

Consolidated Financial Results
for the First Quarter of the Fiscal Year Ending February 28, 2021
(Three Months Ended May 31, 2020)

[Japanese GAAP]

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Scheduled date of filing of Quarterly Report: July 7, 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 First Quarter (March 1, 2020 – May 31, 2020) of the Fiscal Year Ending February 28, 2021

(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	%
Three months ended May 31, 2020	3,076	6.9	(165)	-	(154)	-	(121)	-
Three months ended May 31, 2019	2,878	(40.6)	(214)	-	(217)	-	(158)	-

Note: Comprehensive income
 Three months ended May 31, 2020: (164) million yen (-%)
 Three months ended May 31, 2019: (192) million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended May 31, 2020	(7.28)	-
Three months ended May 31, 2019	(9.44)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of May 31, 2020	17,706	12,744	72.0	761.14
As of Feb. 29, 2020	18,505	13,243	71.6	790.94

Reference: Equity capital As of May 31, 2020: 12,744 million yen As of Feb. 29, 2020: 13,243 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. 29, 2020	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 28, 2021	-	-	-	-	-
Fiscal year ending Feb. 28, 2021 (forecast)	-	-	-	-	-

Note: Revision to the most recently announced dividend forecast: None

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

Note: Revision to the most recently announced consolidated forecast: None

*** 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 May 31, 2020: | 18,400,000 shares | As of Feb. 29, 2020: | 18,400,000 shares |
| 2) Number of treasury shares at the end of the period | | | |
| As of May 31, 2020: | 1,655,480 shares | As of Feb. 29, 2020: | 1,655,480 shares |
| 3) Average number of shares outstanding during the period | | | |
| Three months ended May 31, 2020: | 16,744,520 shares | Three months ended May 31, 2019: | 16,744,520 shares |

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.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first quarter of the current fiscal year, there was a steep economic downturn in Japan because of the global COVID-19 pandemic. Consumer spending plummeted as people stayed home and companies cut back business activities in response to Japan's declaration of a state of emergency. There was also a big decrease in Japan's exports. Economic activity has started to recover since the state of emergency ended on May 25 but concerns about a second wave make it impossible to determine the timing of a full-scale resumption of economic activity.

On a global scale, COVID-19 is having an economic impact of an unprecedented magnitude as economies contract rapidly due to the actions of countries to stop the spread of infections.

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.

The fiscal year ending in February 2021 is the first year of the Freund Group's Eighth Medium-term Management Plan covering the three-year period ending February 2023. This plan is centered on the themes of customers, new products, a global perspective and growth. In addition, the plan has the following seven goals.

1. Group solidarity and collaboration
2. Always use the customer's perspective
3. Make innovation a priority
4. Global management of the Freund Group
5. Progress based on a strategy for growth
6. Business process and working style reforms
7. Make compliance/governance a priority

While focusing on these goals, the overall objective is to structure business operations so that performance is not vulnerable to a change in conditions in any particular market where the Freund Group operates. In the current fiscal year, all group companies are working on reaching the consolidated targets of sales of 17,800 million yen and an operating profit of 1,000 million yen.

Net sales increased 6.9% year-over-year to 3,076 million yen, operating loss was 165 million yen (compared with operating loss of 214 million yen in the same period of the previous fiscal year), ordinary loss was 154 million yen (compared with ordinary loss of 217 million yen in the same period of the previous fiscal year), and loss attributable to owners of parent was 121 million yen (compared with loss attributable to owners of parent of 158 million yen in the same period of the previous fiscal year).

Results by business segment were as follows.

Machinery Business Segment

In the machinery segment, where granulating and coating equipment are the main products, sales were higher than one year earlier but there was an operating loss. The main reasons for the loss are delays in shipments of products caused by COVID-19 and the inability to offset fixed expenses because the majority of deliveries tend to take place in the second half of each fiscal year at U.S. subsidiary Freund-Vector Corporation and Freund-Turbo Corporation, a subsidiary in Japan.

