

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending February 28, 2022
(Six Months Ended August 31, 2021)

[Japanese GAAP]

Company name: Freund Corporation

Listing: Tokyo (JASDAQ)

Securities code: 6312

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Holding of quarterly financial results meeting: Yes (Only video distribution)

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

1. Consolidated Financial Results for the Second Quarter (March 1, 2021 – August 31, 2021) of the Fiscal Year Ending February 28, 2022

(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	%
Six months ended Aug. 31, 2021	8,048	14.3	329	31.2	350	29.1	226	23.2
Six months ended Aug. 31, 2020	7,043	3.3	251	-	271	-	183	-

Note: Comprehensive income Six months ended Aug. 31, 2021: 394 million yen (up 347.3%)

Six months ended Aug. 31, 2020: 88 million yen (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2021	13.52	-
Six months ended Aug. 31, 2020	10.98	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Aug. 31, 2021	20,206	13,944	69.0	832.78
As of Feb. 28, 2021	20,499	13,884	67.7	829.21

Reference: Equity capital As of Aug. 31, 2021: 13,944 million yen As of Feb. 28, 2021: 13,884 million yen

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Feb. 28, 2021	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 28, 2022	-	0.00			
Fiscal year ending Feb. 28, 2022 (forecast)			-	20.00	20.00

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

3. Consolidated Forecast for the Fiscal Year Ending February 28, 2022 (March 1, 2021 – February 28, 2022)

(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	18,500	10.3	1,100	(4.2)	1,130	(16.0)	790	(20.7)	47.18

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

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

There was significant downward pressure on the Japanese economy mainly due to sluggish consumer spending during the first half of the current fiscal year as the state of emergency was extended in response to the spread of the highly contagious delta variant of the COVID-19 virus. Corporate earnings in Japan were strong in the manufacturing sector but weak in the service sector primarily because of the low level of consumer spending on services.

The economies of most affluent countries in the world are recovering along with the easing of restrictions on activities as more people receive vaccinations. On the other hand, delays in vaccinations and limited health care capacity are delaying economic recoveries in emerging countries except China.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, companies need to deal with the challenges of the rising cost of R&D programs and heightened measures to hold down healthcare expenditures. In Japan, drug prices will be affected as the national health insurance drug price revisions will be implemented annually instead of once every two years in prior years. In the generic drug market, the growth rates in sales of these drugs are expected to decrease as the benefits of actions by the Japanese government to increase the use of these drugs decline. Following problems that occurred in 2020 involving the quality of generic drugs and the reliability of the supply of these drugs, manufacturers need to take actions to reinforce their quality assurance and supply capabilities.

The fiscal year ended in February 2021 was 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. Putting clients' views first
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 18,500 million yen and an operating profit of 1,100 million yen.

In the first half of the current fiscal year, net sales increased 14.3% year-over-year to 8,048 million yen, operating profit increased 31.2% to 329 million yen, ordinary profit increased 29.1% to 350 million yen, and profit attributable to owners of parent increased 23.2% to 226 million yen.

In the first half of the previous fiscal year, U.S. subsidiary Freund-Vector Corporation received a COVID-19 subsidy of about 200 million yen from the U.S. government, which increased operating profit, ordinary profit and profit attributable to owners of parent. The Freund Group was able to achieve year-on-year growth of earnings despite the contribution to earnings of this one-time item one year earlier.

Results by business segment were as follows.

Machinery Business Segment

Granulating and coating equipment are the main products of this segment. In the first half, segment sales for the entire Freund Group, including U.S. subsidiary Freund-Vector Corporation and Japanese subsidiary Freund-Turbo Corporation, were higher than one year earlier despite delays in some export shipments. The recent consolidation of Italian subsidiary Cos.Mec S.r.l. also contributed to first half growth of sales. Operating profit decreased because of the inclusion in earnings one year earlier of a U.S. government COVID-19 subsidy paid to

Freund-Vector Corporation.

