Aeon Delight / 9787

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

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.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Est.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**	**294,725**	**295,839**	**305,000**
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	0.4%	3.1%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	38,903	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	-0.2%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	13.2%	
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812	18,500
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%
Recurring profit	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	17,284	18,500
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	-0.6%	7.0%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.8%	6.1%
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**	**10,238**	**10,316**	**11,000**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	0.8%	6.6%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%	3.6%
Per share data												
Shares issued (year end; '000)	41,400	41,400	41,400	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	-
EPS	110.4	122.9	137.8	142.6	131.8	143.2	155.5	166.2	183.9	194.8	196.2	209.2
EPS (fully diluted)	-	122.8	137.6	142.3	131.5	142.7	155.2	165.8	183.4	194.3	195.7	-
Dividend per share	25	22	27	39	40	46	48	50	52	55	61	63
Book value per share	567	669	788	1,006	1,096	1,202	1,325	1,436	1,553	1,700	1,853	-
Balance sheet (JPYmn)												
Cash and cash equivalents	7,673	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386	31,717	39,536	
Total current assets	**28,764**	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**	**112,405**	**120,214**	
Tangible fixed assets	1,885	2,602	2,741	3,756	3,773	3,796	4,258	4,361	7,086	9,089	10,060	
Investments and other assets	3,411	3,658	3,977	4,766	4,276	5,257	5,829	6,268	8,190	8,915	8,516	
Intangible fixed assets	13,356	12,623	11,924	11,577	12,272	12,321	11,687	10,937	10,397	9,095	8,036	
Total assets	**47,418**	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**	**139,505**	**146,828**	
Accounts payable	10,293	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457	28,607	23,684	
Short-term debt	-	1,688	80	49	41	10	5	-	-	271	225	
Total current liabilities	**22,533**	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**	**44,065**	**43,486**	
Long-term debt	-	56	31	6	15	5	-	-	-	293	-	
Total fixed liabilities	**2,395**	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**	**3,350**	**2,780**	
Total liabilities	**24,929**	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**	**47,416**	**46,267**	
Total net assets	**22,488**	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**	**92,089**	**100,561**	
Cash flow statement (JPYmn)												
Cash flows from operating activities	6,472	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	
Cash flows from investing activities	-2,190	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	
Cash flows from financing activities	-6,094	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	
Financial ratios												
Total interest-bearing debt	-	1,744	111	55	56	15	5	-	-	564	225	
Net cash	9,173	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748	62,866	71,311	
ROA (RP-based)	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%	12.8%	12.1%	
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%	12.0%	11.0%	
Equity ratio	47.4%	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%	64.0%	66.4%	

Source: Shared Research based on company data

Recent updates

Highlights

On **January 16, 2018**, Shared Research updated the report following interviews with Aeon Delight Co., Ltd.

On **January 9**, **2019,** the company announced earnings results for Q3 FY02/19; see the results section for details.

On **the same day**, the company announced the results and the conclusion of a tender offer for share repurchase.

As announced on December 4, 2018, the company repurchased its shares through a tender offer, which was completed on January 8, 2019.

Details of purchase

- Type of shares repurchased: Common stock
- Number of shares repurchased: 2,700,000 (4.98% of issued shares)
- Repurchase amount: JPY9.9bn

On **December 19, 2018**, the company announced it has obtained an approval from the Indonesian authorities to acquire shares in PT Sinar Jernih Sarana (SJS). It was also granted a local license to offer comprehensive real estate-related support services.

On December 11, 2018, the company obtained approval from the Indonesian authorities regarding its acquisition of shares in SJS, a cleaning services company in Indonesia. On the same day, SJS—ahead of any other foreign companies—was granted a local business license necessary for operating "comprehensive real estate-related support services" (KBLI 81100) in Indonesia. These developments satisfied the terms set forth in the conditional share transfer agreement regarding Aeon Delight's acquisition of SJS shares (see the company release dated October 30, 2018), leading to a full conclusion of the agreement.

The subject license allows foreign capital companies to operate facility management (FM) in Indonesia. FM has traditionally been a difficult business area for foreign companies to enter. With this license, however, as a company of the Aeon Delight group, SJS can now offer such services as cleaning, facility management, and security in Indonesia.

On **December 4, 2018**, the company announced the purchase and tender offer of treasury shares.

The company announced that it will repurchase up to 2,970,100 of its treasury shares (5.48% of issued shares, purchase price: JPY10,897,296,900), including 2,700,000 shares (4.98% of issued shares) owned by Aeon Co., Ltd. (Aeon owns a total of 13,195,250 company shares [24.36% of issued shares]). Aeon has informed the company that it intends to hold onto the remaining 10,495,250 shares of the company (19.37% of issued shares). The company had cash and cash equivalents of JPY38.6bn as of end-August 2018, and even after allocating JPY11.0bn to fund the tender offer, the company maintains it would have sufficient liquid assets.

Further details are as follows:

- Repurchase period: December 5, 2018 to February 28, 2019
- Tender offer period: December 5, 2018 to January 8, 2019
- Tender offer price: JPY3,669 (93% of JPY3,945, simple average of the company's share price for the last three months)

▷ Number of shares as of end-October 2018: 52,612,791 outstanding shares, 1,556,842 treasury shares

On **October 30, 2018**, the company announced its resolution to conclude a conditional share transfer agreement with PT Sinar Jernih Sarana (SJS), an Indonesian company in the cleaning services business.

Aeon Delight resolved to conclude a conditional (pending the acquisition of licenses from relevant authorities) share transfer agreement with SJS and acquire stock from the company. Through its medium-term plan Aeon Delight Vision 2025, Aeon Delight is aiming for top sales in Asia and envisions becoming a company that creates environmental value and establishes "safety and security," "labor shortage," and "environment" as key pillars of its growth strategy. Shared Research understands that this share transfer agreement, conducted within the ASEAN, resembles a successful agreement made in China (business expansion through M&A with prominent local companies) and continues to observe related developments.

Summary

SJS has achieved rapid growth in Indonesia under its management, which has abundant experience in the facility management (FM) industry. It has expanded its business to such a scale that it recorded the second highest cleaning services sales in the country (FY12/17 sales of IDR368.7bn [about JPY2.7bn at a rate of IDR1,000=JPY7.4], operating profit of IDR22.4bn [JPY170mn]). Aeon Delight intends to utilize its expertise to spread the FM business approach in Indonesia, which boasts the largest market in the ASEAN, and expand SJS's business fields to include facilities management and security services, in addition to its current field of cleaning services. This expansion will allow for growth as an FM company. After the transfer, which is scheduled for December 3, 2018, Aeon Delight's share in SJS will be 90%.

SJS

Earnings (IDRmn)	FY12/15	% of sales	FY12/16	% of sales	FY12/17	% of sales
Sales	233,470	100.0%	274,817	100.0%	368,695	100.0%
Operating profit	10,602	4.5%	13,949	5.1%	22,442	6.1%
Net income	6,208	2.7%	7,659	2.8%	13,444	3.6%
IDR ('000)/JPY	8.8		8.6		8.3	

(JPYmn)	FY12/15	FY12/16	FY12/17
Total assets	14,244	22,142	44,286
Net assets	53,258	74,068	99,278
ROE	11.7%	10.3%	13.5%

Source: Shared Research based on company data

On **October 25, 2018**, Shared Research updated the report following interviews with the company.

For previous releases and developments, please refer to the News and topics section

