

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending February 29, 2020
(Six Months Ended August 31, 2019)

[Japanese GAAP]

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

1. Consolidated Financial Results for the Second Quarter (March 1, 2019 – August 31, 2019) of the Fiscal Year Ending February 29, 2020

(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, 2019	6,817	(25.2)	3	(99.4)	6	(99.1)	(7)	-
Six months ended Aug. 31, 2018	9,117	(6.9)	592	(44.8)	684	(37.3)	466	(36.5)

Note: Comprehensive income
 Six months ended Aug. 31, 2019: (108) million yen (-%)
 Six months ended Aug. 31, 2018: 526 million yen (down 23.8%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Aug. 31, 2019	(0.46)	-
Six months ended Aug. 31, 2018	27.60	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Aug. 31, 2019	17,713	12,807	72.3	764.87
As of Feb. 28, 2019	17,448	13,250	75.9	791.34

Reference: Equity capital As of Aug. 31, 2019: 12,807 million yen As of Feb. 28, 2019: 13,250 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, 2019	-	0.00	-	20.00	20.00
Fiscal year ending Feb. 29, 2020	-	0.00	-	-	-
Fiscal year ending Feb. 29, 2020 (forecast)	-	-	-	20.00	20.00

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

3. Consolidated Forecast for the Fiscal Year Ending February 29, 2020 (March 1, 2019 – February 29, 2020)

(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	17,500	(4.9)	1,000	(18.2)	1,000	(24.6)	700	(17.0)	41.80

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

In the first half of the current fiscal year, a slowdown in exports, chiefly to China, impacted Japan's manufacturing sector. On the other hand, however, the Japanese economy continued to recover slowly overall as earnings in non-manufacturing sectors were strong due to solid domestic demand and firm employment and personal income.

The sluggishness of the global economy increased due to U.S.-China trade friction, problems involving Brexit and other issues. Uncertainty about the economic outlook is having a severe economic impact worldwide. An unexpected economic downturn, financial market turmoil, slowdown in private-sector capital expenditures or weakness in consumer spending could exert downward pressure on Japan's economy. As a result, events affecting the economy must be monitored cautiously.

In the pharmaceutical industry, which is the primary source of demand for Freund Group products, the increase in measures by the Japanese government to hold down healthcare expenditures, such as national health insurance drug price revisions and the use of more generic drugs, rising cost of R&D, and higher risks associated with developing new drugs are forcing companies to implement structural reforms.

This fiscal year is the third year of the Freund Group's Seventh Medium-term Management Plan which covers the five-year period ending February 2022. All group companies will take many vigorous actions during the second half of this plan in order to accomplish its goals.

To build a base of operations for future growth, the Freund Group is focusing on the following goals during the current fiscal year.

1. Establish a stronger foundation for growth in Asia (India, China), the United States, South America and Europe
2. Develop global strategic products and establish global supply chains
3. Establish an infrastructure for the production of pharmaceutical excipients
4. More collaboration with academic institutions based on open innovation
5. More skills and knowledge for the Freund Group workforce by using technology exchanges and other activities

Net sales decreased 25.2% year-over-year to 6,817 million yen, operating profit decreased 99.4% to 3 million yen, ordinary profit was down 99.1% to 6 million yen, and loss attributable to owners of parent was 7 million yen (compared with profit attributable to owners of parent of 466 million yen in the same period of the previous fiscal year).

Results by business segment were as follows.

Machinery Business Segment

The machinery segment, where granulating and coating devices are the main products, had a loss in the fiscal year's first half. First half fixed expenses could not be offset because the majority of deliveries tend to take place in the second half of each fiscal year at the Freund Group, including Freund-Turbo Corporation and Freund-Vector Corporation.

Net sales decreased 35.5% year-over-year to 3,964 million yen and segment loss was 119 million yen (compared with segment profit of 291 million yen in the same period of the previous fiscal year).

Chemicals Business Segment

Sales and operating profit of pharmaceutical excipients used in oral agents decreased despite a strong performance in Japan because of the impact of a decline in production at a large overseas customer that uses Freund excipients.

There were many activities for selling food preservatives in more overseas markets, but sales and operating profit

in this category decreased due to the competitive situation in the market.

