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■ With dominant shares of the Japanese market, seeks to maintain growth by tapping into overseas markets

Freund Corp. produces machinery for the formulation of medicines and foods. It claims a 70% share of the Japanese market for granulation equipment and coating equipment. It is the only company in the world to have fused technologies in granulation and coating, production equipment and chemicals.

In the first half of the fiscal year through February 2014, i.e., in H1 FY2/14, from March through August 2013, the company increased its consolidated sales by 2.3% year-on-year (y-o-y), to ¥8,881mn, while its consolidated operating profit declined by 5.6% to ¥843mn, its consolidated recurring profit fell by 12.2% to ¥873mn, and its consolidated net profit rose by 27.2% to ¥470mn. These results were in line with company forecasts.

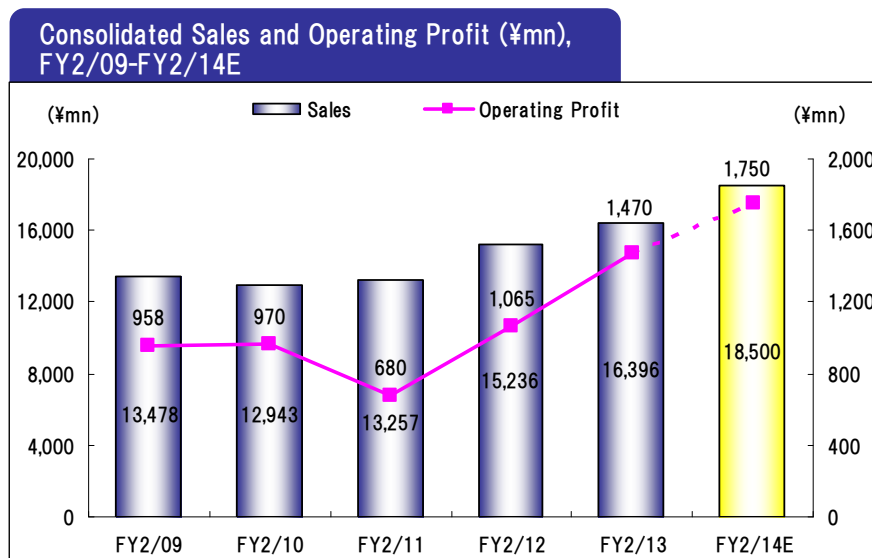
For FY2/14, the company maintained its original forecasts, projecting a 12.8% y-o-y rise in consolidated sales to ¥18,500mn, a 19.0% increase in consolidated operating profit to ¥1,750mn, an 8.8% upturn in consolidated recurring profit to ¥1,760mn, and a 24.1% advance in consolidated net profit to ¥950mn. FY2/14 is the final year of the company's fifth medium-term plan, called Vision-50. This plan targets consolidated sales of ¥20bn and consolidated operating profit of ¥2bn for FY2/14. Given the current favorable operating environment for the company and its brisk order intake, it seems that these targets may be achieved.

Freund Corp. has a healthy balance sheet, with an equity ratio of 62.8% at the end of H1 FY2/14, up from 61.4% at the end of FY2/13. Management is positive about improving shareholder returns, aiming for a dividend payout ratio of 20% on a consolidated basis. Thus, the company's dividend per share should remain stable.

As Freund Corp. holds high shares of the Japanese markets for many kinds of machinery, it should benefit from the growth of these markets, but it may be difficult to increase its market shares. It will probably have to tap more demand overseas to grow significantly.

■ Check Points

- The company will probably achieve its original forecasts for FY2/14
- The company is developing new markets overseas
- The company plans to raise its dividend per share for FY2/14 by ¥5, continuing solid returns to shareholders



Company Outline

R&D-based company growing by responding to user needs

(1) History

The company name derives from the German word for friend, freund. The company's current chairman and chief executive officer, Mr. Yasutoyo Fusejima, was one of the company's founders, and the other founders were his friends. Therefore, they chose the name Freund Corp.

Freund Corp. was established in 1964, when it developed film-coating liquid and equipment. The company subsequently developed many kinds of mechanical devices and pharmaceutical additives. It bases its growth on research and development to produce goods that satisfy market demand.

Company History

1964	Founded with the development of film-coating liquid and automatic film-coating equipment.
1972	Moved the head office to Totsuka (now Takadanobaba), Shinjuku Ward, Tokyo.
1979	Licensed high-coater technology from Vector Corp., of the US.
1987	Licensed anti-mold food preservative technology from Seppic Co., of France.
1991	Developed the Spherex equipment for the production of seamless minicapsules.
1993	Licensed roller-compacter technology from Vector Corp., of the US, and dilactose technology from FrieslandCampina DMV, of the Netherlands.
1996	Registered shares on Japan's over-the-counter stock market.
1997	Acquired Vector Corp., of the US.
2004	In the company's 40th year, the head office moved to West Shinjuku, Tokyo. Shares listed on the JASDAQ exchange.
2009	Developed the Flow-coater Universal machine for coating liquid granule layers, and the Container-washing machine for washing containers used to convey granular substances. Established subsidiary Freund Pharmatec Ltd. in Ireland,
2010	acquired Turbo Kogyo Co., of Japan, and renamed it Freund-Turbo Corp., moved the head office to Okubo, Shinjuku Ward, Tokyo.
2012	Renamed Vector Corp., of the US, as Freund-Vector Corp.

