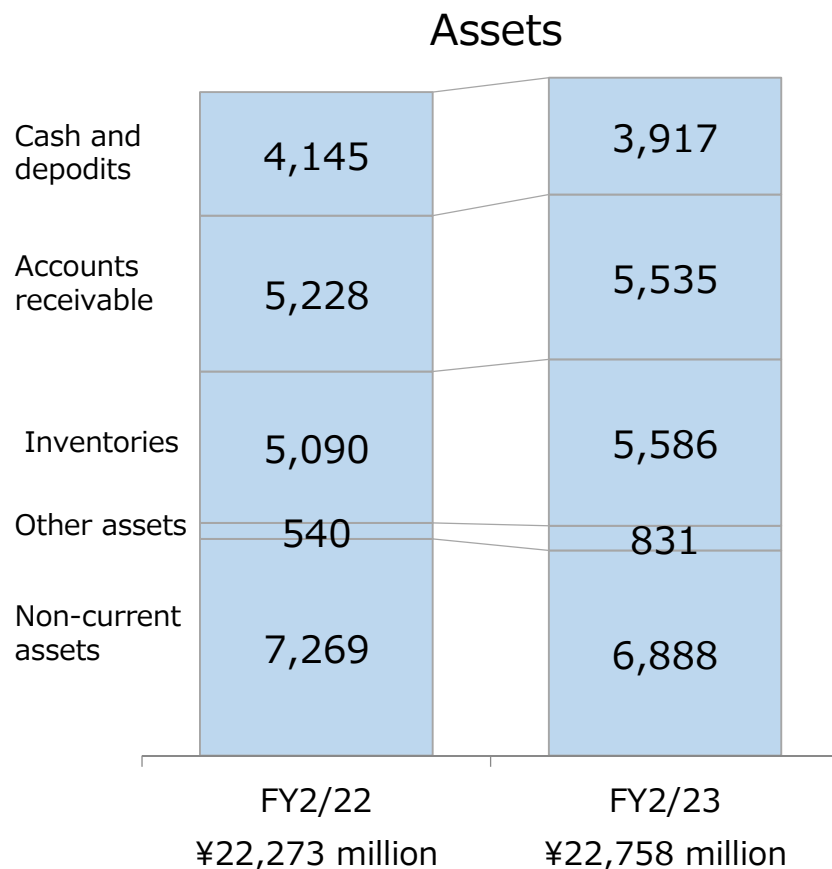
Analysis of Change in Consolidated Operating Profit

SG&A expenses increased by 511 million yen primarily due to the higher yen conversions resulting from the depreciation of yen, as well as increases in sales commissions and personnel expenses driven by higher sales at overseas subsidiaries.



Summary of Consolidated Balance Sheet

- Accounts receivable, work in process and short-term borrowings increased at the U.S. subsidiary.
- Non-current assets decreased due to the recognition of impairment losses for goodwill and Intangible Assets.
- Although net assets decreased, an equity ratio remained high (62.0%)



Summary of Consolidated Statement of Cash Flows

(Millions of yen)	FY2/22	FY2/23
Cash flows from operating activities	701	(196)
Profit before income taxes	828	(406)
Depreciation	570	565
Impairment loss	75	933
Decrease (increase) in notes and accounts receivable - trade	(299)	(171)
Decrease (increase) in inventories	(1,430)	(54)
Increase (decrease) in notes and accounts payable - trade	(154)	(78)
Income taxes paid	(394)	(412)
Cash flows from investing activities	(680)	(666)
Purchase of property, plant and equipment	(460)	(269)
Purchase of intangible assets	(236)	(330)
Cash flows from financing activities	(427)	451
Short-term debt	(30)	852
Cash dividends paid	(335)	(333)
Net increase (decrease) in cash and cash equivalents	(353)	(228)
Cash and cash equivalents at end of period	4,145	3,917
Free cash flow	21	(862)