Trends and outlook

Quarterly trends and results

Quarterly performance	FY02/17				FY02/18				FY02/19			FY02/17	FY02/18	FY02/19	FY02/17	FY02/18	FY02/19		YoY change	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Cml. Q3	Cml. Q3	Cml. Q3	Cons.	Cons.	Est.	% of FY	Q3	Cml. Q3
Sales	75,472	75,928	71,472	71,853	75,514	76,287	72,041	71,997	76,480	77,404	76,033	222,872	223,842	229,917	294,725	295,839	305,000	75.4%	+3,992	+6,075
YoY	7.0%	5.1%	5.3%	2.1%	0.1%	0.5%	0.8%	0.2%	1.3%	1.5%	5.5%	5.8%	0.4%	2.7%	4.9%	0.4%	3.1%			
Gross profit	9,471	10,073	9,334	10,117	9,794	10,241	9,379	9,489	10,223	10,084	10,006	28,878	29,414	30,313	38,995	38,903			+627	+899
YoY	6.8%	3.5%	4.6%	2.5%	3.4%	1.7%	0.5%	-6.2%	4.4%	-1.5%	6.7%	4.9%	1.9%	3.1%	4.3%	-0.2%				
GPM	12.5%	13.3%	13.1%	14.1%	13.0%	13.4%	13.0%	13.2%	13.4%	13.0%	13.2%	13.0%	13.1%	13.2%	13.2%	13.2%			+0.1pp	+0.0pp
SG&A expenses	5,560	5,479	5,384	5,315	5,711	5,517	5,527	5,336	5,585	5,661	5,782	16,423	16,755	17,028	21,738	22,091			+255	+273
YoY	6.1%	4.6%	6.1%	3.6%	2.7%	0.7%	2.7%	0.4%	-2.2%	2.6%	4.6%	5.6%	2.0%	1.6%	5.1%	1.6%				
SG&A ratio	7.4%	7.2%	7.5%	7.4%	7.6%	7.2%	7.7%	7.4%	7.3%	7.3%	7.6%	7.4%	7.5%	7.4%	7.4%	7.5%			-0.1pp	-0.1pp
Operating profit	3,911	4,594	3,950	4,802	4,082	4,724	3,852	4,154	4,637	4,423	4,225	12,455	12,658	13,285	17,257	16,812	18,500	71.8%	+373	+627
YoY	7.9%	2.2%	2.7%	1.4%	4.4%	2.8%	-2.5%	-13.5%	13.6%	-6.4%	9.7%	4.1%	1.6%	5.0%	3.3%	-2.6%	10.0%			
OPM	5.2%	6.1%	5.5%	6.7%	5.4%	6.2%	5.3%	5.8%	6.1%	5.7%	5.6%	5.6%	5.7%	5.8%	5.9%	5.7%	6.1%		+0.2pp	+0.1pp
Recurring profit	3,908	4,598	3,965	4,910	4,116	4,762	4,182	4,224	4,668	4,466	4,545	12,471	13,060	13,679	17,381	17,284	18,500	73.9%	+363	+619
YoY	7.0%	2.5%	2.3%	5.2%	5.3%	3.6%	5.5%	-14.0%	13.4%	-6.2%	8.7%	3.8%	4.7%	4.7%	4.2%	-0.6%	7.0%			
RPM	5.2%	6.1%	5.5%	6.8%	5.5%	6.2%	5.8%	5.9%	6.1%	5.8%	6.0%	5.6%	5.8%	5.9%	5.9%	5.8%	6.1%		+0.2pp	+0.1pp
Net income	2,681	2,661	2,295	2,601	2,773	2,800	2,078	2,665	2,908	2,720	2,659	7,637	7,651	8,287	10,238	10,316	11,000	75.3%	+581	+636
YoY	29.0%	2.2%	0.1%	-3.1%	3.4%	5.2%	-9.5%	2.5%	4.9%	-2.9%	28.0%	9.5%	0.2%	8.3%	6.0%	0.8%	6.6%			
Net margin	3.6%	3.5%	3.2%	3.6%	3.7%	3.7%	2.9%	3.7%	3.8%	3.5%	3.5%	3.4%	3.4%	3.6%	3.5%	3.5%	3.6%		0.6pp	0.2pp

Segments	FY02/17				FY02/18				FY02/19			FY02/17	FY02/18	FY02/19	FY02/17	FY02/18	FY02/19		YoY change	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Cml. Q3	Cml. Q3	Cml. Q3	Cons.	Cons.	Est.	% of FY	Q3	Cml. Q3
Sales	75,472	75,928	71,472	71,853	75,514	76,287	72,041	71,997	76,480	77,404	76,033	222,872	223,842	229,917	294,725	295,839	305,000	75.4%	+3,992	+6,075
Facilities Management	12,719	12,732	12,593	12,507	13,165	12,994	13,412	13,128	14,102	14,014	14,447	38,044	39,571	42,563	50,551	52,699			+1,035	+2,992
Cleaning Services	13,323	13,420	13,308	13,314	13,743	13,708	13,920	13,926	14,247	14,390	14,456	40,051	41,371	43,093	53,365	55,297			+536	+1,722
Security Services	10,292	10,116	10,080	10,580	11,001	10,798	10,712	10,779	11,074	10,991	11,220	30,488	32,511	33,285	41,068	43,290			+508	+774
Construction Work	13,518	13,070	10,033	9,193	11,724	12,396	8,617	8,160	10,503	11,178	9,285	36,621	32,737	30,966	45,814	40,897			+668	-1,771
Materials and Supplies Sourcing	13,037	12,822	12,779	12,102	12,638	12,502	12,696	12,429	12,906	13,106	12,771	38,638	37,836	38,783	50,740	50,265			+75	+947
Vending Machine Services	7,810	9,101	7,599	8,369	8,017	8,993	7,544	8,280	8,106	8,286	7,614	24,510	24,554	24,006	32,879	32,834			+70	-548
Support Services	4,771	4,666	5,079	5,790	5,223	4,896	5,246	5,218	5,538	5,439	6,241	14,285	15,200	17,218	20,306	20,583			+995	+2,018
YoY	7.0%	5.1%	5.3%	2.1%	0.1%	0.5%	0.8%	0.2%	1.3%	1.5%	5.5%	5.8%	0.4%	2.7%	4.9%	0.4%	3.1%			
Facilities Management	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%	7.7%	4.2%	4.0%	7.6%	3.2%	4.2%				
Cleaning Services	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%	13.8%	3.3%	4.2%	11.5%	3.6%				
Security Services	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%	8.4%	6.6%	2.4%	6.8%	5.4%				
Construction Work	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%	7.8%	2.0%	-10.6%	-5.4%	4.5%	-10.7%				
Materials and Supplies Sourcing	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%	3.0%	-2.1%	2.5%	0.4%	-0.9%				
Vending Machine Services	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%	0.9%	0.2%	0.2%	-2.2%	0.4%	-0.1%				
Support Services	13.2%	4.6%	18.0%	2.3%	9.5%	4.9%	3.3%	-9.9%	6.0%	11.1%	19.0%	10.1%	6.4%	13.3%	8.9%	1.4%				
Operating profit	3,911	4,594	3,950	4,802	4,082	4,724	3,852	4,154	4,637	4,423	4,225	12,455	12,658	13,285	17,257	16,812	18,500	71.8%	+373	+627
Facilities Management	1,006	1,151	1,102	1,091	1,121	1,142	1,251	1,130	1,477	1,335	1,438	3,259	3,514	4,250	4,350	4,644			+187	+736
Cleaning Services	1,484	1,524	1,523	1,481	1,570	1,525	1,554	1,579	1,683	1,622	1,695	4,531	4,649	5,000	6,012	6,228			+141	+351
Security Services	721	697	736	956	773	708	637	739	722	681	716	2,154	2,118	2,119	3,110	2,857			+79	+1
Construction Work	935	851	681	743	911	1,020	691	683	989	1,027	865	2,467	2,622	2,881	3,210	3,305			+174	+259
Materials and Supplies Sourcing	708	635	716	715	710	687	719	752	743	752	641	2,059	2,116	2,136	2,774	2,868			-78	+20
Vending Machine Services	455	963	432	962	421	862	217	605	419	114	231	1,850	1,500	764	2,812	2,105			+14	-736
Support Services	575	579	595	628	639	685	692	502	598	671	828	1,749	2,016	2,097	2,377	2,518			+136	+81
Elimination	-129	-109	-98	-121	-134	-220	-199	-246	-209	-169		-336	-553	-	-457	-799			-	
Amortization of goodwill	-228	-202	-200	-200	-200	-200	-199	-191	-198	-210		-630	-599	-	-830	-790			-	
Company-wide expenses	-1,617	-1,495	-1,538	-1,452	-1,730	-1,485	-1,512	-1,391	-1,586	-1,404		-4,650	-4,727	-	-6,102	-6,118			-	
YoY	7.9%	2.2%	2.7%	1.4%	4.4%	2.8%	-2.5%	-13.5%	13.6%	-6.4%	9.7%	4.1%	1.6%	5.0%	3.3%	-2.6%	10.0%			
Facilities Management	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%	13.5%	3.6%	31.8%	16.9%	14.9%	0.8%	7.8%	20.9%	3.4%	6.8%				
Cleaning Services	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%	2.0%	6.6%	7.2%	6.4%	9.1%	-1.8%	2.6%	7.6%	-0.3%	3.6%				
Security Services	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%	12.4%	-2.5%	-1.7%	0.0%	2.6%	-8.1%				
Construction Work	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%	1.5%	-8.1%	8.6%	0.7%	25.2%	-8.7%	6.3%	9.9%	-0.2%	3.0%				
Materials and Supplies Sourcing	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%	0.4%	5.2%	4.6%	9.5%	-10.8%	8.3%	2.8%	0.9%	-1.1%	3.4%				
Vending Machine Services	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%	-49.8%	-37.1%	-0.5%	-86.8%	6.5%	15.8%	-18.9%	-49.1%	-1.2%	-25.1%				
Support Services	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%	16.3%	-20.1%	-6.4%	-2.0%	19.7%	23.1%	15.3%	4.0%	20.5%	5.9%				
OPM	5.2%	6.1%	5.5%	6.7%	5.4%	6.2%	5.3%	5.8%	6.1%	5.7%	5.6%	5.6%	5.7%	5.8%	5.9%	5.7%	6.1%		+0.2pp	+0.1pp
Facilities Management	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%	9.3%	8.6%	10.5%	9.5%	10.0%	8.6%	8.9%	10.0%	8.6%	8.8%			+0.6pp	+1.1pp
Cleaning Services	11.1%	11.4%	11.4%	11.1%	11.4%	11.1%	11.2%	11.3%	11.8%	11.3%	11.7%	11.3%	11.2%	11.6%	11.3%	11.3%			+0.6pp	+0.4pp
Security Services	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%	5.9%	6.9%	6.5%	6.2%	6.4%	7.1%	6.5%	6.4%	7.6%	6.6%			+0.4pp	-0.1pp
Construction Work	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%	8.0%	8.4%	9.4%	9.2%	9.3%	6.7%	8.0%	9.3%	7.0%	8.1%			+1.3pp	+1.3pp
Materials and Supplies Sourcing	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%	5.7%	6.1%	5.8%	5.7%	5.0%	5.3%	5.6%	5.5%	5.5%	5.7%			-0.6pp	-0.1pp
Vending Machine Services	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%	2.9%	7.3%	5.2%	1.4%	3.0%	7.5%	6.1%	3.2%	8.6%	6.4%			+0.2pp	-2.9pp
Support Services	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%	13.2%	9.6%	10.8%	12.3%	13.3%	12.2%	13.3%	12.2%	11.7%	12.2%			+0.1pp	-1.1pp
OP composition																				
Facilities Management	15.6%	16.5%	17.3%	15.1%	16.5%	15.6%	19.4%	17.4%	20.4%	19.4%	19.9%	18.0%	19.0%	22.1%	16.1%	17.2%				
Cleaning Services	23.0%	21.8%	23.9%	20.6%	23.1%	20.9%	24.1%	24.3%	23.3%	23.6%	23.4%	25.1%	25.1%	26.0%	22.2%	23.0%				
Security Services	11.2%	10.0%	11.5%	13.3%	11.4%	9.7%	9.9%	11.4%	10.0%	9.9%	9.9%	11.9%	11.4%	11.0%	11.5%	10.6%				
Construction Work	14.5%	12.2%	10.7%	10.3%	13.4%	13.9%	10.7%	10.5%	13.7%	14.9%	11.9%	13.7%	14.1%	15.0%	11.9%	12.2%				
Materials and Supplies Sourcing	11.0%	9.1%	11.2%	9.9%	10.5%	9.4%	11.1%	11.6%	10.3%	10.9%	8.9%	11.4%	11.4%	11.1%	10.3%	10.6%				
Vending Machine Services	7.0%	13.8%	6.8%	13.4%	6.2%	11.8%	3.4%	9.3%	5.8%	1.7%	3.2%	10.2%	8.1%	4.0%	10.4%	7.8%				
Support Services	8.9%	8.3%	9.3%	8.7%	9.4%	9.4%	10.7%	7.7%	8.3%	9.8%	11.4%	9.7%	10.9%	10.9%	8.8%	9.3%				