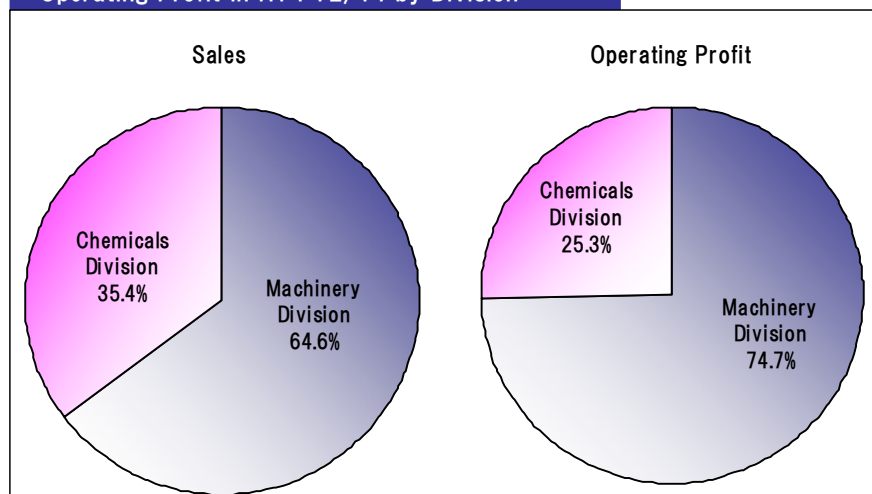


Company derives more than 60% of its sales from machinery for formulating pharmaceuticals

(1) History

Freund Corp. has two main divisions, machinery and chemicals. The machinery division manufactures primarily machinery for formulating pharmaceuticals, while the chemicals division concentrates on making additives for pharmaceuticals and preservatives for foods. Of the ¥8,881mn in sales generated by Freund Corp. in H1 FY2/14, 64.6% came from the machinery division and 35.4% from the chemicals division. The machinery division supplied 74.7% of the company's operating profit, and the chemicals division provided 25.3%. Overseas sales accounted for 14.2% of total sales.

Breakdown of Consolidated Sales and Operating Profit in H1 FY2/14 by Division



Holds a dominant share of the Japanese market for granulation and coating equipment and is one of the top three companies in the world in this field

(2) Business Outline

The machinery division produces and sells granulation and coating equipment for pharmaceuticals, foods and fine chemicals. A basic explanation of the composition of pharmaceuticals and their production process may facilitate an understanding of the company's equipment.

○ Pharmaceutical composition and main company products

In general, active ingredients account for only a small portion of pharmaceuticals; most of a drug is harmless additives, such as starch, corn starch, and sugar. The raw materials for active ingredients and additives are pulverized, aggregated and liquefied, but to be formulated into granules or tablets, they must be formed into grains of uniform size and shape. Freund Corp.'s granulation equipment performs this function. Medicine in granule or tablet form is then coated several times to block its unpleasant smell or taste, to protect it from light, acid and water, and to ensure that it is absorbed in the intestines, where it can be most effective. Freund Corp.'s coating equipment performs this function.

■ Company Outline

Freund Corp. also manufactures a machine that produces seamless minicapsules. The active ingredient of a medicine is injected into the center of these minicapsules in liquid form. Currently, not many medicines are dispensed in seamless minicapsules, so the company sells only a few of these machines each year. However, Freund Corp. holds a global monopoly on this type of machine, which generates high profit margins, so it should benefit from the gradual adoption of this method of drug delivery.

○ Market share and competitors

Freund Corp. claims a 70% share of the Japanese market for coating equipment and granulation equipment. It is the only company in the world that produces both chemicals and equipment using formulation technology. Recently, the company has expedited the growth of its business in Asian countries other than Japan, while its US subsidiary has done the same in the US, Europe and the Middle East. In Japan, Freund Corp. has only one competitor, Powrex Corporation (unlisted), which licenses technology from Glatt GmbH, based in Germany. The GEA Group, based in Denmark, is also a global competitor, but this group is a conglomerate that produces mainly machinery for food products. Glatt GmbH is the only other company in the world that specializes in the same fields as Freund Corp.

○ Delivery time and prices

All of Freund Corp.'s products are custom made, so all sales in Japan are direct sales. These products range in price from ¥50mn to ¥100mn, and most products are sold with attachments costing 20-30% of the product price. The period between receiving an order and delivering a product is usually six months to one year. The main customers for Freund Corp.'s machinery are pharmaceutical companies, and Freund Corp. supplies machinery to all of Japan's leading pharmaceutical companies. It also supplies machinery to makers of new drugs, generic drugs, and over-the-counter drugs and to contract manufacturers.