Review of the 8th Medium-Term Management Plan

FY2/21 to FY2/23



Outline of the 8th Medium-Term Management Plan

Corporate
Philosophy

Develop the Future through Creativity

Management
Vision

Freund Group will contribute to better medical care and health for people worldwide and creating and utilizing technologies for fulfilling lives and food safety

Values which the FREUND
Group holds precious



Create special forms of value

Aim to be the leader in all of the group's business sectors



Always use the customer's perspective

Be a company like no other for customers and society



Networking

Solidify the group to create a unified organization

Core Strategy

Create a structure for business operations that can use technologies to meet the true needs of customers and achieve consistent growth in earnings

Seven Goals

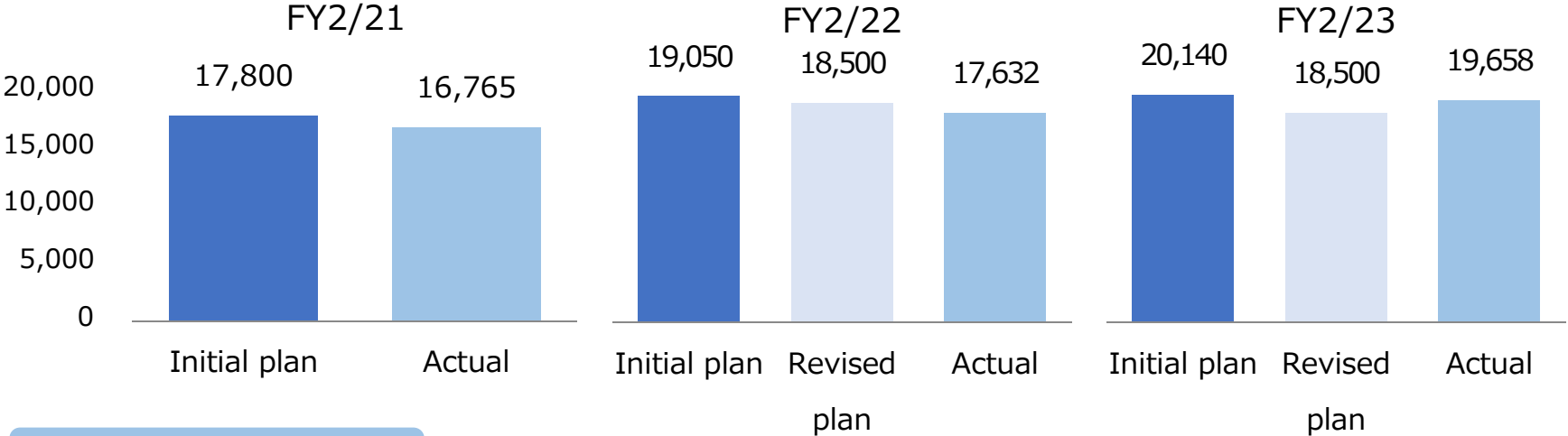
1. Group collaboration
2. Putting clients' views 1st
3. Emphasis on innovation
4. Global management
5. Execution of growth strategy
6. Promotion of business process reengineering and work style reforms
7. Emphasis on compliance and corporate governance

