

FREUND CORPORATION

Selected by the Japanese Ministry of Economy, Trade
and Industry as a Global Niche Top 100 Company

JASDAQ

(Securities code: 6312)

Results of Operations for the First Quarter of the Fiscal Year Ending February 28, 2019 (FY2/19)

July 27, 2018

 **FREUND**

2017 Award for Excellence in
Corporate Disclosure
-Emerging Markets-



SAI The Securities Analysts
Association of Japan

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Consolidated Financial Summary for 1Q of FY2/19



Consolidated Financial Summary

- Volume of new orders was low because pharmaceutical capital expenditures in Japan were down, but sales increased due to large projects
- Freund-Vector: First half performance is normally weak because the second half is usually the majority of sales and earnings
- Freund-Turbo: Large volume of orders in the lithium-ion battery sector; shipments will start in 2Q
- Chemicals Business: Strong sales of pharmaceutical excipients and food preservatives

(unit: ¥ million)

	FY2/18 Q1 Actual	FY2/19 Q1 Actual	YoY Change		FY2/19 Forecasts (as of 4/13/18)
			Amount	%	
Net sales	4,472	4,849	+377	+8.4	20,000
Operating profit	387	399	+11	+3.0	1,900
Ordinary profit	397	478	+80	+20.3	1,900
Profit	274	347	+72	+26.6	1,350
Earnings per share (yen)	15.91	20.37	+4.46	+28.0	78.29
Capital investment	50	174	+123	+244.0	500
Depreciation	83	79	(3)	(4.6)	300
R&D expenses	203	230	+27	+13.3	750

Machinery Business: Overview

● Sales By Product Field

- Pharmaceutical products: Sales up due to progress with large projects
Difficulty receiving new orders due to weak demand in Japan for pharmaceutical equipment
- Industrial products: Large number of orders and prospective orders for products used for making lithium-ion batteries; shipments will start in 2Q

● Segment Profit

- Slow pace of the start-up of two subsidiaries caused earnings to decrease

(unit: ¥ million)

	FY2/18	FY2/19	YoY change		FY2/19
	Q1 Actual	Q1 Actual	Amount	%	Forecasts (as of 4/13/18)
Net sales	3,198	3,433	+ 235	+ 7.4	14,000
Pharmaceutical Products	2,736	2,993	+ 257	+ 9.4	—
Industrial Products	461	439	(22)	(4.8)	—
Operating profit	326	278	(48)	(14.8)	—
Orders received	3,624	2,553	(1,070)	(29.5)	—
Pharmaceutical Products	3,127	1,924	(1,202)	(38.5)	—
Industrial Products	497	629	+ 132	+ 26.7	—
Order backlog	9,045	4,928	(4,116)	(45.5)	—
Pharmaceutical Products	8,148	3,915	(4,232)	(51.9)	—
Industrial Products	896	1,012	+ 116	+ 13.0	—
Yen/dollar rate (+ is yen depreciation)	111.84	107.76	-4.08 yen/dollar	(3.6)	110.00

Machinery Business: Group Company Performance

- Freund Corporation: Sales and earnings up, orders were weak
- Freund-Vector: Weak performance in 1H as majority of sales and earnings normally in the 2H
- Freund-Turbo: A slow start in the 1Q but performing well in terms of orders and prospective orders

(unit: ¥ million)

	FY2/18	FY2/19	YoY change		FY2/19
	Q1 Amount	Q1 Amount	Amount	%	Forecasts (as of 4/13/18)
Net sales	3,198	3,433	+ 235	+ 7.4	14,000
FREUND CORPORATION	2,461	2,803	+341	+13.9	—
FREUND-VECTOR	451	360	(91)	(20.2)	—
FREUND-TURBO	510	321	(188)	(37.0)	—
Operating profit	326	278	(48)	(14.8)	—
FREUND-VECTOR	(84)	(107)	(23)	+27.9	—
FREUND-TURBO	78	(58)	(136)	(174.3)	—
Orders received	3,624	2,553	(1,070)	(29.5)	—
FREUND CORPORATION	2,221	1,322	(898)	(40.4)	—
FREUND-VECTOR	1,082	691	(390)	(36.1)	—
FREUND-TURBO	321	539	+218	+68.1	—
Order backlog	9,045	4,928	(4,116)	(45.5)	—
FREUND CORPORATION	6,389	2,554	(3,835)	(60.0)	—
FREUND-VECTOR	2,223	1,521	(702)	(31.6)	—
FREUND-TURBO	431	853	+421	+97.8	—

