SR Research Report
2015/4/9

Aeon Delight Co., Ltd. (9787)

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Key financial indicators

Income Statement (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY2/16 Est.
Total Sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**280,000**
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.0%
Gross Profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	
Operating Profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	17,000
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	7.2%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	6.1%
Recurring Profit	8,186	9,812	9,912	12,089	13,784	13,892	15,092	15,943	17,000
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	6.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	6.1%
Net Income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,400**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	7.7%
Net Margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%
Per Share Data									
Number of Shares	41,400	41,400	41,400	54,170	54,170	54,170	54,170	54,170	
EPS	110	123	138	143	132	143	156	166	179
EPS (Fully Diluted)	-	123	138	142	132	143	155	166	
Dividend Per Share	25	22	27	39	40	46	48	50	52
Book Value Per Share	567	669	788	1,006	1,096	1,202	1,325	1,436	
Balance Sheet (JPYmn)									
Cash and Equivalents	7,673	6,991	7,964	13,098	9,707	10,014	12,565	15,580	
Total Current Assets	**28,764**	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	
Tangible Fixed Assets, net	1,885	2,602	2,741	3,756	3,773	3,796	4,258	4,361	
Other Fixed Assets	3,411	3,658	3,977	4,766	4,276	5,257	5,829	6,268	
Intangible Assets	13,356	12,623	11,924	11,577	12,272	12,321	11,687	10,937	
Total Assets	**47,418**	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	
Accounts Payable	10,293	10,551	8,974	22,424	23,720	24,544	26,701	30,902	
Short-Term Debt	-	1,688	80	49	41	10	5	-	
Total Current Liabilities	**22,533**	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	
Long-Term Debt	-	56	31	6	15	5	-	-	
Total Fixed Liabilities	**2,395**	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	
Total Liabilities	**24,929**	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	
Net Assets	**22,512**	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	
Cash Flow Statement (JPYmn)									
Operating Cash Flow	6,472	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	
Investment Cash Flow	-2,190	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	
Financing Cash Flow	-6,094	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	
Financial Ratios									
Interest-Bearing Debt	-	1,744	111	55	56	15	5	-	
ROA	17.3%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	
Equity Ratio	47.4%	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	

Source: Company data, SR Inc. Research

Figures may differ from company materials due to differences in rounding methods.

Recent updates

Highlights

On **April 9, 2015,** Aeon Delight Co., Ltd. announced full-year earnings results for FY02/15; see the results section for details.

On **January 27, 2015**, Shared Research updated the report after interviewing management.

On **January 9, 2015**, the company announced earnings results for Q3 FY02/15; see the results section for details.

For corporate releases and developments more than three months old, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Quarterly Performance (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/15 % of FY	FY Est.
Sales	58,584	68,187	65,620	56,485	66,711	66,841	61,256	62,435	66,475	67,574	65,237	67,419	98.8%	270,000
YoY	10.6%	19.7%	19.0%	3.2%	13.9%	-2.0%	-6.7%	10.5%	-0.4%	1.1%	6.5%	8.0%		5.0%
Gross Profit	6,984	7,998	7,790	7,455	8,173	8,808	7,984	8,749	8,306	8,972	8,429	9,410		
YoY	3.0%	3.5%	10.5%	5.3%	17.0%	10.1%	2.5%	17.4%	1.6%	1.9%	5.6%	7.6%		
GPM	11.9%	11.7%	11.9%	13.2%	12.3%	13.2%	13.0%	14.0%	12.5%	13.3%	12.9%	14.0%		
SG&A Expenses	3,890	3,979	4,500	3,957	4,782	4,624	4,589	4,604	4,766	4,809	4,828	4,853		
YoY	5.4%	2.1%	16.8%	15.5%	22.9%	16.2%	2.0%	16.4%	-0.3%	4.0%	5.2%	5.4%		
SG&A / Sales	6.6%	5.8%	6.9%	7.0%	7.2%	6.9%	7.5%	7.4%	7.2%	7.1%	7.4%	7.2%		
Operating Profit	3,093	4,020	3,289	3,499	3,390	4,185	3,395	4,145	3,540	4,162	3,601	4,558	99.1%	16,000
YoY	0.2%	5.0%	2.9%	-4.1%	9.6%	4.1%	3.2%	18.5%	4.4%	-0.5%	6.1%	10.0%		5.9%
OPM	5.3%	5.9%	5.0%	6.2%	5.1%	6.3%	5.5%	6.6%	5.3%	6.2%	5.5%	6.8%		5.9%
Recurring Profit	3,102	4,022	3,288	3,480	3,403	4,168	3,411	4,110	3,558	4,167	3,614	4,604	99.6%	16,000
YoY	-1.2%	4.9%	2.4%	-3.3%	9.7%	3.6%	3.7%	18.1%	4.6%	-0.0%	6.0%	12.0%		6.0%
RPM	5.3%	5.9%	5.0%	6.2%	5.1%	6.2%	5.6%	6.6%	5.4%	6.2%	5.5%	6.8%		5.9%
Net Income	1,786	2,158	1,561	2,004	1,858	2,289	1,657	2,357	2,015	2,365	2,003	2,342	101.5%	8,600
YoY	4.8%	7.3%	-1.0%	23.7%	4.0%	6.1%	6.1%	17.6%	8.4%	3.3%	20.9%	-0.6%		5.4%
NPM	3.0%	3.2%	2.4%	3.5%	2.8%	3.4%	2.7%	3.8%	3.0%	3.5%	3.1%	3.5%		3.2%

Segment Results (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/15 % of FY	FY Est.
Sales	58,584	68,187	65,620	56,485	66,711	66,841	61,256	62,435	66,475	67,574	65,237	67,419	73.8%	270,000
Facilities management	10,371	10,753	10,646	10,280	10,622	10,848	11,198	10,790	11,228	11,642	11,532	11,437		
Securities management	7,898	7,909	7,966	8,032	8,438	8,367	8,481	8,956	8,935	8,891	9,305	9,491		
Cleaning services	10,122	10,084	10,205	10,108	10,539	10,485	10,642	10,654	10,942	10,960	11,129	11,256		
Construction work	11,081	18,884	15,767	7,339	15,888	13,929	8,254	7,559	11,858	11,133	9,366	9,615		
Materials & suppies sourcing	9,525	9,769	10,057	9,933	10,721	11,023	11,542	11,257	11,713	11,609	12,175	12,121		
Vending machine services	7,508	8,571	7,419	7,702	7,498	8,716	7,479	9,636	8,330	9,471	8,003	9,021		
Support services	2,072	2,218	3,509	3,024	2,964	3,433	3,604	3,550	3,460	3,859	3,735	4,468		
YoY	10.6%	19.7%	19.0%	3.2%	13.9%	-2.0%	-6.7%	10.5%	-0.4%	1.1%	6.5%	8.0%		
Facilities management	-2.0%	0.4%	1.0%	-0.3%	2.4%	0.9%	5.2%	5.0%	5.7%	7.3%	3.0%	6.0%		
Securities management	-3.8%	-1.0%	-0.7%	0.2%	6.8%	5.8%	6.5%	11.5%	5.9%	6.3%	9.7%	6.0%		
Cleaning services	1.7%	2.1%	1.8%	1.2%	4.1%	4.0%	4.3%	5.4%	3.8%	4.5%	4.6%	5.7%		
Construction work	96.4%	126.8%	121.7%	-1.3%	43.4%	-26.2%	-47.7%	3.0%	-25.4%	-20.1%	13.5%	27.2%		
Materials & suppies sourcing	5.1%	4.5%	7.3%	11.1%	12.6%	12.8%	14.8%	13.3%	9.3%	5.3%	5.5%	7.7%		
Vending machine services	-4.0%	-2.1%	-5.9%	-1.6%	-0.1%	1.7%	0.8%	25.1%	11.1%	8.7%	7.0%	-6.4%		
Support services	23.0%	13.5%	62.4%	38.7%	43.1%	54.8%	2.7%	17.4%	16.7%	12.4%	3.6%	25.9%		
Operating profit	3,093	4,020	3,289	3,499	3,390	4,185	3,395	4,145	3,540	4,162	3,601	4,558	70.6%	16,000
Facilities management	1,105	1,220	1,080	1,256	1,151	1,266	1,188	1,120	1,029	1,098	1,074	1,016		
Securities management	601	669	656	766	642	700	761	762	695	717	824	866		
Cleaning services	1,441	1,508	1,446	1,523	1,397	1,404	1,425	1,490	1,469	1,552	1,592	1,676		
Construction work	461	796	450	502	851	764	474	491	741	754	678	634		
Materials & suppies sourcing	273	320	381	488	573	636	533	591	464	490	436	721		
Vending machine services	454	728	432	782	535	812	433	1,288	551	894	506	1,014		
Support services	40	191	293	-20	77	323	312	117	308	369	179	252		
YoY	0.2%	5.0%	2.9%	-4.1%	9.6%	4.1%	3.2%	18.5%	4.4%	-0.5%	6.1%	10.0%		
Facilities management	-16.0%	-8.8%	-15.2%	8.7%	4.2%	3.8%	10.0%	-10.8%	-10.6%	-13.3%	-9.6%	-9.3%		
Securities management	-13.4%	-3.0%	-5.1%	2.4%	6.8%	4.6%	16.0%	-0.5%	8.3%	2.4%	8.3%	13.6%		
Cleaning services	2.1%	6.1%	-3.7%	-1.6%	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	10.5%	11.7%	12.5%		
Construction work	30.6%	23.6%	-1.7%	4.4%	84.6%	-4.0%	5.3%	-2.2%	-12.9%	-1.3%	43.0%	29.1%		
Materials & suppies sourcing	6.2%	-21.8%	41.6%	63.2%	109.9%	98.8%	39.9%	21.1%	-19.0%	-23.0%	-18.2%	22.0%		
Vending machine services	-8.5%	9.8%	-5.9%	9.8%	17.8%	11.5%	0.2%	64.7%	3.0%	10.1%	16.9%	-21.3%		
Support services	-	-	33.2%	-	92.5%	69.1%	6.5%	-	300.0%	14.2%	-42.6%	115.4%		
OPM	5.3%	5.9%	5.0%	6.2%	5.1%	6.3%	5.5%	6.6%	5.3%	6.2%	5.5%	6.8%		
Facilities management	10.7%	11.3%	10.1%	12.2%	10.8%	11.7%	10.6%	10.4%	9.2%	9.4%	9.3%	8.9%		
Securities management	7.6%	8.5%	8.2%	9.5%	7.6%	8.4%	9.0%	8.5%	7.8%	8.1%	8.9%	9.1%		
Cleaning services	14.2%	15.0%	14.2%	15.1%	13.3%	13.4%	13.4%	14.0%	13.4%	14.2%	14.3%	14.9%		
Construction work	4.2%	4.2%	2.9%	6.8%	5.4%	5.5%	5.7%	6.5%	6.2%	6.8%	7.2%	6.6%		
Materials & suppies sourcing	2.9%	3.3%	3.8%	4.9%	5.3%	5.8%	4.6%	5.3%	4.0%	4.2%	3.6%	5.9%		
Vending machine services	6.0%	8.5%	5.8%	10.2%	7.1%	9.3%	5.8%	13.4%	6.6%	9.4%	6.3%	11.2%		
Support services	1.9%	8.6%	8.3%	-0.7%	2.6%	9.4%	8.7%	3.3%	8.9%	9.6%	4.8%	5.6%		
OP composition	-	-	-	-	-	-	-	-	-	-	-	-		
Facilities management	25.0%	22.3%	22.4%	23.4%	21.7%	21.1%	22.8%	18.8%	19.4%	18.5%	20.3%	16.4%		
Securities management	13.6%	12.2%	13.6%	14.2%	12.1%	11.7%	14.6%	12.8%	13.1%	12.1%	15.6%	14.0%		
Cleaning services	32.7%	27.6%	30.0%	28.3%	26.3%	23.4%	27.4%	25.1%	27.7%	26.2%	30.1%	27.1%		
Construction work	10.4%	14.5%	9.3%	9.3%	16.0%	12.8%	9.1%	8.3%	14.0%	12.7%	12.8%	10.3%		
Materials & suppies sourcing	6.2%	5.8%	7.9%	9.1%	10.8%	10.6%	10.2%	9.9%	8.8%	8.3%	8.2%	11.7%		
Vending machine services	10.3%	13.3%	9.0%	14.5%	10.1%	13.6%	8.3%	21.7%	10.4%	15.1%	9.6%	16.4%		
Support services	0.9%	3.5%	6.1%	-0.4%	1.5%	5.4%	6.0%	2.0%	5.8%	6.2%	3.4%	4.1%		

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Full-year FY02/15 results (out April 9, 2015; see the preceding table)

Quarterly Performance (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Est.	- Cons.	FY02/16 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	270,000	266,705	280,000
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	5.0%	3.7%	5.0%
Gross Profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	-	35,117	-
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	-	4.2%	-
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	-	13.2%	-
SG&A Expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	-	19,256	-
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	-	3.5%	-
SG&A / Sales	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	-	7.2%	-
Operating Profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	16,000	15,861	17,000
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	5.9%	4.9%	7.2%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	6.1%
Recurring Profit	8,186	9,812	9,912	12,089	13,784	13,892	15,092	16,000	15,943	17,000
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	6.0%	5.6%	6.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	5.9%	6.0%	6.1%
Net Income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,600	8,725	9,400
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	5.4%	6.9%	7.7%
NPM	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.2%	3.3%	3.4%

Segment Results (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Est.	- Cons.	FY02/16 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	270,000	266,705	280,000
Facilities management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	-	45,839	-
Securities management	35,848	36,670	34,281	32,088	32,235	31,805	34,242	-	36,622	-
Cleaning services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	-	44,287	-
Construction work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	-	41,972	-
Materials & suppies sourcing	-	-	-	18,718	36,730	39,284	44,543	-	47,618	-
Vending machine services	-	-	-	17,188	32,280	31,200	33,329	-	34,825	-
Support services	3,591	5,846	5,412	5,271	7,980	10,823	13,551	-	15,522	-
Others	-	-	-	56	57	119	167	-	17	-
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	5.0%	3.7%	5.0%
Facilities management	-	5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	-	5.5%	-
Securities management	-	2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	-	7.0%	-
Cleaning services	-	3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	-	4.6%	-
Construction work	-	10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-	-8.0%	-
Materials & suppies sourcing	-	-	-	-	96.2%	7.0%	13.4%	-	6.9%	-
Vending machine services	-	-	-	-	87.8%	-3.3%	6.8%	-	4.5%	-
Support services	-	62.8%	-7.4%	-2.6%	51.4%	35.6%	25.2%	-	14.5%	-
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	16,000	15,861	17,000
Facilities management	-	-	4,507	5,115	5,084	4,661	4,725	-	4,217	-
Securities management	-	-	2,738	2,764	2,823	2,692	2,865	-	3,102	-
Cleaning services	-	-	5,780	5,937	5,882	5,918	5,716	-	6,289	-
Construction work	-	-	1,321	1,214	1,936	2,209	2,580	-	2,807	-
Materials & suppies sourcing	-	-	-	627	1,234	1,462	2,333	-	2,111	-
Vending machine services	-	-	-	1,480	2,330	2,396	3,068	-	2,965	-
Support services	-	-	-	375	156	504	829	-	1,108	-
Others	-	-	748	215	156	237	331	-	189	-
Elimination	-	-	-5,125	-5,698	-5,843	-6,180	-7,334	-	-6,929	-
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	5.9%	4.9%	7.2%
Facilities management	-	-	-	13.5%	-0.6%	-8.3%	1.4%	-	-10.8%	-
Securities management	-	-	-	0.9%	2.1%	-4.6%	6.4%	-	8.3%	-
Cleaning services	-	-	-	2.7%	-0.9%	0.6%	-3.4%	-	10.0%	-
Construction work	-	-	-	-8.1%	59.5%	14.1%	16.8%	-	8.8%	-
Materials & suppies sourcing	-	-	-	-	96.8%	18.5%	59.6%	-	-9.5%	-
Vending machine services	-	-	-	-	57.4%	2.8%	28.0%	-	-3.4%	-
Support services	-	-	-	-	-58.4%	223.1%	64.5%	-	33.7%	-
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	6.1%
Facilities management	-	-	10.8%	12.8%	12.1%	11.1%	10.9%	-	9.2%	-
Securities management	-	-	8.0%	8.6%	8.8%	8.5%	8.4%	-	8.5%	-
Cleaning services	-	-	12.8%	14.4%	14.8%	14.6%	13.5%	-	14.2%	-
Construction work	-	-	9.5%	7.4%	6.8%	4.2%	5.7%	-	6.7%	-
Materials & suppies sourcing	-	-	-	3.3%	3.4%	3.7%	5.2%	-	4.4%	-
Vending machine services	-	-	-	8.6%	7.2%	7.7%	9.2%	-	8.5%	-
Support services	-	-	-	7.1%	2.0%	4.7%	6.1%	-	7.1%	-
OP composition	-	-	-	-	-	-	-	-	-	-
Facilities management	-	-	29.9%	28.9%	25.9%	23.2%	21.0%	-	18.5%	-
Securities management	-	-	18.1%	15.6%	14.4%	13.4%	12.8%	-	13.6%	-
Cleaning services	-	-	38.3%	33.5%	30.0%	29.5%	25.5%	-	27.6%	-
Construction work	-	-	8.8%	6.8%	9.9%	11.0%	11.5%	-	12.3%	-
Materials & suppies sourcing	-	-	-	3.5%	6.3%	7.3%	10.4%	-	9.3%	-
Vending machine services	-	-	-	8.3%	11.9%	11.9%	13.7%	-	13.0%	-
Support services	-	-	-	2.1%	0.8%	2.5%	3.7%	-	4.9%	-

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Earnings overview

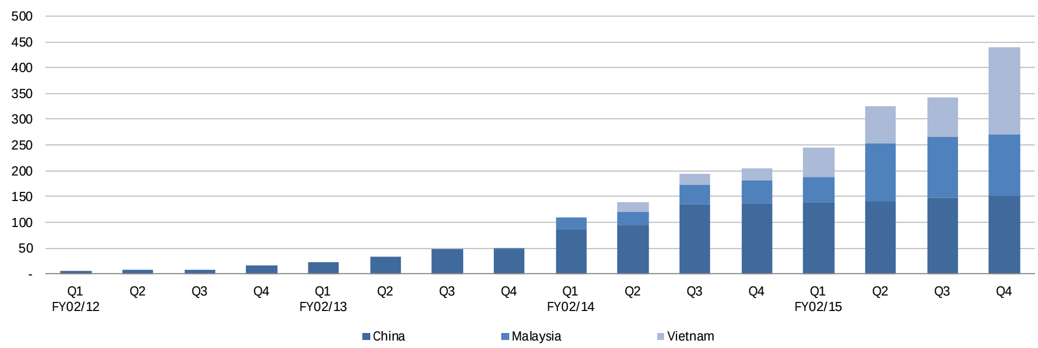
Sales/profits up for the fifth consecutive year with record profits; targets mostly met
Demand for facilities management service companies with significant, well-qualified human resources increased as labor shortages in the building maintenance industry became increasingly pronounced. Buildings also became larger and more multi-purposed. As a result, Aeon Delight marked its fifth consecutive year of sales and profit growth, booking its highest profits to date.

During Q3, operating profit reached 70.6% of the company's annual target. In comparison, the ratios were 72.6% and 76.6% for Q3 FY02/14 and Q3 FY02/13, respectively. (The company benefitted from increased demand during Q4 FY02/14, prior to the consumption tax increase.) But it managed to mostly meet full-year operating profit targets. Shared Research estimates that operating profit of the Materials and Supplies Sourcing segment and gross profit margin at the Cleaning Services segment (operating profit composition of 27.6% in FY02/15) both improved in Q4.

The company expects to win more orders for facility management services overseas
Aeon Delight focused on cooperation between offices in Japan and abroad, in a bid to grow the comprehensive facilities management services (FMS) business in Asia. The company also restructured its salesforce, creating specialized teams for different regions, facilities, and product types, as well as a team focusing on winning new clients, particularly among operators of large facilities.

As a result, there was a steady stream of FMS orders for large domestic facilities from outside the Aeon Group. Overseas, the company continued acquiring contracts, taking the total to 151 in China, 119 in Malaysia, and 169 in Vietnam (mainly small, irregular projects).