In recent years, Freund Corp. has fused pulverizing and sorting technologies with its granulation and coating technologies to manufacture products for makers of general industrial products. In H1 FY2/14, 87.6% of the sales generated by the machinery division were made to pharmaceutical companies and 12.4% were to makers of general industrial products.

In H1 FY2/14, 72.4% of the sales generated by the machinery division were made in Japan, 15.0% were made in north or south America, 9.6% were made in Europe or Africa, and 3.0% were made in the Middle East or Asia ex-Japan. The parent company sells machinery mainly to pharmaceutical companies in Japan and other parts of East Asia, its US subsidiary Freund-Vector Corp. sells machinery to pharmaceutical companies in the Americas, Europe, and the Middle East, and Japanese subsidiary Freund-Turbo Corp. sells to makers of industrial products.

■ Company Outline

*Note: good manufacturing practice is a set of standards set by Japan's Ministry of Health, Labor and Welfare which must be met for machinery used in the production of pharmaceuticals and foods. All advanced countries have similar standards.

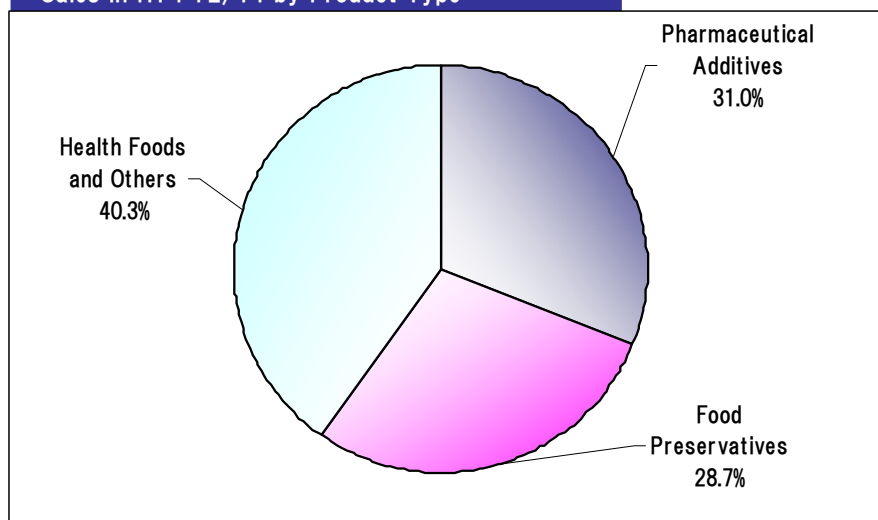
Also manufactures food supplements on an OEM basis

(b) Chemicals Division

The chemicals division produces primarily additives for pharmaceuticals, food preservatives, and enriched foods. It also manufactures food supplements on an original equipment manufacturer (OEM) basis, but it actually sub-contracts this manufacture, supplying only the raw materials and machinery for manufacture. The OEM manufacture of food supplements accounts for about one-third of total sales by the chemicals division, and Freund Corp. has received many inquiries for further OEM manufacture, so these sales are likely to grow. The division applies good manufacturing practice* in the manufacture of pharmaceutical additives, and its food preservatives sustain the quality of different kinds of foods, contributing to food safety.

The chemicals division sells mainly to pharmaceutical companies, health food (supplements) makers, and makers of general foods. A large portion of its OEM production of supplements is for a leading Japanese manufacturer of healthcare products. This manufacturer bought ¥2,248mn of machinery and chemical products from Freund Corp. in FY2/13, which was 13.7% of Freund Corp.'s total sales. In Q1 FY2/14, the chemicals division also received a large order from a leading, listed food product company.

Breakdown of Consolidated Chemicals Division Sales in H1 FY2/14 by Product Type



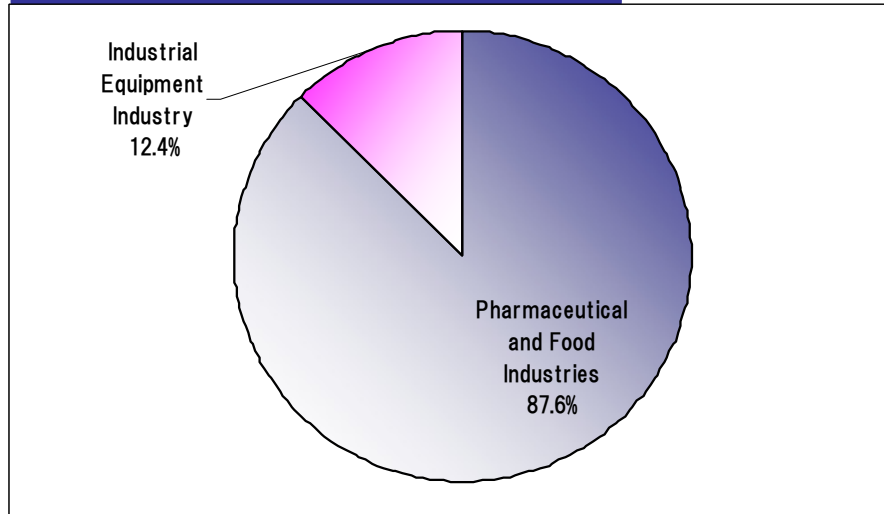
Original R&D combines three technologies