As a result, net sales decreased 4.0% year-over-year to 2,852 million yen and segment profit decreased 31.3% to 382 million yen.

(2) Explanation of Financial Position

The retroactive application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” and other related pronouncements reduced assets and liabilities at the end of the previous fiscal year by 17 million yen each.

Total assets increased 265 million yen from the end of the previous fiscal year to 17,713 million yen at the end of the second quarter. This mainly reflected increases in electronically recorded monetary claims-operating of 133 million yen, merchandise and finished goods of 111 million yen, work in process of 861 million yen, and other, net under property plant and equipment including machinery, equipment and vehicles of 257 million yen, while there were decreases in cash and deposits of 503 million yen and notes and accounts receivable-trade of 665 million yen.

Total liabilities increased 708 million yen from the end of the previous fiscal year to 4,906 million yen at the end of the second quarter. This mainly reflected an increase in advances received of 757 million yen.

Net assets decreased 443 million yen from the end of the previous fiscal year to 12,807 million yen at the end of the second quarter. This mainly reflected a decrease of 342 million yen in retained earnings.

Cash flows

The balance of cash and cash equivalents at the end of the second quarter was 5,030 million yen, down 503 million yen over the end of the previous fiscal year (this compares with a decrease of 1,322 million yen in the same period of the previous fiscal year)

The cash flow components and the main reasons for changes are as described below.

a. Cash flows from operating activities

Net cash provided by operating activities was 289 million yen (compared with net cash used of 230 million yen in the same period of the previous fiscal year). Although there were negative factors including an increase in inventories of 1,028 million yen and income taxes paid of 132 million yen, there were positive factors including an increase in advances received of 783 million yen, a decrease in notes and accounts receivable-trade of 513 million yen, an increase in notes and accounts payable-trade of 170 million yen, and depreciation of 177 million yen.

b. Cash flows from investing activities

Net cash used in investing activities was 414 million yen (compared with net cash used of 190 million yen in the same period of the previous fiscal year). There was a payment for the purchase of property, plant and equipment of 440 million yen.

c. Cash flows from financing activities

Net cash used in financing activities was 359 million yen (compared with net cash used of 918 million yen in the same period of the previous fiscal year). This was mainly the result of cash dividends paid of 332 million yen.

(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 29, 2020, which was disclosed in the Consolidated Financial Results for the Fiscal Year Ended February 28, 2019 dated April 9, 2019.

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

(Thousands of yen)

	FY2/19 (As of Feb. 28, 2019)	Second quarter of FY2/20 (As of Aug. 31, 2019)
Assets		
Current assets		
Cash and deposits	5,534,431	5,030,580
Notes and accounts receivable-trade	4,172,348	3,506,653
Electronically recorded monetary claims-operating	160,222	293,449
Merchandise and finished goods	414,397	526,368
Work in process	1,053,685	1,915,678
Raw materials and supplies	1,007,294	1,005,761
Prepaid expenses	138,074	140,346
Other	239,599	308,227
Allowance for doubtful accounts	(8,869)	(5,323)
Total current assets	12,711,184	12,721,743
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	1,162,954	1,134,076
Land	1,239,674	1,238,858
Other, net	1,366,441	1,624,377
Total property, plant and equipment	3,769,070	3,997,312
Intangible assets		
Other	16,349	16,516
Total intangible assets	16,349	16,516
Investments and other assets		
Deferred tax assets	160,556	205,947
Other	796,334	777,655
Allowance for doubtful accounts	(5,400)	(5,400)
Total investments and other assets	951,491	978,203
Total non-current assets	4,736,911	4,992,032
Total assets	17,448,096	17,713,776
Liabilities		
Current liabilities		
Notes and accounts payable-trade	1,587,769	1,295,590
Electronically recorded obligations-operating	582,051	1,055,251
Income taxes payable	151,746	97,816
Advances received	666,802	1,424,429
Provision for bonuses	212,735	181,547
Provision for directors' bonuses	30,000	4,000
Other	707,653	609,658
Total current liabilities	3,938,759	4,668,293
Non-current liabilities		
Net defined benefit liability	162,460	167,264
Asset retirement obligations	35,131	35,209
Other	61,092	35,668
Total non-current liabilities	258,685	238,142
Total liabilities	4,197,445	4,906,436

