

Consolidated Financial Results
for the Third Quarter of the Fiscal Year Ending February 28, 2021
(Nine Months Ended November 30, 2020)

[Japanese GAAP]

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Holding of quarterly financial results meeting: None

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

1. Consolidated Financial Results for the Third Quarter (March 1, 2020 – November 30, 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	%
Nine months ended Nov. 30, 2020	10,852	(2.3)	391	320.4	435	290.9	277	634.0
Nine months ended Nov. 30, 2019	11,110	(16.1)	93	(86.1)	111	(85.5)	37	(92.8)

Note: Comprehensive income
 Nine months ended Nov. 30, 2020: 160 million yen (-%)
 Nine months ended Nov. 30, 2019: 5 million yen (down 99.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Nov. 30, 2020	16.55	-
Nine months ended Nov. 30, 2019	2.25	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Nov. 30, 2020	19,453	13,069	67.2	780.52
As of Feb. 29, 2020	18,505	13,243	71.6	790.94

Reference: Equity capital As of Nov. 30, 2020: 13,069 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	-	0.00	-	-	-
Fiscal year ending Feb. 28, 2021 (forecast)	-	-	-	20.00	20.00

Note: Revision to the most recently announced dividend forecast: Yes

Initially, there was no year-end dividend forecast for the fiscal year ending February 28, 2021. After taking into consideration results of operations and other factors for the current fiscal year, the dividend forecast was revised to 20.00 yen per share.

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

Note: Please refer to page 8 “(3) Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements” for details.

(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 Nov. 30, 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 Nov. 30, 2020: 1,655,480 shares As of Feb. 29, 2020: 1,655,480 shares

3) Average number of shares outstanding during the period
 Nine months ended Nov. 30, 2020: 16,744,520 shares Nine months ended Nov. 30, 2019: 16,744,520 shares

This 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 nine months of the current fiscal year, there was an unprecedented economic downturn in Japan in April and May because of the global COVID-19 pandemic. Economic activity resumed after the state of emergency ended and the Japanese economy has been recovering slowly.

However, the pace of this recovery is currently declining because of a third wave of COVID-19 infections in Japan. As a result, the outlook for the economy is uncertain.

The COVID-19 pandemic triggered a sharp economic downturn worldwide. Following this decline, the global economy has been recovering at a moderate pace as each country took actions aimed at supporting their economies while controlling the spread of the pandemic. However, the outlook for the global economy has become even more uncertain because of the renewed growth of COVID-19 cases.

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 decreased 2.3% year-over-year to 10,852 million yen, operating profit increased 320.4% to 391 million yen, ordinary profit was up 290.9% to 435 million yen, and profit attributable to owners of parent increased 634.0% to 277 million yen.

Results by business segment were as follows.

Machinery Business Segment

In the machinery segment, where granulating and coating equipment are the main products, there was a small decrease in sales as some export shipments were delayed because of the COVID-19 crisis. But operating profit increased in part because a U.S. subsidiary received a COVID-19 subsidy of about 2.1 million dollars from the U.S. government and every Freund Group company implemented cost-reduction measures.

As a result, net sales decreased 4.1% year-over-year to 6,472 million yen and segment profit was 357 million yen (compared with segment loss of 142 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.

Sales and operating profit of food preservatives also decreased. The main reason was lower sales of souvenirs for tourists and confectionery products at department stores because of the spread of COVID-19.

Sales and operating profit for the production of health food products for other companies increased as these companies increased their inventories of these products.

As a result, net sales increased 0.4 % year-over-year to 4,379 million yen and segment profit decreased 38.0% to 404 million yen.

(2) Explanation of Financial Position

Total assets increased 948 million yen from the end of the previous fiscal year to 19,453 million yen at the end of the third quarter. This mainly reflected increases of 1,089 million yen in goodwill, 624 million yen in work in process and 419 million yen in buildings and structures, net, while there was a decrease in notes and accounts receivable-trade of 1,249 million yen.

Total liabilities increased 1,122 million yen from the end of the previous fiscal year to 6,384 million yen at the end of the third quarter. This mainly reflected increases of 969 million yen in advances received and 116 million yen in retirement benefit liability.

Net assets decreased 174 million yen from the end of the previous fiscal year to 13,069 million yen at the end of the third quarter.