(3) Distinctive Features and Strength

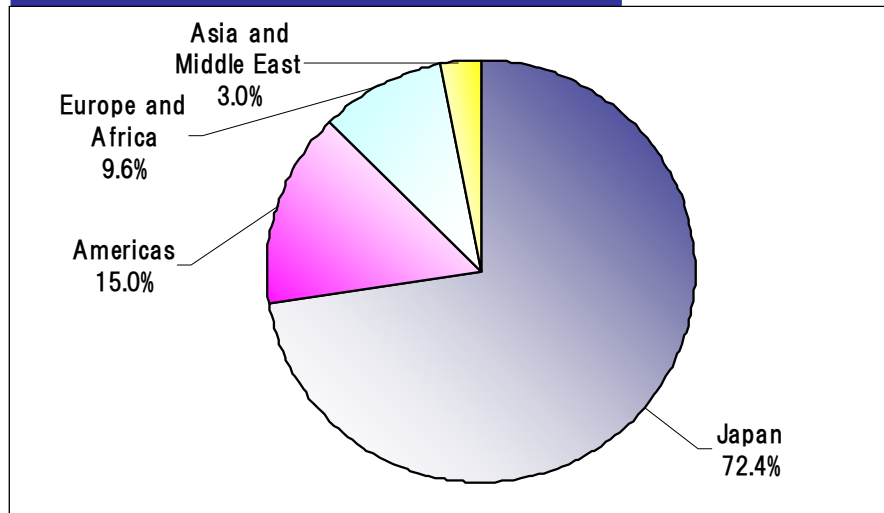
A distinctive feature and strength of Freund Corp. is its fusing of technology for product formulation, machinery production, and chemical production. It is the only company in the world that joins these three technologies, and through this combination, it develops many new products and earns the trust of customers.



Breakdown of Consolidated Machinery Division Sales in H1 FY2/14 by Customer Industry

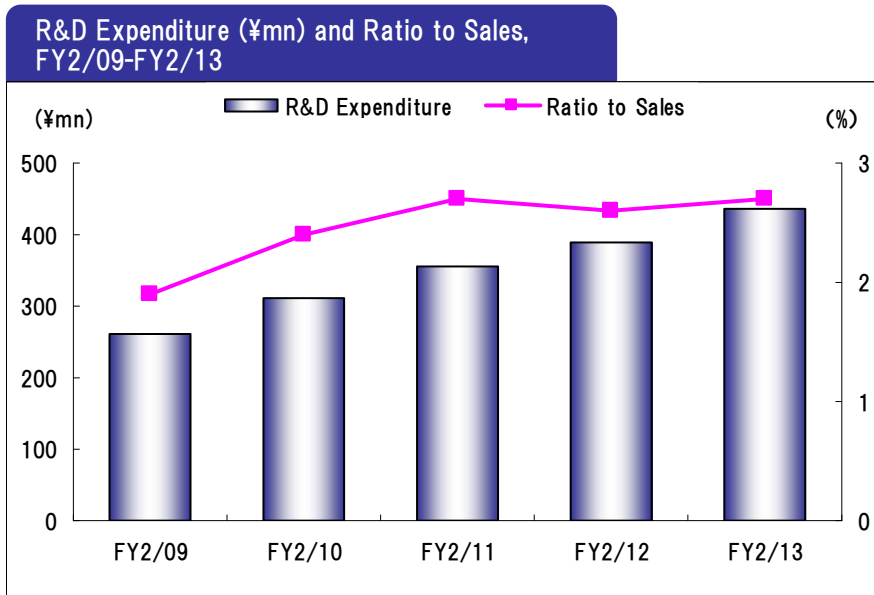


Breakdown of Consolidated Machinery Division Sales in H1 FY2/14 by Geographical Market



■ Company Outline

The company's motto is independent technological development, and its R&D center is staffed by experts in many fields, including mechanical engineering, pharmacology, electronic engineering, applied chemistry, and biochemistry. Thus, the company can offer system solutions for all of its machinery and chemicals and test their applications for many users. Freund Corp.'s R&D expenditure has grown from ¥261mn (1.9% of sales) in FY2/09 to ¥435mn (2.7% of sales) in FY2/13. In H1 FY2/14, the company invested ¥226mn (2.5% of sales) in R&D.