Review of the 8th Medium-Term Management Plan

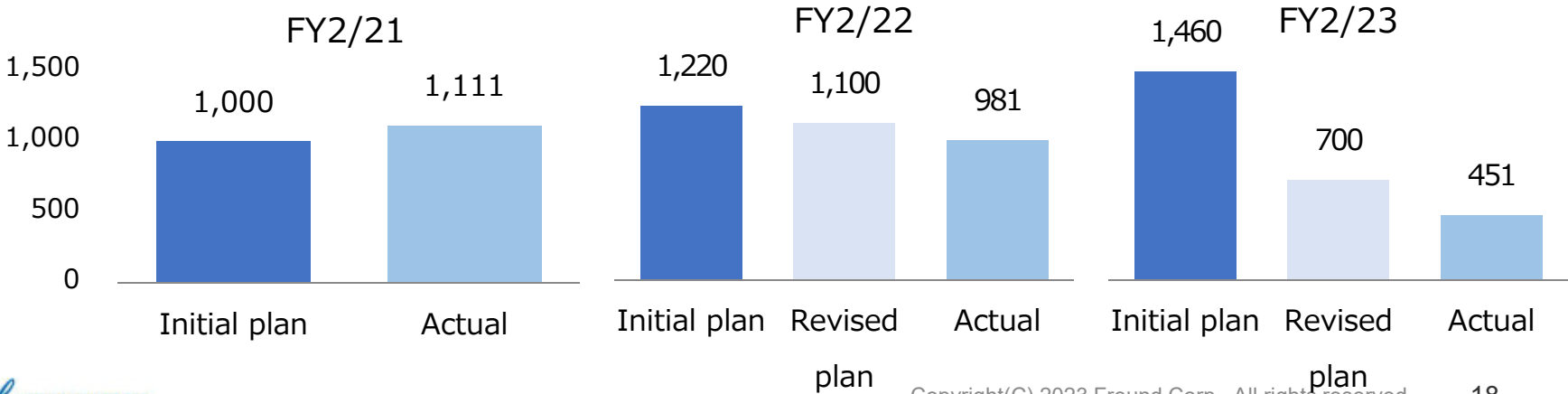
The profit target was achieved only in the first year of the plan and the goals for the following years had to be revised.

Net sales

(Millions of yen)



Operating profit



Summary of the 8th Medium-Term Management Plan

- In the machinery business, achieved a record-high order backlog by targeting the strong demand in Japan. Similarly, the chemicals business achieved record-high sales both in pharmaceutical excipients and food preservatives.
- Building a five-pole global structure, which serves as the nucleus of our growth strategy; will pursue and capture synergies
- Faced challenges due to longer lead times and lower profitability in both Japan and other countries, which can be attributed to the pandemic and the Ukraine conflict. Overseas subsidiaries, in particular, struggled in this business climate.

Preparing for the 9th Medium-Term Management Plan

The 9th Medium-Term Management Plan was originally scheduled to commence in the fiscal year ending in February 2024. However, the business environment became uncertain due to the following factors.

- The prolonged Ukraine conflict
 - The persistently high cost of raw materials and energy, along with ongoing supply constraints caused by this conflict
-
- The next business plan covers only the fiscal year ending in February 2024.
 - The 9th Medium-Term Management Plan will begin with the fiscal year ending in February 2025. This plan is scheduled to be announced around the beginning of the next fiscal year.