Source: Shared Research based on company data
Note: The company changed its distribution method of SG&A expenses in FY02/16. The change pushes up profits at Materials and Supplies Sourcing Services and Vending Machines Services segments, while pulling down profits for all other segments, compared to the conventional method.

Full-year performance

(JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Est.	Change
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	295,839	305,000	+9,161
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	0.4%	3.1%	
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	38,903		
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	-0.2%		
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	13.2%		
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	22,091		
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%	7.4%	5.1%	1.6%		
SG&A ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	7.5%		
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812	18,500	+1,688
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%	+0.4pp
Recurring profit	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	17,284	18,500	+1,216
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	-0.6%	7.0%	
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.8%	6.1%	+0.2pp
Net income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,316	11,000	+684
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	0.8%	6.6%	
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%	3.6%	+0.1pp

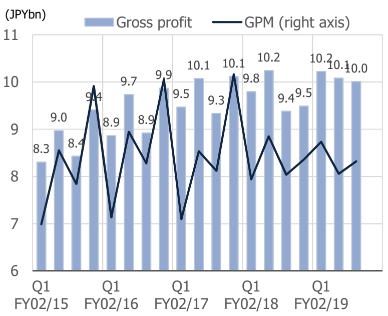
Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Est.	Change
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	295,839	305,000	+9,161
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699		
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290		
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297		
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897		
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265		
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834		
Support Services	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583		
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	0.4%	3.1%	
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%		
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%		
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%		
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%		
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%		
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%		
Support Services		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%		
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812	18,500	+1,688
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644		
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857		
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228		
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305		
Materials and Supplies Sourcing			-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868		
Vending Machine Services			-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105		
Support Services			748	590	312	741	829	1,108	1,972	2,377	2,518		
Elimination, other			-	-	-	-6,180	-7,334	-6,929	-7,406	-7,389	-7,707		
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%	
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%		
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%		
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%		
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%		
Materials and Supplies Sourcing				-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%		
Vending Machine Services				-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%		
Support Services				-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%		
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%	+0.4pp
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%		
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%		
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%		
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%		
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%		
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%		
Support Services			13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%		
OP composition													
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.4%	18.7%	17.4%	17.7%	18.9%		
Security Services			18.1%	15.6%	14.4%	13.4%	13.0%	13.7%	12.6%	12.6%	11.6%		
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.8%	27.8%	25.0%	24.4%	25.4%		
Construction Work			8.8%	6.8%	9.9%	11.0%	11.7%	12.4%	13.3%	13.0%	13.5%		
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.5%	9.3%	11.6%	11.3%	11.7%		
Vending Machine Services				8.3%	11.9%	11.9%	13.9%	13.1%	11.8%	11.4%	8.6%		
Support Services			5.0%	3.3%	1.6%	3.7%	3.7%	4.9%	8.2%	9.6%	10.3%		

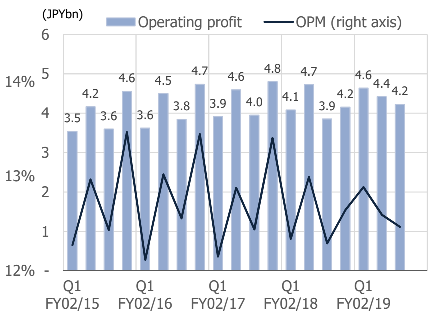
Source: Shared Research based on company data

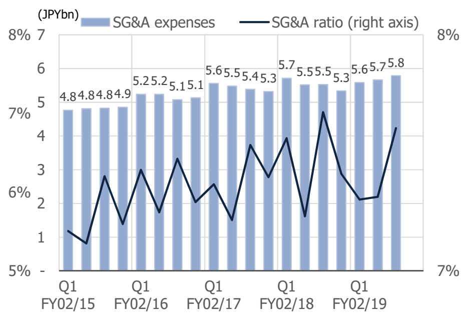
Q3 FY02/19 results (out January 9, 2019)

- Q3 FY02/19: Sales up 2.7%, operating profit up 5.0%. Record profit for Q3.
- 2025: In Japan, expand market share by constructing Aeon Delight (AD) economic zone. Overseas, concentrate management resources in China and aim to become a top ten company in the industry.
- Vision 2025: Aim for above targets with “safety and security,” “labor shortage,” and “environment” as key pillars of growth strategy in Asia
- Q3 progress: Under “safety and security,” in areas struck by disasters such as earthquakes and typhoons, provided building restoration work, temporary cleaning, and materials delivery services. Under “labor shortage,” launched installations of dispersed management system “Delight Viewer,” in October, streamlined maintenance and inspection processes, began installation and sales of floor cleaning robots, built a labor-saving model in collaboration with Secom for security work at commercial facilities, and began a trial operation of toilet IoT services at Aeon Mall Binh Tan in collaboration with Softbank Telecom Vietnam.
- Segment earnings: Six businesses grew profit. Vending Machine Services transitioning to new earnings model. Key driver of JPY630mn profit growth was Facilities Management (+JPY740mn), followed by Cleaning Services (+JPY350mn, higher productivity), Construction Work (+JPY260mn, higher margins on growth in comprehensive contracts and provision of high value-added service), Materials and Supplies Sourcing Services (+JPY20mn on higher sales), and Support Services (+JPY80mn, growth in service provision). These offset lower profit in Vending Machine Services and other segments.
- Vending Machine Services: Operating profit down JPY740mn (-49% YoY). In addition to being midway through transitioning to a new revenue model, earnings were affected by disruption in the distribution network due to a series of typhoons and product shortfall in some areas.

Earnings







Source: Shared Research based on company data

Earnings overview

Q3 FY02/19: Sales up 2.7%, operating profit up 5.0%. Record profit for Q3

- In Q3 FY02/19, Aeon Delight reported sales of JPY229.9bn (+2.7% or +JPY6.1bn YoY) and operating profit of JPY13.3bn (+5.0% or +JPY600mn YoY). OPM increased 0.2pp YoY to 5.8%.
- The capital surplus declined by JPY5.2bn to JPY13.9bn. This was due to accounting treatments for business combinations as the company purchased additional stakes in consolidated subsidiaries Aeon Delight Jiangsu and Wuhan Xiaozhu from non-controlling shareholders on November 30, 2018.
- After the end of Q3, the company purchased some of its shares from Aeon (4.98% of issued shares) as treasury stock. Aeon Delight said it decided to do so to boost ROE, which measures the efficiency of shareholders’ invested capital.

Business environment and company initiatives

Environment

Decarbonization

- In March 2018, Aeon released Aeon Decarbonization Vision 2050, declaring the group's ambition to eliminate CO2 and other greenhouse gas emissions from stores. It also aims to help all stakeholders including customers and suppliers achieve a carbon free society.

Renewable energy

- The Aeon group is the first major retailer in Japan to participate in the international RE100 initiative, which calls for businesses to use 100% renewable energy.

Electricity

- As a member of the Aeon group, Aeon Delight participates in the vision as a company involved in facilities management that includes control over electricity use. It aims to establish an energy management service, which will cover a wide range from energy supplies needed by local communities to energy-saving operations in facilities management. The company established an Electricity Planning Department in October 2018 with the aim of putting this idea into practice as soon as possible. This launched its initiatives to commercialize the energy management service and create a new business leveraging electric power.
- The Aeon group aims to reduce costs by managing its electric power consumption at the group level. There is a defensive significance in the company's participation in multiyear packaged contracts that include electricity, as electricity has high switching costs.
- The company is considering expanding into ancillary businesses including high-margin power storage and electric cars in the future.