Number of projects overseas



Source: Company data

Facilities Management

Facilities Management (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4
Sales	10,371	10,753	10,646	10,280	10,622	10,848	11,198	10,790	11,228	11,642	11,532	11,437
YoY	-2.0%	0.4%	1.0%	-0.3%	2.4%	0.9%	5.2%	5.0%	5.7%	7.3%	3.0%	6.0%
Operating profit	1,105	1,220	1,080	1,256	1,151	1,266	1,188	1,120	1,029	1,098	1,074	1,016
YoY	-16.0%	-8.8%	-15.2%	8.7%	4.2%	3.8%	10.0%	-10.8%	-10.6%	-13.3%	-9.6%	-9.3%
OPM	10.7%	11.3%	10.1%	12.2%	10.8%	11.7%	10.6%	10.4%	9.2%	9.4%	9.3%	8.9%

Source: Company data

Focusing on energy-saving services and preparing new businesses

As large facilities with new stores placed more orders, the company focused on developing its energy-saving services for customers in Japan and abroad. This led to the promotion of building energy management system (BEMS) and energy-saving equipment.

Adding more value to CFC operations starting in FY02/16

In preparation for future growth, the company will train technicians dealing with CFC refrigerants—it now has over 400 technicians nationwide—as it looks to centralize refrigeration and air conditioning facilities management ahead of the Act for Rationalized Use and Proper Management of Fluorocarbons, scheduled for April 2015. The company plans to increase gross profit by assigning additional duties to existing employees. In addition, the company will also expand its ESCO and energy management operations to enhance the quality of its services in areas other than facility management businesses.

Sales continue to grow, as OPM continues to decline

Although sales grew 5.5% YoY, marking two consecutive years of growth, operating profit was down 10.8% YoY. This is because a decline in gross profit margin pulled down operating profit margin.

New services add more value to counter a decline in gross profit margin

Gross profit margin is declining for the following reasons: The company installed new computer-related equipment, a move that temporarily reduced profitability. The sales composition ratio for projects aimed at large-scale shopping malls (generally less profitable) rose. And the company has been under increasing pressure to reduce prices. The impact on earnings from the equipment installation will disappear at the end of FY02/15, while the other two factors may remain influential.

Aeon Delight will add more value by shifting emphasis from providing maintenance services for clients' existing facilities, to offering new businesses related to its existing energy management and ESCO operations. The company will also launch new services.

Securities Services

Securities Services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4
Sales	7,898	7,909	7,966	8,032	8,438	8,367	8,481	8,956	8,935	8,891	9,305	9,491
YoY	-3.8%	-1.0%	-0.7%	0.2%	6.8%	5.8%	6.5%	11.5%	5.9%	6.3%	9.7%	6.0%
Operating profit	601	669	656	766	642	700	761	762	695	717	824	866
YoY	-13.4%	-3.0%	-5.1%	2.4%	6.8%	4.6%	16.0%	-0.5%	8.3%	2.4%	8.3%	13.6%
OPM	7.6%	8.5%	8.2%	9.5%	7.6%	8.4%	9.0%	8.5%	7.8%	8.1%	8.9%	9.1%

Source: Company data

The company won new contracts for its "attender" services from multiple domestic stores. Attenders combine security and customer services, such as information on facilities. These services have been praised by clients at home and abroad, including clients in China and Vietnam.

Lower employee turnover to improve GPM; an increase in stores raises expenses

Full-year sales rose 7.0% YoY, with operating profit increasing 8.3% YoY. Operating profit margin declined slightly in 1H, but recovered in 2H. In the past, the company did not have enough experienced employees to keep up with store expansion, and gross profit suffered as a result. Recently, the company has been reducing its employee turnover.

For FY02/15, this decrease in employee turnover led to improved profitability. However, in 1H an increase in store count meant higher expenses involving store openings. (It usually takes between one and two months to prepare for the opening of a new store.) These expenses may have pushed down the company's operating profit margin.

Adding value with multilingual store attendants

The opening of a new Aeon mall is being planned in Okinawa. The 175,000sqm resort-style mall, with parking facilities to accommodate as many as 4,000 vehicles, will open on April 25, 2015. Aeon Delight will deploy store attendants to serve foreign customers in multiple languages. The company may also send such attendants to other facilities with many visitors from abroad.

Cleaning Services

Cleaning Services	FY02/13				FY02/14				FY02/15			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	10,122	10,084	10,205	10,108	10,539	10,485	10,642	10,654	10,942	10,960	11,129	11,256
YoY	1.7%	2.1%	1.8%	1.2%	4.1%	4.0%	4.3%	5.4%	3.8%	4.5%	4.6%	5.7%
Operating profit	1,441	1,508	1,446	1,523	1,397	1,404	1,425	1,490	1,469	1,552	1,592	1,676
YoY	2.1%	6.1%	-3.7%	-1.6%	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	10.5%	11.7%	12.5%
OPM	14.2%	15.0%	14.2%	15.1%	13.3%	13.4%	13.4%	14.0%	13.4%	14.2%	14.3%	14.9%

Source: Company data

The company is standardizing and introducing a manual for its cleaning services, in a bid to gain a competitive edge and increase margins. Gross profit margin also increased as the company standardized operations at directly managed cleaning centers, resulting in higher productivity. The company also shared its expertise with partner companies.

Cleaning Services: under-target cost cuts but improving GPM; may help FY02/16 earnings

Aeon Delight had planned to reduce annual expenses by about JPY500mn. Shared Research estimates that the company missed this target (short by about JPY100mn in cumulative Q3) because of an overall scheduling delay. However, gross profit margin improved every quarter until Q3, and continued this trend in Q4, as the improvement in operating profit margin shows. Efforts to improve profitability in FY02/15 may benefit the company throughout FY02/16.

Construction Work

Construction Work	FY02/13				FY02/14				FY02/15			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,081	18,884	15,767	7,339	15,888	13,929	8,254	7,559	11,858	11,133	9,366	9,615
YoY	96.4%	126.8%	121.7%	-1.3%	43.4%	-26.2%	-47.7%	3.0%	-25.4%	-20.1%	13.5%	27.2%
Operating profit	461	796	450	502	851	764	474	491	741	754	678	634
YoY	30.6%	23.6%	-1.7%	4.4%	84.6%	-4.0%	5.3%	-2.2%	-12.9%	-1.3%	43.0%	29.1%
OPM	4.2%	4.2%	2.9%	6.8%	5.4%	5.5%	5.7%	6.5%	6.2%	6.8%	7.2%	6.6%

Source: Company data

LED installation projects within the Aeon Group wound down, resulting in an 8.0% fall year-on-year in segment sales. Sales would have risen excluding LED-related sales. Still, operating profit margin improved as the number of less profitable LED projects fell, raising operating profit by 8.8% YoY.

Renovation business may become an earnings driver starting in FY02/16

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings. In Q3, sales from renovation services reached JPY3.3bn, far exceeding the company's full-year target of JPY1.5bn, and continued to increase in Q4.

The sudden growth stems from the company receiving an increasing number of orders to renovate aging general merchandise stores nationwide. Aeon Retail is renovating its existing stores to bolster its supermarket operations; sales are increasing as a result.

Aeon Retail may continue to open more large-scale stores

Sales at Aeon Retail's 13 large-scale renovated stores rose 3.3% YoY. In contrast, average comparable store sales fell 3.8% YoY. The company wants to make store-renovation projects a regular part of its operations while expanding new outlets, so it is highly likely that it may renovate more stores in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Materials and Supplies Sourcing

Materials and Supplies Sourcing	FY02/13				FY02/14				FY02/15			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	9,525	9,769	10,057	9,933	10,721	11,023	11,542	11,257	11,713	11,609	12,175	12,121
YoY	5.1%	4.5%	7.3%	11.1%	12.6%	12.8%	14.8%	13.3%	9.3%	5.3%	5.5%	7.7%
Operating profit	273	320	381	488	573	636	533	591	464	490	436	721
YoY	6.2%	-21.8%	41.6%	63.2%	109.9%	98.8%	39.9%	21.1%	-19.0%	-23.0%	-18.2%	22.0%
OPM	2.9%	3.3%	3.8%	4.9%	5.3%	5.8%	4.6%	5.3%	4.0%	4.2%	3.6%	5.9%

Source: Company data

In addition to new orders, the company capitalized on demand from existing clients with new stores. The company also supplied more packaging materials for Aeon's private brand, Top Value. The company continued to focus on increasing margins by revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools.

Vending Machine Services

Vending Machine Services	FY02/13				FY02/14				FY02/15			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,508	8,571	7,419	7,702	7,498	8,716	7,479	9,636	8,330	9,471	8,003	9,021
YoY	-4.0%	-2.1%	-5.9%	-1.6%	-0.1%	1.7%	0.8%	25.1%	11.1%	8.7%	7.0%	-6.4%
Operating profit	454	728	432	782	535	812	433	1,288	551	894	506	1,014
YoY	-8.5%	9.8%	-5.9%	9.8%	17.8%	11.5%	0.2%	64.7%	3.0%	10.1%	16.9%	-21.3%
OPM	6.0%	8.5%	5.8%	10.2%	7.1%	9.3%	5.8%	13.4%	6.6%	9.4%	6.3%	11.2%

Source: Company data

Vending machines developed and installed in FY02/14 contributed to full-year results. The company also installed value-added vending machines—such as those with digital displays—at major new commercial facilities, and developed private brand drinks specifically for vending machines.

Support Services

Support Services	FY02/13				FY02/14				FY02/15			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,072	2,218	3,509	3,024	2,964	3,433	3,604	3,550	3,460	3,859	3,735	4,468
YoY	23.0%	13.5%	62.4%	38.7%	43.1%	54.8%	2.7%	17.4%	16.7%	12.4%	3.6%	25.9%
Operating profit	40	191	293	-20	77	323	312	117	308	369	179	252
YoY	-	-	33.2%	-	92.5%	69.1%	6.5%	-	300.0%	14.2%	-42.6%	115.4%
OPM	1.9%	8.6%	8.3%	-0.7%	2.6%	9.4%	8.7%	3.3%	8.9%	9.6%	4.8%	5.6%

Source: Company data

Subsidiaries continued to make significant contributions to growth in profits. The company focused on growing sales of Aeon Compass' events and Kajitaku's Kaji Cloud housework services, with the result that Kaji Cloud sales rose 63.6% YoY.

According to the company, Kajitaku invested in computer systems to promote growth in FY02/15, and aims for growth in sales and profits from FY02/16.

Q3 FY02/15 results (out January 9, 2015)

Sales:	JPY199.3bn (+2.3% YoY)
Operating profit:	JPY11.3bn (+3.0% YoY)
Recurring profit:	JPY11.3bn (+3.2% YoY)
Net income:	JPY6.4bn (+10.0% YoY).

Earnings overview

Sales/profits up for the fifth consecutive year with record profits; FY OP may miss target
Demand for facilities management service companies with significant, well-qualified human resources increased as labor shortages in the building maintenance industry became increasingly pronounced. Buildings also became larger and more multi-purposed. As a result, Aeon Delight marked its fifth consecutive year of cumulative Q3 sales and profit growth, booking its highest profits to date.

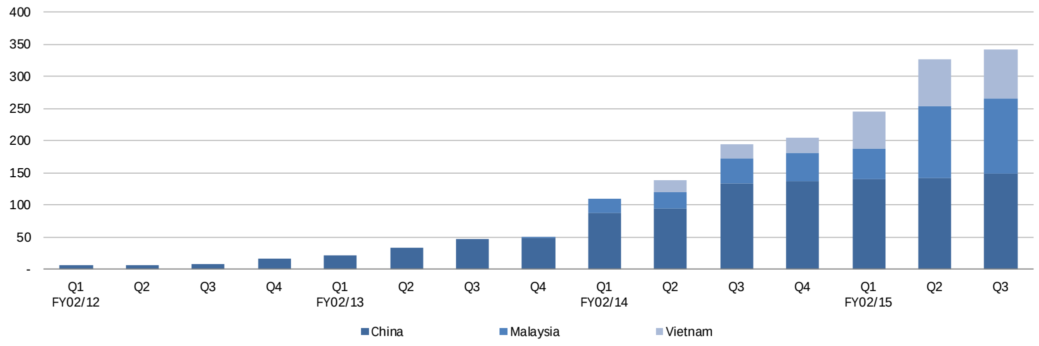
However, the company seems to be struggling to meet its full-year operating profit forecast. During Q3, operating profit reached 70.6% of the company's annual target. In comparison, the ratios were 72.6% and 76.6% for Q3 FY02/14 and Q3 FY02/13, respectively. (The company benefitted from increased demand during Q4 FY02/14, prior to the consumption tax increase.) Operating profit progress may be slow because gross profit margins at the Facilities Management and the Cleaning Services segments may struggle to meet annual targets. (Facilities Management comprised 21.0% of the company's overall operating profit for FY02/14; Cleaning Services, 25.5%).

Cumulative Q3 sales rise 7.1% YoY excluding the impact of LED installation
In the Construction Work segment, sales fell as LED installation projects wound down. But sales were up year-on-year in the company's other six segments. Cumulative Q3 sales would have risen 7.1% YoY if there had not been a decline from LED installation. For the latest three-month period (Q3), sales would have risen 8.4% YoY.

The company expects to win more orders for facility management services overseas
Aeon Delight focused on cooperation between offices in Japan and abroad, in a bid to grow the comprehensive facilities management services (FMS) business in Asia. The company also restructured its salesforce, creating specialized teams for different regions, facilities, and product types, as well as a team focusing on winning new clients, particularly among operators of large facilities.

As a result, there was a steady stream of FMS orders for large domestic facilities from outside the Aeon Group. Overseas, the company continued acquiring contracts, taking the total to 148 in China, 118 in Malaysia, and 76 in Vietnam.

Number of projects overseas



Source: Company data

Major developments related to Q3 FY02/15 earnings

The Facilities Management segment to launch a new CFC-related service in FY02/16

Gross profit margin continued to decline in Q3 at the Facilities Management segment because 1) The company installed new computer-related equipment, a move that temporarily reduced profitability. 2) The sales composition ratio for projects aimed at large-scale shopping malls (generally less profitable) rose. 3) The company has been under increasing pressure to reduce prices.

Aeon Delight plans to add more value by introducing new services. The company, for example, will start operations related to chlorofluorocarbon (CFC) in FY02/16. The company will train technicians dealing with CFC refrigerants—it now has over 400 technicians nationwide—as it looks to centralize refrigeration and air-conditioning facilities management ahead of the Act for Rationalized Use and Proper Management of Fluorocarbons, scheduled for April 2015. The company plans to increase gross profit by assigning additional duties to existing employees.

In addition, the company will also expand its ESCO and energy management operations to enhance the quality of its services in areas other than facility management.

Cleaning Services: under-target cost cuts but improving GPM; may help FY02/16 earnings

The company is standardizing its cleaning services. Gross profit margin increased in the Cleaning Services segment as the company standardized cleaning procedures at directly managed cleaning centers. The company also shared its expertise with partner companies. These and other measures may produce cost savings of about JPY400mn, JPY100mn short of the initial target. However, gross profit margin has been improving every quarter in this segment. Thus, profitability may continue to increase in Q4. Efforts to improve profitability in FY02/15 may benefit the company throughout FY02/16.

Renovation of aging general merchandise stores may contribute to FY02/16 earnings

The Construction Work segment may benefit from renovation projects in the next fiscal year. For cumulative Q3, sales from renovation services reached JPY3.3bn, far exceeding the company's full-year target of JPY1.5bn. The company is receiving an increasing number of orders to renovate aging general merchandise stores nationwide.

Aeon Retail, Aeon Delight's biggest customer, is renovating its large-scale stores because such revamped outlets have improved its performance. It wants to make store renovation a regular part of its operations while expanding to new outlets. Aeon Retail may renovate more stores in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Medium-term plan may be revised; the company might miss its FY02/15 target
Aeon Delight may miss its FY02/15 operating profit target. The company has not ruled out the possibility of revising its medium-term management plan released in 2014. A new medium-term plan may have targets that can be more easily achieved, in preparation for the next medium-term plan that will call for more challenging goals.

Facilities Management

Facilities Management (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3
Sales	10,371	10,753	10,646	10,280	10,622	10,848	11,198	10,790	11,228	11,642	11,532
YoY	-2.0%	0.4%	1.0%	-0.3%	2.4%	0.9%	5.2%	5.0%	5.7%	7.3%	3.0%
Operating profit	1,105	1,220	1,080	1,256	1,151	1,266	1,188	1,120	1,029	1,098	1,074
YoY	-16.0%	-8.8%	-15.2%	8.7%	4.2%	3.8%	10.0%	-10.8%	-10.6%	-13.3%	-9.6%
OPM	10.7%	11.3%	10.1%	12.2%	10.8%	11.7%	10.6%	10.4%	9.2%	9.4%	9.3%

Source: Company data

Sales continue to rise; operating profit margin remains low
Aeon Delight secured a steady stream of new large FMS contracts, and made efforts to grow building energy management system (BEMS) sales. Sales for cumulative Q3 rose 5.3% YoY. However, operating profit fell 11.2% YoY because of a decline in gross profit margin, as mentioned above.

New services add more value to counter a decline in gross profit margin
Gross profit margin is declining for the following reasons: The company installed new computer-related equipment, a move that temporarily reduced profitability. The sales composition ratio for projects aimed at large-scale shopping malls (generally less profitable) rose. And the company has been under increasing pressure to reduce prices. The impact on earnings from the equipment installation will disappear at the end of FY02/15, while the other two factors may remain influential.

Aeon Delight will add more value by shifting emphasis from providing maintenance services for clients' existing facilities, to offering new businesses related to its existing energy management and ESCO operations. The company will also launch new services.

Adding more value to CFC operations starting in FY02/16
The company will train technicians dealing with CFC refrigerants—it now has over 400 technicians nationwide—as it looks to centralize refrigeration and air conditioning facilities management ahead of the Act for Rationalized Use and Proper Management of Fluorocarbons, scheduled for April 2015. The company plans to increase gross profit by assigning additional duties to existing employees.

In addition, the company will also expand its ESCO and energy management operations to enhance the quality of its services in areas other than facility management businesses.

Securities Services

Securities Services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3
Sales	7,898	7,909	7,966	8,032	8,438	8,367	8,481	8,956	8,935	8,891	9,305
YoY	-3.8%	-1.0%	-0.7%	0.2%	6.8%	5.8%	6.5%	11.5%	5.9%	6.3%	9.7%
Operating profit	601	669	656	766	642	700	761	762	695	717	824
YoY	-13.4%	-3.0%	-5.1%	2.4%	6.8%	4.6%	16.0%	-0.5%	8.3%	2.4%	8.3%
OPM	7.6%	8.5%	8.2%	9.5%	7.6%	8.4%	9.0%	8.5%	7.8%	8.1%	8.9%

Source: Company data

The company won new contracts for its “attender” services from multiple domestic stores. Attenders combine security and customer services, such as information on facilities. These services have been praised by clients at home and abroad, including clients in China and Vietnam.

Lower employee turnover to improve GPM; an increase in stores raises expenses
Cumulative Q3 sales rose 7.3% YoY, with operating profit increasing 6.3% YoY. Operating profit margin declined slightly, but Shared Research believes that this decline was temporary. In the past, the company did not have enough experienced employees to keep up with store expansion, and gross profit suffered as a result. Recently, the company has been reducing its employee turnover.

For FY02/15, this decrease in employee turnover led to improved profitability. However, an increase in store count meant higher expenses involving store openings. (It usually takes between one and two months to prepare for the opening of a new store.) These expenses may have pushed down the company’s operating profit margin.

Adding value with multilingual store attendants
A new Aeon mall is being planned in Okinawa. The 175,000sqm resort-style mall, with parking facilities to accommodate as many as 4,000 vehicles, will open in spring 2015. Aeon Delight will deploy store attendants to serve foreign customers in multiple languages. The company may also send such attendants to other facilities with many visitors from abroad.

Cleaning Services

Cleaning Services	FY02/13				FY02/14				FY02/15		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	10,122	10,084	10,205	10,108	10,539	10,485	10,642	10,654	10,942	10,960	11,129
YoY	1.7%	2.1%	1.8%	1.2%	4.1%	4.0%	4.3%	5.4%	3.8%	4.5%	4.6%
Operating profit	1,441	1,508	1,446	1,523	1,397	1,404	1,425	1,490	1,469	1,552	1,592
YoY	2.1%	6.1%	-3.7%	-1.6%	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	10.5%	11.7%
OPM	14.2%	15.0%	14.2%	15.1%	13.3%	13.4%	13.4%	14.0%	13.4%	14.2%	14.3%

Source: Company data

The company is standardizing and introducing a manual for its cleaning services, in a bid to gain a competitive edge and increase margins. Per its “Campaign for Ease of Work,” the company established small teams for on-site work as it focused on increasing quality and productivity. Gross profit margin also increased as the company standardized operations at directly managed cleaning centers, resulting in higher productivity. The company also shared its expertise with partner companies.