Consolidated Earnings and Dividend Forecasts for FY2/24



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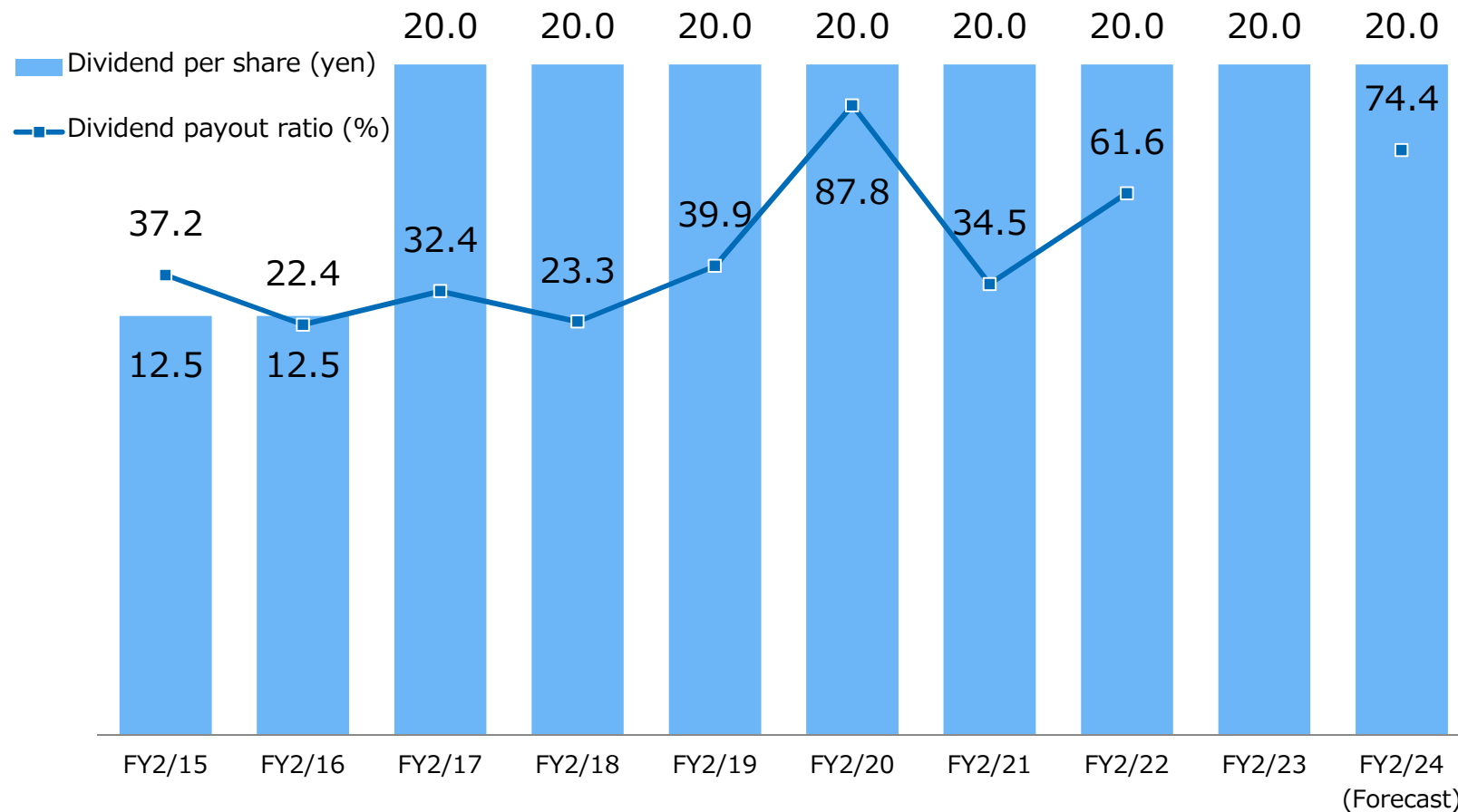
Summary of Consolidated Forecasts

The forecasts for the fiscal year ending in February 2024 are based on the assumptions that the long lead times caused by the high cost of raw materials and the constraints in component procurements, although showing some signs of improvement, will still make the business climate unpredictable.

(Millions of yen)	FY2/23	FY2/24	YoY change	
	Actual	Forecast	Amount	%
Net sales	19,658	20,000	+342	+1.7%
Operating profit	451	700	+249	+55.0%
Ordinary profit	559	650	+91	+16.3%
Profit	(538)	450	+988	-
Earnings per share (yen)	(32.15)	26.87	+59.02	-
Yen/dollar rate	134.12	130.00	+4.12	-

Summary of Dividend Forecasts

- In FY2/23, no change in the 20 yen dividend forecast in line with the basic policy of maintaining a stable dividend over the long term.
- FY2/24 dividend forecast is also 20 yen per share.



Note: Dividend payout ratio for FY2/23 is not available due to loss attributable to owners of parent.