Safety and security

- Natural disasters in Japan caused a great deal of damage due to earthquakes and a series of typhoons making landfall. The company has worked for the quick recovery of affected areas by establishing a response headquarters and offering building restoration work, temporary cleaning, and material delivery services.
- As a facilities management company whose mission is to provide a safe, secure, comfortable environment in and around the sites it manages, it also worked to help commercial facilities resume their operation swiftly.

Labor shortage

Aeon Delight Platform (AD Platform)

- Labor shortages are becoming critical in Japan and China, where the company operates. The company has started developing the Aeon Delight Platform (AD Platform), with the aim of easing the labor shortage in-house and at client companies.
- The AD Platform will collect, store, and analyze data obtained from the facilities it manages and others to offer the optimal solutions to issues faced by individual client companies.
- The company developed Delight Viewer, a dispersed management system, in anticipation of the development of the AD Platform, and launched it in October 2018. Delight Viewer efficiently collects and stores data obtained from facility maintenance and inspection operations.

Floor cleaning robot

- Aeon Delight developed a floor cleaning robot to cope with the labor shortage in the cleaning industry in collaboration with the major US cleaning equipment manufacturer Tennant Company.
- Full installation of the product has begun at facilities where Aeon Delight has operations, and the company has been selling the robot to cleaning companies since November 2018.
- The robot is expected to yield a reduction of about 70% in working time, and overall cost savings versus traditional operations including robot depreciation expenses.
- The move is also significant in that it solves the difficulty recruiting nighttime cleaning staff.

Collaboration with Secom Co., Ltd. (TSE1: 9735)

- The company started collaborating with Secom Co., Ltd. in April 2018 in building a new facilities management business model.
- As the first joint initiative, the companies developed a labor-saving model for entry and exit control and store closing operations by conducting pilot tests at Aeon stores with a view to saving labor in security services.
- The company aims to roll out this model primarily in commercial facilities, and verify results to yield further labor savings in facilities management operations. The company also said it plans to strengthen its collaboration with Secom and start marketing activities to small and medium-sized office buildings, leveraging the strengths of the two companies.

Toilet IoT services

- Overseas, its Vietnamese subsidiary Aeon Delight Vietnam collaborates with SoftBank Telecom Vietnam. In September 2018, the two companies launched a pilot test of toilet IoT services at Aeon Mall Binh Tan (Ho Chi Minh City). This service aims to make toilet cleaning operations more efficient while boosting safety by remotely monitoring the operational status of individual toilet cubicles.

Accelerating global development

Asian expansion intentions

- Aeon Delight thinks that expanding in developed countries would be difficult. These economies are mature with low market (floor space) growth rates, and competitors have established positions.
- The company is focusing on expanding in Asia. Market (floor space) growth rates are high in the region, and competitors do not have established positions. The company thinks it will be easy to expand in Asia which has a shared business sensibility.

China business: Making two core companies wholly owned subsidiaries

- The company made its two core Chinese subsidiaries, Aeon Delight Jiangsu and Wuhan Xiaozhu, wholly owned subsidiaries by purchasing the remaining outstanding shares in October 2018, to accelerate its business growth in China.
- The move will strengthen collaboration between the two companies and accelerate the decision-making process, as well as help establish the Aeon Delight brand in China. The company aims to build a brand image such that Aeon Delight is seen as a Japanese security company synonymous with building maintenance for foreign companies.
- The company is steadily growing its business as competing players have low productivity and the market is growing rapidly.

ASEAN business: Purchase of shares in Indonesian cleaning company

- In October 2018, the company announced its intention to buy 90% of the shares in PT Sinar Jernih Sarana (SJS), a cleaning services company in Indonesia, and formally completed the acquisition in December 2018.
- SJS has posted rapid growth in Indonesia, the largest of the ASEAN markets. It has grown to become one of the largest grossing cleaning services companies in the country.
- The company thinks that there must be the same sort of market underlying the cleaning market as in Japan, including facilities management and security. Aeon Delight said that it would leverage its expertise to help SJS branch out from cleaning into other areas such as facilities management and security services and grow into a facilities management company. SJS has already obtained licenses needed in facilities management from the authorities.
- Because SJS was originally part of an Indonesian conglomerate, its executives have broad personal contacts throughout Asia. The company thinks that SJS can become a driving force in the ASEAN region by leveraging the company's personal connections.

First ISO 41001 certification in Japan

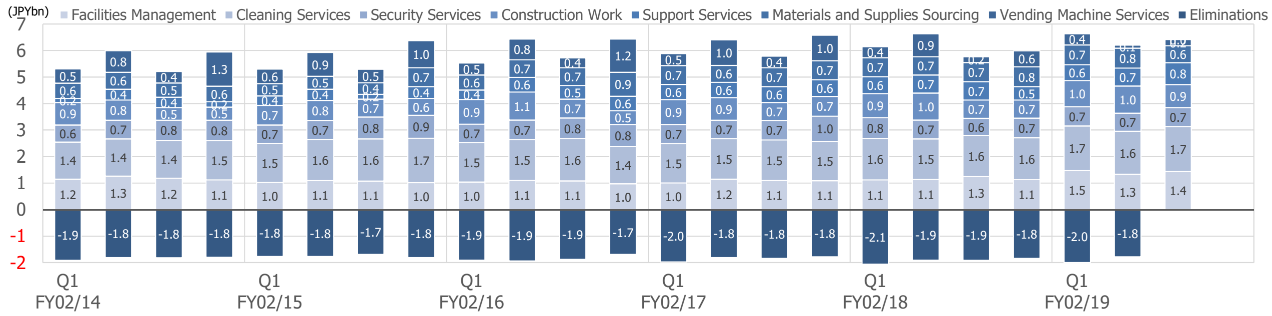
- In April 2018, the International Organization for Standardization (ISO) released the first international standard (ISO 41001) in facilities management. In September 2018 one of Aeon Delight's integrated facilities management (IFM) customers became the first facility to acquire the certification in Japan.
- The company plans to use ISO 41001 to standardize business processes and expand service provision to the global level.

Initiatives to improve employee engagement

- The company has unrolled small group activities at the individual workplace level. These foster a workplace culture where members of its Clean Crew (its internal designation for cleaning staff) volunteer information on things they notice day-to-day and ideas on creating a pleasant working environment.
- These are reflected in work processes. In November 2018, the company held a conference at the Tokyo Big Sight to share the results from Japan and abroad and further promote the program. This was the fourth such conference highlighting initiatives in pursuit of a pleasant working environment.

Segment overview

Operating profit by segment



Source: Shared Research based on company data

Building maintenance (Facilities Management, Security Services, Cleaning Services)

- Recurring revenue business; annual contracts are renewed in most years.
- Sales are growing especially outside the Aeon group. This is because Aeon Delight has met demand for one-stop contracts for facilities management, security services, and cleaning services at one company that previously went to separate companies. It

has similarly met needs for nationwide contracts run by one company rather than region-by-region contracts for separate companies. Aeon Delight thinks that it is the only company that can comprehensively satisfy such needs.

- The company got its start in building maintenance for commercial facilities, which is more difficult than that for office buildings or condominiums. This is because commercial facilities attract large, random visitor numbers, so there is a greater likelihood of the facilities getting soiled than office buildings or condominiums. Aeon Delight has the expertise needed to deal with facilities such as hospitals, which gives it a competitive edge.
- Building maintenance customers are cost-conscious, and usually use competitive tenders when outsourcing work. One source of the company's competitiveness is that its sales team is experienced in building maintenance. They look into the details of the orders, and engage in proposal based on marketing that will reduce costs as well as meet customer needs.
- At present, many of Aeon Delight's processes are labor-intensive, so funding ability is not a major concern. However, the company thinks that in the future it will require funds for mechanization and automation, so funding ability will grow in importance.
- The company's business is impacted by economic fluctuations with a lag. This is because many of its customers are in the retail industry and when the sector's results deteriorate, the company is subject to cost-cutting measures. However, Aeon Delight does not view downturns in the economy as negative. When the economy is poor, potential clients start considering changing their building maintenance contractors, opening up an opportunity for the company to win new customers.

Segment conditions

- **Facilities Management** (operating profit JPY4.3bn, +JPY740mn YoY): In addition to gaining new contracts, the company focused on helping customers develop disaster prevention and mitigation systems. It won increased orders for scheduled fire safety equipment testing (under revised regulations) and emergency generator load testing, as well as associated fault repairs. Growth was stronger than normal.
- **Security Services** (JPY2.1bn, unchanged YoY): Aeon Delight conducted ongoing initiatives to reform workstyles starting with improving the workplace environment to facilitate recruitment, and made progress on systematizing services such as building access control and security patrols, but profit was impacted by higher outsourcing costs.
  - The availability of manpower is the main limiting factor on sales growth, and for security services in particular. Amid a spike in Olympics related construction demand, the company is competing with the construction industry for security personnel.
  - The company said that earnings have deteriorated due to the personnel shortage, and some contracts are in the red. It is responding by changing specifications or entering price negotiations. In some cases it is considering ending contracts that have no prospects for improvement. The company intends to deal with the personnel shortage by increasing the proportion of collaborations with Secom it can operate using equipment.
- **Cleaning Services** (JPY5.0bn, +JPY350mn YoY): In addition to new contracts, the company grew sales of materials developed in-house, made progress on labor saving in toilet cleaning, and introduced/launched sales of floor cleaning robots.