Cleaning Services: under-target cost cuts but improving GPM; may help FY02/16 earnings
Aeon Delight had planned to reduce annual expenses by about JPY500mn. As of cumulative Q3, the company was short of this target by about JPY100mn because of the delay in implementing cost-cutting measures. However, gross profit margin has been improving every quarter in this segment. Thus, profitability may continue to increase in Q4. Efforts to improve profitability in FY02/15 may benefit the company throughout FY02/16.

Construction Work

Construction Work (JPYmn)	FY02/13				FY02/14				FY02/15		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	11,081	18,884	15,767	7,339	15,888	13,929	8,254	7,559	11,858	11,133	9,366
YoY	96.4%	126.8%	121.7%	-1.3%	43.4%	-26.2%	-47.7%	3.0%	-25.4%	-20.1%	13.5%
Operating profit	461	796	450	502	851	764	474	491	741	754	678
YoY	30.6%	23.6%	-1.7%	4.4%	84.6%	-4.0%	5.3%	-2.2%	-12.9%	-1.3%	43.0%
OPM	4.2%	4.2%	2.9%	6.8%	5.4%	5.5%	5.7%	6.5%	6.2%	6.8%	7.2%

Source: Company data

LED installation projects within the Aeon Group wound down, resulting in a 15.0% fall year-on-year in segment sales for cumulative Q3. However, sales would have risen 11.3% YoY if there had not been an LED-installation decline. Still, operating profit margin improved as the number of less profitable LED projects fell, raising operating profit by 4.0% YoY.

Renovation business may become an earnings driver starting in FY02/16

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings. Sales from renovation services reached JPY3.3bn, far exceeding the company's full-year target of JPY1.5bn.

The sudden growth stems from the company receiving an increasing number of orders to renovate aging general merchandise stores nationwide. Aeon Retail is renovating its existing stores to bolster its supermarket operations; sales are increasing as a result.

Aeon Retail may continue to open more large-scale stores

Sales at Aeon Retail's 13 large-scale renovated stores rose 3.3% YoY. In contrast, average comparable store sales fell 3.8% YoY. The company wants to make store-renovation projects a regular part of its operations while expanding new outlets, so it is highly likely that it may renovate more stores in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Materials and Supplies Sourcing

Materials and Supplies Sourcing (JPYmn)	FY02/13				FY02/14				FY02/15		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	9,525	9,769	10,057	9,933	10,721	11,023	11,542	11,257	11,713	11,609	12,175
YoY	5.1%	4.5%	7.3%	11.1%	12.6%	12.8%	14.8%	13.3%	9.3%	5.3%	5.5%
Operating profit	273	320	381	488	573	636	533	591	464	490	436
YoY	6.2%	-21.8%	41.6%	63.2%	109.9%	98.8%	39.9%	21.1%	-19.0%	-23.0%	-18.2%
OPM	2.9%	3.3%	3.8%	4.9%	5.3%	5.8%	4.6%	5.3%	4.0%	4.2%	3.6%

Source: Company data

Results in this segment were robust, due to new clients and more orders from existing clients. The company continued to focus on increasing margins by revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools.

Vending Machine Services

Vending Machine Services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3
Sales	7,508	8,571	7,419	7,702	7,498	8,716	7,479	9,636	8,330	9,471	8,003
YoY	-4.0%	-2.1%	-5.9%	-1.6%	-0.1%	1.7%	0.8%	25.1%	11.1%	8.7%	7.0%
Operating profit	454	728	432	782	535	812	433	1,288	551	894	506
YoY	-8.5%	9.8%	-5.9%	9.8%	17.8%	11.5%	0.2%	64.7%	3.0%	10.1%	16.9%
OPM	6.0%	8.5%	5.8%	10.2%	7.1%	9.3%	5.8%	13.4%	6.6%	9.4%	6.3%

Source: Company data

Vending machines developed and installed in FY02/14 contributed to results. The company also installed value-added vending machines—such as those with digital displays—at major new commercial facilities, and developed private brand drinks specifically for vending machines.

Support Services

Support Services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3
Sales	2,072	2,218	3,509	3,024	2,964	3,433	3,604	3,550	3,460	3,859	3,735
YoY	23.0%	13.5%	62.4%	38.7%	43.1%	54.8%	2.7%	17.4%	16.7%	12.4%	3.6%
Operating profit	40	191	293	-20	77	323	312	117	308	369	179
YoY	-	-	33.2%	-	92.5%	69.1%	6.5%	-	300.0%	14.2%	-42.6%
OPM	1.9%	8.6%	8.3%	-0.7%	2.6%	9.4%	8.7%	3.3%	8.9%	9.6%	4.8%

Source: Company data

Subsidiaries continued to make significant contributions to growth in profits. The company focused on growing sales of Aeon Compass' events and Kajitaku's Kaji Cloud housework services, with the result that Kaji Cloud sales rose 51.2% YoY.

Kajitaku Cloud operations remain strong; investments to increase in FY02/15

Aeon Compass and Kajitaku are the main subsidiaries in this segment. For cumulative Q3, Aeon Compass posted sales that were slightly higher year-on-year, and had a double-digit increase in operating profit. Kajitaku had a double-digit increase in sales and a slight decline in operating profit.

Aeon Compass had an increase in operating profit in reaction to weak performance in Q1 FY02/14. Kajitaku had a slight decline in operating profit because it made investments in computer systems. Kajitaku appears to be struggling. However, Aeon Delight executives stated that Kajitaku would expand sales and profits in FY02/16 following the current round of investments.

Q2 FY02/15 Results (out October 3, 2014)

Sales:	JPY134.0bn	(+0.4% YoY)
Operating profit:	JPY7.7bn	(+1.7%)
Recurring profit:	JPY7.7bn	(+2.0%)
Net income:	JPY4.4bn	(+5.6%)

Results in line with estimates; record 1H profits

In FY02/13 and FY02/14, the company booked robust sales of LED installations to the Aeon Group, but sales wound down this year, leading to a year-on-year fall in sales in the Construction Work segment. However, sales were up year-on-year in all other segments, partly due to new domestic contracts and the contribution of consolidated subsidiaries in China and the ASEAN region.

Profits grew year-on-year as initiatives to improve productivity and efficiency bore fruit. Sales in 1H have now grown year-on-year for four years in a row, while 1H profits have increased year-on-year for five years in a row. This year the company booked its highest 1H profits to date.

Q2 FY02/15 earnings details

Sales growth in Asia

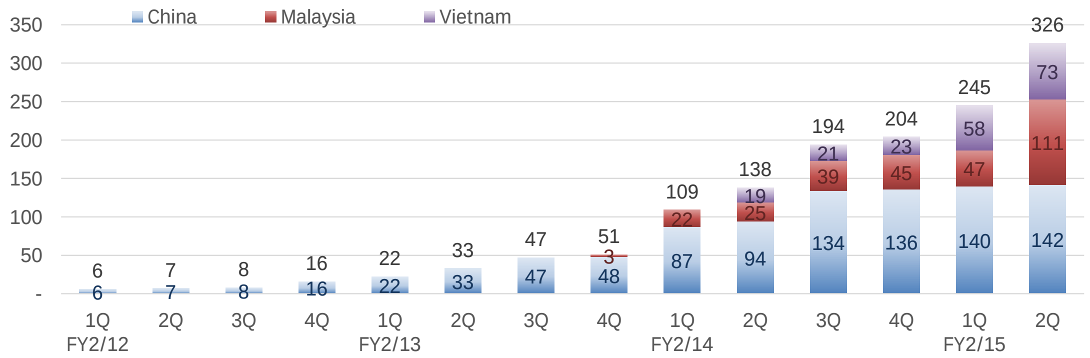
Subsidiaries in China, Malaysia, and Vietnam continued to acquire additional clients, and sales for 1H FY02/15 were up by a factor of 1.9 year-on-year, to JPY3.0bn. Although approximately 90% of this figure is accounted for by the company's subsidiary in China, sales in Malaysia and Vietnam are steadily increasing.

The number of facilities under management as of the end of 1H FY02/15 was 142 in China, 111 in Malaysia, and 73 in Vietnam. Growth was particularly significant in Malaysia, where Aeon Delight installed energy-saving facility management equipment for a major shopping center chain. For comparison, the number of facilities managed in Malaysia was 45 at end FY02/14 and 47 at end Q1 FY02/15.

The composition of facilities under management in Asia that are not affiliated with the Aeon Group reached over 70%, demonstrating progress in diversifying the company's client base. On a sales basis for Asian subsidiaries, over half of sales are toward Aeon Group companies.

With a proven track record providing facilities management services to clients within the Aeon Group, the company has been able to expand its offerings to clients outside of the group. During 1H FY02/15, Aeon Delight received requests from Japanese department stores looking to expand into new regions, including Japan, based on its success in providing services to the same companies overseas. The company does not expect these transactions to have an immediate effect on its results.

Overseas facilities under management (number of facilities)



Source: Company data

Large-scale projects outside of the Aeon Group

The company is aiming to increase the amount of its sales to clients outside of the Aeon Group from 31% in FY02/14 to 35% in FY02/17. Progress appeared to be steady in 1H, with Aeon Delight acquiring a contract to manage facilities at the Fukuoka Anpanman Childrens' Museum.

The company attributes such success to the following three factors: First, it has gained experience in dealing with management of large-scale facilities due to past contracts with companies in the Aeon Group.

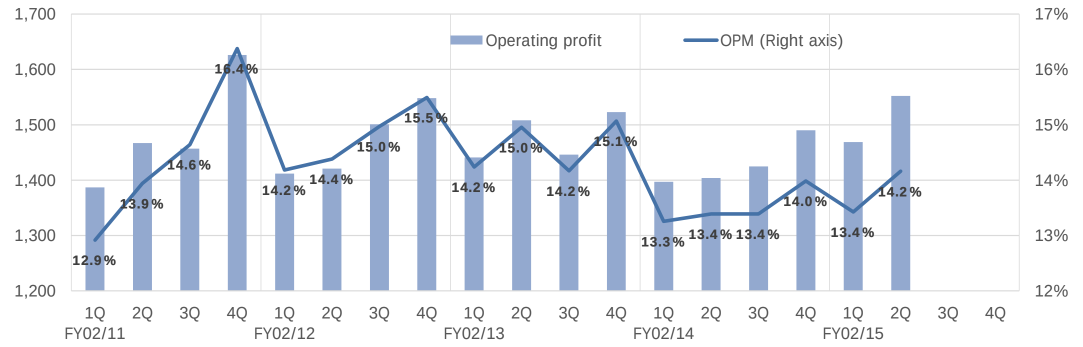
Second, it can readily operate in any domestic region, and has experience attracting employees. Third, it has modified its organizational structure to have specialized sales departments for individual clients, areas, and facilities. According to the company, clients are placing increasing value on the ability of facilities managers to deliver uniform service regardless of location, and Aeon Delight's ability to accommodate such demands is leading to rising interest from prospective clients.

Within the Aeon Group, the company deepened ties with existing clients, and worked to broaden its revenue base. However, its operating profit margin saw declines as costs for raw materials increased, and Aeon Delight made forward investments in new, energy-related businesses. To increase efficiency, the company is reorganizing its personnel structure to shift from one in which employees are assigned a specific facility to a model where employees are tasked with management of a broader geographical area.

Progress made in standardizing the cleaning business

To improve profitability in the cleaning business, the company is standardizing operating procedures. Specifically, Aeon Delight is aiming to reduce working hours by 10% as part of efforts to reduce personnel expenses, which comprise a significant portion of its overall SG&A expenses. As a result, gross profit margin has improved year-on-year and quarter-on-quarter. However, as there are still large discrepancies in GPM between directly managed stores, the company will work to close these gaps during 2H FY02/15.

Operating profit and OPM in the cleaning business (JPYmn)



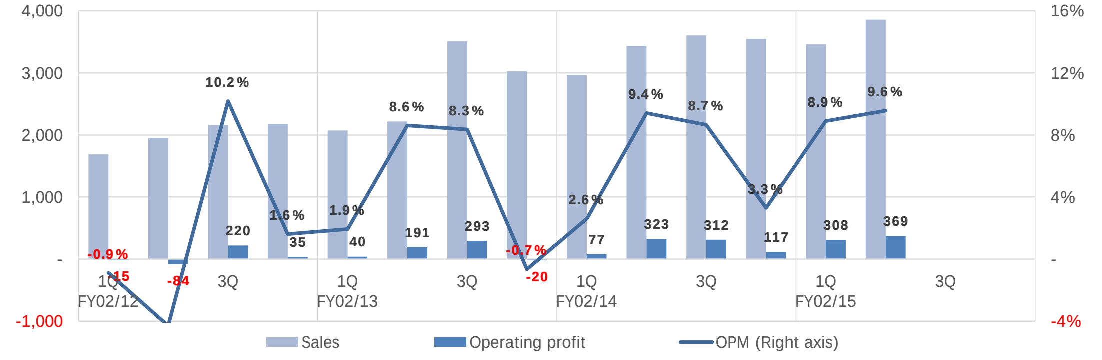
Source: Company data

Growth in the support business

Operating profit in the support business was up significantly, from JPY400mn (OPM of 6.3%) in Q2 FY02/14 to JPY677mn (9.2%) in Q2 FY02/15. Significant growth in subsidiaries Kajitaku and Aeon Compass were primary contributors.

Sales were robust at electronics retailers for Kajitaku's Kaji Cloud packaged housework services, in addition to growth in its existing service lineup. Aeon Compass also saw robust sales in overseas inspection tours for retail businesses and vacation packages for senior citizens.

Sales in the support business (JPYmn)



Source: Company data

Initiatives for 2H

In an effort to seek further growth, Aeon Delight plans to implement the following initiatives during 2H FY02/15:

1. Secure new contracts with large-scale facilities;
2. Promote growth in domestic and foreign affiliates;
3. Provide services to new Aeon stores and increase market share within the Aeon Group;
4. Further improve profitability;
5. Standardize operations in the cleaning business and reduce raw materials costs.

<u>Secure new contracts with large-scale facilities</u>

The company will continue with sales efforts targeting large-scale facilities, and focus on sales in energy solutions.

<u>Growth in domestic and foreign affiliates</u>

Aeon Delight will aim to further expand its FMS offerings via foreign subsidiaries in China and ASEAN countries to capture new clients and raise the level of service to existing customers. Growth in domestic subsidiaries such as Aeon Compass and Kajitaku will also be priorities.

<u>Increase market share within the Aeon Group</u>

Openings of four large-scale Aeon Group shopping centers and an Aeon Town are scheduled to take place during 2H FY02/15. The company hopes to provide comprehensive FMS services to these new stores.

For reference, Aeon Mall Co., Ltd. (TSE1: 8905) is scheduled to open new stores in Okayama, Kyoto, Chiba, and Tokyo, and plans to open seven new stores during FY02/15. However, for FY02/16, Aeon Mall has revised its store opening plans downward, from ten to five stores. Plans for FY02/17 remain unchanged, with nine store openings.

<u>Other initiatives</u>

In the FMS business, the company plans to provide comprehensive management services for furniture and refrigeration units in stores. In materials and supplies sourcing, Aeon Delight will deepen ties with existing clients, and the company also has plans to expand its offerings for vending machines with digital signage in the vending machine business.

Digital signage vending machine

Source: Company data

Market environment

Uncertainty remained as costs rose, including labor costs and imported materials costs. But according to the company, labor shortages in many industries have resulted in growing demand for facilities management companies with strong human resources. Companies are also increasingly seeking out comprehensive facilities management services (FMS) in order to cut costs, resulting in growing demand for Aeon Delight's services.

Facilities Management

Facilities management	FY02/13				FY02/14				FY02/15	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	10,371	10,753	10,646	10,280	10,622	10,848	11,198	10,790	11,228	11,642
YoY	-2.0%	0.4%	1.0%	-0.3%	2.4%	0.9%	5.2%	5.0%	5.7%	7.3%
Operating profit	1,105	1,220	1,080	1,256	1,151	1,266	1,188	1,120	1,029	1,098
YoY	-16.0%	-8.8%	-15.2%	8.7%	4.2%	3.8%	10.0%	-10.8%	-10.6%	-13.3%
OPM	10.7%	11.3%	10.1%	12.2%	10.8%	11.7%	10.6%	10.4%	9.2%	9.4%

Source: Company data

Steady acquisition of new contracts

Aeon Delight secured new FMS contracts, and continued developing its energy-saving comprehensive facilities management business.

The company's energy-saving service was popular with clients. In this service the company analyzes energy usage and offers the most appropriate operations for each facility. The company also expanded sales of energy-saving equipment, particularly building energy management system (BEMS) machinery. The company won a number of contracts for inspection and maintenance work on solar power systems.

Lower GPM and OPM a concern

Operating profit and operating profit margin were down year-on-year, due to rising procurement costs, a rise in the number of new large-scale clients, and expenses associated with transitioning from Windows XP-based systems. Although the company is working to improve productivity by shifting personnel from specific facilities to broader, regional roles, forward investment in new energy-related businesses remains a priority, and this is also affecting margins.

Securities Services

Securities services (JPYmn)	FY02/13 Q1	FY02/13 Q2	FY02/13 Q3	FY02/13 Q4	FY02/14 Q1	FY02/14 Q2	FY02/14 Q3	FY02/14 Q4	FY02/15 Q1	FY02/15 Q2
Sales	7,898	7,909	7,966	8,032	8,438	8,367	8,481	8,956	8,935	8,891
YoY	-3.8%	-1.0%	-0.7%	0.2%	6.8%	5.8%	6.5%	11.5%	5.9%	6.3%
Operating profit	601	669	656	766	642	700	761	762	695	717
YoY	-13.4%	-3.0%	-5.1%	2.4%	6.8%	4.6%	16.0%	-0.5%	8.3%	2.4%
OPM	7.6%	8.5%	8.2%	9.5%	7.6%	8.4%	9.0%	8.5%	7.8%	8.1%

Source: Company data

The company secured new contracts and introduced its services in many commercial facilities. This was the result of proposals aimed at selling “attender” services, in contrast to regular security guards. Attender services offer a combination of security and interaction with customers, such as information services. The company is also selling these services in China and Vietnam, and they have been praised by both domestic and overseas clients for their effect on increasing quality and preventing crime.

Cleaning Services

Cleaning services (JPYmn)	FY02/13 Q1	FY02/13 Q2	FY02/13 Q3	FY02/13 Q4	FY02/14 Q1	FY02/14 Q2	FY02/14 Q3	FY02/14 Q4	FY02/15 Q1	FY02/15 Q2
Sales	10,122	10,084	10,205	10,108	10,539	10,485	10,642	10,654	10,942	10,960
YoY	1.7%	2.1%	1.8%	1.2%	4.1%	4.0%	4.3%	5.4%	3.8%	4.5%
Operating profit	1,441	1,508	1,446	1,523	1,397	1,404	1,425	1,490	1,469	1,552
YoY	2.1%	6.1%	-3.7%	-1.6%	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	10.5%
OPM	14.2%	15.0%	14.2%	15.1%	13.3%	13.4%	13.4%	14.0%	13.4%	14.2%

Source: Company data

Progress in standardizing procedures

In March 2014, Aeon Delight established the cleaning services improvement department and began standardizing cleaning services in order to increase productivity. The company aims to reduce hours worked by 10% to reduce personnel expenses, one of the largest contributors to CoGS. According to the company, productivity has increased significantly with the formation of a special team designed to increase quality and make cleaning services more efficient.

Improvement in GPM

As a result of procedures mentioned above, in Q2 FY02/15 gross profit margin improved both year-on-year and quarter-on-quarter. However, there remain significant gaps in profitability among the company’s directly managed stores, and Aeon Delight hopes to make improvements during 2H FY02/15. The company has also begun operating in small teams tailored to the characteristics of each facility in order to further increase efficiency.

The company worked to make its original coating agent longer-lasting. This coating agent removes the need to remove older wax coatings. The company also tested its self-operating floor cleaning robots.

Providing services to medical facilities

The company focused on building a model for managing hygiene at hospitals, including air purification and reducing or eliminating bacteria. For example, the company collected baseline data for a system of distributing materials separately to different cleaning areas zones based on the level of cleanliness, in order to prevent cross contamination.