As a result, net sales increased 21.9% year-over-year to 1,689 million yen and segment loss was 125 million yen (compared with segment loss of 267 million yen in the same period of the previous fiscal year).

Chemicals Business Segment

Sales and operating profit for pharmaceutical excipients used for oral drugs declined in part because deliveries of some products were postponed to the second quarter or afterward.

Sales and operating profit of food preservatives also decreased. The main reason was lower sales of confectionery products because of closings and reduced operating hours of amusement parks and department stores in order to prevent the spread of COVID-19.

As a result, net sales decreased 7.1% year-over-year to 1,386 million yen and segment profit decreased 58.5% to 77 million yen.

(2) Explanation of Financial Position

Total assets decreased 799 million yen from the end of the previous fiscal year to 17,706 million yen at the end of the first quarter. This mainly reflected decreases in notes and accounts receivable-trade of 1,194 million yen, merchandise and finished goods of 33 million yen and electronically recorded monetary claims-operating of 29 million yen, while there were increases in cash and deposits of 392 million yen and work in process of 152 million yen.

Total liabilities decreased 300 million yen from the end of the previous fiscal year to 4,961 million yen at the end of the first quarter. This mainly reflected decreases in notes and accounts payable-trade of 615 million yen, electronically recorded obligations-operating of 159 million yen and short-term borrowings of 32 million yen, while there were increases of long-term borrowings of 230 million yen, advances received of 159 million yen and provision for bonuses of 102 million yen.

Net assets decreased 499 million yen from the end of the previous fiscal year to 12,744 million yen at the end of the first quarter. This mainly reflected a decrease of 456 million yen in retained earnings.

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

There are no revisions to the full year consolidated forecasts for the fiscal year ending February 28, 2021, which were disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 29, 2020 dated April 24, 2020.

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

(Thousands of yen)

	FY2/20 (As of Feb. 29, 2020)	First quarter of FY2/21 (As of May 31, 2020)
Assets		
Current assets		
Cash and deposits	4,314,123	4,707,055
Notes and accounts receivable-trade	5,013,789	3,819,487
Electronically recorded monetary claims-operating	417,513	387,884
Merchandise and finished goods	647,754	614,055
Work in process	1,390,426	1,542,974
Raw materials and supplies	1,013,444	1,004,754
Prepaid expenses	139,944	133,845
Other	261,804	134,005
Allowance for doubtful accounts	(5,471)	(5,376)
Total current assets	13,193,328	12,338,686
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,418,559	1,440,960
Land	1,231,252	1,230,900
Other, net	1,560,069	1,520,367
Total property, plant and equipment	4,209,880	4,192,228
Intangible assets		
Software	19,811	19,200
Other	76,270	73,770
Total intangible assets	96,081	92,970
Investments and other assets		
Deferred tax assets	208,497	257,084
Other	802,939	830,648
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	1,006,036	1,082,333
Total non-current assets	5,311,999	5,367,532
Total assets	18,505,327	17,706,219
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,754,324	1,138,691
Electronically recorded obligations-operating	1,367,537	1,208,139
Short-term borrowings	32,829	-
Income taxes payable	61,729	29,528
Advances received	775,289	935,211
Provision for bonuses	237,693	340,175
Provision for bonuses for directors (and other officers)	6,000	7,500
Other	788,516	824,266
Total current liabilities	5,023,920	4,483,513
Non-current liabilities		
Long-term borrowings	-	230,426
Retirement benefit liability	165,114	162,948
Asset retirement obligations	31,683	46,391
Other	40,661	38,092
Total non-current liabilities	237,458	477,858
Total liabilities	5,261,378	4,961,371