Other than building maintenance (Construction Work, Materials and Supplies Sourcing Services, Vending Machine Services)

- Most sales are to the Aeon group.

Segment conditions

▷ **Construction Work** (JPY2.9bn, +JPY260mn YoY): The company preformed restoration work in disaster struck areas, and increased comprehensive construction contracts as it focused on proposals covering remodeling projects from the planning stage at commercial facilities.
  - This is a one-time revenue type business. It is hard to control sales because orders depend on renovation work at customers.
  - Clients tend to outsource renovation work to companies which handled the original design of their facilities. Having a design capability would help drive construction work sales growth in the future. To this end, the company made U-COM Co., Ltd. a wholly owned subsidiary in April 2018.

▷ **Materials and Supplies Sourcing Services** (JPY2.1bn, +JPY20mn YoY): Won more contracts to provide Aeon private brand packaging materials, focused on reducing logistics costs to improve margins.

▷ **Vending Machine Services** (JPY760mn, -JPY740mn YoY): In addition to growth in own vending machines that stock products from different manufacturers, the company attempted to create added value by using vending machines with digital signage, but profit fell as business was midway through transition to new revenue model, and natural disasters disrupted distribution network and caused product shortages.

Support Services (JPY2.1bn, -JPY80mn YoY)

▷ Including business of consolidated subsidiaries Kajitaku and Aeon Compass, provided increased outsourcing services in management operations of facilities and surroundings.

Supplemental segment information (as of end-Q1, for reference)

Aeon Delight aims to improve **Security Services** profit margins through negotiation of higher contract prices to reflect increased costs such as personnel expenses, and by streamlining human resources deployment. Costs associated with improving the workplace environment at subsidiaries have been increasing since Q4 FY02/18 and are projected to wind down from Q4 FY02/19.

Cumulative effects of past **Cleaning Services** initiatives, coupled with improved profitability of subsidiary Hakuseisha Co., Ltd. lifted GPM. Hakuseisha accounted for 20–30% of the JPY110mn increase in operating profit.

Construction Work OPM is rising as a result of an improved portfolio mix stemming from a decline in the sales weighting of relatively low-margin LED-related work. While there were no increases in lucrative projects such as store design, revitalization-related revenues fell slightly. GSM: Revitalization-related demand fell short of plan in FY02/18, but the downward momentum seems to have come to a stop in Q1, although it was down slightly. Shopping malls: Demand was especially pronounced in Q1 FY02/18 so there was a pull-back in Q1 FY02/19. Shopping mall tenants (restoration to original state when leaving, renovation work such as interior work for store openings): there was special demand in Q1 FY02/18 for restoration work owing to withdrawal from Japan of a foreign apparel company.

Gross and operating profits remained flat on successful efforts to improve profitability such as increased scrutiny of project estimates. There are already indications of increased shopping mall related demand (including tenants) from Q2, and the company expects a reversal of the previous downward trend in H1. It plans to conduct marketing activities in line with full-year estimates (JPY2.3bn YoY increase to JPY9.2bn).

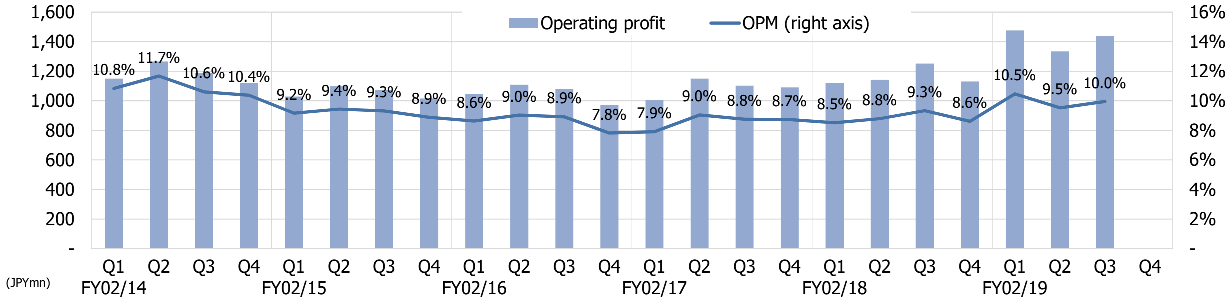
Going forward, the company anticipates contributions from U-COM, which the company made a wholly-owned subsidiary in April 2018. Aeon Delight acquired U-COM to position itself as a comprehensive service provider (from planning to maintenance) by expanding its offerings beyond traditional mainstays of production/construction, maintenance, and restoration/remodeling to include more upstream services such as survey/planning, design, and design supervision. We will monitor progress on this front going forward.

In **Vending Machine Services**, the revenue model for some vending machines is being changed and this resulted in operating profit declining slightly in Q1. The plan is to improve profit margins by converting the business structure of about 5,000 vending machines each year (currently Aeon Delight operates about 43,000 vending machines). About 1,200 machines were converted in Q1 and a similar level is planned for Q2 and beyond. Ad revenue from vending machines with digital signage appears to have boosted sales. Aeon Delight forecasts YoY profit growth from Q3.

Eroding **Support Services** operating profit was largely attributable to declining profits of Aeon Compass. Large travel-related projects tend to impact Aeon Compass' earnings and this was a factor in Q1. Higher operating profits by Kajitaku stem from expansion of the profitable online mail order business.

Reference

Facilities Management

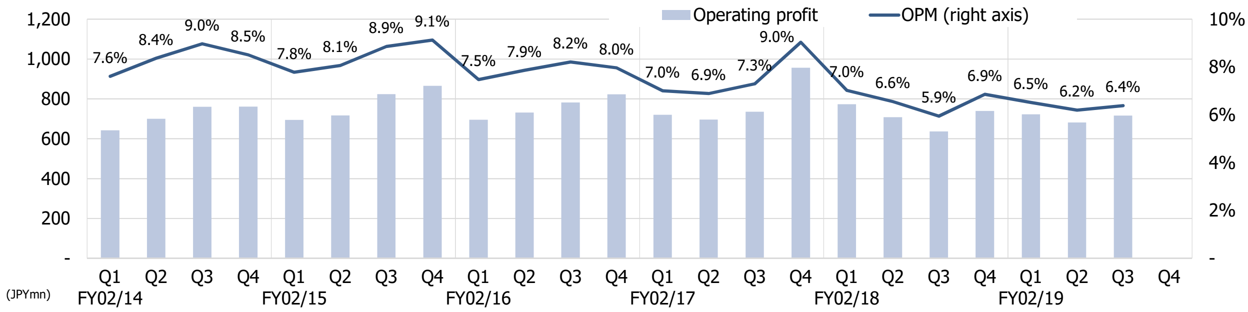


Facilities Management (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3
Sales	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507	13,165	12,994	13,412	13,128	14,102	14,014	14,447
YoY	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%	7.7%
Operating profit	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091	1,121	1,142	1,251	1,130	1,477	1,335	1,438
YoY	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%	13.5%	3.6%	31.8%	16.9%	14.9%
OPM	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%	9.3%	8.6%	10.5%	9.5%	10.0%

Facilities Management (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699
YoY	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%
Operating profit	4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644
YoY	-	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%
OPM	10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%

Source: Shared Research based on company data

Security Services

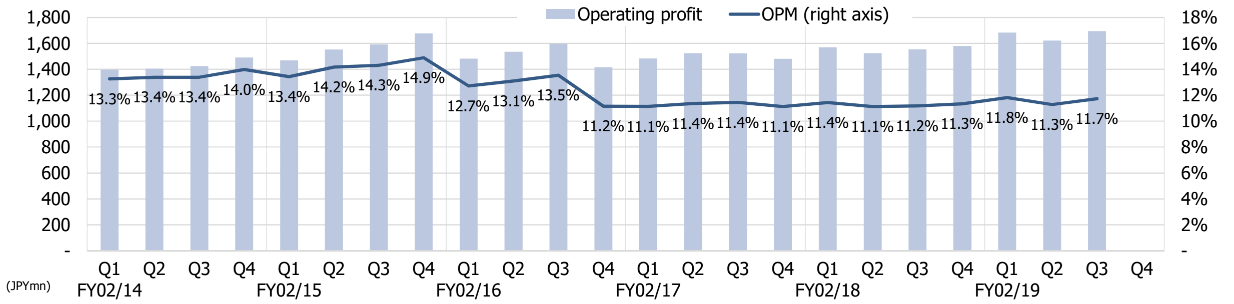


Security Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3
Sales	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580	11,001	10,798	10,712	10,779	11,074	10,991	11,220
YoY	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%
Operating profit	696	731	782	823	721	697	736	956	773	708	637	739	722	681	716
YoY	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%	12.4%
OPM	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%	5.9%	6.9%	6.5%	6.2%	6.4%

Security Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290
YoY	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%
Operating profit	2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857
YoY	-	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%
OPM	8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%