	(Thousands of yen)	
	FY2/19 (As of Feb. 28, 2019)	Second quarter of FY2/20 (As of Aug. 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	1,035,600	1,035,600
Capital surplus	1,289,513	1,289,513
Retained earnings	11,918,177	11,575,538
Treasury shares	(773,363)	(773,363)
Total shareholders' equity	13,469,928	13,127,289
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,459	19,836
Foreign currency translation adjustment	(265,653)	(350,135)
Remeasurements of defined benefit plans	10,917	10,349
Total accumulated other comprehensive income	(219,276)	(319,949)
Total net assets	13,250,651	12,807,340
Total liabilities and net assets	17,448,096	17,713,776

(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 FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Net sales	9,117,076	6,817,515
Cost of sales	6,100,966	4,400,935
Gross profit	3,016,110	2,416,580
Selling, general and administrative expenses	2,423,288	2,413,308
Operating profit	592,821	3,271
Non-operating income		
Interest income	2,006	3,406
Dividend income	63,066	6,144
Technical support fee	3,673	3,154
Foreign exchange gains	4,106	-
Other	19,689	7,201
Total non-operating income	92,542	19,907
Non-operating expenses		
Interest expenses	562	151
Foreign exchange losses	-	16,276
Other	524	630
Total non-operating expenses	1,086	17,058
Ordinary profit	684,277	6,120
Extraordinary income		
Gain on sales of non-current assets	-	9,997
Gain on sales of investment securities	-	2,200
Gain on redemption of investment securities	23,874	-
Total extraordinary income	23,874	12,197
Extraordinary losses		
Impairment loss	-	203
Loss on retirement of non-current assets	2,184	210
Loss on valuation of investment securities	-	750
Total extraordinary losses	2,184	1,163
Profit before income taxes	705,967	17,154
Income taxes	239,663	24,896
Profit (loss)	466,303	(7,741)
Profit (loss) attributable to owners of parent	466,303	(7,741)

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

(Thousands of yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Profit (loss)	466,303	(7,741)
Other comprehensive income		
Valuation difference on available-for-sale securities	(9,465)	(15,622)
Foreign currency translation adjustment	68,780	(84,482)
Remeasurements of defined benefit plans, net of tax	1,317	(568)
Total other comprehensive income	60,633	(100,672)
Comprehensive income	526,936	(108,414)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	526,936	(108,414)

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Cash flows from operating activities		
Profit before income taxes	705,967	17,154
Depreciation	162,695	177,037
Impairment loss	-	203
Amortization of goodwill	12,013	-
Increase (decrease) in allowance for doubtful accounts	-	(3,276)
Increase (decrease) in provision for bonuses	8,387	(31,021)
Increase (decrease) in provision for directors' bonuses	(36,300)	(26,000)
Interest and dividend income	(65,073)	(9,550)
Interest expenses	562	151
Foreign exchange losses (gains)	(4,495)	15,715
Loss (gain) on sales of property, plant and equipment	-	(9,997)
Loss on retirement of property, plant and equipment	2,184	210
Loss (gain) on redemption of investment securities	(23,874)	-
Decrease (increase) in notes and accounts receivable-trade	91,182	513,823
Decrease (increase) in inventories	338,514	(1,028,562)
Loss (gain) on sales of investment securities	-	(2,200)
Loss (gain) on valuation of investment securities	-	750
Loss (gain) on cancellation of insurance contract	-	321
Decrease (increase) in other assets	76,844	(78,116)
Increase (decrease) in notes and accounts payable-trade	(724,487)	170,886
Increase (decrease) in advances received	(573,452)	783,652
Increase (decrease) in other liabilities	54,696	(97,763)
Other, net	(8,235)	78
Subtotal	17,129	393,494
Interest and dividend income received	65,073	9,550
Interest expenses paid	(562)	(151)
Proceeds from insurance income	8,312	-
Income taxes refund	12,888	19,469
Income taxes paid	(332,932)	(132,565)
Net cash provided by (used in) operating activities	(230,091)	289,797
Cash flows from investing activities		
Purchase of property, plant and equipment	(205,257)	(440,928)
Proceeds from sales of property, plant and equipment	-	17,926
Payments for retirement of property, plant and equipment	-	(201)
Purchase of intangible assets	(3,162)	(3,000)
Purchase of investment securities	(3,162)	(1,143)
Proceeds from sales of investment securities	-	4,200
Proceeds from redemption of investment securities	23,874	-
Purchase of insurance funds	(2,913)	-
Proceeds from cancellation of insurance funds	-	9,661
Payments for guarantee deposits	(570)	(1,449)
Proceeds from collection of guarantee deposits	618	147
Collection of investments in capital	10	-
Net cash provided by (used in) investing activities	(190,562)	(414,788)