Increase in production of pharmaceuticals, including generics, benefits the company

(4) Impact of Pharmaceutical Production and Exchange Rate Fluctuations on Freund Corp.'s Sales

Because Freund Corp.'s machinery division sells most of its products to pharmaceutical companies, its sales are positively affected by an increase in the overall output of pharmaceuticals, since pharmaceutical companies eventually have to expand their production capacity to increase their output.

In general, pharmaceutical companies do not use the same machinery to produce drugs with different active ingredients. To manufacture new drugs, these companies usually purchase new equipment. Consequently, an increase in the production of new drugs also positively affects sales by Freund Corp.'s machinery division. Similarly, an increase in the production of generic drugs supports sales by this division.

Freund Corp.'s exports from Japan are denominated in yen, so they are affected little by changes in yen exchange rates. However, its consolidated US subsidiary, Freund-Vector Corp., records its sales and profits in US dollars, so depreciation of the yen against the US dollar increases the yen sales and profits from this subsidiary and Freund Corp.'s consolidated sales and profits.



Business Trends

In line with company expectations

(1) H1 FY2/14 Results

In H1 FY2/14, the company increased its consolidated sales by 2.3% y-o-y, to ¥8,881mn, while its consolidated operating profit declined by 5.6% to ¥843mn, its consolidated recurring profit fell by 12.2% to ¥873mn, and its consolidated net profit rose by 27.2% to ¥470mn.

The sales growth supported an improvement in the gross profit margin to 31.7% in H1 FY2/14 from 30.8% in H1 FY2/13. SGA cost increased by ¥187mn y-o-y in H1 FY2/14 because the costs of depreciation and R&D rose. Therefore, operating profit declined y-o-y. Recurring profit decreased at a larger rate than operating profit because in H1 FY2/13, the company recorded a ¥77mn reimbursement for the cancellation of an insurance policy as non-operating income, whereas it had no comparable non-operating income in H1 FY2/14. On the other hand, in H1 FY2/13, net profit was depressed because Freund-Vector Corp. declared ¥301mn of legal fees as an extraordinary loss. In H1 FY2/14, there was no comparable extraordinary loss, so net profit grew strongly. H1 FY2/14 results were in line with the company's forecasts.

Consolidated Results (¥mn), H1 FY2/13 - H1 FY2/14

	H1 FY2/13		H1 FY2/14		y-o-y
	Amount	Ratio	Amount	Ratio	
Sales	8,679	100.0	8,881	100.0	2.3
Cost of goods sold	6,004	69.2	6,070	68.3	1.1
Gross profit	2,674	30.8	2,811	31.7	5.1
SGA cost	1,780	20.5	1,967	22.2	10.5
Operating profit	893	10.3	843	9.5	▲ 5.6
Recurring profit	994	11.5	873	9.8	▲ 12.2
Net profit	370	4.3	470	5.3	27.2

The machinery division increased its sales by 2.1% y-o-y to ¥5,733mn and its operating profit before the allocation of corporate costs by 4.2% to ¥758mn, and the chemicals division raised its sales by 2.8% to ¥3,148mn but its operating profit before the allocation of corporate costs fell by 14.2% to ¥257mn.

Consolidated Sales and Operating Profit (¥mn) by Division, H1 FY2/13 - H1 FY2/14

	H1 FY2/13		H1 FY2/14		Absolute change	% change
	Amount	Ratio	Amount	Ratio		
Sales	8,679	100.0	8,881	100.0	202	2.3
Machinery	5,617	64.7	5,733	64.6	116	2.1
Chemicals	3,062	35.3	3,148	35.4	86	2.8
Operating profit	893	10.3	843	9.5	▲ 50	▲ 5.6
Machinery	728	-	758	-	30	4.2
Chemicals	299	-	257	-	▲ 42	▲ 14.2
Corporate costs	80	-	96	-	-	-
Average effective yen-US dollar exchange rate	103	-	126	-	-	-



■ Results by Division

Parent-company sales grew by 15.5% due to strong Japanese demand

(1) Machinery Division

As detailed in the table below, the machinery division expanded its sales to pharmaceutical companies by 7.4% y-o-y to ¥5,020mn, but its sales to makers of industrial products fell by 24.6% to ¥712mn because pharmaceutical companies curtailed their capital investment. The parent company increased its sales of machinery by 15.5% to ¥4,478mn, reflecting brisk demand in Japan. Sales by subsidiary Freund-Vector Corp. fell 27.1% to ¥1,262mn, because shipments to South America were delayed. However, these shipments are scheduled to be completed in H2 FY2/14, so full-year sales should not be affected. Sales by subsidiary Freund-Turbo dropped by 18.9% to ¥451mn because cosmetics companies and food companies did not invest as heavily in equipment as the subsidiary had expected. The two subsidiaries suffered operating profit declines, but the parent company increased its operating profit enough to raise the division's operating profit before the allocation of corporate costs by 4.2% y-o-y.