Construction Work

Construction work (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2
Sales	11,081	18,884	15,767	7,339	15,888	13,929	8,254	7,559	11,858	11,133
YoY	96.4%	126.8%	121.7%	-1.3%	43.4%	-26.2%	-47.7%	3.0%	-25.4%	-20.1%
Operating profit	461	796	450	502	851	764	474	491	741	754
YoY	30.6%	23.6%	-1.7%	4.4%	84.6%	-4.0%	5.3%	-2.2%	-12.9%	-1.3%
OPM	4.2%	4.2%	2.9%	6.8%	5.4%	5.5%	5.7%	6.5%	6.2%	6.8%

Source: Company data

Sales fell significantly year-on-year as a result of the completion of LED installation projects within the Aeon group, which had been ongoing for the past two years. But orders increased for maintenance and renovation work on older buildings due to ongoing efforts to submit proposals.

Materials and Supplies Sourcing

Materials and supplies sourcing (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2
Sales	9,525	9,769	10,057	9,933	10,721	11,023	11,542	11,257	11,713	11,609
YoY	5.1%	4.5%	7.3%	11.1%	12.6%	12.8%	14.8%	13.3%	9.3%	5.3%
Operating profit	273	320	381	488	573	636	533	591	464	490
YoY	6.2%	-21.8%	41.6%	63.2%	109.9%	98.8%	39.9%	21.1%	-19.0%	-23.0%
OPM	2.9%	3.3%	3.8%	4.9%	5.3%	5.8%	4.6%	5.3%	4.0%	4.2%

Source: Company data

The number of transactions grew due to new contracts and new stores at existing clients. The company also improved margins by cutting inventories with more accurate demand forecasting, cutting procurement costs for materials with electronic negotiation tools, and cutting logistics costs.

Vending machine services

Vending machine services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2
Sales	7,508	8,571	7,419	7,702	7,498	8,716	7,479	9,636	8,330	9,471
YoY	-4.0%	-2.1%	-5.9%	-1.6%	-0.1%	1.7%	0.8%	25.1%	11.1%	8.7%
Operating profit	454	728	432	782	535	812	433	1,288	551	894
YoY	-8.5%	9.8%	-5.9%	9.8%	17.8%	11.5%	0.2%	64.7%	3.0%	10.1%
OPM	6.0%	8.5%	5.8%	10.2%	7.1%	9.3%	5.8%	13.4%	6.6%	9.4%

Source: Company data

Vending machines installed in FY02/14 contributed to sales. The company also pressed ahead with efforts to bolster sales, including added-value vending machines such as those that accept e-money, and developing private brand (PB) drinks specifically for vending machines.

Support services

Support services (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2
Sales	2,072	2,218	3,509	3,024	2,964	3,433	3,604	3,550	3,460	3,859
YoY	23.0%	13.5%	62.4%	38.7%	43.1%	54.8%	2.7%	17.4%	16.7%	12.4%
Operating profit	40	191	293	-20	77	323	312	117	308	369
YoY	-	-	33.2%	-	92.5%	69.1%	6.5%	-	300.0%	14.2%
OPM	1.9%	8.6%	8.3%	-0.7%	2.6%	9.4%	8.7%	3.3%	8.9%	9.6%

Source: Company data

Operating profit in the support business was up significantly, from JPY400mn (OPM of 6.3%) in Q2 FY02/14 to JPY677mn (9.2%) in Q2 FY02/15. Significant growth in subsidiaries Kajitaku and Aeon Compass were primary contributors.

Sales were robust at electronics retailers for Kajitaku's Kaji Cloud packaged housework services, in addition to growth in its existing service lineup. Aeon Compass also saw strong sales in overseas inspection tours for retail businesses and vacation packages for senior citizens.

Q1 FY02/15 Results (out July 2, 2014)

Key points for Q1 FY02/15

Spread of comprehensive FMS
Although results were affected by a rush in demand prior to the consumption tax hike and a pullback afterward, demand for comprehensive facility management services (FMS) proved to be a stabilizing factor, and results were in line with forecasts.

Decrease of 0.4% YoY in sales primarily caused by completion of LED projects
Sales were down 0.4% YoY primarily as a result of LED installations at Aeon Group locations reaching completion in the Construction Work segment. However, other segments showed YoY growth, and operations other than LED installations in the Construction Work segment also had higher sales.

Record quarterly profit through improving productivity and cost controls
Through continued advances in productivity throughout the organization and appropriate cost controls, operating profit was at a record level on a quarterly basis.

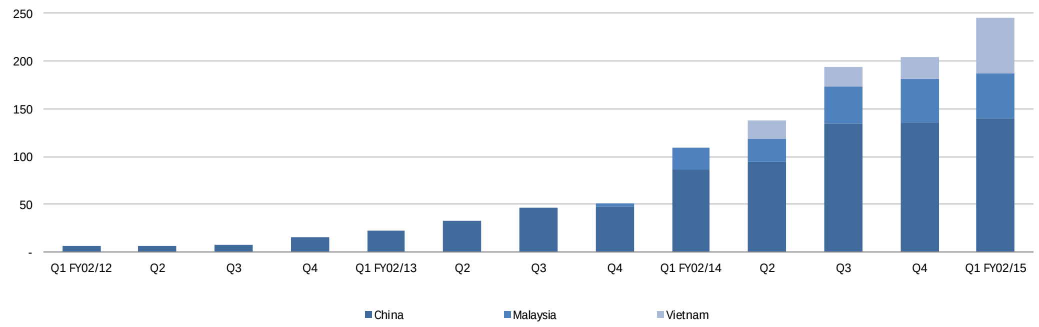
Structural reforms to achieve medium term plan results are scheduled to be complete by Q2
A new organizational structure will be in place to begin operation from 2H FY02/15 onward. The company will pay particular attention to strengthening sales activities for solutions to revitalize aging buildings. Aeon Delight has also established an energy conservation system headquarters to concentrate on sales outside of the Aeon group.

Comprehensive FMS in Asia

In order to accelerate growth for comprehensive FMS in Asia, the company established networks in various regions throughout Asia, gained knowledge in quality assurance, and made progress on green technologies. The number of projects in China expanded to 140, Malaysia to 47, and Vietnam to 58.

Many of the 58 projects in Vietnam are small, irregular projects, and contribution to earnings is limited. However, past results show that irregular projects often lead to recurring business.

Number of projects overseas



Source: Company data

Facilities management

Facilities management (JPYmn)	FY02/13 Q1	Q2	Q3	Q4	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2
Sales	10,371	10,753	10,646	10,280	10,622	10,848	11,198	10,790	11,228	
YoY	-2.0%	0.4%	1.0%	-0.3%	2.4%	0.9%	5.2%	5.0%	5.7%	
Operating profit	1,105	1,220	1,080	1,256	1,151	1,266	1,188	1,120	1,029	
YoY	-16.0%	-8.8%	-15.2%	8.7%	4.2%	3.8%	10.0%	-10.8%	-10.6%	
OPM	10.7%	11.3%	10.1%	12.2%	10.8%	11.7%	10.6%	10.4%	9.2%	

Source: Company data

New store openings in major shopping centers and higher sales of BEMS machinery

In addition to contracts for new openings of major shopping centers, sales of building energy management system (BEMS) machinery were up. Aeon Delight also focused on sales of energy-saving materials after analysis of BEMS data in existing installations. As a result, BEMS received high marks for its energy savings from clients where it had been installed on an experimental basis. On a nationwide level, it is notable that the Aeon Delight was successful in acquiring BEMS contracts for clients that had previously contracted with a competitor. Earnings from BEMS systems are limited, coming mostly from machinery sales and consultant fees. However, they help build long term relationships with clients.

Improved energy solutions sales structure to come into effect in 2H

Aeon Delight is building ESCO (Energy Service Company), a combined facilities management service, to bolster the energy solutions business. The company aims to grow earnings, including equipment leasing fees, by promoting ESCO for facilities upgrades at commercial facilities.

In Q2, Aeon Delight completed an overhaul of its organization in preparation for the midterm plan. The new structure will come into full effect in 2H. Improvements to the solutions business are aimed at capturing demand for upgrades to outdated commercial facilities, including energy-saving construction. The company plans to create an energy-saving systems department to increase sales to outside the group. Shared Research thinks progress in the solutions business may affect earnings.

OPM down as contracts up from major shopping centers and Windows XP expenses increase

Sales were up, but operating profit was down. OPM was down 1.6pp YoY, from 10.8% to 9.2%.

There are upfront costs before opening on new orders for commercial facilities. Contracts for major shopping centers tend to result in lower margins, as profitability may be lower than small and midsize ones. It appears half the fall in OPM was due to an increase in contracts for major shopping centers, and half was due to upgrade costs for PCs as support for Windows XP ended. The company has not disclosed figures, but it appears GPM outperformed initial targets for Q1. The targets anticipate GPM improving each quarter from Q1 through Q3.

Securities services

Securities services	FY02/13				FY02/14				FY02/15	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	7,898	7,909	7,966	8,032	8,438	8,367	8,481	8,956	8,935	
YoY	-3.8%	-1.0%	-0.7%	0.2%	6.8%	5.8%	6.5%	11.5%	5.9%	
Operating profit	601	669	656	766	642	700	761	762	695	
YoY	-13.4%	-3.0%	-5.1%	2.4%	6.8%	4.6%	16.0%	-0.5%	8.3%	
OPM	7.6%	8.5%	8.2%	9.5%	7.6%	8.4%	9.0%	8.5%	7.8%	

Source: Company data

In addition to new contracts, “attender” services that involve female security guards also acting as information providers were also an area of focus for the company’s sales. The service has also been introduced in China and Vietnam. It has been praised by clients within Japan and overseas for its ability to increase both customer service quality and security of facilities. But the service’s share of total sales remains small, despite higher added-value than regular services. Aeon Delight aims to use the service to gain a competitive edge and drive up sales across the securities services segment.

Cleaning services

Cleaning services	FY02/13				FY02/14				FY02/15	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	10,122	10,084	10,205	10,108	10,539	10,485	10,642	10,654	10,942	
YoY	1.7%	2.1%	1.8%	1.2%	4.1%	4.0%	4.3%	5.4%	3.8%	
Operating profit	1,441	1,508	1,446	1,523	1,397	1,404	1,425	1,490	1,469	
YoY	2.1%	6.1%	-3.7%	-1.6%	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	
OPM	14.2%	15.0%	14.2%	15.1%	13.3%	13.4%	13.4%	14.0%	13.4%	

Source: Company data

New department and a standardized model for more productive cleaning services

In March 2014, Aeon Delight established the cleaning services improvement department. The new department is tasked with analysis of expended man hours and process methods. In Q1, the company implemented a system of assigning area managers to specific regions across Japan to increase quality and standardize efficient cleaning methods for directly managed centers.

Issues remain, but some directly managed stores have achieved gross margins over 10pp above the average. As of June, the company is only halfway toward targets, but it is working to resolve issues from Q2 onward. In order to cut the time spent on such issues, the company plans to implement the standardized model at contractors concurrently, while also working to improve it.

Aeon Delight anticipates higher GPM from Q3. But it appears GPM was up in Q1, outperforming the target; OPM was also up 0.1pp YoY.

Creating a hygiene management model for hospitals and elsewhere

Additionally, at medical facilities such as hospitals, cleaning areas are categorized according to the level of cleanliness, and differing supplies are used depending upon the zone. This is to prevent cross contamination and to provide baseline data for a hygiene management system. The above measures were all part of the company's efforts to create a hygienic model to reduce or eliminate bacteria, and provide a clean environment.

Construction work

Construction work	FY02/13				FY02/14				FY02/15	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	11,081	18,884	15,767	7,339	15,888	13,929	8,254	7,559	11,858	
YoY	96.4%	126.8%	121.7%	-1.3%	43.4%	-26.2%	-47.7%	3.0%	-25.4%	
Operating profit	461	796	450	502	851	764	474	491	741	
YoY	30.6%	23.6%	-1.7%	4.4%	84.6%	-4.0%	5.3%	-2.2%	-12.9%	
OPM	4.2%	4.2%	2.9%	6.8%	5.4%	5.5%	5.7%	6.5%	6.2%	

Source: Company data

Sales fell significantly as a result of the completion of LED installation projects within the Aeon group, which had been ongoing for the past two years. Construction work that was unrelated to LED installations was robust, such as renovation work on older buildings, and updates to heat sources for central ventilation systems, and these unrelated activities demonstrated YoY sales gains. Renovation sales were particularly robust.

OPM improved as sales fell, mainly because margins are low on LED related projects.

Materials and supplies sourcing

Materials and supplies sourcing	FY02/13				FY02/14				FY02/15	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales	9,525	9,769	10,057	9,933	10,721	11,023	11,542	11,257	11,713	
YoY	5.1%	4.5%	7.3%	11.1%	12.6%	12.8%	14.8%	13.3%	9.3%	
Operating profit	273	320	381	488	573	636	533	591	464	
YoY	6.2%	-21.8%	41.6%	63.2%	109.9%	98.8%	39.9%	21.1%	-19.0%	
OPM	2.9%	3.3%	3.8%	4.9%	5.3%	5.8%	4.6%	5.3%	4.0%	

Source: Company data

Aeon Delight grew sales as a purchasing agent for many clients, mainly retailers focused on central Japan and Shikoku, and nationwide amusement facility operators. The company also worked to improve margins by using electronic negotiation tools to cut procurement and logistics expenses for equipment and materials.

Although sales were up, operating profit fell. This was mainly because low margin sales of food packaging materials were up, changing the composition of sales by product.

Vending machine services

Vending machine services (JPYmn)	FY02/13 Q1	FY02/13 Q2	FY02/13 Q3	FY02/13 Q4	FY02/14 Q1	FY02/14 Q2	FY02/14 Q3	FY02/14 Q4	FY02/15 Q1	FY02/15 Q2
Sales	7,508	8,571	7,419	7,702	7,498	8,716	7,479	9,636	8,330	
YoY	-4.0%	-2.1%	-5.9%	-1.6%	-0.1%	1.7%	0.8%	25.1%	11.1%	
Operating profit	454	728	432	782	535	812	433	1,288	551	
YoY	-8.5%	9.8%	-5.9%	9.8%	17.8%	11.5%	0.2%	64.7%	3.0%	
OPM	6.0%	8.5%	5.8%	10.2%	7.1%	9.3%	5.8%	13.4%	6.6%	

Source: Company data

Vending machines installed in FY02/14 contributed to sales. Efforts to bolster sales also had an effect, including added-value vending machines such as those that accept e-money, and the development of private brand (PB) drinks specifically for vending machines.

Sales increased significantly, although this was partly due to sales to Daiei, Inc., now a member of the Aeon group. OPM was down due to the consumption tax hike.

Support services

Support services (JPYmn)	FY02/13 Q1	FY02/13 Q2	FY02/13 Q3	FY02/13 Q4	FY02/14 Q1	FY02/14 Q2	FY02/14 Q3	FY02/14 Q4	FY02/15 Q1	FY02/15 Q2
Sales	2,072	2,218	3,509	3,024	2,964	3,433	3,604	3,550	3,460	
YoY	23.0%	13.5%	62.4%	38.7%	43.1%	54.8%	2.7%	17.4%	16.7%	
Operating profit	40	191	293	-20	77	323	312	117	308	
YoY	-	-	33.2%	-	92.5%	69.1%	6.5%	-	300.0%	
OPM	1.9%	8.6%	8.3%	-0.7%	2.6%	9.4%	8.7%	3.3%	8.9%	

Source: Company data

Mail order event sales were robust, owing to the development and sale of planned travel (group tours round Japan and the like) for senior citizens at Aeon Compass Co., Ltd. At Kajitaku Co., Ltd., the number of Kaji Cloud housework services packages sold was up by 2.5x, contributing to higher sales and margins in the support services segment as a whole.

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

Full-year (FY02/15) outlook

FY02/16 Forecasts (JPYmn)	FY02/14 1H Act.	2H Act.	FY Act.	FY02/14 1H Act.	2H Act.	FY Act.	FY02/16 1H Est.	2H Est.	FY Est.
Sales	**133,552**	**123,691**	**257,243**	**134,049**	**132,656**	**266,705**	**138,000**	**142,000**	**280,000**
YoY	5.3%	1.3%	3.4%	0.4%	7.2%	3.7%	2.9%	7.0%	5.0%
CoGS	116,570	106,958	223,528	116,771	114,817	231,588	-	-	-
Gross Profit	**16,981**	**16,733**	**33,714**	**17,278**	**17,839**	**35,117**	**-**	**-**	**-**
YoY	13.3%	9.8%	11.5%	1.7%	6.6%	4.2%	-	-	-
GPM	12.7%	13.5%	13.1%	12.9%	13.4%	13.2%	-	-	-
SG&A	9,406	9,193	18,599	9,575	-	19,256	-	-	-
SG&A / Sales	7.0%	7.4%	7.2%	7.1%	-	7.2%	-	-	-
Operating Profit	**7,575**	**7,540**	**15,115**	**7,702**	**8,159**	**15,861**	**8,000**	**9,000**	**17,000**
YoY	6.5%	11.1%	8.7%	1.7%	8.2%	4.9%	3.9%	10.3%	7.2%
OPM	5.7%	6.1%	5.9%	5.7%	6.2%	5.9%	5.8%	6.3%	6.1%
Recurring Profit	**7,571**	**7,521**	**15,092**	**7,725**	**8,218**	**15,943**	**8,000**	**9,000**	**17,000**
YoY	6.3%	11.1%	8.6%	2.0%	9.3%	5.6%	3.6%	9.5%	6.6%
RPM	5.7%	6.1%	5.9%	5.8%	6.2%	6.0%	5.8%	6.3%	6.1%
Net Income	**4,147**	**4,014**	**8,161**	**4,380**	**4,345**	**8,725**	**4,500**	**4,900**	**9,400**
YoY	5.1%	12.6%	8.7%	5.6%	8.2%	6.9%	2.7%	12.8%	7.7%

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

Comments on FY03/16 forecasts will be updated following interviews with management.

FY02/15 marks the first year of a new medium-term plan. Targets for the plan are sales of JPY270.0bn (up 5% compared to FY02/14) and operating profit of JPY16.0bn (up 5.9%).

Based on Q3 earnings, it appeared that the company may miss its full-year operating profit target. (For details, see the section for Q3 FY02/15.) The comments that follow are based on initial forecasts.

Plan incorporates uncertainty over the consumption tax hike and increases in labor costs

Although the average growth in sales is 8.7% per year for the three years covered by the medium term plan, the goal for the first year will be a 5% rise. The company is remaining cautious, citing uncertainty over the effect that the April consumption tax increase will have on consumer spending and overall sales, and effects of rising labor costs on profits.

Three main policies will be the focal points for FY02/15:

1. Reforming operational structure in Japan and Asia;
2. Establishing a combined cleaning services and facilities management ESCO business;
3. Strengthening management foundations.

The first two points are detailed below.

Reforming operational structure

As described in the medium term plan, thorough implementation of the solutions business will cause the operational structure will undergo reform to transition from a product out model to a market in model. The company is currently aiming to implement a structure which categorizes operations by customer and industry, and also created a new division which aims to acquire customers from the medical and nursing facilities sector, areas that Aeon Delight view with increasing importance. Plans are also underway to continue development of existing IT systems to create databases via IT investment, with the intent of increasing monitoring capacity for customers and industries.

Establishing a combined cleaning services and facilities management ESCO business

The cleaning services and facilities management businesses are both areas in which the company has determined to place additional corporate resources, as stated in its medium term plan. Concerning the cleaning services business, a standardized cleaning model will be established in FY02/15, the first year of the plan, and Aeon Delight will aim to improve profitability by using this standardized model at both its directly operated stores and outsourcing partners.

In FY02/14, the company established a separate department tasked with making improvements to the cleaning services business. Five domestic area managers will lead a process to improve operational efficiency at the company's 93 directly operated stores. Aeon Delight will first assemble a standardized cleaning model at its directly operated stores, and beginning in August FY02/15, move to implement this model across its outsourcing partners, which compose approximately 80 to 90 percent of its cleaning services business.

The company is aiming for these initiatives to have the following effects during FY02/15: a JPY300mn improvement at directly operated stores for the nine months beginning in June, and a JPY200mn improvement at its outsourcing partners for the seven months beginning in August, for a total of JPY500mn. Over 30,000 persons are involved in the cleaning services business, and there is currently a large discrepancy in profitability between different directly operated stores and outsourcing partners. As part of its medium term plan, Aeon Delight is targeting a 25% improvement in efficiency to create a leaner, more profitable operational structure at directly operated stores and outsourcing partners with low profitability.

Concerning the ESCO business, BEMS facilities will be installed at all MaxValu retail locations of the Aeon Group during FY02/15, and energy management is planned to commence in May 2014.

Outlook

In April 2014, Aeon Delight announced a new medium term plan, with FY02/17 as the final year. Targets for FY02/17 include sales of JPY330.0bn or more, operating profit of JPY21.0bn or more, and an operating profit margin of 6.4% or greater. The company aims to reduce its reliance on the Aeon Group and expand its overseas reach, setting sales composition targets of 35% and 10% for the two respective categories. In light of recent employment trends, personnel expenses are expected to rise 2% per year.

