May 8, 2023

Consolidated Financial Results for the Fiscal Year Ended February 28, 2023

[Japanese GAAP]

Company name:	Freund Corporation	Listing: Tokyo Stock Exchange
Securities code:	6312	URL: https://www.freund.co.jp
Representative:	Iwao Fusejima, President & CEO	
Contact:	Masao Wakai, Director, General Manager, Corporate Administration Division Tel: +81-3-6890-0750	

Scheduled date of Annual General Meeting of Shareholders: May 30, 2023
Scheduled date of filing of Annual Securities Report: May 31, 2023
Scheduled date of payment of dividend: May 31, 2023
Preparation of supplementary materials for financial results: Yes
Holding of financial results meeting: Yes (Only video distribution)

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

1. Consolidated Financial Results for the Fiscal Year Ended February 28, 2023 (March 1, 2022 – February 28, 2023)

(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	%
Fiscal year ended Feb. 28, 2023	19,658	11.5	451	(54.0)	559	(45.9)	(538)	-
Fiscal year ended Feb. 28, 2022	17,632	5.2	981	(11.6)	1,032	(21.1)	543	(44.0)

Note: Comprehensive income Fiscal year ended Feb. 28, 2023: 117 million yen (down 85.9%)
Fiscal year ended Feb. 28, 2022: 830 million yen (down 12.6%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit on total assets	Operating profit on net sales
	Yen	Yen	%	%	%
Fiscal year ended Feb. 28, 2023	(32.15)	-	(3.8)	2.5	2.3
Fiscal year ended Feb. 28, 2022	32.46	-	3.9	4.8	5.6

Reference: Equity in earnings of affiliates Fiscal year ended Feb. 28, 2023: (15) million yen
Fiscal year ended Feb. 28, 2022: - million yen

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2023	22,758	14,117	62.0	843.09
As of Feb. 28, 2022	22,273	14,354	64.4	857.28

Reference: Equity capital As of Feb. 28, 2023: 14,117 million yen As of Feb. 28, 2022: 14,354 million yen

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of the period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended Feb. 28, 2023	(196)	(666)	451	3,917
Fiscal year ended Feb. 28, 2022	701	(680)	(427)	4,145

2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended Feb. 28, 2022	-	0.00	-	20.00	20.00	334	61.6	2.4
Fiscal year ended Feb. 28, 2023	-	0.00	-	20.00	20.00	334	-	2.4
Fiscal year ending Feb. 29, 2024 (forecast)	-	0.00	-	20.00	20.00		74.4	

3. Consolidated Forecast for the Fiscal Year Ending February 29, 2024 (March 1, 2023 – February 29, 2024)

(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	20,000	1.7	700	55.0	650	16.3	450	-	26.87

*** 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) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: Yes
2) Changes in accounting policies other than 1) above: None
3) Changes in accounting-based estimates: None
4) Restatements: None

(3) Number of outstanding shares (common stock)

1) Number of shares outstanding at the end of the period (including treasury shares)
As of Feb. 28, 2023: 18,400,000 shares As of Feb. 28, 2022: 18,400,000 shares

2) Number of treasury shares at the end of the period
As of Feb. 28, 2023: 1,655,480 shares As of Feb. 28, 2022: 1,655,480 shares

3) Average number of shares outstanding during the period
Fiscal year ended Feb. 28, 2023: 16,744,520 shares Fiscal year ended Feb. 28, 2022: 16,744,520 shares

Reference: Summary of Non-consolidated Financial Results
Non-consolidated Financial Results for the Fiscal Year Ended February 28, 2023
(March 1, 2022 – February 28, 2023)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended Feb. 28, 2023	11,795	(6.8)	817	(31.8)	992	(24.6)	(315)	-
Fiscal year ended Feb. 28, 2022	12,661	1.8	1,198	33.4	1,316	38.4	779	17.8

	Net income per share	Diluted net income per share
	Yen	Yen
Fiscal year ended Feb. 28, 2023	(18.85)	-
Fiscal year ended Feb. 28, 2022	46.55	-

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Feb. 28, 2023	17,162	12,619	73.5	753.66
As of Feb. 28, 2022	17,366	13,312	76.7	795.02

Reference: Shareholders' equity As of Feb. 28, 2023: 12,619 million yen As of Feb. 28, 2022: 13,312 million yen

This financial report is not subject to audit by certified public accountants or auditing firms.

Cautionary statement with respect to forecasts of future performance and other special items

Statements about future performance, including forecasts in this document are based on certain assumptions that the Company considers to be reasonable and relies on and the information currently available. Actual performance may significantly differ due to various reasons.
Information about the conditions for the forecasts and precautions regarding the use of forecasts is on page 3 of the Attachments, "1. Overview of Results of Operations, (4) Outlook".