Source: Shared Research based on company data

Cleaning Services

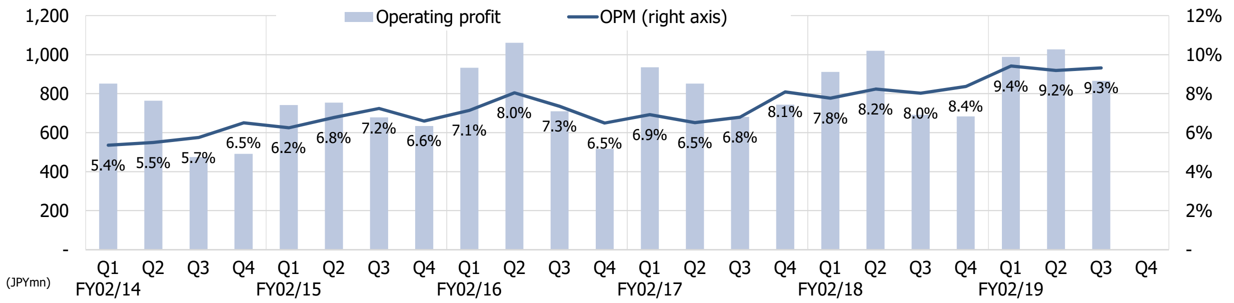


Cleaning Services	FY02/16				FY02/17				FY02/18				FY02/19		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314	13,743	13,708	13,920	13,926	14,247	14,390	14,456
YoY	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%
Operating profit	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481	1,570	1,525	1,554	1,579	1,683	1,622	1,695
YoY	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%	2.0%	6.6%	7.2%	6.4%	9.1%
OPM	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	11.1%	11.4%	11.1%	11.2%	11.3%	11.8%	11.3%	11.7%

Cleaning Services	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297
YoY	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%
Operating profit	5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228
YoY	-	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%
OPM	12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%

Source: Shared Research based on company data

Construction Work

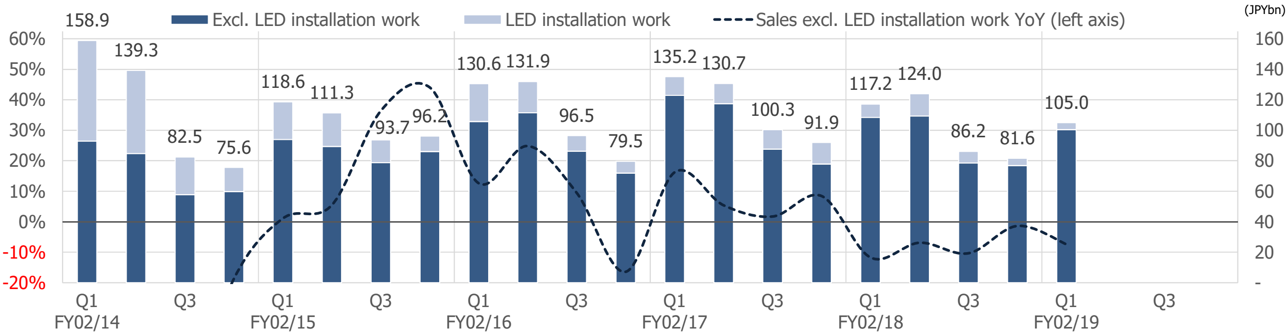


Construction Work	FY02/16				FY02/17				FY02/18				FY02/19		
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193	11,724	12,396	8,617	8,160	10,503	11,178	9,285
YoY	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%	7.8%
Operating profit	932	1,061	709	516	935	851	681	743	911	1,020	691	683	989	1,027	865
YoY	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%	1.5%	-8.1%	8.6%	0.7%	25.2%
OPM	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%	8.0%	8.4%	9.4%	9.2%	9.3%

Construction Work	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305
YoY	-	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%
OPM	9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%

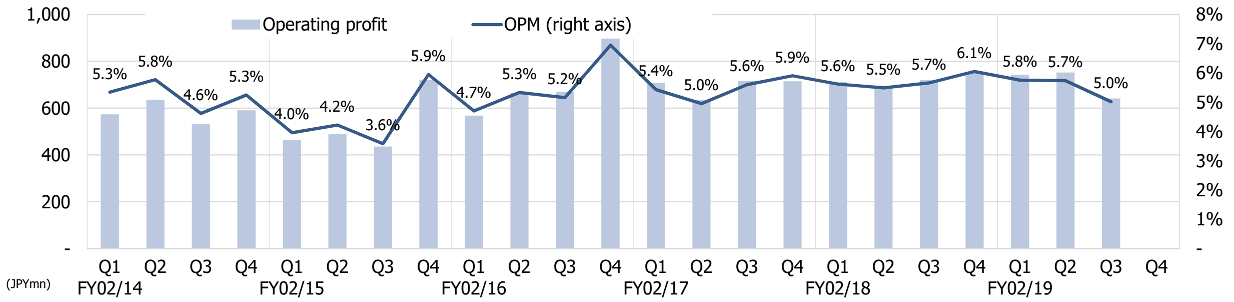
Source: Shared Research based on company data

Sales from work other than LED lighting installations



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

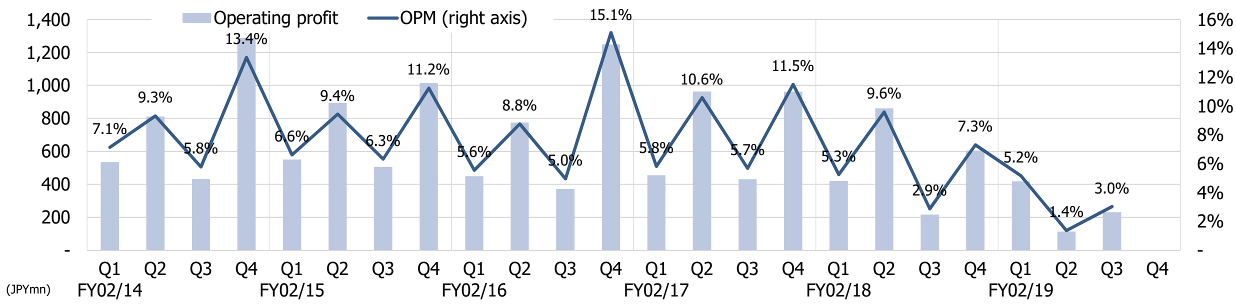


Materials and Supplies Sourcing (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3
Sales	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102	12,638	12,502	12,696	12,429	12,906	13,106	12,771
YoY	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%
Operating profit	568	664	670	904	708	635	716	715	710	687	719	752	743	752	641
YoY	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%	0.4%	5.2%	4.6%	9.5%	-10.8%
OPM	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%	5.7%	6.1%	5.8%	5.7%	5.0%

Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868
YoY	-	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%
OPM	-	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%

Source: Shared Research based on company data

Vending Machine Services



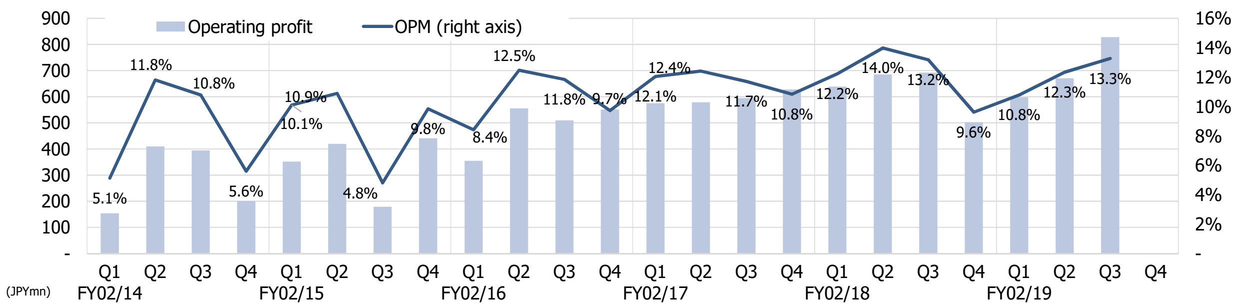
Source: Shared Research based on company data

Vending Machine Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3
Sales	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369	8,017	8,993	7,544	8,280	8,106	8,286	7,614
YoY	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%	0.9%
Operating profit	450	775	372	1,249	455	963	432	962	421	862	217	605	419	114	231
YoY	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%	-49.8%	-37.1%	-0.5%	-86.8%	6.5%
OPM	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%	2.9%	7.3%	5.2%	1.4%	3.0%

Vending Machine Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834
YoY	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%
Operating profit	-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105
YoY	-	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%
OPM	-	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%

Source: Shared Research based on company data

Support Services



Support Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3
Sales	4,214	4,459	4,304	5,662	4,771	4,666	5,079	5,790	5,223	4,896	5,246	5,218	5,538	5,439	6,241
YoY	21.0%	15.8%	15.5%	26.4%	13.2%	4.6%	18.0%	2.3%	9.5%	4.9%	3.3%	-9.9%	6.0%	11.1%	19.0%
Operating profit	355	556	510	551	575	579	595	628	639	685	692	502	598	671	828
YoY	0.9%	32.4%	125.7%	400.9%	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%	16.3%	-20.1%	-6.4%	-2.0%	19.7%
OPM	8.4%	12.5%	11.8%	9.7%	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%	13.2%	9.6%	10.8%	12.3%	13.3%

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%
Operating profit	748	590	312	741	829	1,108	1,972	2,377	2,518
YoY	-	-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%
OPM	13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%