The framework for the medium term plan involves:
1. Establishing comprehensive FMS (Creating competitive advantages);
2. Creating inroads into the Asian market;
3. Establishing a foundation for business.

In order to secure prospects for growth in the medium to long term, the company views its cleaning services and energy solutions businesses as growth drivers. Aeon Delight will allocate significant amounts of management resources to these areas.

The company may revise its medium-term management plan

The company may revise its FY02/16 medium-term management plan because of concerns that it will miss its FY02/15 operating profit target. If revised, the new plan may have targets that can easily be achieved in preparation for the next medium-term plan that will likely call for more challenging goals.

(For details regarding expected FY02/16 earnings for each segment based on Q3 FY02/15 results, see the section on Q3 FY02/15 Results.)

The comments that follow were written using the company's view of its initial medium-term plan:
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The company's views on increasing sales by JPY73.0bn in FY02/14

M&A not included

The new medium term plan calls for an over JPY73.0 increase in sales compared to FY02/14. Approximately one-third of the JPY100.0bn sales increase in the previous medium term plan was composed of M&A activity. However, the new plan does not include any M&A, and instead is focused on digging deeper into existing revenue sources.

Domestic Aeon Group: 1/3; Overseas: 1/3; Domestic, excluding Aeon Group: 1/3

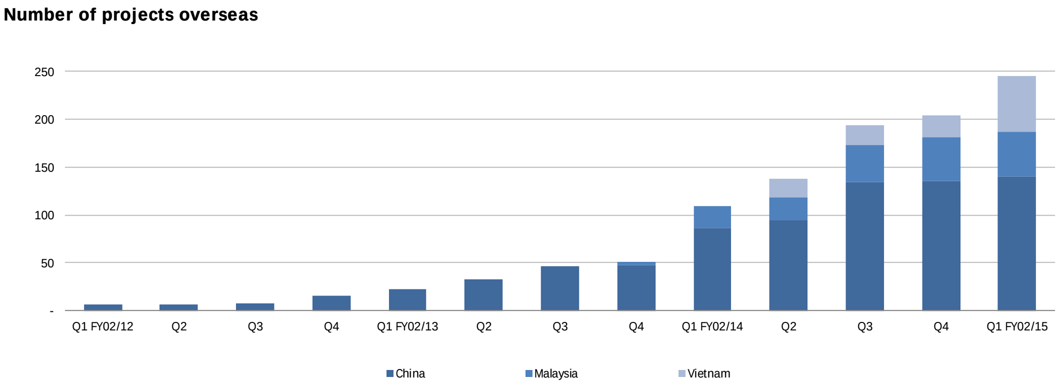
Although specific figures have not been disclosed, Aeon Delight expects approximately 1/3 of the increase in sales to come from sales toward the domestic Aeon Group, 1/3 to come from overseas (including overseas Aeon Group companies), and the remaining 1/3 to come from domestic sales, excluding Aeon Group companies.

Sales toward domestic Aeon Group companies

Aeon Delight believes that there is about JPY50.0bn of potential for contracts with domestic Aeon Group companies. In order to acquire these contracts, the company is in the process of an organizational restructuring, which includes forming a special sales department that will specifically target the Aeon Group. Sales were concentrated primarily on large group companies in the past, and other medium and small sized companies were not given adequate amounts of attention. Aeon Delight hopes to capitalize on these previously untapped group companies.

Higher overseas sales: aiming to be Asia's number one company

Number of overseas facilities contracts acquired



Source: Company data

In the Asian market, the company has established a presence in China and ASEAN nations, and is seeking JPY30.0bn in sales from these areas by FY02/17. The above areas accounted for about 2% of sales in FY02/14. The number of facilities sourced to Aeon Delight were: China, 136; Malaysia, 45; Vietnam, 23. China is the dominant contributor to sales at this time, but the company plans to increase sales by at least JPY10.0bn each in both China and the collective ASEAN nations.

Although competition is heating up in emerging markets with overseas companies ISS (CPH:ISS) and SODEXO (EPA:SW), consistent population expansion in urban centers is allowing the Aeon Group to maintain its momentum in shifting focus to Asia.

Aeon Group plans investment of JPY400.0bn over three years ending in FY02/17

The Aeon Group plans to invest JPY400.0bn over the three years ending in FY02/17 to open large-scale shopping centers (SCs) in Asian countries such as China, Vietnam, and Indonesia. Aeon Delight is aiming to capture opportunities for its comprehensive FMS business, and believes that the Aeon Group's investments will provide further opportunities for overseas sales growth.

Establishing a federalized management structure in China and a comprehensive FMS menu in the ASEAN region

During the previous medium term plan, the company strengthened its business fundamentals through acquisitions of promising local firms in China and the ASEAN nations. Two focal points of the new medium term plan are establishing a federalized management structure in China, and a comprehensive FMS menu in the ASEAN region.

Under the medium term plan, Aeon Delight will continue to press forward with its strategy of acquiring promising local firms. In addition to current acquisitions in Beijing, Tianjin, Jiangsu, Hubei, and

Guangdong, preparations are underway to expand into Shandong. Since the 2007 establishment of a local office in Beijing, the company has expanded its business through M&A and partnerships with major players in local markets, and the company is moving to further solidify this strategy.

Expansion in China will revolve around the company differentiating itself via strengths in areas such as the ESCO business and elevator business. China is the world's largest market for elevators, and the company is prepped to make inroads thanks to its acquisition of one of the largest elevator manufacturers in Jiangsu.

As a percentage of sales, the company's sales activities in the ASEAN region still represent only a small amount. Although the medium term plan includes sales to Aeon Group companies, the company forecasts an increase in sales for the collective countries on par with the forecasted sales increase in China. Specifically, Aeon Delight will aim to become the market leader in the three businesses of cleaning services, vending machines, and energy conservation in Malaysia. In Vietnam, the company will enhance its services lineup and bolster its sales activities to both Japanese and foreign firms. Plans are also in place for expansion into Cambodia, Singapore, and Indonesia.

Domestic sales excluding the Aeon Group: 35% of sales to outside of the Aeon Group by FY02/17

As of FY02/14, the percentage of sales that occurs outside of the Aeon Group was 31%. Aeon Delight aims to raise this figure to 35% by the end of FY02/17, and to 40% over the long term. Players in the comprehensive FMT market outside of the Aeon Group have not solidified, and there remains room for the company to enter the market with its unique expertise. Aeon Delight will continue to expand its reach in acquiring new contracts with hotels and hospitals, much as it did in FY02/14.

The company is working to prevent employees from becoming overly accustomed to working on projects for the Aeon Group. To foster this culture, Aeon Delight is driving momentum in acquiring market share outside of the Aeon Group. To this end, the company also plans to restructure fundamental business principles such as sales, business development, employee training, and IT investment.

Establishing comprehensive FMS (Creating competitive advantages)

One of the focal points of the medium term plan is establishing comprehensive FMS and creating competitive advantages. In order to find new opportunities for growth, the plan calls for concentration of management resources in the cleaning services and energy solutions businesses. Although a degree of uncertainty exists in the environment surrounding comprehensive FMS owing to expansion of large western FM firms into Japan for the 2020 Tokyo Olympic Games, demand is strong. New sources of demand are led by hospitals and nursing care facilities.

Strengthening the cleaning services business

In FY02/14, the cleaning services business saw sales of JPY42.3bn (16.5% of total sales), operating profit of JPY5.7bn (25%, excluding eliminations, amortization of goodwill, and corporate expenses), and operating profit margin of 13.5%. The company is aiming to generate sales in excess of JPY180.0bn in FY02/21 (including M&A). Aeon Delight values the current domestic market at JPY1.3tn, and although it does not expect any significant growth in the market size, the company will increase sales via expanding its market share to over 10%.

To accomplish this, the company will expand into new areas, and establish a standardized cleaning model.

Primary focal points for new areas will be hospitals and nursing care facilities. Major groups with nationwide hospital networks are eager to implement management reforms, and Aeon Delight believes that comprehensive FMS is a good fit to match these customers' needs in improving sanitation, environmental conditions, safety, peace of mind, service improvement, and cost reductions.

Expanding into new areas: taking on major nationwide hospital groups

Through the organizational restructuring described below in FY02/15, the company has created a framework to tackle different industries, such as hospitals, with differing strategies for each. It has also changed its marketing approach from a product out model, in which the company touts the superiority of its products, to a market in model, in which the company adjusts its products to meet the needs of the market. Budgets are also no longer set at business headquarters, but are set based on proposals from individual sales departments, which are more in tune with the unique needs of each customer and market.

Expanding into new areas: Developing service options through cooperation with European manufacturers

To accelerate the fleshing out of its business offerings, the company will also further develop service options in cooperation with European manufacturers and health care departments of major domestic trading firms. For instance, when expanding into hospitals and nursing care facilities, disinfecting and sterilization techniques are essential. Aeon Delight does not hesitate to partner with European firms and universities, which harbor advanced technology in areas such as these. The company states that it has already partnered with a Swiss university. Although M&A will be an essential component of reaching JPY180.0bn in sales by FY02/21, it appears that the company has already determined, to an extent, targets for future alliances.

Improving gross profit margin by establishing a standardized cleaning model

Aeon Delight has set a goal of improving the gross profit margin of its cleaning services business over 10% by FY02/21. Developing high value-added services is an integral component, but the company believes that improvements to its cost structure will yield the largest gains. The cleaning services business is the segment with the highest operating profit margin (13.5% in FY02/14), but the company believes that there is still room for improvement.

To this end, the company is aiming, for the second time, to develop a standardization model (standardized quality based upon the optimal amount of labor input). An attempt was made in FY02/10, but after four years of use, its utility decreased, and a reassessment was deemed necessary.

Between 80-90% of sales are outsourced to external firms, and Aeon Delight is only directly involved with 10-20%. However, the profit composition is over 20%, and there is a large variation in margins between different offices. As such, the company decided to share its expertise with its outsourcing partners on methods to achieve high margins. The company also improved cost structures at its internal offices that were suffering from low margins. Through the above efforts, Aeon Delight expects its gross profit margin to rise. By increasing productivity for the roughly 30,000 persons employed in its cleaning services, the company will improve profitability as a whole. By reassessing its CoGS on a fundamental level, the process has already begun at 93 directly operated locations. SR will keep watch on how these initiatives progress throughout FY02/15 and FY02/16.

Strengthening the energy solutions business

In the energy solutions business, the company seeks to establish a proprietary combined facilities management ESCO business and be a comprehensive manager of energy across the Aeon Group. During the duration of the medium term plan, sales of JPY10.0bn are expected from the ESCO business. Plans to join with other companies in developing a business selling electricity are also under consideration, ahead of expected liberalization of the electricity market in 2016.

ESCO business

The ESCO business will be increasingly integrated into the combined facilities management ESCO business. Although competition is fierce, the company has strengths in its energy conservation technologies in building maintenance. Without merely stopping with installation of control equipment, the company stated that energy savings of 10-15% are possible through addition of its unique facilities management expertise. Aeon Delight aims to expand its business by leveraging strengths such as those above.

Energy management for the Aeon Group

According to Aeon's environmental sustainability report, a combined 2,113mn kWh was utilized in FY02/13 by Aeon Retail, six MaxValu companies, Aeon Super Center, and Aeon Big. Assuming a rate of JPY22 per kWh, this equates to JPY46.5bn in electrical costs for the year. Adding electrical fees for other group companies will increase this figure even further, and at the Aeon Group's FY02/14 results presentation, electricity costs for the group were stated to be in excess of JPY80.0bn (within the Kansai Electric Power [TSE1:9503] area, Aeon's power usage is second only to the West Japan Railway Company [TSE1:9021]). Through management of this extremely high amount of electrical use, the Aeon Delight will not only be able to reduce the Aeon Group's electrical footprint, but also expand and acquire expertise.

Building an organizational base

To successfully implement the above initiatives outlined in the medium term plan, building an organizational base is outlined as one of the top priorities. The following three points are seen as focal points:

1. Active business development and organizational restructuring with solutions-based sales in mind;
2. HR development with an emphasis on service quality;
3. IT investment to realize corporate growth and a small headquarters.

In order to proceed with the cleaning services and energy solutions businesses as stated above, the company will consolidate and restructure its organizational structure, creating a sales structure that is specialized to each customer and industry. The process began in FY02/15, and Aeon Delight is aiming to develop a market in business model that is in tune with customer needs. Additionally, approximately JPY3.0bn of investment in IT is planned over the three years of the medium term plan. Investments will be used to develop tools and systems for the cleaning services and energy solutions businesses, which will in turn drive acceleration of the development of the company as a whole.

Business

Business description

Aeon Delight provides maintenance services for retail facilities and office buildings. The company, formerly known as Japan Maintenance (a subsidiary of MyCal Corp.), was established mainly to undertake maintenance at Mycal stores in November 1972. Mycal filed for bankruptcy in September 2001 (delisted on September 17, 2001), and became a subsidiary of Aeon in 2003. Japan Maintenance merged with Aeon Techno Service and the name was changed to Aeon Delight in September 2006. As of FY02/13, the company derives 65% of sales and 70% of operating profit from Aeon Retail Co., Ltd. and other Aeon group companies.

Aeon Delight handles between 80% and 90% of the facilities management work required by Aeon Retail, and about 65% of such work required by Aeon Mall Co., Ltd. (TSE1: 8905). Facilities management work at Aeon Mall was previously done by a subsidiary of Diamond City, a Mitsubishi Corp. (TSE1: 8058) affiliate absorbed by Aeon Mall in 2007. Aeon Delight also handles between 60% and 70% of the facilities management work at MaxValu retail stores owned the Aeon.

Aeon Delight is a subsidiary of Aeon, a comprehensive retail operator. Aeon was established in 1926 and moved to a holding company format in order to generate group synergies in August 2009. The Aeon group consists of “Aeon” flagship general merchandise stores (Aeon Retail), “MaxValu” supermarkets, “Aeon” shopping centers and malls (Aeon Mall). The company is not only looking to develop its own shopping centers, but also to build its business in facilities management, which will contract management of retail facilities developed by other companies. Aeon has been expanded into Hong Kong, Thailand, and Malaysia, and will also expand more broadly in ASEAN countries including Taiwan, Indonesia, China, Vietnam and Cambodia.

M&A activities

Aeon Delight has pursued growth through acquisitions. In May 2007, the company established a business alliance with A to Z Service Co., Ltd., maintenance service provider for small commercial facilities, and raised its stake in the company to 54.8% from 20.4% in May 2011. A to Z Service specializes in maintenance services to convenience stores and fast food restaurants. Clients include McDonalds Japan (JASDAQ: 2702), Komeri (TSE1: 8218), and Seiyu. A to Z Service contributes roughly 5 billion yen in sales, but operating profit margin is low at around 3%.

The company took a 90% stake in Kajitaku Co., Ltd., a provider of cleaning, laundry and other household services in April 2011. Kajitaku adds about 500 million yen to 600 million to Aeon Delight’s top line, and strengthened its expansion into the household segment. It acquired a 40% stake in Kankyouseibi Co., Ltd., operator of maintenance services for large-scale buildings in October 2008, and a 40% stake in Do Service Co., Ltd., a building maintenance services operator in western Japan in April 2009.

It also acquired Certo Corp., a provider of office supplies and operator of soft drink beverage vending machines in September 2010, and its subsidiary in Beijing, renamed the entity Aeon Delight (Beijing) Commerce Co., Ltd. in September 2010.

In April 2011, the company acquired 90% of Kajitaku Co., Ltd., a provider of house cleaning and condominium concierge services. In October 2012, it acquired a 55% stake in a domestic travel services company and renamed it Aeon Compass Co., Ltd. The company also bought 51% of General Services Inc., a business-process outsourcing company.

M&A activities by Aeon Holding

On March 4, 2013, Aeon acquired Peacock Store Ltd., a supermarket operator, from J Front Retailing Co., Ltd. (TSE1: 3086). There were 82 Peacock stores as of March 2013, providing a potential business opportunity for Aeon Delight. In April 2013, the company said that it would raise its stake in Daiei to over 40% from 20%. Aeon Delight had 9 billion in sales to Daiei in FY02/13, and may expand to 13 billion or more after it is integrated into the Aeon group.

In March 2013, Aeon announced it would raise its stake in Daiei to more than 40% from 20% by April 2013, and would assume a majority of Daiei's board seats. Shouhei Murai, who led Aeon's supermarket operations, will become Daiei's president effective May 2013. Mr. Murai became president of Aeon Retail in 2008 and boosted the company's profitability.

Business overview

Aeon Delight operates eight main business segments: facilities management, security services, cleaning services, construction work, materials and supplies sourcing services, vending machines, support services, and other (real estate).

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14
Sales	**170,905**	**219,797**	**248,876**	**257,243**
Facilities Management	40,019	42,147	42,050	43,458
Security Services	32,088	32,235	31,805	34,242
Cleaning Services	41,142	39,852	40,519	42,320
Construction Work	16,420	28,513	53,071	45,630
Materials/Supplies Sourcing Services	18,718	36,730	39,284	44,543
Vending Machine Services	17,188	32,280	31,200	33,329
Support Services	5,271	7,980	10,823	13,551
Other	56	57	119	167
YoY	**21.8%**	**28.6%**	**13.2%**	**3.4%**
Facilities Management	-1.2%	5.3%	-0.2%	3.3%
Security Services	-6.3%	0.5%	-1.3%	7.7%
Cleaning Services	-6.4%	-3.1%	1.7%	4.4%
Construction Work	18.2%	73.6%	86.1%	-14.0%
Materials/Supplies Sourcing Services	-4.3%	96.2%	7.0%	13.4%
Vending Machine Services	2.4%	87.8%	-3.3%	6.8%
Support Services	-	51.4%	35.6%	25.2%

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14
OP	**12,031**	**13,762**	**13,901**	**15,115**
Facilities Management	5,115	5,084	4,661	4,725
Security Services	2,764	2,823	2,692	2,865
Cleaning Services	5,937	5,882	5,918	5,716
Construction Work	1,214	1,936	2,209	2,580
Materials/Supplies Sourcing Services	627	1,234	1,462	2,333
Vending Machine Services	1,480	2,330	2,396	3,068
Support Services	375	156	504	829
Other	215	156	237	331
	-5,698	-5,843	-6,180	-7,334
OPM	**7.0%**	**6.3%**	**5.6%**	**5.9%**
Facilities Management	12.8%	12.1%	11.1%	10.9%
Security Services	8.6%	8.8%	8.5%	8.4%
Cleaning Services	14.4%	14.8%	14.6%	13.5%
Construction Work	7.4%	6.8%	4.2%	5.7%
Materials/Supplies Sourcing Services	3.3%	3.4%	3.7%	5.2%
Vending Machine Services	8.6%	7.2%	7.7%	9.2%
Support Services	7.1%	2.0%	4.7%	6.1%

Source: Company materials, SR research

Its customers included Aeon Retail, Aeon Mall, and MaxValu companies, while non-Aeon group customers were commercial facilities, office buildings, hotels, medical and welfare facilities, schools, factories, and warehouses.

Facilities management

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	**40,019**	**42,147**	**42,050**	**43,458**	**10,622**	**10,848**	**11,198**	**10,790**
YoY	-1.2%	5.3%	-0.2%	3.3%	2.4%	0.9%	5.2%	5.0%
OP	**5,115**	**5,084**	**4,661**	**4,725**	**1,151**	**1,266**	**1,188**	**1,120**
YoY	-	-0.6%	-8.3%	1.4%	4.2%	3.8%	10.0%	-10.8%
OPM	12.8%	12.1%	11.1%	10.9%	10.8%	11.7%	10.6%	10.4%

Source: Company materials, SR research

This segment is involved in inspection, protection, and maintenance of facilities, providing monitoring support 24 hours a day, 365 days a year. Specific services are tailored to meet the needs of individual clients. This is a staple business for Aeon Delight, and licensed technicians (such as electricians) are on standby at all times in large-scale shopping centers. Specifically, the company manages utilities such as electricity, water, and gas, HVAC (operations, repairs, construction, and required inspections), exit and entrance management, anti-theft measures, and automobile parking. Gross profit margin is about 15%, and operating profit margin is about 11%. Required facilities are purchased by the client (property owner), and primarily costs incurred by the company are personnel costs and facilities management costs (water and utilities costs and depreciation). The company puts personnel on-site at large retail facilities, while smaller facilities are visited periodically and monitored remotely.