Contents of Attachments

1. Overview of Results of Operations

(1) Results of Operations

During the fiscal year that ended in February 2023, the Japanese economy began returning to normal economic activities as the people lived with the COVID-19. Prices increased in Japan because of inflation triggered by the Ukraine conflict. In addition, shifts in the monetary policies of many countries caused a significant depreciation of the yen. As a result, the economic environment continues to be uncertain.

Although the global economy slowly recovering from the pandemic, there are still many uncertainties. There are growing concerns about the economic slowdown in the United States caused by inflation and tighter monetary policy. Inflation is also increasing in Europe due to surging energy prices accompanied by rising interest rates. Moreover, economic growth in China is slowing down.

In the pharmaceutical industry, a key user of Freund Group products, companies must deal with the challenges of increasing R&D expenses and government measures to control healthcare expenditures. The revision of health insurance drug prices, which used to occur every two years, now takes place every year. In the generic drug market, growth is expected to slow as the effects of the government's measures to increase the use of generic drugs have run their course. Due to deficiencies of some manufacturers in their manufacturing systems, the industry as a whole need to build a sound infrastructure for ensuring the quality and stable supply of generic drugs. To build this infrastructure, major generic drug manufacturers plan to expand their operations, such as by building additional plants.

In this environment, the Freund Group aims to further strengthen its sales capabilities in the machinery and chemicals businesses. The Group is also establishing a framework for utilizing its technologies to meet customers' true needs. All of these initiatives will create a sound base for even more product development, manufacturing and sales activities worldwide. The Group operates in Japan and the United States, and started operations in India in 2019 and Italy in 2020. The Group is planning to commence activities in China in the second quarter of the fiscal year ending in February 2024, thereby constructing a five-pole global structure. With this structure, the Freund Group will take many actions to maximize synergies among group companies to enhance its presence in Japan and international markets.

In the fiscal year ended February 2023, which was the final year of the Eighth Medium-term Management Plan, net sales increased 11.5% year-over-year to 19,658 million yen, operating profit was down 54.0% to 451 million yen, ordinary profit decreased 45.9% to 559 million yen, and there was a loss attributable to owners of parent of 538 million yen compared with profit attributable to owners of parent of 543 million yen in the previous fiscal year.

In the machinery business, orders remained strong throughout the fiscal year, driven by substantial capital expenditures by generic drug manufacturers in Japan, resulting a record-high order backlog. Sales increased partly due to the depreciation of the yen, which raised yen-denominated sales of overseas subsidiaries. In the chemicals business, sales grew due to the strong performance of pharmaceutical excipients and food preservatives.

Earnings were lower primarily due to material shortages resulting from supply chain disruptions in Japan and other countries, as well as the impact of soaring raw material prices. Furthermore, impairment losses on goodwill and intangible assets related to consolidated subsidiary Cos. Mec S.r.l. further impacted earnings, resulting in a significant decline.

Operating results by segment are as follows

Machinery Business Segment

Granulating and coating equipment are the main products of this segment. Earnings declined at the U.S. subsidiary due to significant shipment delays caused by the tight labor supply and long time required to procure parts/materials caused by supply chain disruptions. Furthermore, the higher cost of raw materials caused by rapid inflation exerted significant downward pressure on earnings. In Japan as well, in addition to the sharp rise in raw materials/parts prices, long lead times for the procurement and shipment of semiconductors and other parts/materials adversely affected earnings.

As a result, net sales increased 13.6% year-over-year to 13,448 million yen but segment profit decreased 90.5% to 59 million yen.

Chemicals Business Segment

Sales of pharmaceutical excipients were strong in Japan and other countries, surpassing the prior fiscal year's record high sales.

Sales and operating profit of food preservatives increased. This growth is the result of a recovery in demand for confectionery products and strong e-commerce sales of bread. Sales in this category also exceeded the prior fiscal year's all-time high. An improvement in capacity utilization contributed to an increase in profitability.

Sales of health food products declined significantly due to the termination of a contract for manufacturing products for a high-volume customer.

As a result, net sales increased 7.1% year-over-year to 6,209 million yen and segment profit increased 10.3% to 976 million yen.

(2) Financial Position

Total assets increased 484 million yen from the end of the previous fiscal year to 22,758 million yen at the end of the current fiscal year. This increase is primarily the result of increases of 327 million yen in work in process and 336 million yen in software in progress. There was a decrease of 228 million yen in cash and deposits.

Total liabilities increased 722 million yen from the end of the previous fiscal year to 8,641 million yen at the end of the current fiscal year. This increase is mainly the result of an increase of 868 million yen in short-term borrowings.

As a result, net assets decreased 237 million yen from the end of the previous fiscal year to 14,117 million yen at the end of the current fiscal year.

(3) Cash Flows

The balance of cash and cash equivalents at the end of the current fiscal year was 3,917 million yen, down 228 million yen over the end of the previous fiscal year (this compares with a decrease of 353 million yen in the previous fiscal year).

The cash flow components during the current fiscal year and the main reasons for changes are as described below.