Source: Shared Research based on company data

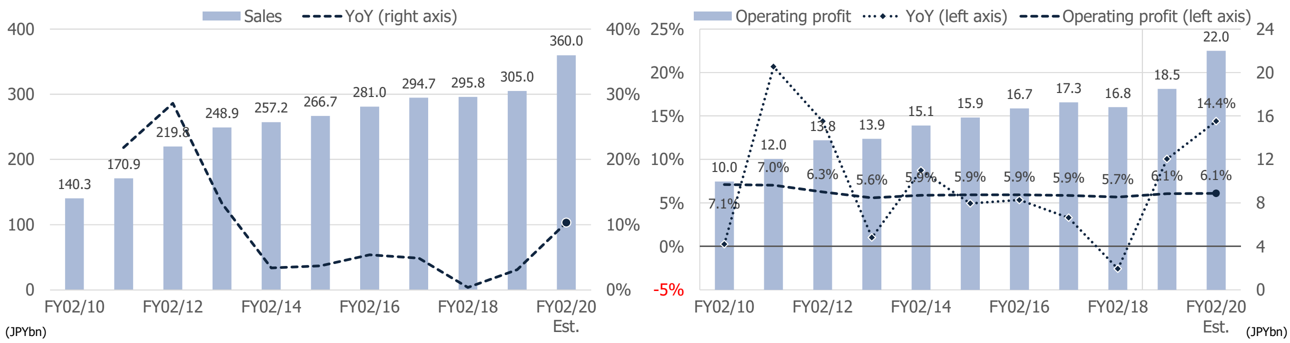
For details on previous results, please refer to the Historical financial statements section.

Full-year company forecasts

	FY02/16			FY02/17			FY02/18			FY02/19 Est.			FY02/20 Targets
(JPYmn)	1H	2H	FY	1H	2H	FY	1H	2H	FY	1H	2H	FY	(% figures are CAGR)
Sales	**142,783**	**138,258**	**281,041**	**151,400**	**143,325**	**294,725**	**151,801**	**144,038**	**295,839**	**152,000**	**153,000**	**305,000**	**360,000**
YoY	6.5%	4.2%	5.4%	6.0%	3.7%	4.9%	0.3%	0.5%	0.4%	0.1%	6.2%	3.1%	6.9%
Cost of sales	124,185	119,466	243,651	131,856	123,874	255,730	131,765	125,170	256,935				
Gross profit	**18,598**	**18,792**	**37,390**	**19,544**	**19,451**	**38,995**	**20,035**	**18,868**	**38,903**				
YoY	7.6%	5.3%	6.5%	5.1%	3.5%	4.3%	2.5%	-3.0%	-0.2%				
GPM	13.0%	13.6%	13.3%	12.9%	13.6%	13.2%	13.2%	13.1%	13.2%				
SG&A expenses	10,476	10,206	20,682	11,039	10,699	21,738	11,228	10,863	22,091				
SG&A ratio	7.3%	7.4%	7.4%	7.3%	7.5%	7.4%	7.4%	7.5%	7.5%				
Operating profit	**8,121**	**8,586**	**16,707**	**8,505**	**8,752**	**17,257**	**8,806**	**8,006**	**16,812**	**9,000**	**9,500**	**18,500**	**22,000**
YoY	5.4%	5.2%	5.3%	4.7%	1.9%	3.3%	3.5%	-8.5%	-2.6%	2.2%	18.7%	10.0%	8.4%
OPM	5.7%	6.2%	5.9%	5.6%	6.1%	5.9%	5.8%	5.6%	5.7%	5.9%	6.2%	6.1%	6.1%
Recurring profit	**8,139**	**8,545**	**16,684**	**8,506**	**8,875**	**17,381**	**8,878**	**8,406**	**17,284**	**9,000**	**9,500**	**18,500**	
YoY	5.4%	4.0%	4.6%	4.5%	3.9%	4.2%	4.4%	-5.3%	-0.6%	1.4%	13.0%	7.0%	
RPM	5.7%	6.2%	5.9%	5.6%	6.2%	5.9%	5.8%	5.8%	5.8%	5.9%	6.2%	6.1%	
Net income	**4,682**	**4,976**	**9,658**	**5,342**	**4,896**	**10,238**	**5,573**	**4,743**	**10,316**	**5,600**	**5,400**	**11,000**	**12,800**
YoY	6.9%	14.5%	10.7%	14.1%	-1.6%	6.0%	4.3%	-3.1%	0.8%	0.5%	13.9%	6.6%	7.7%

Source: Shared Research based on company data

Medium-term business plan (FY02/18–FY02/20)



Source: Shared Research based on company data

In April 2017, the company announced a new medium-term business plan which will be in effect through FY02/20. The plan targets sales of JPY360.0bn (6.9% average annual growth rate, JPY65.3bn increase over three years), operating profit of JPY22.0bn (8.4%, JPY4.7bn increase), and net income of JPY12.8bn (7.7%, JPY2.6bn increase). In addition to organic growth, the company says the targeted JPY65.3bn increase in sales will include 1) a JPY15.0-20.0bn increase in sales, mainly IFM, to clients outside the domestic Aeon group, 2) a JPY15.0-20.0bn increase from revitalization work for Aeon group companies and remodeling work for incoming tenants, 3) a JPY15.0-20.0bn increase from overseas sales, mainly IFM in China.

The medium-term plan's priority issues are 1) IFM, 2) Asia, and 3) technology, among which it is aiming for significant increases in IFM and Asia.

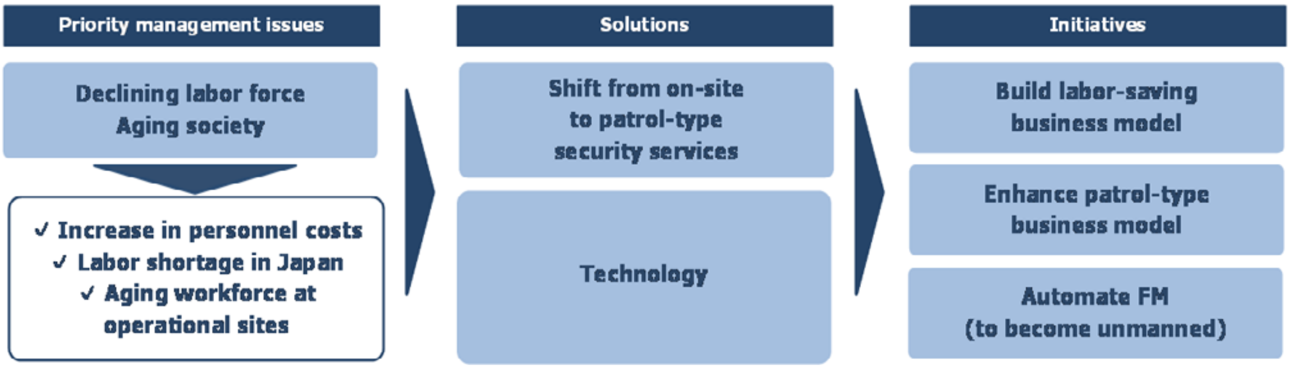
First year of plan (FY02/18) ends

The company positioned FY02/18, the first year of the plan, as one in which to focus resources on high potential growth markets such as IFM and overseas, and transform its business model, while continuing to make initiatives taken in the previous medium-term plan profitable. There are three priority initiatives under the plan. One is IFM. The company aims to gain expertise under a new corporate business model as it provides an IFM service to a major pharmaceutical company. In Japan, lost opportunities due to a labor shortage have put the company behind schedule as it tries to meet its three-year target of 10 contracts. The second initiative is Asia. The company aims to improve performance and steadily expand businesses in five primary markets in China. The third initiative is technology. The company has made steady progress on a number of measures, including the establishment of a next-generation energy-saving facility management model. However, it has yet to get a labor-saving model in place, leaving it with the issue of being unable to absorb the rising cost of labor.

Aeon Delight recognizes labor reduction as the biggest and most urgent issue it faces, since labor shortages impact not only the business environment, but the company directly (blunting its ability to capture new contracts). In 2H, it raised the management priority of developing labor reduction and automation facility management (FM) models as soon as possible.

FY02/18 operating profit was just JPY16.8bn, down JPY400mn YoY and falling short of the initial forecast (JPY18.0bn). Specific factors were slowing demand for remodeling work at some commercial facilities in the Construction Work segment, rising personnel costs to improve the workplace environment and establish a new system in the Security Services segment, one-time expenses and increased depreciation related to the installation of value-added vending machines with digital signage in the Vending Machine Services segment, and lost opportunities related to IFM. The labor shortage did not directly impact the factors associated with Construction Work and Vending Machine Services.

Medium-term management plan (FY02/18—FY02/20)



Source: Shared Research based on company data

Initiatives undertaken in 2H FY02/18 have begun bearing fruit early in FY02/19.

As it works toward realizing the medium-term management plan, Aeon Delight considers FY02/19 a period for establishing a business model that embraces multiple keywords, including efficiency, profitability, labor reduction, and automation. It also intends to accelerate growth in new business areas.

Approach for FY02/19

Aeon Delight is targeting a 10% YoY increase in operating profit to JPY18.5bn. Admittedly, the company is behind schedule on the path to its FY02/21 target of JPY22.0bn. However, considering the labor shortage a priority management issue, it is working to establish an efficient labor reduction business model and develop new business areas using the labor shortage as a tailwind, which will allow it to accelerate growth and bring it closer to achieving the targets of the medium-term management plan. The following is an overview of initial company forecasts and issue resolution initiatives for FY02/19.