Security services

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	32,088	32,235	31,805	34,242	8,438	8,367	8,481	8,956
YoY	-6.3%	0.5%	-1.3%	7.7%	6.8%	5.8%	6.5%	11.5%
OP	2,764	2,823	2,692	2,865	642	700	761	762
YoY	-	2.1%	-4.6%	6.4%	6.8%	4.6%	16.0%	-0.5%
OPM	8.6%	8.8%	8.5%	8.4%	7.6%	8.4%	9.0%	8.5%

Source: Company materials, SR research

This segment provides comprehensive security services (i.e., security for facilities, security to handle crowds and traffic, and protection of valuable goods). By combining manual labor and the latest advances in technology, the company provides customized security solutions to clients.

It places security guards at client facilities. This segment outsources most of its work to Aeon Delight Security, a subsidiary. Gross profit margin was relatively low at 13% due to the large amount of personnel costs. This is in comparison to 23.2% at Sohgo Security Services Co., Ltd (TSE1: 2331) and 34.2% at Secom Co., Ltd. (TSE1: 9735) for FY03/13.

The company also began an attendant service in 2H FY02/12, which is similar in nature to a concierge service. Attendants are female security guards that also provide information services to patrons. This service was started in an effort to shed the old “security guard” image and provide a more hospitable environment. As of FY02/14, approximately 30 guards are stationed at 17 stores. Due to demand from clients, a new project team was established in March 2014, and plans call for 100 staff members at 53 stores by FY02/15. Although costs will arise from staff training, this business provides high added value, and is one to watch.

Also beginning in 2H FY02/12, “cockpit” security robots have been stationed to aid in security activities. As of FY02/14, this program is still in the testing phase, but owing to these robots, facilities that previously required five person teams now only require three guards.

Cleaning services

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	41,142	39,852	40,519	42,320	10,539	10,485	10,642	10,654
YoY	-6.4%	-3.1%	1.7%	4.4%	4.1%	4.0%	4.3%	5.4%
OP	5,937	5,882	5,918	5,716	1,397	1,404	1,425	1,490
YoY	-	-0.9%	0.6%	-3.4%	-3.1%	-6.9%	-1.5%	-2.2%
OPM	14.4%	14.8%	14.6%	13.5%	13.3%	13.4%	13.4%	14.0%

Source: Company materials, SR research

With an eye to extending the longevity of buildings and facilities, Aeon Delight also places heavy influence on training staff to provide service in a friendly and courteous manner.

From its experience in managing many large-scale shopping centers for the Aeon Group, the company has implemented measures to increase efficiency of large machinery such as floor cleaners. These and other initiatives serve to standardize and increase the efficiency of work performed. This is a staple business that is, on a orders received basis, composed of about 10-20% work performed directly by the company, and 80-90% work performed by outsourcing partners. Gross profit margin was 20% (25% for directly operated services). Service contracts are renewed annually (80% of clients renew and are long-term customers). Primary outsourcing partners are Do Service Co., Ltd. and Kankyouseibi Co., Ltd. Approximately 30,000 persons are involved in the cleaning services business.

Construction work

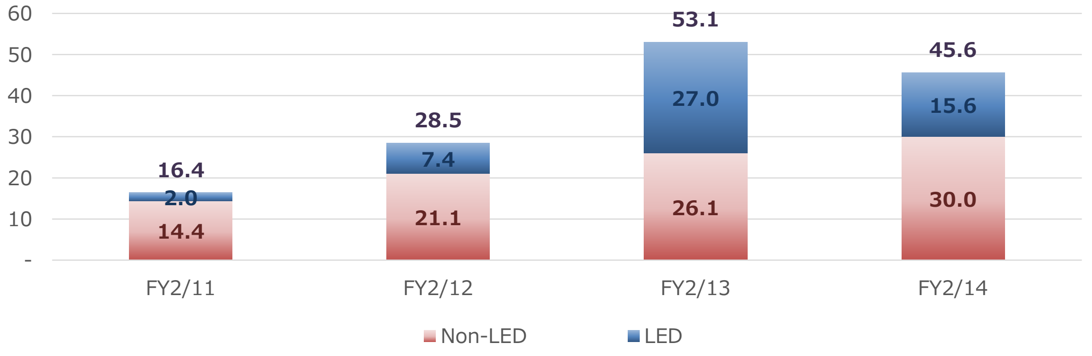
(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	16,420	28,513	53,071	45,630	15,888	13,929	8,254	7,559
YoY	18.2%	73.6%	86.1%	-14.0%	43.4%	-26.2%	-47.7%	3.0%
OP	1,214	1,936	2,209	2,580	851	764	474	491
YoY	-	59.5%	14.1%	16.8%	84.6%	-4.0%	5.3%	-2.2%
OPM	7.4%	6.8%	4.2%	5.7%	5.4%	5.5%	5.7%	6.5%

Source: Company materials, SR research

This segment conducts large-scale renovation, interior design work, and installation of energy-saving devices (i.e., LED lighting) and solar power systems. This segment generates 70% of its sales from Aeon group companies, and has a gross profit margin of about 10%. Renovation remodeling (not designing) of Aeon retail locations, such as replacing signage, or modifying retail floor space. Sales for Aeon Mall are not significant, since individual tenant stores perform their own renovation work.

LED installation is the primary source of orders in the environmental business. Revenues from LED installation work were JPY26.0bn in FY02/13 (JPY7.4bn in FY02/12). LED lighting is sourced from suppliers, and sales are recorded once installations are complete at client locations. Personnel costs account for about 30% of overall costs, and the materials ratio is around 70%.

LED-related sales (JPYbn)



Source: Company materials, SR research

In April 2012, the company's initiatives in the field of solar energy were recognized by the Ministry of Economy, Trade and Industry (METI) and certified as a "BEMS Aggregator" for installation of BEMS in small- and medium-sized buildings to save energy. BEMS aggregators are companies that conduct energy support services (recognizing energy use and supporting energy saving) for clients through cloud systems. The cloud systems are linked to a central management system, and implementing these systems in small- and medium-sized buildings leads to conservation of energy. Quantifying energy use through BEMS will lead to reduced CO2 emissions and environmental burdens, ultimately yielding longer building life.

The company's solar power systems utilize unused land in Kikukawa City, Shizuoka Prefecture. Aeon Delight invested in a special-purpose company to operate this solar-power generation system, and intends to collect dividends from this investment. As a business, the construction of solar panels is classified as a construction business, and the company receives panels from suppliers and customizes them to fit its needs. It appears that dividends will not be received until after FY02/15.

Materials and supplies sourcing services

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	18,718	36,730	39,284	44,543	10,721	11,023	11,542	11,257
YoY	-4.3%	96.2%	7.0%	13.4%	12.6%	12.8%	14.8%	13.4%
OP	627	1,234	1,462	2,333	573	636	533	591
YoY	-	96.8%	18.5%	59.6%	109.9%	98.8%	39.9%	21.1%
OPM	3.3%	3.4%	3.7%	5.2%	5.3%	5.8%	4.6%	5.3%

Source: Company materials, SR research

Through efficient logistics, this business reduces costs for intermediate materials used in offices and retail stores. The segment deals in items such as plastic bags, gift bags, clothing, and other consumables (employee stationery, cleaning materials, etc.). In this business, stock must be maintained at all times, and the company undertakes logistics functions on behalf of the customer as well. Aeon Delight aims to use efficient logistics to reduce costs for intermediate materials and increase process efficiency. Gross profit margin is about 7% to 8%.

Vending machine services

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	17,188	32,280	31,200	33,329	7,498	8,716	7,479	9,636
YoY	2.4%	87.8%	-3.3%	6.8%	-0.1%	1.7%	0.8%	25.1%
OP	1,480	2,330	2,396	3,068	535	812	433	1,288
YoY	-	57.4%	2.8%	28.0%	17.8%	11.5%	0.2%	64.7%
OPM	8.6%	7.2%	7.7%	9.2%	7.1%	9.3%	5.8%	13.4%

Source: Company materials, SR research

This segment operates soft drink vending machines. It also creates relaxation areas with foliage plants and air purification equipment.

The company's vending machines stock a variety of products from different manufacturers. Aeon Delight operates approximately 40,000 vending machines, and its gross profit margin is around 11% (as of FY02/14). About 70% of segment sales come from supermarkets belonging to the Aeon group. The remainder of sales came from shopping malls operated by Aeon group and non-Aeon companies. Aeon Delight acquired Certo Corp. (delisted from JASDAQ after being acquired) in September 2010, a vending machine operator 66.4% owned by Aeon.

Support services

(JPYmn)	FY2/11	FY2/12	FY2/13	FY2/14	FY2/14 1Q	2Q	3Q	4Q
Sales	5,271	7,980	10,823	13,551	2,964	3,433	3,604	3,550
YoY	-	51.4%	35.6%	25.2%	43.1%	54.8%	2.7%	17.4%
OP	375	156	504	829	77	323	312	117
YoY	-	-58.4%	223.1%	64.5%	92.5%	69.1%	6.5%	-685.0%
OPM	7.1%	2.0%	4.7%	6.1%	2.6%	9.4%	8.7%	3.3%

Source: Company materials, SR research

This segment provides business process outsourcing (BPO), housework support services, business travel services, training services, and staffing services. Much of these support services are conducted by companies acquired through M&A. BPO services are conducted by General Services, Inc., which was acquired via M&A as well. Services that BPO undertake include cost management, salary calculations, administrative functions, social security and welfare, receipt of telephone calls, and system management.

Kajitaku Co., Ltd., a housework services provider, implemented a comprehensive FMS model for BtoBtoC, and its sales for FY02/14 were JPY4.7bn, demonstrating almost 20% YoY growth. Sales for "Kaji Cloud," a housework services package, are contributing to strong growth. A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was acquired in 2011. A to Z Service operates a 24 hour, 365 days a year call center to provide comprehensive support services for retail chains in small-scale shopping centers.

Business travel services are provided by Aeon Compass, Co., Ltd. Specific duties include logistics for corporate business trips, planning for group holidays, and logistics services for meetings and events. Although orders received are JPY20.0bn, fees collected are recorded as sales on the company's books.

Aeon Delight Academy, Co., Ltd. operates the "Aeon Delight Academy Nagahama" in Shiga Prefecture to provide real-world training. It also operates a staffing service for technical professions.

Overseas business
As of FY02/14, overseas business accounted for about 2% of sales, but Aeon Delight is looking to expand into China and Asia in the medium term. In China, expansion is looked at on a per-province basis, and the company is able to expand rapidly through cooperation with the largest regional firms. As of FY02/14, the company has expanded into Beijing, Tianjin, Jiangsu, Hubei, and Guangdong, and preparations are underway to expand into Shandong. Aeon Delight aims to have overseas sales account for 10% of its overall sales by FY02/17. In China, the company plans to further its relationships with local firms and differentiate itself via its ESCO and elevator businesses. For the ASEAN region, the company will establish a comprehensive list of FMS services.

Overseas companies
Aeon Delight (China) Co., Ltd. (facilities management services, 100% owned by Aeon Delight)
Utilizes accumulated expertise from Japan to provide Japanese-quality service that is made in China, yielding unique Chinese comprehensive FMS.

Aeon Delight (Hangzhou) Service Outsourcing Co., Ltd. (outsourcing services, 70.0% owned)
Utilizes IT to provide outsourced BPO solutions for personnel management, administrative tasks, and accounting.

Aeon Delight Sufang (Suzhou) Comprehensive Facility Management Service Co., Ltd. (maintenance services, 51.0% owned)
After acquisition of a First Class Manufacturing Management License in Suzhou, provides cleaning, road maintenance, parking maintenance, and warehousing services. Acquired an elevator business via M&A in September 2013.

Wuhan Xiaozhu Comprehensive Facility Management Service Co.,Ltd. (management services, 51.0% owned)
Largest provider of manufacturing management in Wuhan. After acquiring a First Class Manufacturing Management License in Wuhan, also provides meeting room, cafeteria, and building maintenance services, in addition to comprehensive building management services.

Aeon Delight (Vietnam) Co., Ltd. (facilities management, 100% owned)
Provides Japanese services after becoming the first Japanese firm to acquire multiple licenses. Provides comprehensive FMS in Vietnam.

Aeon Delight (Malaysia) Sdn. Bhd. (facilities management, 100% owned)
Provides comprehensive FMS primarily in Malayasia, but also in the greater ASEAN region. Also provider of facilities and back office service functions.

Business model

Aeon Delight became a leading facilities management operator through its relationship with the Aeon group. It has also grown through acquisitions. The company derives its earnings by providing a comprehensive, all-in-one package of facilities management services to large-scale retail and commercial properties. It was able to differentiate itself from competitors by its expertise and costs competitiveness. Competitors included Tokyu Community Corp. (TSE1: 4711), Biru Daiko Co., Ltd., Nihon Housing Co., Ltd. (TSE1: 4781), and Nippon Kanzai Co., Ltd. (TSE1: 9728).

There are three type of property management, residential, commercial, and office buildings. Most of these competitors were mainly involved in residential management of condominiums. Few other large companies were focused on commercial facilities and building management due the high costs involved. The company was able to gain expertise in commercial property management through servicing large-scale retail facilities such as shopping malls and supermarkets. The property maintenance industry includes over 5,000 companies, most of which are small- and medium-sized businesses.

The structure of the building maintenance industry resembles that of the construction industry, with second- and third-tier subcontractors working under prime contractors. Aeon Delight, a prime contractor, uses a number of subcontractors. Most of its contracts are signed on an annual basis, which are almost always renewed. In other words, it has a recurring-revenue structure.

The company renegotiates contracts once a year, a process that regularly challenges its pricing, quality, and ability to offer clients attractive packages. For example, the parent company Aeon conducts a competitive bidding to keep the process fair and open. However, Aeon Delight is able to provide competitive bids given its knowledge of the client's needs, and know-how. Its superior position as a large company with comprehensive reliable services will be further enhanced as the size of buildings expands. The company is able to handle large-scale facilities maintenance given its size and economy of scale, which further reinforces its strength and position. Thus, SR Inc. believes that Aeon Delight's position within the commercial facilities industry is likely to improve, as the company has know-how and expertise.

In response to these changing requirements of its customers, Aeon Delight intends to leverage its accumulated expertise in areas such as building and equipment diagnostics to expand its operations from building maintenance into building and project management. The company has an in-house developed system for building and equipment. It uses the system for tasks including the diagnosis of deterioration in a building's fabric and analysis of its energy consumption performance. Based on the results, Aeon Delight can carry out any necessary repairs and improvements. It already has developed expertise in using the latest equipment and technology, such as infrared imaging, fiber optics, X-rays, and ultrasound. Management now intends to further develop the company's analysis capabilities in this area.

Profitability snapshot, financial ratios

Aeon Delight's overall operating profit margin has been generally stable at 6% to 7%. The main driver of SG&A expenses is labor, which accounted for 40% as of FY02/13.

Profit Margins (JPYmn)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15
Gross Profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117
Gross Profit Margin	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%
Operating Profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861
OP Margin	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%
EBITDA	9,711	11,441	11,563	13,818	16,107	16,138	17,547	18,327
EBITDA Margin	7.1%	7.9%	8.2%	8.1%	7.3%	6.5%	6.8%	6.9%
Net Profit Margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%
Financial Ratios								
ROA	17.3%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%
Total Asset Turnover	2.9	3.0	2.9	2.6	2.5	2.6	2.4	2.2
Working Capital	7,394	7,502	7,330	7,298	9,047	22,366	13,223	12,534
Current Ratio	127.7%	149.8%	184.4%	210.0%	215.5%	226.9%	229.9%	224.0%
Quick Ratio	127.6%	135.8%	166.6%	195.4%	201.0%	207.6%	208.9%	207.5%
OCF / Current Liabilities	29.4%	31.3%	38.6%	29.0%	30.0%	-12.7%	57.5%	40.1%
Net Debt / Equity	40.7%	27.6%	34.6%	60.4%	63.5%	43.4%	63.1%	73.4%
OCF / Total Liabilities	26.0%	31.8%	40.6%	21.5%	27.8%	-12.1%	52.3%	35.5%
Cash Cycle (days)	14.0	14.3	14.8	10.4	8.2	18.5	20.3	12.3
Changes in Working Capital	968	108	-172	-32	1,749	13,319	-9,143	-689

Source: Company data

Figures may differ from company materials due to differences in rounding methods.

SG&A Breakdown (Million Yen)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.
Provision for Doubtful Accounts	101	-	77	31	80
Salaries	3,484	3,650	4,175	5,300	5,897
Employee Bonuses	584	-	-	-	-
Provision for Bonuses	206	120	92	251	323
Provision for Director Bonuses	103	101	121	120	90
Retirement Benefits Expenses	188	195	216	268	295
Provision for Director Retirement Benefits	21	24	19	15	18
Other	6,321	7,058	7,257	8,883	9,623
	11,008	**11,148**	**11,957**	**14,868**	**16,326**

Source: Company data, SR Inc. Research

Figures may differ from company materials due to differences in rounding methods.

The company outsources most of its facilities management work, such as security and cleaning jobs. Outsourcing expenses accounted for 59% of total cost of sales as of FY02/13. Its cost of sales increased 28% YoY in FY02/11, as a result of its acquisition of Certo Corp., a provider of office supplies and operator of soft drink vending machines in September 2010.

Parent (Million Yen)		FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.
Cost of Sales		-	-	27,383	52,999	54,433
		-	-	19.6%	29.8%	27.0%
Labor		22,466	20,280	19,647	20,215	20,610
	% of Total	18.7%	18.7%	14.0%	11.4%	10.2%
Outsourcing		94,857	86,071	87,185	95,676	118,200
	% of Total	79.2%	79.2%	62.3%	53.9%	58.5%
Other		2,475	2,256	5,808	8,766	8,687
	% of Total	2.1%	2.1%	4.1%	4.9%	4.3%
Total		119,799	108,608	140,024	177,658	201,933

Source: Company data, SR Inc. Research

Figures may differ from company materials due to differences in rounding methods.

In FY02/13, the cleaning services and facilities management segments had the highest operating profit margins (pre-unallocated corporate expense) of 15% and 11%, respectively, despite being labor intensive. On the other hand, materials/supplies sourcing and construction work had the lowest operating profit margin, mainly attributable to servicing the Aeon group companies.

	Facilities Management	Security Services	Cleaning Services	Construction Work	Materials/ Supplies Sourcing	Vending Machine Services	Support Services
Sales	42,050	31,805	40,519	53,071	39,284	31,200	10,823
Operating Profit	4,661	2,692	5,918	2,209	1,462	2,396	504
OPM	11.1%	8.5%	14.6%	4.2%	3.7%	7.7%	4.7%

Source: Company data, SR Inc. Research

Strengths & weaknesses

Strengths

- **Strong ties with the Aeon Group**: Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated form the Aeon Group. This provides for stable sales, and the Aeon Group's expansion into Asia is also proving to be a positive factor for Aeon Delight's growth. The company is able to leverage economies of scale from the Aeon group, and has accumulated expertise in comprehensive FMS from its transactions with Aeon. This provides for a stable recurring-revenue model.
- **Industry leader in comprehensive commercial maintenance services:** Aeon Delight is the industry leader capable of providing comprehensive all-in-one building maintenance services such as facilities management, security, cleaning, and renovations. Its competitors can only provide one to two of these services (i.e., security or cleaning). Owners of large-scale commercial facilities and buildings are would prefer to contract such services to one service provider rather than negotiate with each individual service provider based on their specialty. The company's ability to provide such comprehensive service is a competitive advantage over its competitors.
- **Financial strength to buy growth:** Aeon Delight has a very strong balance sheet. SR Inc. believes that this balance sheet could be used aggressively to buy growth. According to the Japan Building Maintenance Association, there are currently over 5,000 property maintenance service providers throughout Japan. This market is relatively mature, and a realignment of the industry is possible. Aeon Delight, with its financial strength and industry prowess, would be able to acquire smaller firms with specialized services in local areas. This could lead to further growth and expansion. The company is able to benefit from economies of scale. It can leverage its balance to buy growth since it has a recurring stable source of revenue from the Aeon group. The company could take on debt to expand its business since it has an under leveraged balance sheet.

Weaknesses

- **Organic growth challenging**: Aeon Delight has grown through acquisitions. Therefore, organic growth may be a challenge because the market is relatively mature. There is limited domestic growth and overseas offers one avenue of expansion. M&A activities could dry up, and this could have an impact on earnings. The company has been able to buy growth using its strong financial position.
- **Overly dependent on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives almost 70% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.
- **Mature property management market**: The property management market is relatively mature. However, small-scale retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small-scale retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large-scale facilities, mainly supporting the Aeon group retail stores such as shopping centers and supermarkets. As smaller commercial facilities emerge in large urban areas, the question remains whether the company can successfully adapt its facilities maintenance know-how to this segment of the market. The company may need to look at this segment for growth.