Cash flows from operating activities

Net cash used in operating activities was 196 million yen (compared with net cash provided of 701 million yen in the previous fiscal year). Depreciation of 565 million yen was a major source of cash and income taxes paid of 412 million yen and a decrease in contract liabilities of 356 million yen were major uses of cash.

Cash flows from investing activities

Net cash used in investing activities was 666 million yen (compared with net cash used of 680 million yen in the previous fiscal year). This was primarily due to expenditures of 269 million yen for acquisition of property, plant and equipment and expenditures of 330 million yen for acquisition of intangible assets.

Cash flows from financing activities

Net cash provided by financing activities was 451 million yen (compared with net cash used of 427 million yen in the previous fiscal year). An increase of 852 million yen in short-term borrowings more than offset cash used for dividends paid of 333 million yen.

(4) Outlook

The Japanese and global economies are recovering slowly from the pandemic. However, there are still uncertainties due to factors as such as the prolonged Ukraine crisis that raised energy and resource prices, the increase in interest rates in major economies in North America and Europe driven by global inflation, and the ongoing depreciation of yen.

The Freund Group specializes in the production of machinery and additives, including chemicals, used for manufacturing pharmaceutical products such as tablets and granules. Freund is the only corporate group in the world in the pharmaceutical industry that encompasses both machinery and chemical additives.

In the pharmaceutical industry, a major user of Freund Group products, sales volumes in Japan are expected to increase due to the aging population. However, the industry's growth is anticipated to slow down due to various challenges. These challenges include government policies aimed at holding down drug prices, the diminishing effectiveness of measures to promote the use of generic drugs, and supply constrains caused by manufacturing issues at certain generic drug manufacturers, among other issues.

On the other hand, the global pharmaceutical market is expected to continue growing because of factors such as the increasing world population and the aging populations of many countries.

The Freund Group had originally intended to announce its Ninth Medium-term Management Plan which would have started in the fiscal year ending in February 2024. However, due to the prolonged Ukraine crisis and the resulting uncertainty about material and energy prices, as well as supply constraints, the Group has designated the fiscal year ending in February 2024 as a year for laying the groundwork for the next medium-term plan. During the fiscal year, the Group will implement a single-year plan to take effective actions to deal with the existing challenges. Consequently, the Ninth Medium-term Management Plan is now expected to commence in the fiscal year ending in February 2025.

In the fiscal year ending in February 2024, the Group forecasts sales of 20,000 million yen (a 1.7% increase compared to the previous fiscal year), operating profit of 700 million yen (a 55.0% increase), ordinary profit of 650 million yen (a 16.3% increase), and profit attributable to owners of the parent company of 450 million yen (compared to a loss of 538 million yen in the previous fiscal year).

For the performance of foreign subsidiaries, the Group assumes an average exchange rate of 130 yen to the U.S. dollar and 140 yen for the euro during the fiscal year.

(5) Basic Policy for Profit Distribution, and Dividends in the Current and Next Fiscal Years

Freund Corporation considers the maximization of shareholder value as the most critical management objective. The goals are to enhance its corporate structure to effectively respond to changes in the business environment and distribute profits to its shareholders. Regarding profit distribution, the basic principle is to allocate earnings based on performance, targeting an annual consolidated dividend payout ratio of 30%. The policy is to pay a consistent and stable dividend while using a comprehensive approach that includes the retention of earnings for strengthening business operations and future growth and other considerations.

For the fiscal year that ended in February 2023, despite the decrease in earnings, Freund plans to pay an ordinary year-end dividend of 20 yen per share, which is the same as for the previous fiscal year in line with the policy of maintaining a consistent and stable dividend.

Similarly, for the fiscal year ending February 2024, Freund plans to pay an ordinary year-end dividend of 20 yen per share.

2. Basic Approach to the Selection of Accounting Standards

The Freund Group uses Japanese GAAP for the preparation of its consolidated financial statements, which allows comparisons across different fiscal years and with other Japanese companies.

3. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheet

(Thousands of yen)