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

Topics

Recognition as a 2023 Certified Health and Productivity Management Outstanding Organization

On March 8, 2023, Freund was certified for the first time by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi as a 2023 Health and Productivity Management Outstanding Organization in the small and midsize enterprise category.

The Freund Health Management Policy and Declaration

Freund has many activities for the purpose of maintaining and improving the health of employees and utilizing a healthy workforce for the growth of corporate value and sales and earnings.

Freund will continue to be firmly committed to health management in order to maintain workplace environments that are conducive to productive and stimulating work.

Examples of health management activities

- (1) Support for specific health guidance
- (2) Health checkups and follow-up examinations
- (3) Placement of blood pressure monitors at workplaces
- (4) Use of internal SNS to provide information about staying healthy (food, exercise, stop smoking)
- (5) Information about walking events held by health insurance organizations
- (6) Distribution of videos about proper dental care

* The health and productivity management outstanding organization certification system recognizes companies with outstanding strategic health management activities that reflect regional health issues and support employees' health management from the standpoint of management.



(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 (Fiscal year ended February 28, 2023, consolidated)
● Sales	: 19,600 million yen (As of February 28, 2023)
● Number of employees	: 482 (As of February 28, 2023, 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.

The Freund Group and R&D Facilities

Using innovative technologies for rapid growth outside Japan



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

1. Machinery Business Segment



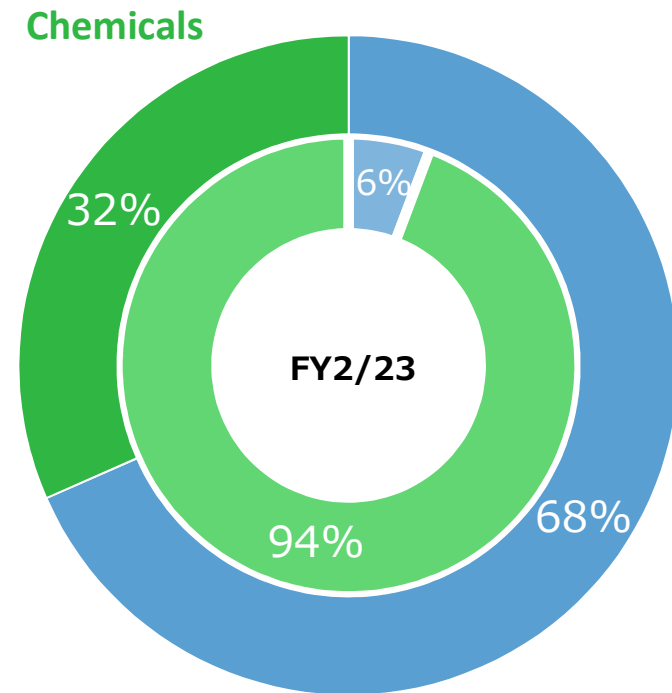
- Manufacturing and sales of **granulation and coating equipment** for the pharmaceutical, food, and fine chemical industries.
- For coating equipment, Freund is ranked first in Japan and sales growth is accelerating in Asia and in Freund-Vector’s US and European operations. Freund is the only company in the world that has expertise both in drug formulation technologies and the associated machinery.
- Aiming to increase sales of industrial machinery too by **integrating** 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** for the production of pharmaceutical excipients.
- Freund’s food preservatives contribute to ensuring the safety of food by maintaining the quality of various products.
- Through the utilization of its granulating and coating technologies, Freund collaborated with customers to develop and commercialize nutritional supplements and seamless mini-capsules.