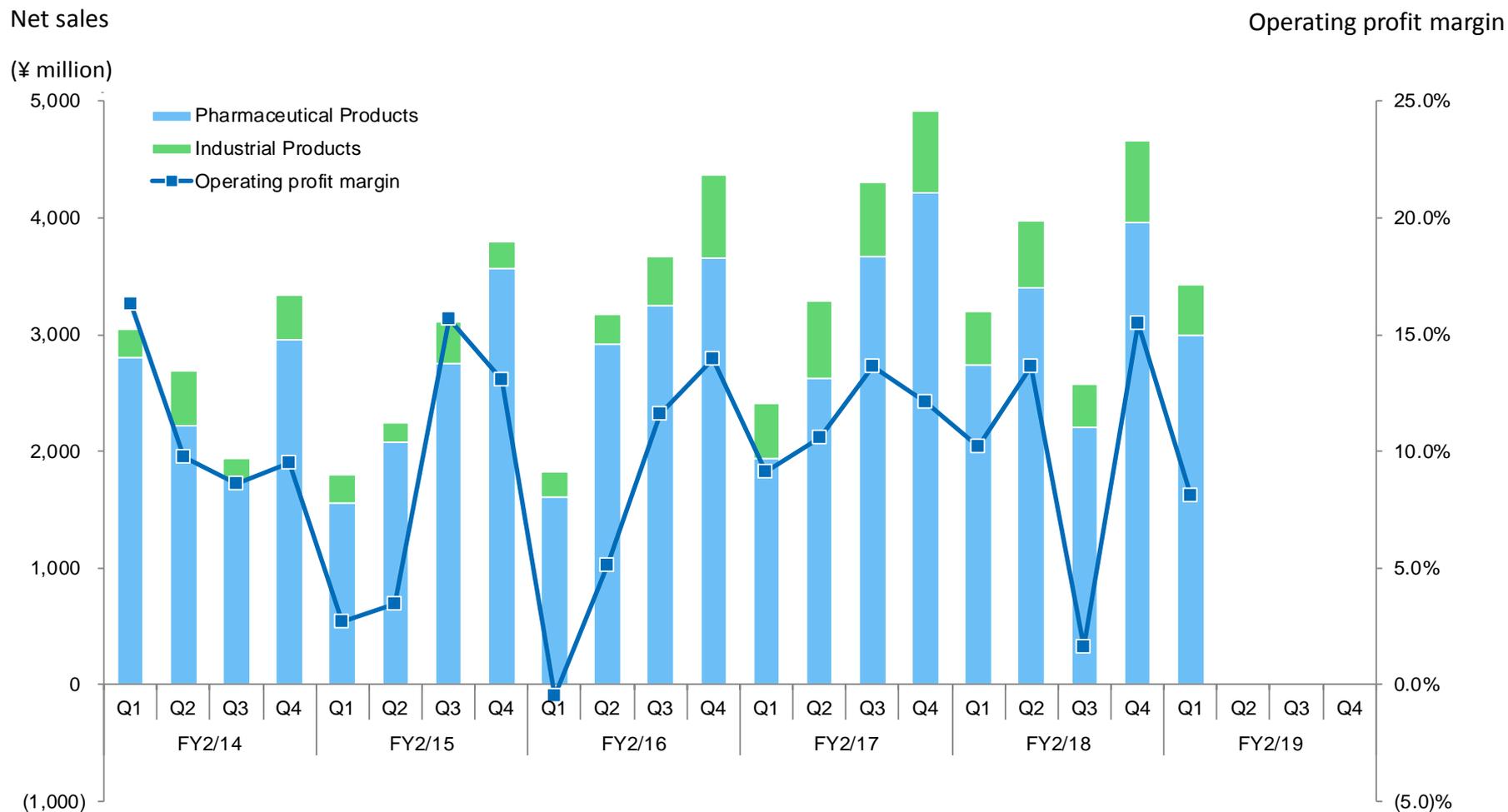
Machinery Business: Sales by Region

- Japan: Sales up due to progress with large projects
- North America: Orders down but sales increased
- South America: Sales and orders down for Brazil and other countries
- Europe: A decrease in large projects impacted performance