As a result, net sales increased 30.1% year-over-year to 5,366 million yen and segment profit decreased 4.0% to 245 million yen.

Chemicals Business Segment

Sales of pharmaceutical excipients increased despite the negative effects of quality and supply problems in the generic drug industry. Cost reduction measures resulted in higher operating profit.

As in the previous fiscal year, sales and earnings of food preservatives were impacted by sluggish sales of confectionery products at department stores and theme parks because of the pandemic. However, sales and the operating profit were higher than one year earlier because of an increase in sales of confectionery products at supermarkets and convenience stores.

Sales decreased significantly and operating profit was slightly lower for health food products manufactured for other companies because of the termination of orders from large customers.

As a result, net sales decreased 8.1% year-over-year to 2,682 million yen and segment profit increased 45.2% to 331 million yen.

(2) Explanation of Financial Position

Total assets decreased 293 million yen from the end of the previous fiscal year to 20,206 million yen at the end of the second quarter. This mainly reflected decreases of 833 million yen in notes and accounts receivable-trade and 239 million yen in cash and deposits, while there were increases of 647 million yen in work in process and 101 million yen in raw materials and supplies.

Total liabilities decreased 352 million yen from the end of the previous fiscal year to 6,262 million yen at the end of the second quarter. This mainly reflected decreases of 502 million yen in electronically recorded obligations-operating, 323 million yen in notes and accounts payable-trade and 190 million yen in other current liabilities, while there was an increase of 841 million yen in advances received.

Net assets increased 59 million yen from the end of the previous fiscal year to 13,944 million yen at the end of the second quarter. This mainly reflected an increase of 147 million yen in foreign currency translation adjustment, while there was a decrease of 108 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, 2022, which were disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 28, 2021 dated April 13, 2021.

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

(Thousands of yen)

	FY2/21 (As of Feb. 28, 2021)	Second quarter of FY2/22 (As of Aug. 31, 2021)
Assets		
Current assets		
Cash and deposits	4,498,482	4,258,813
Notes and accounts receivable-trade	4,659,895	3,826,816
Electronically recorded monetary claims-operating	210,221	250,280
Securities	212,500	219,800
Merchandise and finished goods	798,624	785,490
Work in process	1,457,682	2,105,277
Raw materials and supplies	1,217,155	1,318,769
Prepaid expenses	151,597	157,035
Other	362,421	293,412
Allowance for doubtful accounts	(10,342)	(11,545)
Total current assets	13,558,237	13,204,150
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,015,990	2,011,256
Land	1,159,307	1,140,630
Other, net	1,559,328	1,538,327
Total property, plant and equipment	4,734,626	4,690,213
Intangible assets		
Goodwill	1,089,741	1,109,226
Software	24,138	20,655
Other	75,659	138,890
Total intangible assets	1,189,539	1,268,772
Investments and other assets		
Deferred tax assets	214,482	228,985
Other	808,102	819,832
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	1,017,185	1,043,418
Total non-current assets	6,941,351	7,002,404
Total assets	20,499,588	20,206,554
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,754,454	1,430,992
Electronically recorded obligations-operating	1,212,083	709,824
Short-term borrowings	55,793	13,638
Income taxes payable	245,299	179,139
Advances received	1,170,091	2,011,230
Provision for bonuses	258,586	213,563
Provision for bonuses for directors (and other officers)	43,156	18,571
Other	1,077,963	887,080
Total current liabilities	5,817,429	5,464,041
Non-current liabilities		
Lease obligations	394,370	390,141
Retirement benefit liability	280,598	284,946
Asset retirement obligations	46,472	46,530
Provision for retirement benefits for directors (and other officers)	23,697	4,342
Other	52,338	72,006
Total non-current liabilities	797,476	797,968
Total liabilities	6,614,905	6,262,009