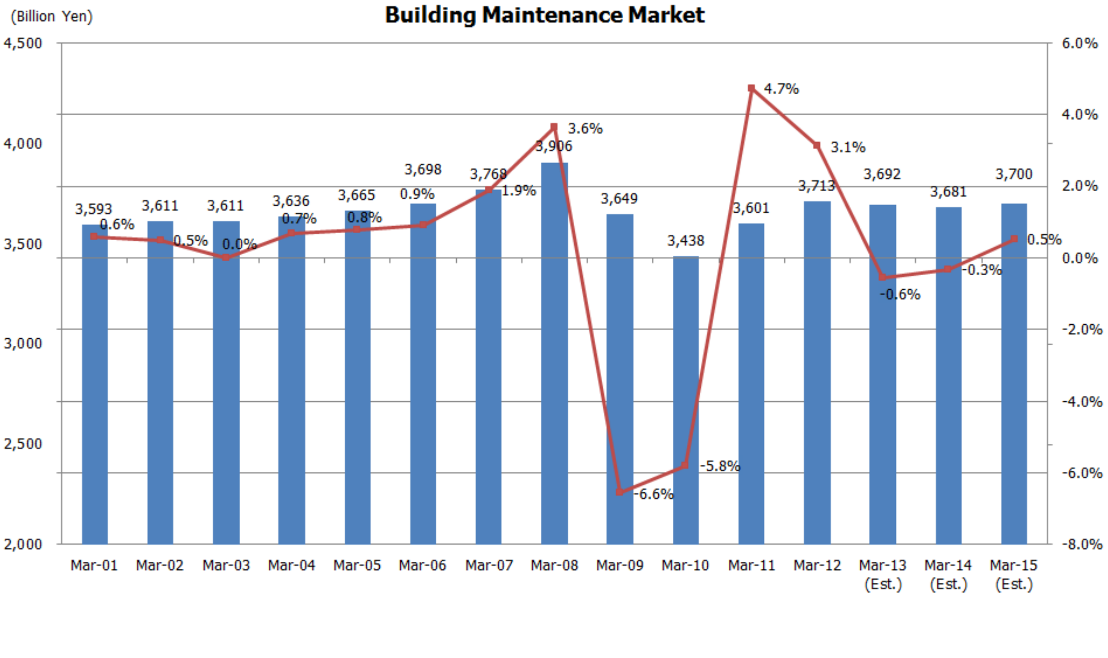
Market and value chain

Market overview

Building maintenance market valued at JPY3.3tn

Japan's building maintenance market was worth 3.7 trillion yen in FY03/12 (April 1, 2011 to March 31, 2011), up 3.1 YoY, according to Yano Research Institute Ltd. This included facilities maintenance, cleaning, and security services, as well as repairs and renovation work. The market grew steadily until the second half of the 1990s, supported by the expansion in office buildings. However, the financial crisis caused the real estate market and, consequently, property management services to contract in 2009 and 2010. The market fell to 3.4 trillion in FY03/10. The market slightly expanded for the next two years, and has stabilized at 3.6 billion yen to 3.7 billion yen.

According to Aeon Delight, it had 4% of the domestic market for cleaning services at retail stores, hospitals, schools, hotels, and other facilities that totaled 960 billion yen in FY02/12. Retail stores accounted for 17% of its cleaning business sales, while hotels made up a mere 2%.



Source: Yano Research Institute Ltd. data, SR Inc. Research

Instead of agreeing to individual contracts for facilities management, security services, and cleaning activities, customers now prefer comprehensive agreements covering all their requirements. In order to drive up the profitability of their facilities, customers have been seeking further progress in minimization of the maintenance and equipment replacement costs over the entire lifespan of such facilities. Property maintenance providers are given more freedom to offer an effective program for facility management, security, and sanitation, based on its accumulated expertise.

LED

The domestic market for LED lamps was 202.0 billion yen in FY03/12, and 370.0 billion yen in FY03/13, according to Yano Research Institute. By 2020, the market has the potential to expand to 450 billion yen. Aeon Delight had sales of about 26 billion yen, for a market share of slightly less than 7% in FY02/13.

Recirculating, water-saving, plastic urinal

According to Aeon Delight, there are 4 million urinals in Japan, most of which are ceramic (as of April 2013). The potential market for its water-saving urinals is 500 billion yen (4 million units x 120,000 yen).

Analysis of potential market

Floor space is a direct measure of potential market size for the company's facilities maintenance services. According to the Ministry of Land, Infrastructure, Transport, and Tourism, total floor space of Japan's hospitals and medical facilities was around 13.4 million sq.m. in March 2010. If sales per sq.m. and workers' hourly pay were the same across the board (in reality, cleaning hospitals is more expensive), SR Inc. estimates that potential demand from hospitals and other medical facilities is 50 billion yen (355,000 yen/sq.m. x 13.4 million sq.m.).

The ministry data also show that total floor space of non-residential buildings owned by corporations was about 1.7 billion sq.m. Such buildings include offices, stores, factories, warehouses, welfare facilities, hotels/lodging facilities, schools, and buildings used for automobile parking. If these corporations outsourced all of their cleaning work for that floor space, the potential market would be 6.2 trillion yen (355,000 yen/sq.m. x 1.7 billion sq.m).

Furthermore, the Aeon group's store openings and acquisition strategy affect Aeon Delight's business performance. Aeon Delight generated 14.1 billion yen in sales from cleaning services to Aeon Retail in FY02/12. Total floor space of Aeon Retail was 3.97 million sq.m., which translates to 355,000 yen in annual sales per sq.m. for Aeon Delight.

AEON Group Stores by Format (Domestic & Overseas)

	Feb. 2009	Feb. 2010	Feb. 2011	Feb. 2012	Feb. 2013	Feb. 2014
GMS	603	601	590	590	604	617
Supermarket	1,231	1,267	1,307	1,537	1,797	1,977
Discount Store	41	52	72	105	332	353
DIY Store	127	125	127	122	123	122
Supercenter	31	33	32	29	26	26
Department Store	1	1	1	1	1	1
Convenience Store	3,270	3,514	3,811	4,121	4,462	4,581
Specialty Store	4,746	4,475	3,305	3,424	3,663	3,853
Other Retail Format	87	180	268	418	562	756
Financial Service	395	386	401	460	528	641
Services	1,621	1,549	1,410	1,383	1,401	1,519
Total	12,153	12,183	11,324	12,190	13,499	14,440
					0	0
AEON MALL	51	53	56	59	62	137
AEON TOWN	42	44	45	107	115	122

Source: AEON Co. data, SR Inc. Research

Stores by Format in China, South Korea, and ASEAN

	Feb. 2009	Feb. 2010	Feb. 2011	Feb. 2012	Feb. 2013	Feb. 2014
GMS	42	46	52	54	61	69
Supermarket	18	19	25	44	81	95
Discount Store	-	-	-	-	22	23
Convenience Store	-	-	-	2,033	2,294	2,370
Specialty Store	-	-	-	37	55	61
Other Retail Format	18	21	24	27	29	29
Financial Service	-	-	-	236	279	302
Services	-	-	-	25	41	95
Total	78	86	101	2,456	2,862	3,044

Source: AEON Co. data, SR Inc. Research

Customers

Aeon Delight generates almost 70% of its sales from the Aeon group companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, public facilities, and event operators. The company's largest customer is Aeon Retail, which accounted for 33.7% of its facilities management services segment sales in FY02/14. Its share of Aeon Mall's business is about 60%, and its share of MaxValu's business is 60% to 70% as of FY02/13. Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%. Construction work accounted for the largest portion of segment sales at 49.9% (as of FY02/13).

Facilities Management Services

	AEON RETAIL	Segment Sales	% of Segment Sales
Facilities Management	12,642	42,050	30%
Security Services	15,129	31,805	48%
Cleaning Services	13,727	40,519	34%
Construction Work	26,484	53,071	50%
Materials/Supplies Sourcing	11,956	39,284	30%
Vending Machine Services	5,609	31,200	18%
Support Services	3,720	10,823	34%
Total	89,270	248,756	36%

Source: Company data, SR Inc. Research

Competition

Aeon Delight's competitors include Secom Co., Ltd. (TSE1: 9735) and Alsok (TSE1: 2331) in security services. It competes with Azbil Corp. (TSE1: 6845), Nippon Kanzai Co. Ltd. (TSE1: 9728), and Tokyu Community Corp. (TSE1: 4711) and over 5,000 small local operators in property management services. There are no major competitors that offer cleaning services; Aeon Delight competes with smaller, regional cleaning operators. In construction-related work, Aeon Delight competes with Azbil in the environmental solutions business. In the energy-saving business, major rivals are NTT Facilities, Inc. (consolidated subsidiary of NTT (TSE1: 9432)) and Hitachi Ltd. (TSE1: 6501).

Barriers to entry

Property management for residential and small office buildings has relatively low barriers to entry. However, the barriers are high for large-scale facilities given the comprehensive services required. Smaller residential or office building owners are less concerned about having total package of services and usually focus on cleaning or security. However, large-scale facilities require comprehensive services such as maintenance, cleaning, and security, all-in-one. Instead of hiring a contractor for each service, large-scale building owners prefer to contract out these services to one company that is able to provide all of these services in package. Consequently, this enables Aeon Delight to enjoy a relatively high barrier of entry in its market niche, namely servicing large-scale retail stores and office buildings, due to its expertise in providing an all-in-one package of services. The company knows the market, and has a foothold with the Aeon group. It is able to enjoy economies of scale, and offers comprehensive services (maintenance, cleaning, security, and repairs and renovations), while its competitors are specialized in one or two areas (i.e., security or cleaning). The company enjoys a high rate of retention (i.e., customers are reluctant to switch companies), with most of its contracts renewed.

Strategy

The company is looking to invest in sources outside of the Aeon Group, using its stable revenue sources from within the Aeon Group (such as new store openings and overseas expansion) as a springboard.

Aeon Delight's strategy is to grow existing business through expansion of comprehensive services to customers inside and outside of the Aeon Group. Over the medium term, the company aims to expand sales to non-Aeon group companies and lower this weighting to around 40%. It plans to do this by leveraging its main strength - the ability to take on comprehensive management contracts for large facilities - and by expanding into airports, factories, hospitals, and other retail facilities. Some of the specialty store operators also have outlets in non-Aeon shopping centers. SR Inc. expects the specialty store and services business to expand more quickly than the Aeon group's shopping centers.

The company adopted a new medium term plan, ending in FY02/17. Please see the Outlook section for details. In the medium term plan ended FY02/14, Aeon Delight concentrated on growth in three main areas, as described below.

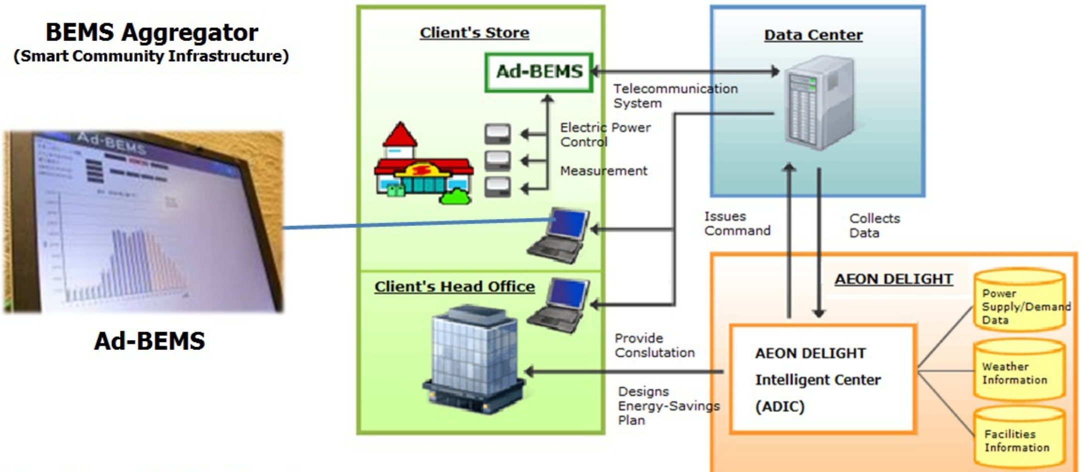
Aeon Delight adopted a growth-through-acquisition strategy as mentioned above. (Please refer to M&A Activities section). The company acquired businesses that strengthened its integrative capabilities, and intends to do the same going forward. In addition, the company is aiming to strengthen its comprehensive facilities maintenance services. Aeon Delight has targeted three markets: major urban area market, ecology and environmentally friendly market, and the Asian market.

Major urban area market

Small commercial facilities are expected to grow in major urban areas. Aeon Delight has been targeting this segment by pooling its core competencies of A to Z Service, which became a consolidated subsidiary in May 2011, and other companies in its group. In addition, it leveraged the strengths of housework support services provided by Kajitaku, which became a consolidated subsidiary in April 2011, and expanded services to residential market for which demand is expected to increase due to changing demographics.

Ecology and environmentally friendly market

Aeon Delight has provided environmental solutions, such as LEDs and other environmental products. The company's initiatives in this field was recognized by the Ministry of Economy, Trade and Industry (METI) and certified as a "BEMS Aggregator." METI is expected to introduce BEMS (building energy management system) to more than 60,000 buildings across Japan. The company would be in a good position to benefit from any regulatory or designation changes (i.e., facilities maintenance contracts awarded only to certified service operators). This is still in the works and no regulatory changes have been made yet.



Source: Company data, SR Inc. Research

Aeon Delight also plans to extend sales of its energy management services, water-based coating agent, and water-saving urinals to hotels, hospitals, and nursing-care facilities, which are generally environmentally conscious. It is also offering cleaning and security services in these facilities and is developing a cleaning method to control bacteria more effectively. Aeon Delight plans to capture 10% of the hospital and nursing-care market.

As part of Aeon group's energy-saving initiative announced in August 2012, Aeon Delight is developing an electric vehicle battery charger that uses Aeon Retail's electronic money, WAON.

Source: Company website

Historical financial statements

Summary

FY02/14 Results (announced on April 8, 2014; please refer to the preceding table)

In FY02/14, Aeon Delight recorded its fourth consecutive year of increased sales and its tenth consecutive year of increased profits.

Sales: JPY257.2bn (+3.4% YoY)
Operating profit: JPY15.1bn (+8.7%)
Recurring profit: JPY15.1bn (+8.6%)
Net income: JPY8.2bn (+8.7%)

Overall
The company worked to expand its services lineup and start new businesses with a focus on urban areas, ecology and environmental market, and Asia outside Japan as its main market and business focal points. As a result, Aeon Delight was able to expand its businesses via measures such as housekeeping agency services to meet the complex needs of urban living, and facilities management geared toward small retail facilities. The company also conducted administrative management support for businesses through business process outsourcing (BPO).

An overview of each segment is as follows:

Facilities Management
Sales: JPY43.5bn (+3.3 YoY)
The company fulfilled over 400 orders for its Building Energy Management System (BEMS) to meet customer needs for air conditioning control functions and features to control fridge-freezer facilities. Additionally, by tracking data for energy usage by business type and by region enabled Aeon Delight to advance its unique energy management support service.

Securities Service
Sales: JPY34.2bn (+7.4% YoY)
In addition to new contracts, the company added 17 stores with “attender” services (i.e., attendant staff functioning as an information and security provider). The attender service has also been introduced to Beijing and Qingdao in China, and is receiving high praise from customers. The company is also moving to utilize security systems which integrate human elements of security with the latest technology (“cockpit”-style), and upon finalization of specifications using existing contracts as a baseline, will accelerate proposal of this new system to customers.

Cleaning Services
Sales: JPY42.3bn (+4.4% YoY)
The company’s original coating agent, which replaces floor wax, was implemented in 121 properties. Other initiatives included progress in standardization and productivity improvement in product quality by uniformly sharing the company’s cleaning expertise with a consolidated pool of consigned firms.

Construction Work
Sales: JPY45.6bn (-14.0% YoY)
LED construction work was down YoY due to a lack of orders from the Aeon group, which had been concentrated in the previous year. Sales for LED construction work to the Aeon group were JPY15.6bn (JPY26.6bn in the previous year). However, orders received for maintenance for existing stores and

scheduled upkeep construction work were healthy, centered on the Aeon group.

Materials and Supplies Sourcing
Sales: JPY44.5bn (+13.4% YoY)
The company began taking orders for customers in the Kanto region which manage chain stores at small-scale retail shopping centers, and focused on providing hygiene and packaging materials. Concerning trays and packaging materials for fresh foods and delicatessen items, Aeon Delight was able to secure a 37.1% YoY increase in sales (JPY8.9bn) by concentrating demand.

Vending Machine Services
Sales: JPY33.3bn (+6.8% YoY)
The company continued to develop low-cost vending machines, and machines capable of accepting electronic money. Furthermore, the company's management of soft-drink vending managements saw a net increase of 4,800 units, due to the installation of new units in Sanyo Marunaka shops and new Aeon Malls.

Support Services
Sales: JPY13.6bn (+25.2% YoY)
Demographic changes (i.e., growing elderly population) and diversified lifestyle in urban areas contributed to a significant increase in housekeeping services, which recorded a sales increase of 50.9% YoY, and contributed to the improvement of segment sales and profitability. Kajitaku, a group company, expanded sales channels for its "Kaji Cloud" housekeeping services package, and succeeded in sales of approximately 120,000 packages, up significantly from the 50,000 packages sold in the previous year. From Q2 FY02/13 onward, the business grew at a rapid pace thanks to contributions from group companies that are now included in the scope of consolidation.

On the same day as the earnings announcement, the company announced its new medium-term plan (for FY02/15 through FY 02/17). The framework for the plan will be centered on:

1. Establish a dominant position in comprehensive FMS and competitiveness (strengthen the cleaning services segment and the energy solutions segment)
2. Develop the Asian market
3. Build an organizational base (organizational restructuring, human resource development, IT investment)

Year	Sales	Operating income	Net income
FY02/14	JPY257.2bn	JPY15.1bn	JPY8.2bn
FY02/15	JPY270.0bn	JPY16.0bn	JPY8.6bn
FY02/17	At least JPY330.0bn	At least JPY21.0bn	At least JPY11.0bn

Sales for FY02/17 will consist of 35% outside of the Aeon group, and 10% to overseas.

FY02/13 Results

Aeon Delight had sales of 248.9 billion yen (+13.2 YoY) in FY02/13. By segment, Facilities Management sales were 42.1 billion yen (-0.2 YoY), Security Services sales were 31.8 billion yen (-1.3% YoY), Cleaning Services sales were 40.5 billion yen (+1.7% YoY). Construction Work sales rose 86.1% YoY to 53.1 billion yen due to increased orders for energy-saving projects and repair work. During FY02/13, Aeon Delight won 26 billion yen worth of orders for LED construction, mostly from the Aeon group companies, compared with 7.4 billion yen a year earlier. Materials/Supplies Sourcing Services sales were 39.3 billion yen (+7.0% YoY), reflecting increased orders from within the Aeon group. Vending Machine Services sales were 31.2 billion yen (-3.2% YoY). Support Services sales were 10.8 billion yen (+35.6% YoY), supported by its consolidated subsidiary, Kajitaku Co., Ltd., which strengthened its housework and cleaning services to individuals.

Gross profit rose 5.6% YoY to 30.2 billion yen due to increased LED construction work from the Aeon Group. However, gross profit margin fell to 12.1% from 13.0% a year earlier due to higher cost related to LED work. SG&A expenses rose 9.8% YoY to 16.3 billion yen due to start-up costs mainly related to increased headcount in environmental and facilities management operations. Consolidated operating profit rose 1.1% YoY to 13.9 billion yen.

Extraordinary expenses declined to 50 million yen in FY02/13 from the 900 million yen charges recorded in FY02/12 (related to the aftermath of the March 2011 Tohoku earthquake). Consolidated net income was 7.5 billion yen (+8.6% YoY).

In FY02/13, the company expanded through acquisitions, acquiring General Services Inc. and Aeon Compass in October 2012. In the same month, Aeon Delight also set up a company to in Hangzhou, China to expand business in that region.