(unit: ¥ million)

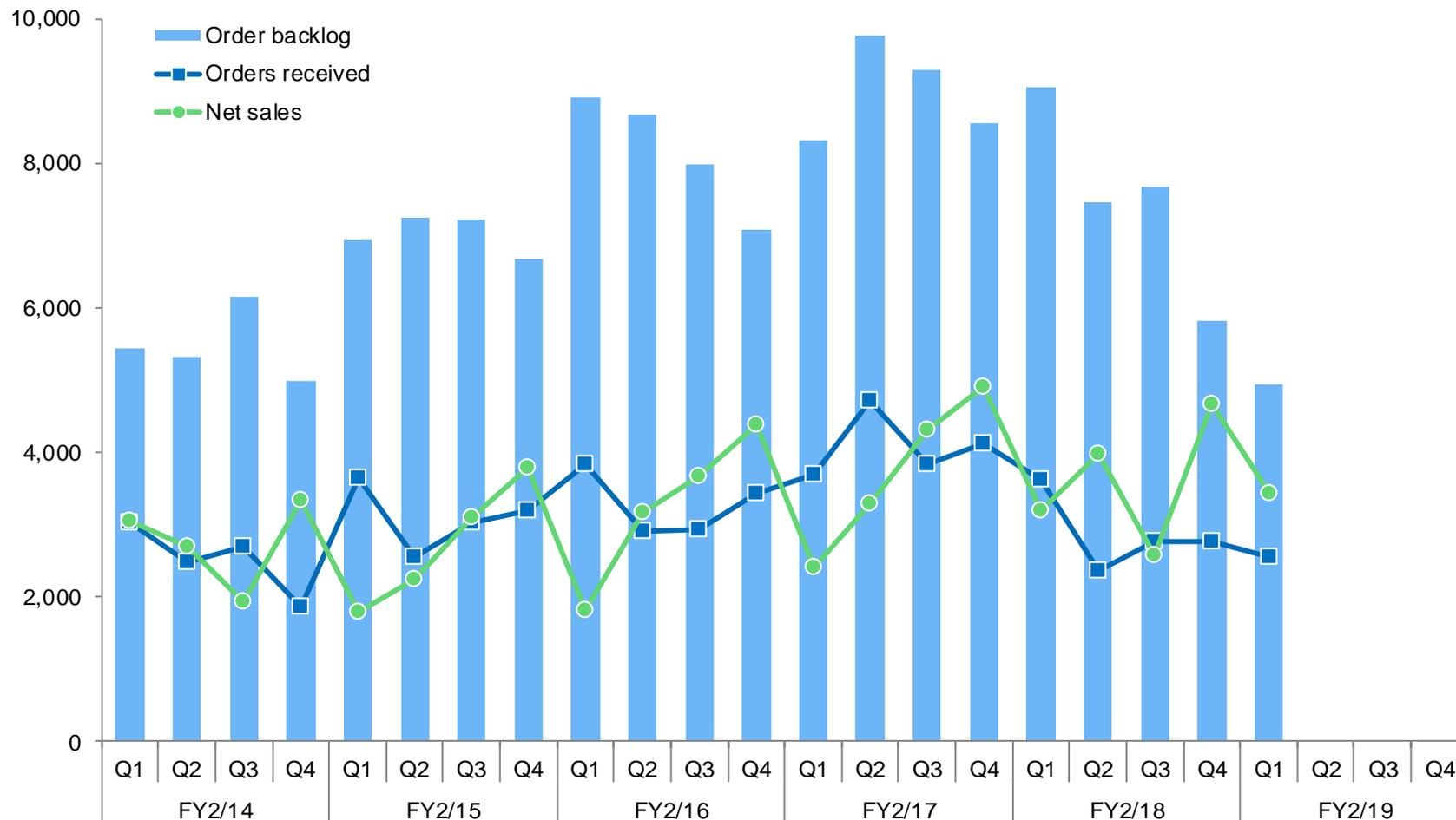
	FY2/18	FY2/19	YoY change		FY2/19
	Q1	Q1	Amount	%	Forecasts
	Amount	Amount			(as of 4/13/18)
Net sales	3,198	3,433	+235	+7.4	14,000
Japan	2,566	2,783	+217	+8.5	0
Overseas	631	649	+18	+2.9	0
North and South Americas	331	289	(42)	(12.7)	0
Europe and Africa	210	80	(130)	(62.0)	0
Middle East, Asia and Pacific	88	279	+191	+215.0	0