	(Thousands of yen)	
	FY2/20 (As of Feb. 29, 2020)	First quarter of FY2/21 (As of May 31, 2020)
Net assets		
Shareholders' equity		
Share capital	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	11,964,299	11,507,569
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,516,050	13,059,320
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,680	18,239
Foreign currency translation adjustment	(298,749)	(345,417)
Remeasurements of defined benefit plans	12,967	12,705
Total accumulated other comprehensive income	(272,101)	(314,472)
Total net assets	13,243,948	12,744,848
Total liabilities and net assets	18,505,327	17,706,219

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

(Thousands of yen)

	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)	First three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)
Net sales	2,878,390	3,076,175
Cost of sales	1,830,603	2,130,359
Gross profit	1,047,786	945,815
Selling, general and administrative expenses	1,262,594	1,111,740
Operating loss	(214,808)	(165,924)
Non-operating income		
Interest income	2,190	154
Dividend income	4,783	4,101
Technical support fee income	1,219	2,819
Compensation income	-	3,183
Other	3,170	3,118
Total non-operating income	11,364	13,377
Non-operating expenses		
Interest expenses	3,091	190
Foreign exchange losses	5,675	2,067
Other	5,145	123
Total non-operating expenses	13,913	2,381
Ordinary loss	(217,357)	(154,928)
Extraordinary income		
Gain on sales of non-current assets	8,180	-
Total extraordinary income	8,180	-
Extraordinary losses		
Impairment loss	95	-
Loss on retirement of non-current assets	7	232
Loss on valuation of investment securities	825	-
Total extraordinary losses	927	232
Loss before income taxes	(210,104)	(155,161)
Income taxes	(52,065)	(33,321)
Loss	(158,038)	(121,839)
Loss attributable to owners of parent	(158,038)	(121,839)

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

(Thousands of yen)

	First three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)	First three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)
Loss	(158,038)	(121,839)
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,917)	4,559
Foreign currency translation adjustment	(28,160)	(46,668)
Remeasurements of defined benefit plans, net of tax	(284)	(261)
Total other comprehensive income	(34,362)	(42,370)
Comprehensive income	(192,401)	(164,210)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(192,401)	(164,210)

(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

The COVID-19 pandemic is affecting the Freund Group's operations as shipments of products in the Machinery Business were delayed and sales of food preservatives in the Chemicals Business declined because of slow sales of confectionery products associated with closings and reduced operating hours of amusement parks and department stores.

Accounting estimates for the impairment losses on non-current assets, recoverability of deferred tax assets and other items are based on the assumption that the impact of COVID-19 will slowly decline during the current fiscal year.

Segment and Other Information**Segment information**

I First three months of FY2/20 (Mar. 1, 2019 – May 31, 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	1,386,636	1,491,753	2,878,390	-	2,878,390
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	1,386,636	1,491,753	2,878,390	-	2,878,390
Segment profit (loss)	(267,263)	187,563	(79,700)	(135,107)	(214,808)

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 135,107 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

In the Machinery Business segment, the Company has recognized impairment losses related to non-current assets of 95 thousand yen.

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	North America	Latin America	Europe	Other	Total
2,348,108	233,691	67,280	108,437	120,872	2,878,390

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 three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)

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	1,689,928	1,386,247	3,076,175	-	3,076,175
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	1,689,928	1,386,247	3,076,175	-	3,076,175
Segment profit (loss)	(125,388)	77,925	(47,462)	(118,461)	(165,924)

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 118,461 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

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
2,685,463	158,363	28,775	54,107	149,466	3,076,175

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 three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)		First three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	2,583,632	101.2	3,268,876	126.5

Notes: 1. No orders received are shown for the Chemicals Business because production is 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 three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)		First three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	6,657,884	135.1	6,295,241	94.6

Notes: 1. No order backlog is shown for the Chemicals Business because production is 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 three months of FY2/20 (Mar. 1, 2019 – May 31, 2019)		First three months of FY2/21 (Mar. 1, 2020 – May 31, 2020)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	1,386,636	48.2	1,689,928	54.9
Chemicals Business	1,491,753	51.8	1,386,247	45.1
Total	2,878,390	100.0	3,076,175	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.