Composition of Net Sales and Profit by Segment

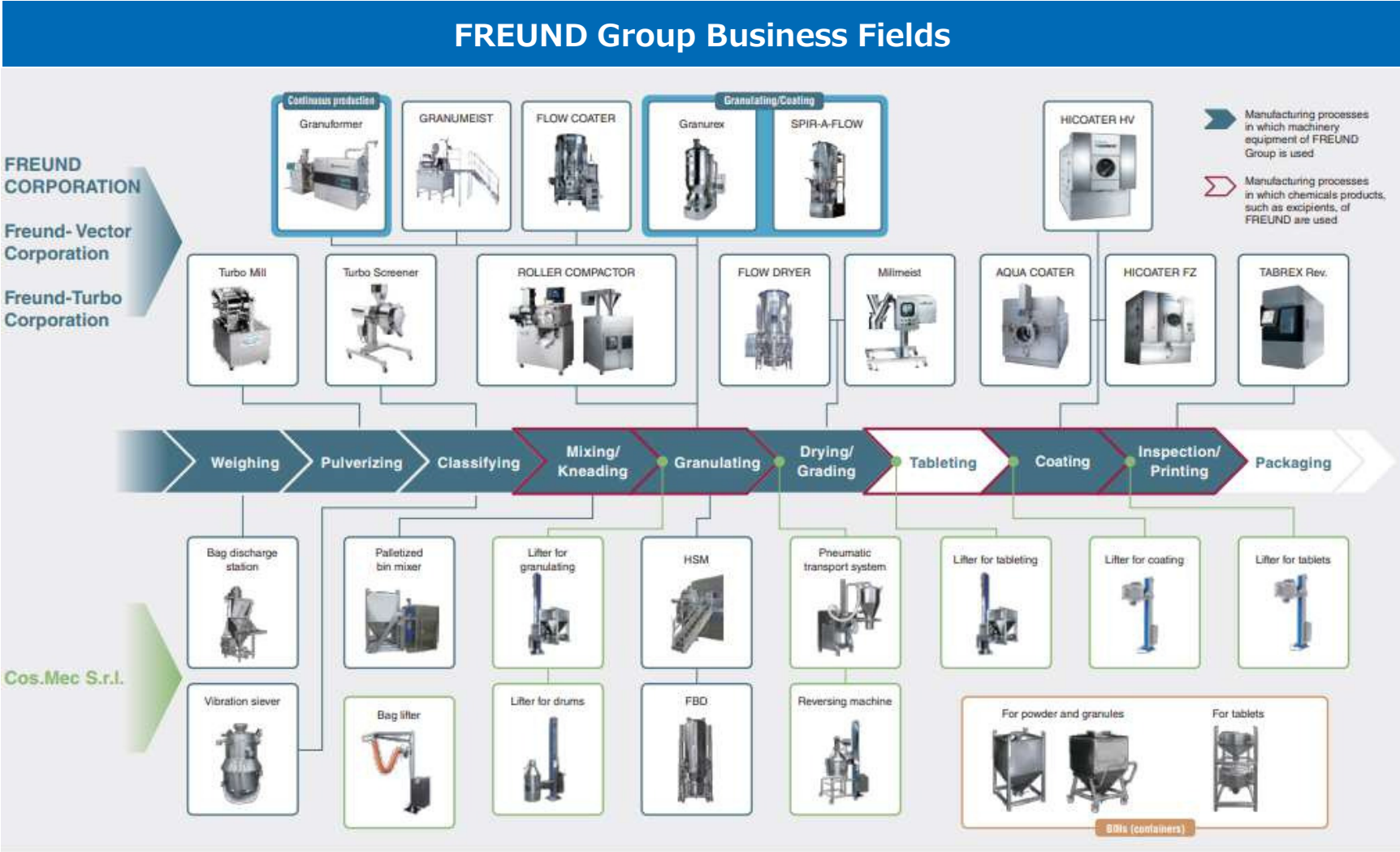


Machinery

Consolidated sales: ¥19.65 billion
Consolidated operating profit: ¥0.45 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.

Inquiries:
Freund Corporation
Corporate Administration Division
Finance & Accounting Department

Tel: +81-3-6890-0747

Fax: +81-3-6890-0870

Email: ir@freund.co.jp

IR website: <https://www.freund.co.jp>

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