Machinery Business: Quarterly Results (by Product Field)



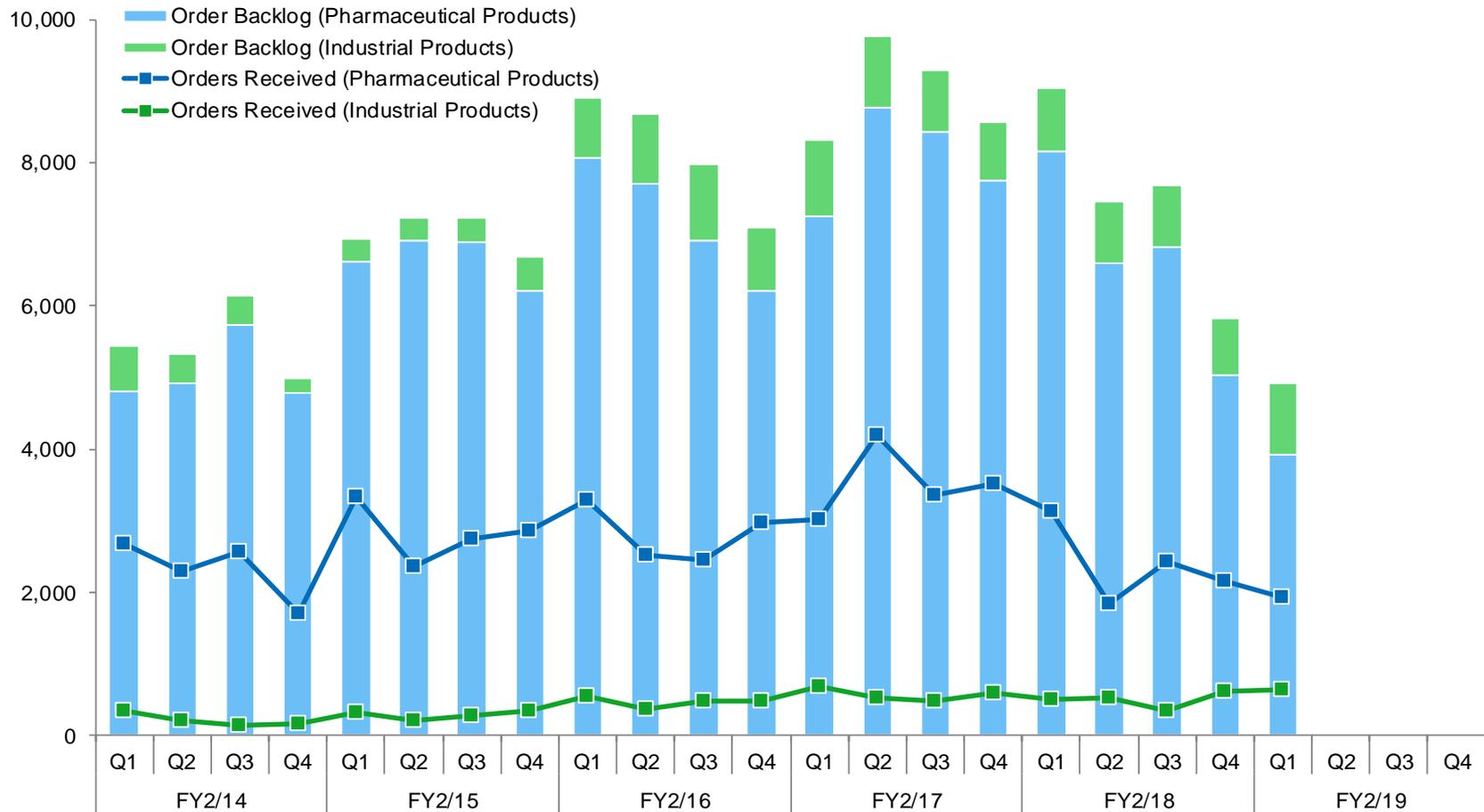
Machinery Business: Quarterly Results (Net sales/Orders received/Order backlog)