Consolidated Machinery Division Sales (¥mn) in H1 FY2/13 - H1 FY2/14 by Customer Industry

	H1 FY2/13		H1 FY2/14		
	Amount	y-o-y	Amount	Ratio	y-o-y
Customer Industry	5,617	26.7	5,733	100.0%	2.1
Pharmaceutical and Food Industries	4,673	30.7	5,020	87.6%	7.4
Industrial Equipment Industry	944	10.2	712	12.4%	▲ 24.6

Consolidated Machinery Division Sales and Operating Profit (¥mn) in H1 FY2/13 - H1 FY2/14 by Company

	H1 FY2/13		H1 FY2/14	
	Amount	y-o-y	Amount	y-o-y
Machinery Sales	5,617	26.7	5,733	2.1
Freund Corp.	3,878	30.8	4,478	15.5
Freund-Vector Corp.	1,730	36.0	1,262	▲ 27.1
Freund-Turbo Corp.	556	8.6	451	▲ 18.9
Machinery Operating Profit	728	84.2	758	4.2
Freund-Vector Corp.	119	35.6	12	▲ 90.1
Freund-Turbo Corp.	58	88.2	14	▲ 75.9

Sales of health foods grew less than the company had expected because of an insufficient supply of raw materials

(2) Chemicals Division

In the chemicals division, sales of pharmaceutical additives decreased by 2.1% y-o-y to ¥977mn (see table below), and sales of food preservatives fell by 2.3% to ¥902mn, while sales of health foods rose by 11.1% to ¥1,268mn. Sales of pharmaceutical additives declined mainly because pharmaceutical companies did not increase their production as much as the company had projected. Sales of food preservatives fell because Japan experienced a hot summer in 2013, which depressed the appetite of consumers and the sales of food companies. Sales of health foods grew less than the company had expected because of an insufficient supply of raw materials. Furthermore, the increase in sales of health foods stemmed from sales to new customers. Sales to existing customers declined y-o-y. Operating profit at the parent company's chemical division declined y-o-y, mainly because the cost of imported raw materials rose accompanying yen depreciation against the US dollar. Subsidiary Freund Chemical increased its sales and operating profit, but subsidiary Freund Pharmatec suffered a larger operating loss in H1 FY2/14 than it did in H1 FY2/13 because this unit engaged mainly in R&D and recorded no sales. On balance, the division's operating profit before the allocation of corporate costs fell by 14.2%.

Consolidated Chemicals Division Sales (¥mn) in H1 FY2/13 - H1 FY2/14 by Product Type

	H1 FY2/13		H1 FY2/14		
	Amount	y-o-y	Amount	Ratio	y-o-y
Total	3,062	19.2	3,148	100.0%	2.8
Pharmaceutical Additives	998	2.6	977	31.0%	▲ 2.1
Food Preservatives	923	▲ 0.8	902	28.7%	▲ 2.3
Health Foods and Others	1,141	71.7	1,268	40.3%	11.1

Consolidated Chemicals Division Sales and Operating Profit (¥mn) in H1 FY2/13 - H1 FY2/14 by Company

	H1 FY2/13		H1 FY2/14	
	Amount	y-o-y	Amount	y-o-y
Chemicals Sales	3,062	19.3	3,148	2.8
Freund Corp.	3,062	19.3	3,148	2.8
Freund Chemical Corp.	636	▲ 5.7	774	21.7
Freund Pharmatec Ltd.	-	-	-	-
(all exports)	38	34.4	11	▲ 71.1
Chemicals Operating Profit	299	60.0	257	▲ 14.2
Freund Chemical Corp.	▲ 7	▲ 153.5	21	-
Freund Pharmatec Ltd.	▲ 64	▲ 5.6	▲ 86	-

Financial Condition

With no debt, the company holds ample net cash

At the end of H1 FY2/14, Freund Corp.'s cash and deposits were ¥551mn larger than they had been a year earlier, mainly because of an increase in cash from operations and a recovery of sales receivables. Total equity increased by ¥549mn y-o-y in H1 FY2/14, primarily due to the ¥470mn of net profit earned during the fiscal half-year.

Summary Balance Sheet (¥mn), 2/13 and 8/13

	2/13	8/13	Absolute change
Cash and cash equivalents	3,617	4,168	+551
Notes and sales receivable	4,764	4,476	▲ 288
Inventories	2,102	2,078	▲ 24
Current assets	11,084	11,385	+301
Tangible fixed assets	2,910	2,964	+54
Intangible fixed assets	29	191	+162
Investments, other assets	946	942	▲ 4
Total fixed assets	3,886	4,098	+212
Total assets	14,971	15,484	+513
Accounts payable	2,478	2,517	+39
Advances received	1,279	1,055	▲ 224
Current liabilities	5,015	4,834	▲ 181
Reserve for retirement allowances	168	173	+5
Negative goodwill	34	30	▲ 4
Fixed liabilities	640	785	+145
Total liabilities	5,655	5,619	▲ 36
Total liabilities and equity	9,315	9,864	+549

In H1 FY2/14, Freund Corp.'s operations generated ¥674mn of cash, primarily because profit before taxes and adjustments grew by ¥876mn and sales receivables declined by ¥327mn. These contributions more than offset a ¥293mn drop in advance payments from customers and other factors reducing cash from operations. Cash from investments came to ¥35mn and the company used ¥195mn for its financing. The company's cash and cash equivalents increased by ¥600mn y-o-y in H1 FY2/14, and the balance of these assets came to ¥3,988mn at the end of the fiscal half-year. As the company has no debt, it has substantial net cash.