	(Thousands of yen)	
	FY2/21	Second quarter of FY2/22
	(As of Feb. 28, 2021)	(As of Aug. 31, 2021)
Net assets		
Shareholders' equity		
Share capital	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	12,625,221	12,516,755
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	14,176,972	14,068,506
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,149	41,841
Foreign currency translation adjustment	(330,168)	(182,894)
Remeasurements of defined benefit plans	15,729	17,092
Total accumulated other comprehensive income	(292,289)	(123,960)
Total net assets	13,884,682	13,944,545
Total liabilities and net assets	20,499,588	20,206,554

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

(Thousands of yen)

	First six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)	First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)
Net sales	7,043,727	8,048,226
Cost of sales	4,779,948	5,243,813
Gross profit	2,263,779	2,804,413
Selling, general and administrative expenses	2,012,694	2,475,023
Operating profit	251,084	329,389
Non-operating income		
Interest income	292	2,621
Dividend income	5,615	5,655
Technical support fee income	4,039	5,469
Compensation income	3,183	-
Foreign exchange gains	-	1,151
Other	12,790	11,975
Total non-operating income	25,920	26,873
Non-operating expenses		
Interest expenses	279	4,867
Foreign exchange losses	4,496	-
Other	927	1,259
Total non-operating expenses	5,704	6,127
Ordinary profit	271,301	350,135
Extraordinary income		
Gain on sales of non-current assets	4,237	1,617
Gain on sales of investment securities	-	1,298
Total extraordinary income	4,237	2,915
Extraordinary losses		
Loss on sales of non-current assets	4,697	795
Loss on retirement of non-current assets	4,534	4,532
Total extraordinary losses	9,231	5,328
Profit before income taxes	266,307	347,722
Income taxes	82,469	121,298
Profit	183,837	226,424
Profit attributable to owners of parent	183,837	226,424

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

(Thousands of yen)

	First six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)	First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)
Profit (loss)	183,837	226,424
Other comprehensive income		
Valuation difference on available-for-sale securities	5,316	19,691
Foreign currency translation adjustment	(100,382)	147,274
Remeasurements of defined benefit plans, net of tax	(523)	1,362
Total other comprehensive income	(95,590)	168,328
Comprehensive income	88,247	394,752
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	88,247	394,752

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)	First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)
Cash flows from operating activities		
Profit before income taxes	266,307	347,722
Depreciation	196,160	241,635
Amortization of goodwill	-	60,192
Increase (decrease) in allowance for doubtful accounts	-	826
Increase (decrease) in provision for bonuses	(39,601)	(45,850)
Increase (decrease) in provision for bonuses for directors (and other officers)	9,500	(24,930)
Interest and dividend income	(5,907)	(8,277)
Interest expenses	279	4,867
Foreign exchange losses (gains)	744	(2,604)
Loss (gain) on sales of property, plant and equipment	459	(821)
Loss on retirement of property, plant and equipment	4,534	4,532
Loss (gain) on sales of securities	-	(1,298)
Decrease (increase) in trade receivables	1,211,311	824,375
Decrease (increase) in inventories	(50,597)	(680,911)
Decrease (increase) in other assets	73,059	72,054
Increase (decrease) in trade payables	(1,192,928)	(762,179)
Increase (decrease) in advances received	529,802	820,734
Increase (decrease) in other liabilities	15,182	(160,682)
Other, net	(8,053)	57
Subtotal	1,010,253	689,443
Interest and dividends received	5,907	8,277
Interest paid	(279)	(4,867)
Income taxes refund	-	8,929
Income taxes paid	(46,663)	(196,842)
Other, net	8,097	-
Net cash provided by (used in) operating activities	977,314	504,940
Cash flows from investing activities		
Purchase of property, plant and equipment	(206,860)	(310,447)
Proceeds from sales of property, plant and equipment	52,796	21,844
Payments for retirement of property, plant and equipment	(2,037)	(2,043)
Purchase of intangible assets	(2,209)	(67,448)
Payments for asset retirement obligations	(4,700)	-
Purchase of investment securities	(1,776)	(1,501)
Proceeds from sales of investment securities	-	9,096
Payments of guarantee deposits	(28,729)	(853)
Proceeds from refund of guarantee deposits	21,635	218
Net cash provided by (used in) investing activities	(171,881)	(351,135)