(Thousands of yen)

	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)	First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)
Cash flows from financing activities		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(25,398)
Repayments of lease obligations	(3,217)	(1,820)
Cash dividends paid	(343,457)	(332,440)
Purchase of treasury shares	(572,000)	-
Net cash provided by (used in) financing activities	(918,675)	(359,658)
Effect of exchange rate change on cash and cash equivalents	17,059	(19,202)
Net increase (decrease) in cash and cash equivalents	(1,322,269)	(503,851)
Cash and cash equivalents at beginning of period	6,568,050	5,534,431
Cash and cash equivalents at end of period	5,245,781	5,030,580

(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

Effective from the beginning of the first quarter of the current fiscal year, the Company has adopted the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) and other related pronouncements. Accordingly, deferred tax assets and deferred tax liabilities have been presented in the investments and other assets section and the non-current liabilities section of the balance sheet, respectively.

Segment and Other Information**Segment information**

I First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)

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	6,145,635	2,971,440	9,117,076	-	9,117,076
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	6,145,635	2,971,440	9,117,076	-	9,117,076
Segment profit	291,444	556,298	847,743	(254,921)	592,821

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 254,921 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	North America	Latin America	Europe	Other	Total
7,090,644	673,368	335,337	172,173	845,553	9,117,076

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) North America: US and Canada
(2) Latin America: Brazil, etc.
(3) Europe: France, UK, etc.
(4) Other: Asia, etc.

II First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Machinery Business	Chemicals Business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales					
(1) External sales	3,964,804	2,852,711	6,817,515	-	6,817,515
(2) Inter-segment sales and transfers	-	-	-	-	-
Total	3,964,804	2,852,711	6,817,515	-	6,817,515
Segment profit (loss)	(119,964)	382,440	262,476	(259,204)	3,271

Notes: 1. Contents of adjustments are as follows.

The negative adjustment of 259,204 thousand yen to segment profit (loss) includes corporate expenses that are not allocated to any of the reportable segments. Corporate expenses mainly consist of general and administrative expenses that are not attributable to any of the reportable segments.

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

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

In the Machinery Business segment, the Company has recognized impairment losses related to non-current assets of 203 thousand yen.

3. Information by region

Net sales

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

(Thousands of yen)

Japan	North America	Latin America	Europe	Other	Total
5,329,792	770,638	235,980	210,217	270,887	6,817,515

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) North America: US and Canada
- (2) Latin America: Brazil, etc.
- (3) Europe: France, UK, etc.
- (4) Other: Asia, etc.

3. Others

Orders and Sales

(1) Orders received

(Thousands of yen)

Operating segment	First six months of FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)		First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	6,518,694	108.9	5,311,232	81.5
Chemicals Business	392,246	177.2	329,297	84.0
Total	6,910,941	111.4	5,640,530	81.6

Notes: 1. Orders received in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured 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 FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)		First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)	
	Amount	Year-on-year (%)	Amount	Year-on-year (%)
Machinery Business	6,233,241	83.5	6,846,714	109.8
Chemicals Business	188,507	200.2	84,959	45.1
Total	6,421,748	84.9	6,931,674	107.9

Notes: 1. Order backlog in the Chemicals Business do not include pharmaceutical excipients and food preservatives, which are manufactured 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 FY2/19 (Mar. 1, 2018 – Aug. 31, 2018)		First six months of FY2/20 (Mar. 1, 2019 – Aug. 31, 2019)	
	Amount	Composition (%)	Amount	Composition (%)
Machinery Business	6,145,635	67.4	3,964,804	58.2
Chemicals Business	2,971,440	32.6	2,852,711	41.8
Total	9,117,076	100.0	6,817,515	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.