	FY2/22 (As of Feb. 28, 2022)	FY2/23 (As of Feb. 28, 2023)
Assets		
Current assets		
Cash and deposits	4,145,207	3,917,128
Notes and accounts receivable-trade, and contract assets	4,902,513	4,915,548
Electronically recorded monetary claims-operating	326,231	619,666
Merchandise and finished goods	667,070	760,326
Work in process	2,390,278	2,717,692
Raw materials and supplies	2,032,755	2,108,285
Advance payments to suppliers	173,035	414,129
Prepaid expenses	211,030	199,546
Other	168,912	232,922
Allowance for doubtful accounts	(12,624)	(15,226)
Total current assets	15,004,411	15,870,019
Non-current assets		
Property, plant and equipment		
Buildings and structures	4,103,299	4,279,200
Accumulated depreciation	(2,088,393)	(2,273,390)
Buildings and structures, net	2,014,906	2,005,809
Machinery, equipment and vehicles	2,725,284	2,673,424
Accumulated depreciation	(1,859,522)	(1,978,021)
Machinery, equipment and vehicles, net	865,761	695,402
Land	1,141,676	1,145,522
Construction in progress	177,492	204,971
Other	1,621,454	1,828,426
Accumulated depreciation	(1,258,329)	(1,438,679)
Other, net	363,125	389,746
Total property, plant and equipment	4,562,962	4,441,453
Intangible assets		
Goodwill	643,241	-
Software	31,945	32,499
Software in progress	224,080	560,486
Customer relationship	472,554	324,848
Other	63,008	49,621
Total intangible assets	1,434,830	967,456
Investments and other assets		
Investment securities	592,710	657,433
Business insurance funds	269,227	269,227
Deferred tax assets	235,394	366,398
Retirement benefit asset	429	-
Other	179,337	192,286
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	1,271,699	1,479,946
Total non-current assets	7,269,492	6,888,855
Total assets	22,273,904	22,758,875

(Thousands of yen)

	FY2/22 (As of Feb. 28, 2022)	FY2/23 (As of Feb. 28, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,767,452	1,896,836
Electronically recorded obligations-operating	976,189	833,521
Short-term borrowings	27,180	896,092
Income taxes payable	256,087	130,135
Accrued expenses	340,643	435,497
Contract liabilities	2,805,781	2,913,026
Provision for bonuses	252,662	220,553
Provision for bonuses for directors (and other officers)	29,918	17,185
Other	579,858	472,396
Total current liabilities	7,035,774	7,815,246
Non-current liabilities		
Lease liabilities	376,253	408,206
Retirement benefit liability	316,216	267,351
Asset retirement obligations	67,130	67,263
Provision for retirement benefits for directors (and other officers)	6,591	12,096
Other	117,161	71,522
Total non-current liabilities	883,353	826,439
Total liabilities	7,919,127	8,641,685
Net assets		
Shareholders' equity		
Share capital	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	12,808,681	11,899,999
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	14,360,432	13,451,750
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	39,688	32,992
Foreign currency translation adjustment	(37,972)	612,727
Remeasurements of defined benefit plans	(7,371)	19,719
Total accumulated other comprehensive income	(5,655)	665,439
Total net assets	14,354,776	14,117,189
Total liabilities and net assets	22,273,904	22,758,875

(2) Consolidated Statements of Income and Comprehensive Income

Consolidated Statement of Income

(Thousands of yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net sales	17,632,243	19,658,519
Cost of sales	11,620,336	13,665,247
Gross profit	6,011,906	5,993,272
Selling, general and administrative expenses	5,030,033	5,541,697
Operating profit	981,872	451,574
Non-operating income		
Interest income	824	299
Dividend income	7,210	7,714
Technical support fee income	12,979	19,098
Rental income	1,285	1,325
Insurance claim income	3,357	-
Foreign exchange gains	16,568	109,030
Other	22,127	32,332
Total non-operating income	64,353	169,800
Non-operating expenses		
Interest expenses	10,672	34,511
Share of loss of entities accounted for using equity method	-	15,429
Other	2,774	12,415
Total non-operating expenses	13,446	62,356
Ordinary profit	1,032,779	559,018
Extraordinary income		
Gain on sale of non-current assets	2,083	31,063
Gain on sale of investment securities	1,298	-
Total extraordinary income	3,381	31,063
Extraordinary losses		
Loss on retirement of non-current assets	4,558	33,051
Loss on sale of non-current assets	795	1,124
Loss on valuation of investment securities	-	28,456
Impairment losses	75,353	933,929
Litigation expenses	126,984	-
Total extraordinary losses	207,692	996,562
Profit (loss) before income taxes	828,469	(406,480)
Income taxes - current	376,098	284,763
Income taxes - deferred	(91,196)	(152,826)
Total income taxes	284,902	131,936
Profit (loss)	543,566	(538,417)
Profit (loss) attributable to owners of parent	543,566	(538,417)

Consolidated Statement of Comprehensive Income

(Thousands of yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Profit (loss)	543,566	(538,417)
Other comprehensive income		
Valuation difference on available-for-sale securities	17,538	(6,695)
Foreign currency translation adjustment	290,668	633,343
Remeasurements of defined benefit plans, net of tax	(23,101)	27,091
Share of other comprehensive income of entities accounted for using equity method	2,007	1,926
Total other comprehensive income	287,114	655,664
Comprehensive income	830,680	117,247
(Breakdown)		
Comprehensive income attributable to owners of parent	830,680	117,247

(3) Consolidated Statement of Changes in Equity

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,035,600	1,289,513	12,600,004	(773,363)	14,151,755
Changes during period					
Dividends of surplus			(334,890)		(334,890)
Loss attributable to owners of parent			543,566		543,566
Net changes in items other than shareholders' equity					
Total changes during period	-	-	208,676	-	208,676
Balance at end of period	1,035,600	1,289,513	12,808,681	(773,363)	14,360,432