(¥ million)



Machinery Business: Quarterly Results (Orders received and Order backlog by Product Field)

(¥ million)



Chemicals Business: Overview

● Net Sales

- ▣ Pharmaceutical excipients: Higher sales in Japan and overseas
- ▣ Food preservatives: Extensive sales activities including new overseas markets raised sales
- ▣ New food products: Sales down as planned due to the switch from outsourcing to internal production at a customer
- ▣ Export: Expanded sales channels in India by enlarging the manufacturing infrastructure

● Segment Profit

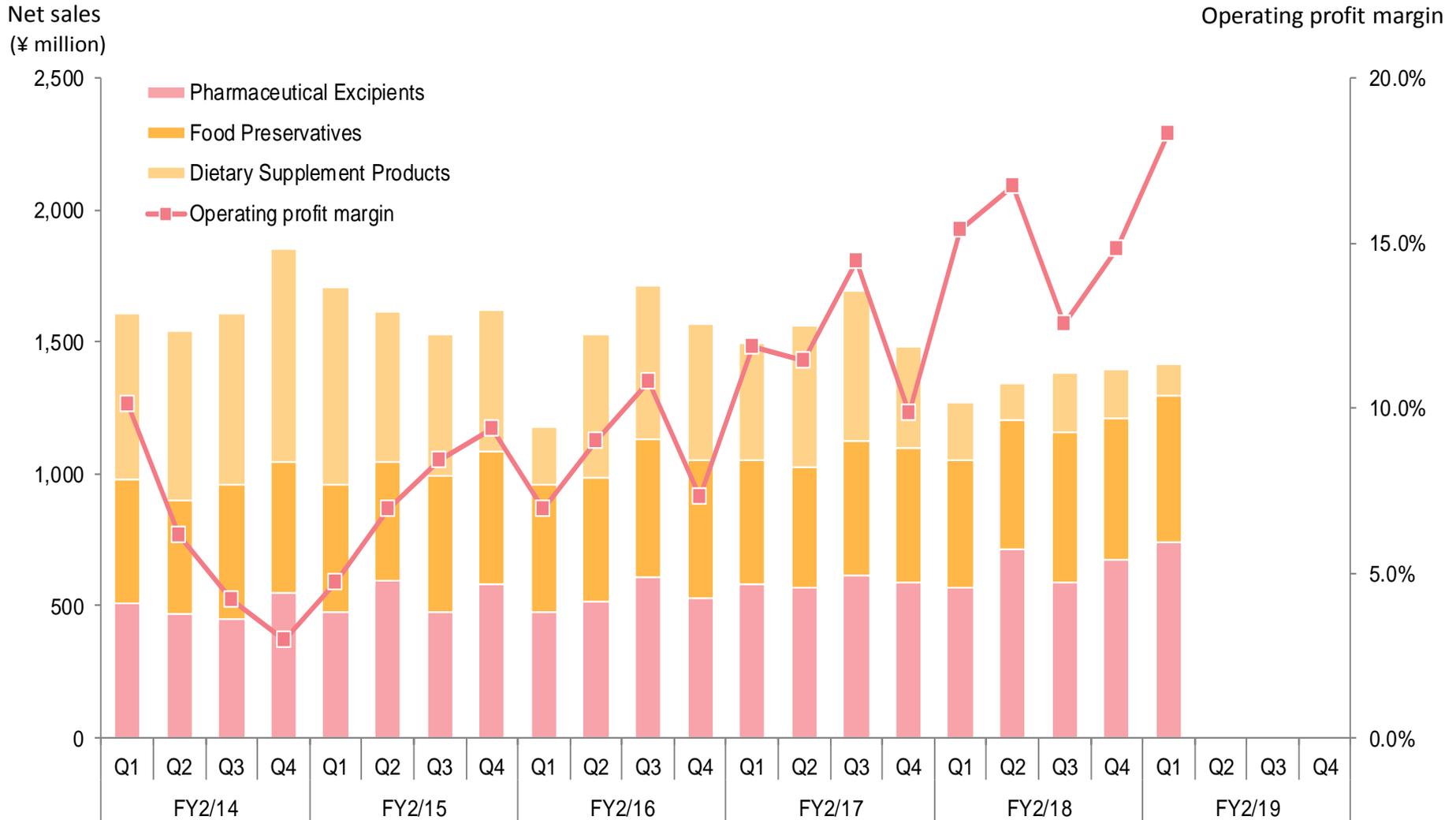
Higher because of an improvement in the sales mix