(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)	Third quarter of FY2/21 (As of Nov. 30, 2020)
Assets		
Current assets		
Cash and deposits	4,314,123	4,009,307
Notes and accounts receivable-trade	5,013,789	3,764,175
Electronically recorded monetary claims-operating	417,513	359,958
Merchandise and finished goods	647,754	700,953
Work in process	1,390,426	2,014,945
Raw materials and supplies	1,013,444	1,172,494
Prepaid expenses	139,944	172,499
Other	261,804	524,374
Allowance for doubtful accounts	(5,471)	(9,864)
Total current assets	13,193,328	12,708,843
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,418,559	1,837,849
Land	1,231,252	1,162,321
Other, net	1,560,069	1,520,188
Total property, plant and equipment	4,209,880	4,520,359
Intangible assets		
Goodwill	-	1,089,673
Software	19,811	19,974
Other	76,270	78,396
Total intangible assets	96,081	1,188,044
Investments and other assets		
Deferred tax assets	208,497	238,945
Other	802,939	802,799
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	1,006,036	1,036,344
Total non-current assets	5,311,999	6,744,749
Total assets	18,505,327	19,453,593
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,754,324	1,605,491
Electronically recorded obligations-operating	1,367,537	900,580
Short-term borrowings	32,829	50,264
Income taxes payable	61,729	81,816
Advances received	775,289	1,744,599
Provision for bonuses	237,693	121,987
Provision for bonuses for directors (and other officers)	6,000	21,750
Other	788,516	1,131,057
Total current liabilities	5,023,920	5,657,547
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	-	22,195
Retirement benefit liability	165,114	281,394
Asset retirement obligations	31,683	46,443
Other	40,661	376,563
Total non-current liabilities	237,458	726,596
Total liabilities	5,261,378	6,384,144

	(Thousands of yen)	
	FY2/20	Third quarter of FY2/21
	(As of Feb. 29, 2020)	(As of Nov. 30, 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	11,906,481
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,516,050	13,458,232
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	13,680	16,299
Foreign currency translation adjustment	(298,749)	(417,265)
Remeasurements of defined benefit plans	12,967	12,181
Total accumulated other comprehensive income	(272,101)	(388,783)
Total net assets	13,243,948	13,069,448
Total liabilities and net assets	18,505,327	19,453,593

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

(Thousands of yen)

	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)
Net sales	11,110,801	10,852,320
Cost of sales	7,331,451	7,323,081
Gross profit	3,779,350	3,529,238
Selling, general and administrative expenses	3,686,287	3,138,004
Operating profit	93,062	391,234
Non-operating income		
Interest income	3,992	308
Dividend income	6,242	5,615
Technical support fee income	4,969	6,089
Compensation income	-	3,183
Insurance claim income	-	21,809
Other	9,568	14,232
Total non-operating income	24,772	51,238
Non-operating expenses		
Interest expenses	243	359
Foreign exchange losses	2,607	4,479
Compensation expenses	1,623	-
Other	1,963	2,190
Total non-operating expenses	6,438	7,029
Ordinary profit	111,397	435,443
Extraordinary income		
Gain on sales of non-current assets	9,997	4,213
Gain on sales of investment securities	2,200	-
Total extraordinary income	12,197	4,213
Extraordinary losses		
Impairment loss	2,188	-
Loss on sales of non-current assets	-	7,546
Loss on retirement of non-current assets	26,085	12,472
Loss on valuation of investment securities	875	-
Total extraordinary losses	29,148	20,019
Profit before income taxes	94,446	419,637
Income taxes	56,697	142,564
Profit	37,748	277,072
Profit attributable to owners of parent	37,748	277,072

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

(Thousands of yen)

	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)	First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)
Profit	37,748	277,072
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,995)	2,619
Foreign currency translation adjustment	(26,947)	(118,515)
Remeasurements of defined benefit plans, net of tax	(852)	(785)
Total other comprehensive income	(31,795)	(116,682)
Comprehensive income	5,953	160,390
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,953	160,390

(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.

The enormous negative effects of the COVID-19 pandemic on economic and social activities are having a significant impact on the business activities of the Freund Group. Furthermore, this crisis is likely to continue longer than was initially expected. Based on the assumption that this crisis will continue to affect business activities in the fiscal year ending in February 2022, the decision was made to make revisions to accounting estimates for impairment losses on non-current assets, the recoverability of deferred tax assets and other items.

Segment and Other Information**Segment information**

I First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 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	6,749,900	4,360,900	11,110,801	-	11,110,801
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	6,749,900	4,360,900	11,110,801	-	11,110,801
Segment profit (loss)	(142,204)	652,630	510,426	(417,363)	93,062

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 417,363 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

The Company has recognized impairment losses related to non-current assets of 203 thousand yen in the Machinery Business segment and 1,984 thousand yen in the Chemicals Business segment.

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
8,514,237	1,188,351	535,034	307,249	565,929	11,110,801

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 nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 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	6,472,383	4,379,937	10,852,320	-	10,852,320
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	6,472,383	4,379,937	10,852,320	-	10,852,320
Segment profit	357,397	404,946	762,344	(371,110)	391,234

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 371,110 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

Significant change in goodwill

In the third quarter of FY2/21 Freund acquired Cos.Mec S.r.l., which made this company and its subsidiary consolidated subsidiaries. This acquisition resulted in goodwill of 1,089,673 thousand yen in the Machinery Business segment.