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	22,149	(330,648)	15,729	(292,769)	13,858,986
Changes during period					
Dividends of surplus					(334,890)
Loss attributable to owners of parent					543,566
Net changes in items other than shareholders' equity	17,538	292,676	(23,101)	287,114	287,114
Total changes during period	17,538	292,676	(23,101)	287,114	495,790
Balance at end of period	39,688	(37,972)	(7,371)	(5,655)	14,354,776

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,035,600	1,289,513	12,808,681	(773,363)	14,360,432
Cumulative effects of changes in accounting policies			(35,373)		(35,373)
Restated balance	1,035,600	1,289,513	12,773,307	(773,363)	14,325,058
Changes during period					
Dividends of surplus			(334,890)		(334,890)
Loss attributable to owners of parent			(538,417)		(538,417)
Net changes in items other than shareholders' equity					
Total changes during period	-	-	(873,307)	-	(873,307)
Balance at end of period	1,035,600	1,289,513	11,899,999	(773,363)	13,451,750

(Thousands of yen)

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	39,688	(37,972)	(7,371)	(5,655)	14,354,776
Cumulative effects of changes in accounting policies					(35,373)
Restated balance	39,688	(37,972)	(7,371)	(5,655)	14,319,403
Changes during period					
Dividends of surplus					(334,890)
Loss attributable to owners of parent					(538,417)
Net changes in items other than shareholders' equity	(6,695)	650,699	27,091	671,094	671,094
Total changes during period	(6,695)	650,699	27,091	671,094	(202,213)
Balance at end of period	32,992	612,727	19,719	665,439	14,117,189

(4) Consolidated Statement of Cash Flows

(Thousands of yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Cash flows from operating activities		
Profit (loss) before income taxes	828,469	(406,480)
Depreciation	570,385	565,043
Impairment losses	75,353	933,929
Amortization of goodwill	74,180	77,811
Insurance claim income	(3,357)	-
Settlement-related costs	126,984	-
Increase (decrease) in provision for bonuses	(7,613)	(33,987)
Increase (decrease) in provision for bonuses for directors (and other officers)	(13,788)	(12,733)
Increase (decrease) in allowance for doubtful accounts	1,668	964
Interest and dividend income	(8,035)	(8,013)
Interest expenses	10,672	34,511
Foreign exchange losses (gains)	(12,185)	(92,707)
Share of loss (profit) of entities accounted for using equity method	-	15,429
Loss (gain) on sale of property, plant and equipment	(1,287)	(29,938)
Loss (gain) on sale of investment securities	(1,298)	-
Loss (gain) on valuation of investment securities	-	28,456
Loss on retirement of property, plant and equipment	4,558	33,051
Decrease (increase) in trade receivables	(299,214)	(171,232)
Decrease (increase) in inventories	(1,430,220)	(54,315)
Decrease (increase) in other assets	17,908	(147,044)
Increase (decrease) in trade payables	(154,909)	(78,886)
Increase (decrease) in contract liabilities	1,565,469	(356,219)
Increase (decrease) in other liabilities	(150,896)	(56,941)
Other, net	130	132
Subtotal	1,192,973	240,830
Interest and dividends received	8,035	8,013
Interest paid	(10,672)	(34,511)
Proceeds from insurance income	3,357	-
Income taxes refund	10,146	2,450
Income taxes paid	(394,188)	(412,829)
Settlement-related costs paid	(110,721)	-
Other, net	3,000	-
Net cash provided by (used in) operating activities	701,930	(196,046)
Cash flows from investing activities		
Purchase of property, plant and equipment	(460,797)	(269,229)
Proceeds from sale of property, plant and equipment	22,191	40,877
Payments from sales of property, plant and equipment	-	(1,124)
Payments for retirement of property, plant and equipment	(2,068)	(7,088)
Purchase of intangible assets	(236,970)	(330,339)
Purchase of investment securities	(232,927)	(97,422)
Proceeds from sale of investment securities	7,883	-
Payments of guarantee deposits	(984)	(3,604)
Proceeds from refund of guarantee deposits	410	1,269
Proceeds from withdrawal of negotiable certificates of deposit	222,980	-
Net cash provided by (used in) investing activities	(680,282)	(666,663)

(Thousands of yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(30,039)	852,796
Proceeds from long-term borrowings	25,982	-
Repayments of long-term borrowings	(7,477)	(6,956)
Repayments of lease liabilities	(39,759)	(60,201)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(41,224)	-
Dividends paid	(335,128)	(333,960)
Net cash provided by (used in) financing activities	(427,646)	451,677
Effect of exchange rate change on cash and cash equivalents	52,724	182,952
Net increase (decrease) in cash and cash equivalents	(353,274)	(228,079)
Cash and cash equivalents at beginning of period	4,498,482	4,145,207
Cash and cash equivalents at end of period	4,145,207	3,917,128

(5) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Accounting Policies

Application of Accounting Standard for Revenue Recognition

The Freund Corporation has applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 26, 2021) from the beginning of the current fiscal year. Based on these standards, revenue is recognized at the estimated amount expected to be received in exchange for the provision of goods and/or services when the control of the goods and/or services is transferred to customers. The major revisions due to the application of this new standard are as follows.