(unit: ¥ million)

	FY2/18	FY2/19	YoY change		FY2/19
	Q1	Q1	Amount	%	Forecasts
	Amount	Amount			(as of 4/13/18)
Net sales	1,274	1,416	+ 142	+ 11.2	6,000
Pharmaceutical Excipients	566	744	+ 177	+ 31.3	—
Food Preservatives	488	555	+ 66	+ 13.5	—
Dietary Supplement Products	218	116	(101)	(46.4)	—
(Export sales)*1	25	123	+ 98	+ 387.7	—
Operating profit	196	259	+ 63	+ 32.5	—

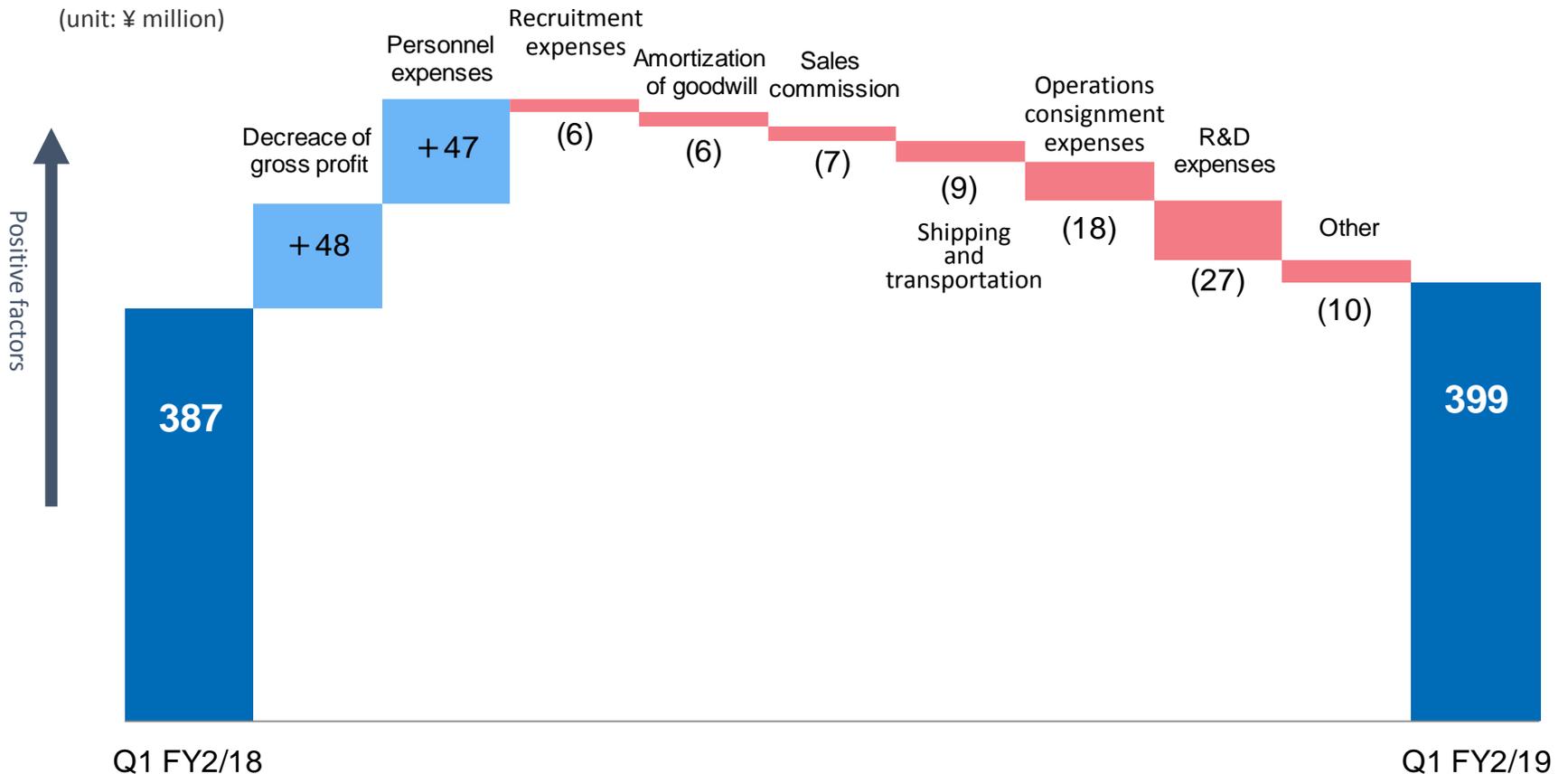
Note 1: Sales to India, South Korea and Taiwan