Summary Cash Flow Statement (¥mn), H1 FY2/13 - H1 FY2/14

	H1 FY2/13	H1 FY2/14
Cash flow from operations	637	674
Income before taxes and adjustments	696	876
Depreciation expense	111	141
Change in sales receivables	545	327
Change in inventories	132	118
Change in other assets	189	▲ 80
Change in accounts payable	▲ 310	19
Change in advances received	▲ 445	▲ 293
Cash flow from investments	▲ 55	35
Income from the redemption of fixed time deposits	-	75
Purchases of tangible fixed assets	▲ 31	▲ 63
Cash flow from financing	▲ 155	▲ 195
Dividend payment	▲ 128	▲ 171
Change in cash and cash equivalents	442	600
Balance of cash and cash equivalents at term-end	3,477	3,988

■ Company Forecasts for FY2/14

Company is likely to achieve its original forecasts

For FY2/14, the company kept its original forecasts, projecting a 12.8% y-o-y rise in consolidated sales to ¥18,500mn, a 19.0% increase in consolidated operating profit to ¥1,750mn, an 8.8% upturn in consolidated recurring profit to ¥1,760mn, and a 24.1% advance in consolidated net profit to ¥950mn. These forecasts are lower than the FY2/14 targets set in the company's current medium-term plan, of consolidated sales of ¥20bn and consolidated operating profit of ¥2.0bn. However, the company plans to strive to meet these targets. Most likely, the company's forecasts are the lower limits of its probable performance and the targets in the medium-term plan are the upper limits.

The company expects sales at its machinery division to grow by 16.0% y-o-y in FY2/14 to ¥11.5bn. It did not break down this forecast when it announced its results for H1 FY2/14, but when it first made these forecasts, it expected new products to contribute to a 17.6% rise in sales of machinery to pharmaceutical and food companies to ¥9.7bn and it foresaw an 8.0% rise in sales of machinery to manufacturers of industrial products to ¥1.8bn. The company projects an 8.0% y-o-y increase in sales of chemicals to ¥7.0bn, with sales of pharmaceutical additives growing by 2.9% to ¥2.1bn, sales of food preservatives rising by 5.9% to ¥2.0bn, and sales of health foods advancing by 13.6% to ¥2.9bn. OEM sales of supplements to the leading Japanese maker of healthcare products begun in FY2/13 are expected to remain brisk, and sales to new customers are foreseen.

Consolidated Results in FY2/13 and Company Forecasts (¥mn) for FY2/14

	FY2/13		FY2/14E		
	Amount	Ratio	Amount	Ratio	y-o-y
Sales	16,396	100.0	18,500	100.0	12.8
Machinery	9,914	60.5	11,500	62.2	16.0
Pharmaceutical & food industries	8,248	-	9,700	-	17.6
Industrial equipment industry	1,666	-	1,800	-	8.0
Chemicals	6,482	39.5	7,000	37.8	8.0
Pharmaceutical additives	2,041	-	2,100	-	2.9
Food preservatives	1,889	-	2,000	-	5.9
Health foods and others	2,552	-	2,900	-	13.6
Operating profit	1,470	9.0	1,750	9.5	19.0
Recurring profit	1,618	9.9	1,760	9.5	8.8
Net profit	765	4.7	950	5.1	24.1

Consolidated Results (¥mn), FY2/09-FY2/14E

	Sales	y-o-y	Operating Profit	y-o-y	Recurring Profit	y-o-y	Net Profit	y-o-y	EPS (¥)	DPS (¥)
FY2/09	13,478	2.9%	958	2.9%	1,056	3.5%	619	34.4%	143.64	30.00
FY2/10	12,943	-4.0%	970	1.2%	951	-9.9%	563	8.9%	65.41	15.00
FY2/11	13,257	2.4%	680	-29.9%	698	-26.6%	516	-8.3%	59.96	15.00
FY2/12	15,236	14.9%	1,065	56.6%	1,123	60.9%	608	17.7%	70.59	15.00
FY2/13	16,396	7.6%	1,470	38.0%	1,618	44.1%	765	25.7%	88.76	20.00
FY2/14E	18,500	12.8%	1,750	19.0%	1,760	8.8%	950	24.1%	110.18	25.00

Note: The company made a two-for-one stock split in June 2009



■ Medium-term Plan and Further Development

Medium-term plan targets consolidated sales of ¥20bn and consolidated operating profit of ¥2.0bn for FY2/14

(1) The final year of Vision-50

The company's current medium-term plan, called Vision-50 because FY2/14 is the company's 50th year, targets consolidated sales of ¥20bn and consolidated operating profit of ¥2.0bn for FY2/14, both higher than the company's current forecasts, of ¥18.5bn and ¥1.75bn, respectively. The company currently does not plan to revise its targets for FY2/14, indicating that it could exceed its forecasts for the year.