1) Identification of performance obligations and allocation of transaction prices

For construction contracts that include the sale of machinery, the performance obligations concerning the sale of machinery and the completion of construction are identified separately. Transaction prices are allocated based on independent selling prices and revenue is now recognized when each obligation has been fulfilled.

2) Revenue recognition for construction contracts

In previous years, the percentage-of-completion method was used for construction contracts for projects where the percentage of completion can be accurately determined. The completed-contract method was used for all other construction contracts. Under the new revenue recognition standard, revenue is now recognized over a designated period as the performance obligation is fulfilled.

3) Revenue recognition for agent transactions

In previous years, revenue was recognized based on the entire amount received from customers. Under the new revenue recognition standard, for transactions where the Freund Corporation acts as an agent, revenue is now recognized as the net amount after deducting payments to suppliers from the amount received from customers.

Regarding the application of the Accounting Standard for Revenue Recognition, Freund Corporation adheres to the transitional treatment outlined in the Paragraph 84 of this standard. In accordance with this treatment, the retained earnings at the beginning of the current fiscal year have been adjusted to incorporate the cumulative impact of the retrospective application of the new accounting policy. The new standard is then applied based on the adjusted retained earnings. However, the Company has not retrospectively applied the new accounting policy to contracts in which almost all revenue was recognized in accordance with the previous accounting method before the beginning of the current fiscal year, in line with the treatment specified in Paragraph 86 of the Revenue Recognition Accounting Standard. Furthermore, contract changes made prior to the current fiscal year have been accounted for based on the contract terms after reflecting all changes, following the method prescribed in Paragraph 86, Article 1 of the Accounting Standard for Revenue Recognition. Retained earnings at the beginning of the fiscal year that ended in February 2023 were adjusted to reflect the cumulative impact of these changes.

As a result, in the consolidated statement of income for the current fiscal year, net sales decreased by 121,988 thousand yen, cost of sales decreased by 136,350 thousand yen, and loss before income taxes decreased by 36,361 million yen, while gross profit increased by14,361 thousand yen and operating profit and ordinary profit increased by 36,361 thousand yen each.

The cumulative impact on net assets at the beginning of the current fiscal year was a decrease of 35,373 thousand yen in retained earnings at the beginning of the current fiscal year in the consolidated statement of changes in equity.

“Notes and accounts receivable-trade” presented in the current assets section of the consolidated balance sheet in the previous fiscal year is, from the current fiscal year, included in “Notes and accounts receivable-trade, and contract assets.” “Advances received,” that was presented in the current liabilities section is, from the current fiscal year, presented as “Contract liabilities.”

Furthermore, in accordance with the transitional measures prescribed in Paragraph 86-3 of the Accounting Standard for Revenue Recognition, the Group has not presented the Revenue Recognition, Note, for the previous fiscal year.

Application of the Accounting Standard for Fair Value Measurement

The Freund Group has applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) from the beginning of the current fiscal year. In accordance with the transitional measures prescribed in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Group will prospectively apply the new accounting policies specified by the Accounting Standard or Fair Value Management. The application of this standard has no impact on the consolidated financial statements

Segment and Other Information

Segment information

1. Overview of reportable segments

The reportable segments of the Freund Group are components for which discrete financial information is available. These segments are subject to regular reviews by the Board of Directors to make decisions regarding resource allocation and to evaluate performance.

The Freund Group is engaged in manufacturing and sale of machinery and chemical products. Consequently, the Freund Group has two reportable business segments: the Machinery Business and the Chemicals Business.

Main products and services of each reportable segment

Machinery Business: Granulating devices; construction of granulating machinery plants; measuring instruments and parts; and outsourced granulation of synthetic resins

Chemicals Business: Pharmaceutical excipients and dietary supplements; food preservatives; R&D, formulation studies and other projects for pharmaceuticals, food, chemicals and other products; and development and technology licensing of new dosage forms of pharmaceutical products

2. Calculation method for net sales, profit or loss, assets, liabilities, and other items for each reportable segment

The reportable segments follow the accounting methods that are generally consistent with those adopted for preparation of the consolidated financial statements.

Segment profit (loss) for reportable business segments is determined based on operating profit (loss).

Inter-segment sales are derived from prices in third-party transactions.