	(Thousands of yen)	
	First six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)	First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)
Cash flows from financing activities		
Proceeds from short-term borrowings	-	100,852
Repayments of short-term borrowings	(32,160)	(144,475)
Proceeds from long-term borrowings	-	25,978
Repayments of long-term borrowings	-	(4,229)
Payments from changes in shares in subsidiaries that do not result in change in scope of consolidation	-	(41,224)
Repayments of lease obligations	(1,214)	(19,211)
Dividends paid	(333,349)	(334,449)
Net cash provided by (used in) financing activities	(366,724)	(416,760)
Effect of exchange rate change on cash and cash equivalents	(9,641)	23,285
Net increase (decrease) in cash and cash equivalents	429,067	(239,668)
Cash and cash equivalents at beginning of period	4,314,123	4,498,482
Cash and cash equivalents at end of period	4,743,190	4,258,813

(4) 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

Effect of COVID-19 on accounting estimates

There are no significant changes in the assumptions concerning COVID-19, including the expected end of this pandemic, used for accounting estimates that are in the supplementary information section of the Securities Report for the previous fiscal year.

Segment and Other Information**Segment information**

I First six months of FY2/21 (Mar. 1, 2020 – Aug. 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	4,125,972	2,917,755	7,043,727	-	7,043,727
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	4,125,972	2,917,755	7,043,727	-	7,043,727
Segment profit	255,922	228,548	484,471	(233,386)	251,084

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 233,386 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

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

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Not applicable.

3. Information by region

Net sales

In addition to the disclosure of information required by the “Accounting Standard for Quarterly Financial Statements,” the Company provides information by region (net sales) based on the “Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” for the purpose of providing investors with useful information.

(Thousands of yen)

Japan	United States	Latin America	Europe	Asia	Other	Total
5,803,123	401,651	119,800	199,469	386,782	132,899	7,043,727

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, Italy, UK, etc.
- (3) Asia: China, India, etc.
- (4) Other: Middle East, etc.

II First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)

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	5,366,094	2,682,131	8,048,226	-	8,048,226
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	5,366,094	2,682,131	8,048,226	-	8,048,226
Segment profit	245,620	331,766	577,386	(247,997)	329,389

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 247,997 thousand yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

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

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Omitted due to immateriality.

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	Asia	Other	Total
5,654,278	777,358	442,713	457,825	575,687	140,363	8,048,226

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, Italy, UK, etc.
- (3) Asia: China, India, etc.
- (4) Other: Middle East, etc.

In the first three months of FY2/22, net sales included in “Other” in prior periods were reclassified into “Asia” and “Other” in association with revisions to administrative segments. For consistency with these changes, figures presented in “3. Information by region (Net sales)” for the first six months of FY2/21 have been revised.

As a result, “Other” of 519,681 thousand yen previously presented in information by region (net sales) for the first six months of FY2/21 is reclassified and divided into “Asia” of 386,782 thousand yen and “Other” of 132,899 thousand yen.

3. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	First six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)		First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	6,705,850	126.3	7,695,049	114.8

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 six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)		First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	7,330,154	107.1	9,034,195	123.2

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 six months of FY2/21 (Mar. 1, 2020 – Aug. 31, 2020)		First six months of FY2/22 (Mar. 1, 2021 – Aug. 31, 2021)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	4,125,972	58.6	5,366,094	66.7
Chemicals Business	2,917,755	41.4	2,682,131	33.3
Total	7,043,727	100.0	8,048,226	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.