Chemicals Business: Quarterly Results (by Product Field)



Change in Consolidated Operating Profit

- Higher machinery sales in Japan raised the gross profit
- An improvement in the sales mix of chemicals caused higher sales and earnings



Major Goals and Progress Report for FY2/19

Major Goals for FY2/19

- Machinery

- ❑ Increase sales of the new product (tablet printer)
- ❑ Improve the profitability of Freund-Vector
- ❑ Target opportunities outside the pharmaceuticals market (nutritional supplements and other high-potential markets)
- ❑ Strengthen maintenance services
- ❑ Capture repeat orders for production machinery used by lithium-ion battery companies
- ❑ Start operations at the Nishinomiya Testing Center (for equipment involving lithium-ion batteries)

- Chemicals

- ❑ Increase sales of excipients outside Japan
- ❑ Develop ink for tablet printers used overseas
- ❑ Prepare to start a CDO business
- ❑ Increase the efficiency of food preservative production

Machinery Business: Progress Report

- Many activities to receive orders for the new continuous production system
- Strong sales in Brazil and China
- Growth of sales of production machinery for lithium-ion batteries

Pharmaceuticals

Increase sales of the new product (tablet printer)	△ Just started
Improve the profitability of Freund-Vector	△ Just started
Strengthen maintenance services	△ Just started

Manufacturing

Target opportunities outside the pharmaceuticals market (nutritional supplements and other high-potential markets)	△ Just started
Capture repeat orders for production machinery used by lithium-ion battery companies	○ Producing benefits
Start operations at the Nishinomiya Testing Center (for equipment involving lithium-ion batteries)	○ Producing benefits

Chemicals Business: Progress Report

- Overseas sales of pharmaceutical excipients were 280% higher than one year earlier
- In the food preservative business, the new mixing equipment at the Hamamatsu factory started operating

Pharmaceutical excipients

Increase sales of excipients outside Japan	○ Producing benefits
Prepare to start a CDO business	△ Just started
Develop ink for tablet printers used overseas	△ Just started
Strengthen output capacity	○ Producing benefits
Increase efficiency of production equipment	△ Just started

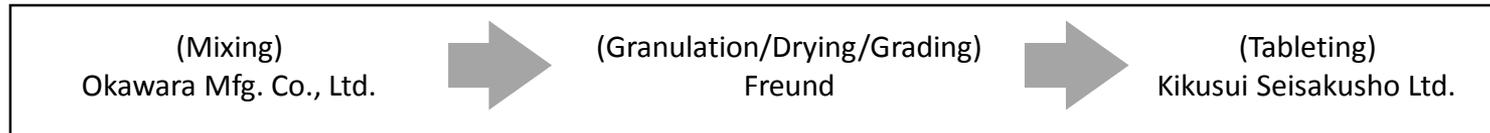
Food preservatives

Increase overseas sales of food preservatives	△ Just started
Start selling products in food sectors other than the confectionery category	△ Just started
Consider making water activity meters for overseas markets	△ Just started
Increase output capacity at the Hamamatsu factory	○ Producing benefits
Establish a quality management system	△ Just started