3. Information related to net sales, profit or loss, assets, liabilities, and other items for each reportable segment

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022) (Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	11,836,513	5,795,729	17,632,243	-	17,632,243
Inter-segment sales and transfers	-	-	-	-	-
Total	11,836,513	5,795,729	17,632,243	-	17,632,243
Segment profit	623,434	884,892	1,508,326	(526,454)	981,872
Segment assets	13,630,268	4,707,537	18,337,806	3,936,098	22,273,904
Other items					
Depreciation	421,367	143,884	565,251	5,133	570,385
Investment in equity-method affiliate	-	236,218	236,218	-	236,218
Increase in property, plant and equipment and intangible assets	338,721	190,059	528,780	43,024	571,805

Notes: 1. The adjustment includes the following items.

(1) The negative adjustment of 526,454 thousand yen to segment profit is 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) The 3,936,098 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of Freund's surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of Freund.

(3) The 5,133 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.

(4) The 43,024 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the consolidated financial statements.

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023) (Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Machinery Business	Chemicals Business	Total		
Net sales					
External sales	13,448,982	6,209,537	19,658,519	-	19,658,519
Inter-segment sales and transfers	-	-	-	-	-
Total	13,448,982	6,209,537	19,658,519	-	19,658,519
Segment profit	59,461	976,289	1,035,751	(584,177)	451,574
Segment assets	13,706,794	4,946,841	18,653,635	4,105,239	22,758,875
Other items					
Depreciation	413,697	145,723	559,421	5,622	565,043
Investment in equity-method affiliate	-	332,714	332,714	-	332,714
Increase in property, plant and equipment and intangible assets	323,859	268,681	592,541	53,861	646,402

Notes: 1. The adjustment includes the following items.

(1) The negative adjustment of 584,177 thousand yen to segment profit is 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) The 4,105,239 thousand yen adjustment to segment assets is corporate assets that are not allocated to any of the reportable segments. Corporate assets mainly consist of Freund's surplus funds (cash and deposits), long-term investment funds (investment securities and insurance funds), and assets of the administrative operations of Freund.

(3) The 5,622 thousand yen adjustment to depreciation is mainly depreciation of corporate assets that are not allocated to any of the reportable segments.

(4) The 53,861 thousand yen adjustment to increase in property, plant and equipment and intangible assets is mainly the sum of corporate assets that are not allocated to the reportable segments.

2. Segment profit is adjusted to be consistent with operating profit recorded in the consolidated financial statements .

Related information

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales (Thousands of yen)

Japan	US	Latin America	Europe	Asia	Other	Total
12,503,682	1,388,615	882,062	1,009,661	1,516,878	331,342	17,632,243

Note: Classification of net sales is based on the location of the client and categorized by country or region.

(2) Property, plant and equipment (Thousands of yen)

Japan	US	Italy	Total
2,790,103	1,186,308	586,550	4,562,962

3. Information by major client

This information is omitted because no specific external client accounts for 10% or more of consolidated net sales on the consolidated statement of income.

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

1. Information by product or service

This information is omitted because the same information is presented in segment information.

2. Information by region

(1) Net sales (Thousands of yen)

Japan	US	Latin America	Europe	Asia	Other	Total
11,716,020	1,716,232	2,506,738	1,042,741	2,322,929	353,857	19,658,519

Note: Classification of net sales is based on the location of the client and categorized by country or region.

(2) Property, plant and equipment (Thousands of yen)

Japan	US	Italy	Total
2,616,743	1,373,598	451,110	4,441,453

3. Information by major client

This information is omitted because no specific external client accounts for 10% or more of consolidated net sales on the consolidated statement of income.

Information related to impairment losses on non-current assets for each reportable segment

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022) (Thousands of yen)

	Reportable segment			Adjustment	Total
	Machinery	Chemicals	Subtotal		
Impairment loss	25,658	49,694	75,353	-	75,353

FY2/23(Mar. 1, 2022 – Feb. 28, 2023) (Thousands of yen)

	Reportable segments			Adjustment	Total
	Machinery	Chemicals	Subtotal		
Impairment loss	933,094	624	933,719	210	933,929

Note: The 905,976 thousand yen is an impairment loss mainly for goodwill involving consolidated subsidiary Cos. Mec S.r.l. and intangible assets. There was no unamortized balance of goodwill.

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)

Goodwill amortization of 74,180 thousand yen was recorded in the Machinery Business segment. Unamortized balance of this goodwill was 643,241 thousand yen.

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)

Goodwill amortization of 77,811 thousand yen was recorded for consolidated subsidiary Cos. Mec S.r.l. in the Machinery Business segment. There is no unamortized balance of this goodwill.

Information related to gain on bargain purchase for each reportable segment

Not applicable.

Revenue Recognition

Information of breakdown on revenue from contracts with customers

FY2/23 (Mar. 1, 2022 – Feb. 28, 2023) (Thousands of yen)

	Reportable segments		
	Machinery Business	Chemicals Business	Total
Japan	5,845,815	5,870,204	11,716,020
United States	1,716,112	120	1,716,232
Latin America	2,506,738	-	2,506,738
Europe	833,865	208,875	1,042,741
Asia	2,193,002	129,926	2,322,929
Other	353,447	410	353,857
Revenue from contracts with customers	13,448,982	6,209,537	19,658,519
External sales	13,448,982	6,209,537	19,658,519

Per Share Information

(Yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Net assets per share	857.28	843.09
Net (loss) income per share	32.46	(32.15)

Notes: 1. Diluted net income per share is not presented since the Company has no outstanding dilutive shares.