Income statement

Income Statement (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.
Total Sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972
Materials/Supplies Sourcing Services	-	-	-	18,718	36,730	39,284	44,543	47,618
Vending Machine Services	-	-	-	17,188	32,280	31,200	33,329	34,825
Support Services	3,591	5,846	5,412	5,271	7,980	10,823	13,551	15,522
Other	-	-	-	56	57	119	167	17
	-	-	-	-	-	-	-	-
YoY	**23.7%**	**5.9%**	**-3.7%**	**21.8%**	**28.6%**	**13.2%**	**3.4%**	**3.7%**
Facilities Management	-	5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%
Security Services	-	2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%
Cleaning Services	-	3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%
Construction Work	-	-	-	18.2%	73.6%	86.1%	-14.0%	-8.0%
Materials/Supplies Sourcing Services	-	-	-	-	96.2%	7.0%	13.4%	6.9%
Vending Machine Services	-	-	-	-	87.8%	-3.3%	6.8%	4.5%
Support Services	-	-	-	-	51.4%	35.6%	25.2%	14.5%
Other	-	-100.0%		-	1.8%	108.8%	40.3%	-89.8%
CoGS	118,692	124,735	119,180	146,916	191,166	218,648	223,528	231,588
Gross Profit	**18,827**	**20,955**	**21,118**	**23,989**	**28,631**	**30,227**	**33,714**	**35,117**
YoY	**18.1%**	**11.3%**	**0.8%**	**13.6%**	**19.4%**	**5.6%**	**11.5%**	**4.2%**
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%
SG&A	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256
SG&A / Sales	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%
Operating Profit	**8,330**	**9,946**	**9,970**	**12,031**	**13,762**	**13,901**	**15,115**	**15,861**
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%
Non-Operating Income & expenses		-134	-58	58	22	-9	-23	82
Recurring Profit	**8,186**	**9,812**	**9,912**	**12,089**	**13,784**	**13,892**	**15,092**	**15,943**
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%
Extraordinary Gains and losses								
Implied Tax Rate	45.8%	44.8%	45.6%	41.5%	45.7%	45.3%	42.4%	42.8%
Net Income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%
Net Margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.
Engineering-training operations, staffing operations, and document-management operations were part of the “Other” section until FY02/10. These businesses were designated as Support Services from FY02/11 after the company merged with Certo Corp. in September 2010. Materials/Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Historical forecast accuracy

Initial CE vs. Results (JPYmn)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.
Sales (Initial CE)	145,000	150,000	181,000	213,000	260,000	260,000
Sales (Results)	145,690	140,299	170,905	219,797	248,876	257,243
Initial CE vs. Results	**0.5%**	**-6.5%**	**-5.6%**	**3.2%**	**-4.3%**	**-1.1%**
Operating Profit (Initial CE)	9,100	10,100	12,050	14,300	16,600	15,500
Operating Profit (Results)	9,946	9,970	12,031	13,762	13,901	15,115
Initial CE vs. Results	**9.3%**	**-1.3%**	**-0.2%**	**-3.8%**	**-16.3%**	**-2.5%**
Recurring Profit (Initial CE)	9,000	9,900	12,105	14,300	16,600	15,500
Recurring Profit (Results)	9,812	9,912	12,089	13,784	13,892	15,092
Initial CE vs. Results	**9.0%**	**0.1%**	**-0.1%**	**-3.6%**	**-16.3%**	**-2.6%**
Net Profit (Initial CE)	4,600	5,200	6,470	7,600	8,700	8,300
Net Profit (Results)	4,876	5,466	6,495	6,912	7,509	8,161
Initial CE vs. Results	**6.0%**	**5.1%**	**0.4%**	**-9.1%**	**-13.7%**	**-1.7%**

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

The company operates under a stock business model, and revenue is stable (and low-risk) since approximately 70% of its sales are generated by a single group company. There is little difference between estimates and performance.

However, for FY02/13, there were significant shortfalls. Firms acquired under M&A in initial forecasts did not provide profits as expected in their first year.

Balance sheet

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15
ASSETS							
Cash and Equivalents	6,991	7,964	13,098	9,707	10,014	12,565	15,580
Accounts Receivable	18,025	16,284	28,246	31,240	44,673	37,420	40,055
Allowance for Doubtful	-188	-122	-226	-657	-144	-290	-168
Inventories	28	20	1,476	1,527	2,237	2,504	3,381
Deposit of Subsidiaries and Affiliates	2,500	3,000	18,920	27,320	18,020	32,420	41,326
Other Current Assets	2,794	2,880	3,010	3,349	4,523	5,728	4,303
Total Current Assets	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**
Buildings	762	1,185	1,234	1,217	1,089	1,046	1,009
Machinery for Area Control, net	343	305	265	246	274	238	211
Tools, Furniture, and Fixtures, net	-	-	1,791	1,918	2,079	2,487	2,516
Land	475	284	284	284	282	278	278
Construction in Progress	13	15	-	-	-	-	-
Other Fixed	1,009	952	182	108	72	209	345
Total Tangible Fixed Assets	**2,602**	**2,741**	**3,756**	**3,773**	**3,796**	**4,258**	**4,361**
Goodwill	11,974	11,295	10,546	11,249	10,801	10,078	9,069
Other	649	629	1,031	1,023	1,520	1,609	1,867
Total Intangible Assets	**12,623**	**11,924**	**11,577**	**12,272**	**12,321**	**11,687**	**10,937**
Investment Securities	1,730	2,050	2,983	2,577	2,973	3,897	3,768
Deferred Tax Assets	534	289	278	406	288	254	284
Other	1,566	1,779	1,701	1,517	2,196	1,877	2,750
Allowance for Doubtful	-172	-141	-196	-224	-200	-199	-535
Total Other Fixed Assets	**3,658**	**3,977**	**4,766**	**4,276**	**5,257**	**5,829**	**6,268**
Total Fixed Assets	**18,885**	**18,644**	**20,100**	**20,322**	**21,375**	**21,775**	**21,567**
Total Assets	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**
LIABILITIES							
Accounts Payable	10,551	8,974	22,424	23,720	24,544	26,701	30,902
Short-Term Debt	1,688	80	49	41	10	5	-
Other Current Liabilities	7,892	7,227	8,251	9,882	10,401	12,600	15,738
Total Current Liabilities	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**
Long-Term Debt	56	31	6	15	5	-	-
Other Fixed Liabilities	768	993	1,006	968	1,190	1,500	1,908
Total Long-Term Liabilities	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**
Total Liabilities	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**
Issued Capital	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Reserves	2,963	2,964	18,741	18,753	18,770	18,818	18,850
Retained Earnings	20,852	25,366	30,575	35,285	40,539	46,235	52,388
Treasury Stock	-461	-461	-461	-460	-458	-449	-443
Total Accumulated Other Comprehensive Income	-42	145	645	647	992	1,711	1,373
Share Warrants	72	110	149	173	205	165	166
Minority Interests	1,456	-	-	545	1,260	1,597	1,922
Total Shareholder Equity (Net Assets)	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**
Working Capital	7,502	7,330	7,298	9,047	22,366	13,223	12,534
Interest-Bearing Debt	1,744	111	55	56	15	5	-
Net Debt (Net Cash)	7,747	10,853	31,963	36,971	28,019	44,980	56,906
	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.
JPY1.5bn raised from securitization of future receivables in FY02/09 is booked as short-term interest bearing debt.

Assets

Current assets account for approximately 80% of the company's assets (as of FY02/14). A large portion of receivables are due from Aeon Retail, and amounted to about JPY20.0bn as of the end of FY02/13. Majority of its investment securities are with Aeon Mall, Aeon Kyushu Co., Ltd. (JASDAQ: 2653), Aeon Fantasy Co., Ltd. (TSE1: 4343), and MaxValu companies. There is also a large amount of goodwill (9% as of FY02/14) due to the volume of M&A.

Aeon Delight's assets and liabilities swelled in FY02/11 due to its merger with Certo Corp. It took on assets of 31.5 billion yen and liabilities of 15.3 billion yen.

Liabilities

Aeon Delight was basically debt free, with a mere several million of interest-bearing debt at the end of

FY02/14. Cash and deposits exceeded interest-bearing debt. Receivables account for a significant portion of liabilities (68% as of FY02/13). However, receivables are diversified among a large portion of counterparties, and the largest is JPY1.0bn from Japan Beverage Holdings.

Equity Capital

Equity capital ratio rose to 64.2% at the end of FY02/10 from 39.9% in FY02/07 due to growth in equity as a result of acquisitions. The company has maintained a relatively high equity capital ratio for the past four years. However, SR Inc. believes that the company could use financial leverage (i.e., use of debt to acquire additional assets) to expand business and its equity.

Shareholder Rewards

Aeon Delight aims to provide dividends that correspond to its financial performance in a stable and continuous manner. It aims to provide a 20% dividend payout ratio, while keeping a close watch on its net asset ratio. The dividend ratio in FY02/14 was 30.9%, and the company plans for a ratio of 30.5% in FY02/15.

Statement of cash flows

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15
Operating Cash Flow (1)	6,668	7,031	6,808	9,639	-4,358	21,359	17,234
Investment Cash Flow (2)	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365
Free Cash Flow (1+2)	**4,581**	**5,065**	**3,808**	**-412**	**2,728**	**4,727**	**5,869**
Financial Cash Flow	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594
Depreciation & Amortization (A)	1,495	1,593	1,787	2,345	2,237	2,432	2,466
Capital Expenditures (B)	-707	-912	-792	-1,184	-1,607	-1,999	-1,903
Working Capital Changes (C)	108	-172	-32	1,749	13,319	-9,143	-689
Simple FCF (NI + A + B - C)	**5,556**	**6,319**	**7,522**	**6,324**	**-5,180**	**17,737**	**9,977**

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

Operating cash flow

In FY02/13, net cash used in operations was 4.4 billion yen (net cash provided by operations was 9.6 billion yen in FY02/12), attributed to a 12.6 billion yen increase in accounts receivables related rise in LED construction work for the Aeon group, and 6.6 billion yen paid in corporate income taxes. Prior to FY02/13, cash flow from operations ranged from 6.5 billion in FY02/08 to 9.6 billion in FY02/13.

Investment cash flow

A significant portion of cash flow from investments stems from M&A activities. There is also a large variance due to contributions from affiliated companies, but this more significantly affects operating cash flow.

Financial cash flow

In FY02/13, net cashed used in financing activities were dividend payments of 2.3 billion yen. Prior to FY02/09, the company used cash for repayment of funds raised from liquidation of future receivables.

Simple free cash flow

In FY02/13, working capital increased 13.3 billion yen YoY (13.4 billion yen increase in accounts receivables and 710 million yen increase in inventories minus 820 million yen increase in accounts payables). Depreciation and amortization of goodwill totaled 2.2 billion yen and capital expenditures were 1.6 billion yen. Net income totaled 7.5 billion yen. Simple free cash flow was negative 5.2 billion yen at the end of FY02/13.

Cash Conversion Cycle	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15
Accounts Receivable Turnover	8.2	8.2	7.7	7.4	6.6	6.3	6.9
Days in Accounts Receivabl	**44.7**	**44.6**	**47.6**	**49.4**	**55.7**	**58.2**	**53.0**
Inventory Turnover	6,565.0	4,965.8	196.4	127.3	116.2	94.3	78.7
Days in Inventory	**0.1**	**0.1**	**1.9**	**2.9**	**3.1**	**3.9**	**4.6**
Payables Turnover	12.0	12.2	9.4	8.3	9.1	8.7	8.0
Days in Payables	**30.5**	**29.9**	**39.0**	**44.1**	**40.3**	**41.8**	**45.4**
Cash Conversion Cycle (days)	**14.3**	**14.8**	**10.4**	**8.2**	**18.5**	**20.3**	**12.3**

Source: Company data, SR Inc. Research
Figures may differ from company materials due to differences in rounding methods.

Inventory turnover rate deteriorated over the past three years due to increased inventories from acquired companies. Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers. In FY02/13, its cash-conversion cycle increased due to increased LED installation work for Aeon group companies.

Other information

History

Japan Maintenance

In 1972, Nichii Co., Ltd. (renamed Mycal Corp. in 1996) established Nichii Maintenance Co., Ltd., to undertake maintenance at Mycal stores (Aeon Retail acquired Mycal in March 2011). In 1976, Nichii Maintenance changed its name to Japan Maintenance Co., Ltd. The company listed its shares on the Second Section of the Osaka Securities Exchange in 1995, and on the Second Section of the Tokyo Stock Exchange in 1999. In 2000, it listed its shares on the First Section of the Tokyo Stock Exchange.

Aeon Techno Service

In 1987, Jusco Maintenance was established after Jusco Kosan Co., Ltd. (currently Aeon Mall) created a subsidiary from its building maintenance division.　The company handled facilities maintenance, cleaning, and security services for retail stores for the Aeon group companies. In 1997, Jusco Maintenance changed its name to Aeon Techno Service Co., Ltd.

Merger

Mycal, falling under hardship and filed for bankruptcy in 2001, became a wholly owned subsidiary of Aeon in 2003. As a result, Japan Maintenance merged with Aeon Techno Service, and changed its name to Aeon Delight Co., Ltd. in 2006. In 2006,

Aeon Delight

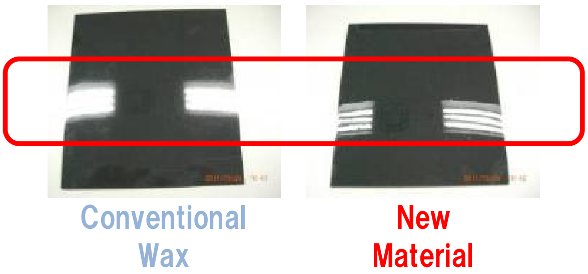
Prior to the merger, Japan Maintenance generated 40% of its sales from Mycal group companies, while Aeon Techno Service depended mostly on Aeon group companies for its business. The company derived 65% of total sales from Aeon group companies as of end of FY02/13, and made several acquisitions to expand its business.

News & topics

In FY02/12, Aeon Delight developed recirculating, water-saving plastic urinals. These urinals reduce water consumption by 90%. According to Aeon Delight, a train station in which 500 people use the restroom daily could save at least 160,000 yen a year with one urinal (500 people x 1.8 liters x 365 x 0.55 yen x 90%). This calculation is based on the assumption that water and sewage cost 550 yen per 1,000 liters, and that conventional urinals require 1.8 liters of water per use. Aeon Delight plans to sell these urinals for 120,000 yen per unit. However, after testing in stores, there was room for improvement, and although experiments continue, it is still not at a stage where it can be implemented en masse.

Source: Company data, SR Inc. Research

Aeon Delight also developed a water-based coating agent as an alternative to conventional resin wax. "Aeon Delight Coat" has a high-luster finish without organic solvents or the removal of older wax coatings. Another product, "AD Hard Coat," which is under development, eliminates the need for buffing.



Source: Company data, SR Inc. Research

November 2013

On **November 28, 2013**, the company announced the launch of a solar power business.

Aeon Delight, Recycle One, Inc., etc. will jointly invest to establish Kikugawa Ishiyama Solar Ltd. and Kikugawa Horinouchiya Solar Ltd. The 9.4-megawatt facilities of Kikugawa Ishiyama Solar and the 7.5-megawatt faciliteis of Kikugawa Horinouchiya Solar will have a total annual output of 20.84 megawatt-hours, equivalent to the annual power consumption of about 5,000 typical households. Construction is scheduled to begin in December 2013, and electricity sale is slated to begin in February 2015.

Major shareholders

Aeon group companies own over 60% of the company.

As of February 28, 2014

Top Shareholders	Amount Held
Aeon Retail Co., Ltd.	42.94%
Aeon Co., Ltd.	16.81%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.71%
Northern Trust Co. (AVFC) Re 10PCT Treaty Account	1.69%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.69%
Aeon Delight Business Partners	1.53%
Aeon Delight Employees	1.15%
BNP Paribas Sec Services Luxembourg Jasdec Aberdeen Global Client Assets	1.10%
Japan Trustee Services Bank, Ltd. (Trust Account)	0.95%
Trust & Custody Service Bank, Ltd. (Pension Trust Account)	0.95%

Source: Company data, SR Inc. Research

Top management

President Ippei Nakayama (born in 1954) joined Jusco in 1971 and developed his career in store operations, management, and human resources before being seconded to the Ministry of Labor (currently, Ministry of Heath, Labor and Welfare) in 1985. After returning to Aeon, he continued his career in human resources, and was later involved in establishing Talbot, Inc. in Japan. He became a director at Aeon Techno Service Co., Ltd. in 2002, and was promoted to executive managing director in 2006. Furthermore, Mr. Nakayama became a managing director of the newly formed Aeon Delight Co., Ltd., following the merger of Japan Maintenance Co., Ltd. and Aeon Techno Service in September 2006. He became senior vice president in 2012, and was promoted president of Aeon Delight in 2013.

Employees

Aeon Delight had 10,728 employees and an average of 5,671 temporary employees on a consolidated basis as of FY02/14. At the parent level, there were 3,818 employees and 2,265 temporary employees. The average age, average length of employment, and average annual salary on a parent basis are as follows:

- Average age: 46 years and 7 months
- Average length of employment: 10.2 years
- Average annual salary: JPY4.9mn

Investor relations

Aeon Delight holds earnings briefings twice a year (following half-year and full-year business results).

By the way

Corporate Social Responsibility (CSR) Activities

Aeon Delight is pursuing corporate social responsibility (CSR) activities by strengthening its efforts to protect the environment with a management principle of creating “environmental value” for clients.

The following are examples of the company’s environmental initiatives:

- Promotion of energy-saving lighting equipment

The company is promoting energy-saving lighting devices, such as light emitting diode (LED) lamps, that significantly reduce electricity consumption. The company seeks to help clients cut carbon dioxide emissions and reduce expenses by selecting the most suitable source of lighting depending on the situation and intended use, such as lighting for room interior or a parking space, and for illuminating a billboard.

- Proposal for environmentally friendly packaging

The company proposes a variety of packaging materials, including biomass materials obtained during the growth process of plants that do not increase carbon dioxide when burned, as well as water based gravure printing that has low environmental impact.

- Introduction of environmentally friendly vending machines

The company introduced environmentally friendly vending machines that can reduce electricity consumption by as much as 45% a year with the use of heat pumps and LED lighting. The company unveiled heat-pump vending machines in 2008, and those equipped with LED lighting in 2011.

- Participation in Aeon 1% Club

Aeon 1% Club supports projects to protect the environment, boost international cultural and human exchange, promote regional cultural and social activities, and donate to welfare projects. It is an initiative under which group companies contribute 1% of their pretax profits so that these activities can be maintained regardless of the companies’ business performances.

- Tree planting through Aeon Environmental Foundation

The company participated in a tree-planting event in Beijing, China in fiscal year 2010, took part in a similar project in Jakarta, Indonesia in fiscal year 2011 and 2012, respectively. For the tree planting event in Jakarta held during fiscal year 2012, the company sponsored participation of endorsing companies, in addition to having its employees from Japan volunteering for the event

- “Clean Day” on the 11th Day of Each Month

The company designated the 11th day of each month as “Clean Day,” where employees clean streets around their workplaces before the start of the working day.

The company also conducts a number of social contributions as part of its CSR activities:

- Volunteering at social welfare facilities

The company conducts volunteer activities at nationwide welfare facilities once a year, using the system of the Aeon Social Welfare Foundation.

- Shopping basket cleaning outsourced to vocational aid facilities

The company outsources cleaning of its shopping baskets to vocational aid centers. Shopping baskets used at its stores are sent to six “washing centers” within the vocational facilities, where the baskets are washed and applied with anti-bacterial coating.

- Construction of a school in Laos (completed in June 2008)

The Aeon Delight Group conducted fund raising activities, and through the Aeon 1% Club and the Japan Committee for UNICEF, constructed and donated a school in Laos named “Aeon Good-Job School.”

In addition, Aeon Delight’s logo is a mascot named “Gu Jo-Kun,” derived from “a good job!” and symbolizes that the company wishes to make all people happy.

Company profile

Company Name	Head Office
AEON DELIGHT CO., LTD.	Minamisemba Heart Bldg. 2-3-2 Minamisemba Chuo-ku, Osaka City Osaka, Japan 542-0081
Phone	**Listed On**
+81-6-6260-5621	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
November 16, 1972	September 29, 1995
Website	**Fiscal Year-End**
http://www.aeondelight.co.jp/english/	February
IR Contact	**IR Web**
	http://www.aeondelight.co.jp/english/ir/
IR Mail	**IR Phone**

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en-Japan Inc.	NanoCarrier Ltd.	ZAPPALLAS, INC.
FerroTec Corp.	Nippon Parking Development Co., Ltd.	ZIGExN Co., Ltd.
Fields Corp.	Onward Holdings Co., Inc.	
FreeBit Co., Ltd.	Paris Miki Holdings Inc.	
Gamecard-Joyco Holdings, Inc.	NS Tool Co.	

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Contact Details

http://www.sharedresearch.jp

Email: info@sharedresearch.jp

3-31-12 Sendagi
Bunkyo-ku Tokyo, Japan
Phone: +81 (0)3 5834-8787