This is a provisional figure for goodwill that will be finalized later because the allocation of the cost of this acquisition had not been completed as of the end of the third quarter.

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
8,454,746	789,429	191,561	363,566	1,053,015	10,852,320

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.

Business Combinations

1. Summary of business combination

(1) Acquired companies and their business activities

Acquired companies: Cos.Mec S.r.l. and its subsidiary

Business activities: Producing and selling pharmaceutical manufacturing devices

(2) Reasons for acquisition

Freund is guided by the management vision of contribution to better medical care and health for people worldwide and creating and utilizing technologies for fulfilling lives and food safety. In March 2020, Freund started its Eighth Medium-term Management Plan, which includes the goals of managing operations on a global scale and taking strategic actions for growth.

The Japanese pharmaceutical market is expected to continue growing steadily as the population ages. However, pharmaceutical sales in emerging countries are projected to increase faster than in countries with advanced economies because of rising populations and the growing demand for pharmaceuticals.

Following an examination that took these factors into consideration about the acquisition of Cos.Mec, a manufacturer of pharmaceutical production machinery in Italy, Freund reached the decision to sign a contract for the acquisition of this company.

Purposes and reasons of acquiring Cos.Mec

a	There is very little duplication between the products of the Freund Group and those of Cos.Mec. In addition, use of the Freund Group's sales network is expected to increase sales of Cos.Mec pharmaceutical intermediate handling and processing machinery, which are widely used in the pharmaceutical industry. Freund also believes that the Cos.Mec sales network can increase sales of the Freund Group's granulation and coating machinery, which are two of the group's core products.
b	Most of the customers of Cos. Mec and the Freund Group are located in different countries and regions. This will make it possible to cross-sell the products of the two companies.
c	Backed by 30 years of experience, Cos.Mec is highly cost competitive and manufactures its machinery internally, resulting in consistently strong sales and earnings.
d	Acquiring Cos.Mec gives the Freund Group sound positions in Japan (Freund Corporation), the United States (Freund-Vector Corporation) and Europe (Cos.Mec). With these three bases, the Freund Group is even better positioned to sell products worldwide, including emerging countries.

(3) Acquisition date

November 5, 2020 (acquisition of equity interests)

September 30, 2020 (assumed acquisition date)

(4) Legal form of acquisition

Acquisition of equity interests with cash.

(5) Company's name after acquisition

There is no change in the company's name.

(6) Percentage of voting rights acquired

100%

(7) Basis for choosing the company to acquire

Freund acquired the equity interests in exchange for cash.

2. Period of the acquired companies' performance included in the consolidated financial statements

Cos.Mec and its subsidiary are included only in the consolidated balance sheet at the end of the third quarter and are not included in the consolidated statement of income for the first nine months of the current fiscal year. This is because the assumed acquisition date of September 30, 2020 is not more than three months prior to the end of the third quarter.

3. Acquisition cost of acquired company and breakdown by type of consideration

Payment for the acquisition: Cash	9,750,000 euros (1,192,425,000 yen)
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Acquisition cost:	9,750,000 euros (1,192,425,000 yen)
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This acquisition cost is a provisional figure. The final acquisition cost may be different because of the possibility of adjustments to the price. The euro-denominated figures are converted into yen at the exchange rate on November 5, 2020.

4. Goodwill resulting from the acquisition

(1) Value of goodwill

8,775,000 euros (1,089,673,000 yen)

This is a provisional figure for goodwill that will be finalized later because the allocation of the cost of this acquisition had not been completed as of the end of the third quarter.

(2) Source of goodwill

The source is primarily the expectation of excess earnings power emerging from business development in the future.

(3) Amortization method and amortization period

Goodwill is amortized over ten years by the straight-line method.

3. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)		First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	7,208,524	83.6	9,084,141	126.0

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.
4. The above amounts do not include orders received in Cos.Mec.

(2) Order backlog

(Thousands of yen)

Operating segment	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)		First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	5,994,478	103.0	7,389,756	123.3

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.
4. The above amounts do not include order backlog in Cos.Mec.

(3) Sales

(Thousands of yen)

Operating segment	First nine months of FY2/20 (Mar. 1, 2019 – Nov. 30, 2019)		First nine months of FY2/21 (Mar. 1, 2020 – Nov. 30, 2020)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	6,749,900	60.8	6,472,383	59.6
Chemicals Business	4,360,900	39.2	4,379,937	40.4
Total	11,110,801	100.0	10,852,320	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.