Topic 1: Participation in Exhibition in Japan

● The 31st Interpex Japan Exhibition (June 27-June 29, 2018, Tokyo Big Sight)

- ▣ Exhibited a continuous production system centered on the Granuformer

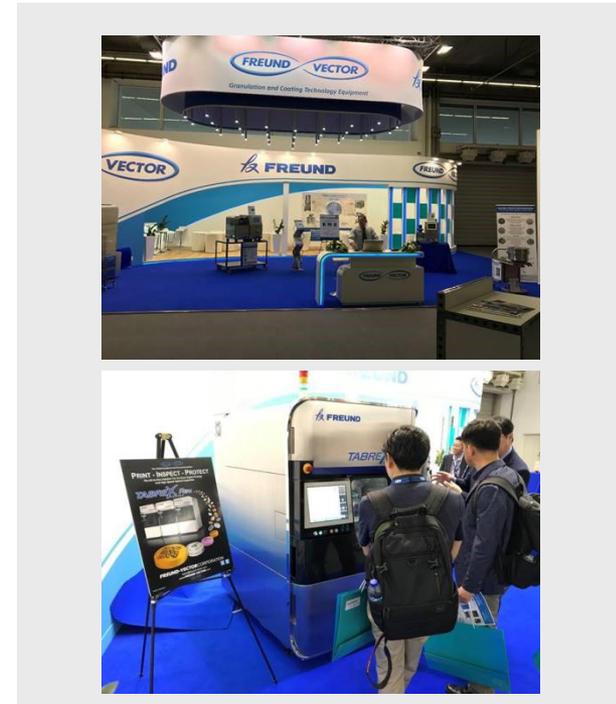
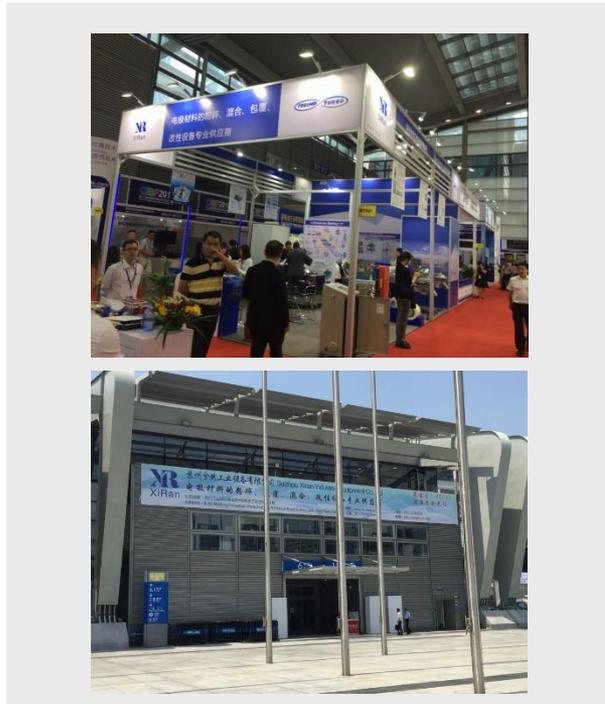


- ▣ Held 22 seminars at the booth during the exhibition
 - Explanation of the continuous production system
 - Non-parallel (chemicals/functional excipients) and particulate coating technologies
 - Inkjet tablet printing technology
 - Maintenance services



Topic 2: Participation in Exhibitions in China and Germany

- CIBF-China International Battery Fair 2018 (May 22 - May 24, 2018, Shenzhen, China)
 - ❑ About 2,000 companies participated, including about 30 from Japan
 - ❑ Freund exhibited four types of machines (total of six units)
 - Balance Gran • Turbo Mill
 - V Turbo • Turbo Screener
- ACHEMA 2018 (June 11 - June 15, 2018, Frankfurt, Germany)
 - ❑ The TABREX Rev. was the featured product
 - Roller Compactor (Laboratory Unit)
 - HICOATER (Laboratory Unit)
 - Granurex
 - ❑ People from more than 200 companies visited the booth for business negotiation and information about Freund products and technologies



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