Company is developing new markets overseas

(2) Expansion of existing markets

As Freund Corp. already holds high market shares for many kinds of machinery, particularly, granulation machinery, it may not be able to increase these shares significantly. However, the company would benefit from an expansion of existing markets for its customer industries. For example, the consumption of pharmaceuticals in Japan is likely to grow as Japanese society ages. In an effort to stem the rise in medical costs in Japan, the public and private sectors are promoting the consumption of generic drugs, rather than brand drugs. Leading pharmaceutical companies will no doubt continue to develop new drugs to boost their shares of the global market. All these developments would support increased sales of Freund Corp.'s machinery and chemicals.

Furthermore, Freund Corp. could exploit overseas demand more than it has to date. Subsidiary Freund-Vector is responsible for sales in all overseas markets except east Asian countries. This subsidiary aims to increase its sales in countries in eastern Europe, the Middle East, and Africa, but the subsidiary's main facility for demonstrating the company's equipment is located in the United States. To make it easier for potential clients in these target countries to view the company's equipment, Freund-Vector is preparing to expand its demonstration facility in Milan, Italy.

Sales of pharmaceuticals in 17 developing countries, led by the BRICS countries, are projected to grow by 6% or more per year. As these countries replace imported drugs with drugs made locally, they will need the machinery and chemicals made by Freund Corp. Freund Corp. already supplies many top-tier pharmaceutical companies in India, but its efforts to supply second-tier pharmaceutical companies there have been stymied by a mismatch of supply and demand. Freund Corp.'s products meet top specifications but carry high prices, while second-tier pharmaceutical companies in India and other developing countries cannot afford such high-quality products. To appeal to such second-tier companies, Freund Corp. has recently developed prototypes of new products of slightly lower quality than its standard products but also cheaper than its standard products. The company plans to promote the sales of these new products aggressively in developing countries.

**■ Medium-term Plan and
Further Development****Coating Machines for Developing Countries (left) and for
Developed Countries (right)**

Source: Company

**Using technological expertise to develop new markets
should drive growth****(3) Development of new markets****○ Horizontal expansion**

Freund Corp. should be able to apply its technology in machinery and chemicals to develop new markets. For example, if it could demonstrate that its seamless minicapsules enhance the effectiveness of a drug, it could sell more of its machines to manufacture such capsules to pharmaceutical companies. Hard capsules are now used to deliver bifidobacteria to the large intestine. If Freund Corp. could show that the use of such hard capsules optimizes the effect of supplements, it could increase its sales of coating machinery to make hard capsules and its OEM production of supplements. The company has also recently acquired the right to sell a machine called Tabrex. Developed by a large Japanese pharmaceutical company and a venture company in Tokushima Prefecture, this machine labels uncoated tablets with information such as the name of the drug and its production batch number, making them easy to identify and to distinguish from counterfeit drugs.

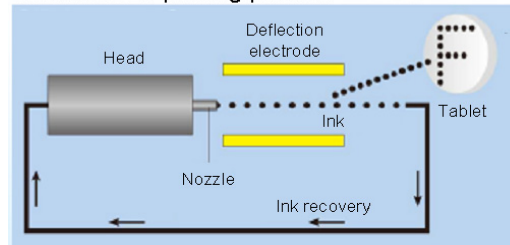
Outline of Tabrex Machine



To improve identification during formulation

- Can print on OD tablets
- Can print on both side of a tablet and on tablets with split marks

Illustration of printing process



Images of printed tablets



Source: Company

○ Vertical expansion

The company will probably apply its technology in granulation, powdering, sorting and pulverizing to produce new products that drive growth. Subsidiary Freund-Turbo Corp. has already used this technology to enter the business of producing industrial machinery for the manufacture of fine chemicals. Unfortunately, the market for such machinery has been weak recently, but over the medium-to-long term, Freund-Turbo Corp. intends to produce industrial machinery for the manufacture of toner materials, cosmetics, agro-chemicals, battery materials, and foods. The growth potential for such machinery is significant.

■ Shareholder Return Policy

Company plans to raise its dividend per share by ¥5 for FY2/14, continuing solid returns to shareholders

At the end of H1 FY2/14, the company had no debt and an equity ratio of 62.8%. At the same time, management aims to maintain a dividend payout ratio of 20% on a consolidated basis. Thus, for FY2/13, the company paid a dividend of ¥20 per share, which was ¥5 higher than its dividend for FY2/12. For FY2/14, the company has announced that it will pay a dividend of ¥25 per share. Management obviously places a premium on capital efficiency and shareholder returns.

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