2. The basis of calculating the net income (loss) per share is as follows:

(Thousands of yen)

	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)	FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)
Profit (loss) attributable to owners of the parent	543,566	(538,417)
Amounts not attributable to common shareholders	-	-
Profit (loss) attributable to common shareholders of parent	543,566	(538,417)
Average number of common shares outstanding during the period (Thousand shares)	16,744	16,744

Subsequent Events

Establishment of Restricted Stock Compensation Plan

On May 8, 2023, the Board of Directors of Freund Corporation reviewed the compensation plan for officers and resolved to establish a restricted stock compensation plan (the “Plan”). The proposal regarding the Plan will be presented for deliberation at the 59th Annual General Meeting of Shareholders to be held on May 30, 2023.

1. Objectives and conditions of the Plan

(1) Objectives of the Plan

The objective of the Plan is to provide incentives to the company’s directors excluding external directors (“Eligible Directors”) to achieve the sustainable growth of corporate value and to align the interests of Eligible Directors with those of shareholders.

(2) Conditions for the Plan

Under the Plan, restricted stock will be granted to Eligible Directors as compensation, or monetary claims for the issuance of restricted stock will be provided as compensation. Therefore, the establishment of the Plan is subject to the approval of shareholders at the 59th Annual General Meeting of Shareholders for the payment of this compensation.

An annual limit of 300 million yen for the total amount of compensation for the company's directors has already been approved by shareholders at the 48th Annual General Meeting of Shareholders held on May 29, 2012. At the upcoming 59th Annual General Meeting of Shareholders, shareholders will be requested to approve a separate provision for the Compensation Plan for Eligible Directors within the existing limit.

2. Overview of the Compensation Plan

The distribution of restricted stock under the Plan will be conducted by using one of the following methods: i) issuing or disposing of common stock of Freund Corporation as compensation to Directors, without requiring payment of money or provision of assets, or ii) distributing monetary remuneration claims to Eligible Directors who will then contribute these claims as in-kind investments in conjunction with the issuance or disposal of common stock of Freund Corporation.

The total number of shares of common stock to be issued or disposed of under the Plan will not exceed 70,000 per year. Furthermore, the aggregate amount of remuneration will not exceed 50 million yen per year, which falls within the existing limit for monetary compensation (However, if the number of shares issued by Freund Corporation changes due to a stock merger or split (including a gratis allocation of stock), the maximum number of shares will be adjusted accordingly.

The stock price is determined by the Board of Directors within a range that is not specifically favorable to the Eligible Directors. This price is based on the closing price of common stock of Freund Corporation on the Tokyo Stock Exchange on the trading day prior to the date of the resolution of the Board of Directors to issue or dispose of stock for the Plan (if the stock of Freund Corporation was not traded on that day, the closing price of the most recent preceding trading day).

One of the objectives of the Plan is to achieve the sharing of interests with shareholders over the medium to long term. To accomplish this, the transfer restriction period begins on the date of issuance of restricted stock and ends on the date on which the Eligible Director is no longer a director or leaves any other position designated by the Board of Directors. The timing and allocation of restricted stock to each Eligible Director will be determined by the Board of Directors.

In order to receive stock under the Plan, Eligible Directors are required to enter into a restricted stock allocation agreement (the "Allocation Agreement") with Freund Corporation. The Allocation Agreement will include the following provisions.

i) During the period from the date of stock allocation until an Eligible Director is no longer a Director of Freund Corporation or leaves any other position designated by the Board of Directors, the Director is prohibited from transferring, pledging as collateral or engaging in any other form of disposition of the restricted stock.

ii) In the event that an Eligible Director violates any laws, regulations, or the terms of the Allocation Agreement or there are any other reasons deemed legitimate by the Board of Directors, Freund Corporation has the right to acquire the restricted stock from the Director without any payment.

4. Others

Orders and Sales

(1) Orders received (Thousands of yen)

Operating segment	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)		FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	15,621,186	126.1	14,630,593	93.7

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.

(2) Order backlog (Thousands of yen)

Operating segment	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)		FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	10,574,211	159.8	12,826,511	121.3

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) Sales (Thousands of yen)

Operating segment	FY2/22 (Mar. 1, 2021 – Feb. 28, 2022)		FY2/23 (Mar. 1, 2022 – Feb. 28, 2023)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	11,836,513	67.1	13,448,982	68.4
Chemicals Business	5,795,729	32.9	6,209,537	31.6
Total	17,632,243	100.0	19,658,519	100.0

Note: Sales are based on selling prices; inter-segment transactions have been eliminated.

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.