FY02/19 company forecasts (initial)

Targets

In FY02/19, the company forecasts sales of JPY305.0bn (+3.1% YoY, +JPY9.2bn YoY), operating profit of JPY18.5bn (+10.0%, +JPY1.7bn), OPM of 6.1%, net income of JPY11.0bn (+6.6%, +JPY700mn), and NPM of 3.6%. The JPY1.7bn increase in operating profit is to be the result of a JPY3.0bn increase in gross profit absorbing a JPY1.2bn increase in SG&A expenses. The JPY3.0bn increase in gross profit is to be the result of measures related to client expansion (JPY800mn), store design and renovation business (JPY300mn), business expansion in Asia (JPY600mn), labor reduction and cost improvements (JPY700mn), and growth of domestic subsidiaries (JPY600mn).

Measures to increase gross profit

- **Client expansion:** Based on lost opportunities in FY02/18, Aeon Delight believes there are numerous contracts it could win if it could secure personnel with the required skills, and it aims to win clients outside the Aeon group by proposing labor-saving and energy-saving solutions.
- **Store design and renovation business:** The company expects to see more restorative construction work to be done when tenants are replaced in shopping malls. Including such work, it forecasts JPY9.2bn (+JPY2.3bn YoY) in gross profit from revitalization demand.

- **Business expansion in Asia:** The company plans to expand in Asia, with two thirds of the expansion in China and the other third in ASEAN.
- **Labor reduction and cost improvements:** This is related to client expansion, but Aeon Delight expects to achieve labor reduction and cost improvements by establishing a labor reduction business model and conducting various initiatives utilizing technology to achieve cost improvements.
- **Growth of domestic subsidiaries:** The company expects to achieve improvement across all of its subsidiaries, including growth at AZS, which handles non-core businesses (including call center services and facility management) under contract for small stores, recovery at Kajitaku, improved earnings at Hakuseisha, and continued profit growth at Aeon Compass.

Initiatives related to priority management issues

Aeon Delight aims to establish highly efficient labor reduction, automation, and visiting-type FM business models in FY02/19 to resolve priority management issues. Specifically, the company says it plans to establish two models to enhance services for small and medium facilities in Japan, a labor reduction model for large commercial facilities in Japan, and an automated FM model (SmartFM) for China.

Services for small and medium facilities in Japan

The company aims to establish two business models with distinct characters for small and medium domestic facilities. The first is a new FM business model created in collaboration with SECOM (TSE1: 9735). The second is a highly efficient, high-margin model that reduces the number of on-site staff, adds staff at visiting service offices, and strengthens sales.

Collaboration with SECOM

In April 2018, Aeon Delight announced a collaborative effort with SECOM to develop a new FM business model that can capture FM demand from the 2.2mn companies in Japan that have adopted machine security (remote security using sensors). This demand amounts to 2.2mn companies × JPY30,000/month (an amount similar to the fee for machine security). For example, if the company can win contracts with 2.2mn companies × 10% market share × JPY30,000/month × 12 months, sales would be about JPY80.0bn. A 20% market share would mean about JPY160.0bn in sales. The nature of the collaboration is unclear, but a 50:50 split would mean JPY40.0bn or JPY80.0bn respectively for Aeon Delight. At a briefing, the company said the sales teams of both companies would try to capture demand for safety and security at medium-sized facilities (20,000sqm and smaller) and together they are targeting a market share of about 20% by FY02/21. We will be watching related developments.

Collaboration with SECOM: On April 10, 2018, Aeon Delight agreed to collaborate with SECOM to establish a new FM business model. The content of the collaboration includes 1) by leveraging the service bases, technologies, and expertise of both companies, realizing labor reduction and automation for the management and operation of large facilities conventionally handled by on-site guards; 2) developing a one-stop service for small and medium facilities to resolve issues related to safety, security, comfort, and convenience; 3) coordinating client development by leveraging the sales abilities of both companies; and 4) promoting coordination on the development of overseas businesses by both companies, starting in China, where the market is growing fast.

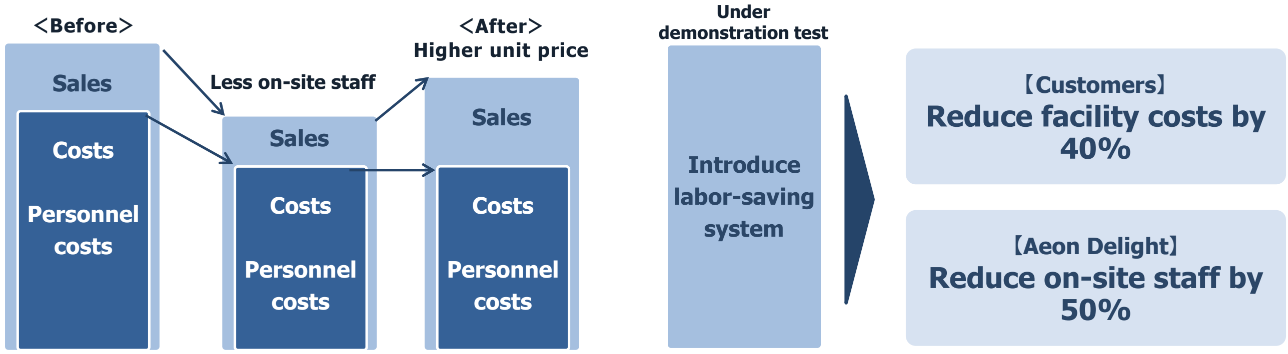
Establishment of more efficient, high-margin business model

Shared Research believes that with the new model, the company can anticipate improved profitability of the conventional on-site model through labor reduction and of the visiting model through business expansion and development of a dominant position. Aeon Delight operates through about 600 sites around the country, with a total of some 20,000 qualified staff members assigned to those sites (along with a network of about 10,000 cooperating companies). Of the 600 sites, about 450 are involved in FM, and about 80 of those conduct visiting services. When FM staff members are assigned to work on-site, this increases costs, ties up qualified staff, and keeps earnings from growing. Establishing a business model that reduces the number of on-site staff would improve profitability. The reduction can be achieved by consolidating administrative work (the aim is to reduce a four to five-person team by one).

This sort of service is already being used in commercial facilities. It seems that although sales decline, expenses decline even more, leading to improved profitability. Clients receive the benefit of cost reduction, so if a more efficient, high-margin model is established that still guarantees quality, Aeon Delight can anticipate horizontal expansion. It plans to develop the model in earnest starting in FY02/19.

The excess staff members resulting from such labor reduction would then be assigned to sites providing visiting services or to new projects. Capturing demand in areas near sites providing visiting services helps the company strengthen its dominance, increasing sales and improving profitability. The synergistic effect is sizeable.

More efficient, high-margin model for small and medium facilities (left), labor reduction model for large commercial facilities (right)



Source: Shared Research based on company data

Establishment of labor reduction model for large commercial facilities in Japan

Aeon Delight is considering a labor reduction model for large commercial facilities that is similar to the one for small and medium facilities (in terms of reducing labor through improved efficiency), but in combination with cutting-edge technology. It plans to establish a model during 1H FY02/19 for deployment at multiple facilities in 2H. This labor reduction model will have initial costs for sensors and other equipment, but halving the number of on-site staff will result in a 40% reduction in facility costs for clients. The model is already being tested both inside and outside Japan. An energy saving FM model was tested during FY02/18 as a next-generation FM model, and has now been integrated into the labor reduction model being tested at Aeon Mall Tokoname (total leased area of 86,700sqm). As the model nears its completed form, the company is working to determine the results of each of a variety of labor reduction initiatives and to satisfy clients on the safety and security of the model.

A 40% reduction in client costs naturally means a 40% reduction in related sales for Aeon Delight, but the company plans to secure profit with the establishment of a labor reduction model leveraging technology. In addition, it plans to shift staff released from on-site duties to new projects. The company feels it had at least 20 lost opportunities in FY02/18 due to the labor shortage. Being able to respond to such demand will help it generate sales and profit.

Establishment of automated FM model (SmartFM) for China

The aforementioned labor reduction model also anticipates the ultimate move to full automation. In March 2018, the company announced it plans to establish AeonDelight DeepBlue Technology (Shanghai) Co., Ltd., a joint venture with IT company DeepBlue Technology (Shanghai) Co., Ltd. (China) on April 26, 2018. Aeon Delight will have a 65% stake in the new company, while DeepBlue Technology (Shanghai) will have 35%. Aeon Delight says it has a good feeling about the venture's potential technological development speed and hopes to have SmartFM up and running in China in about a year. It is also considering using technology from DeepBlue Technology in its labor reduction model.

Reasons for establishing a new company: DeepBlue Technology (Shanghai) possesses strengths in the basic research and application development for AI and provides integrated solutions for processes from R&D to product planning, development, and production. The new company will function as an R&D center specializing in R&D to create SmartFM, a new business model for facilities management (FM) which utilizes the company's wealth of expertise amassed in Japan, combined with cutting-edge technology. SmartFM will utilize AI and IoT in visual monitoring control systems, security systems, and assorted robot technology in order to make customer facilities more intelligent, improve convenience for facility users, and significantly increase productivity by automating and streamlining operations. In the future, the company aims to launch SmartFM in China, Japan, and ASEAN nations.

China's SmartFM (including operations of DeepBlue Technology)

Source: Shared Research based on company data

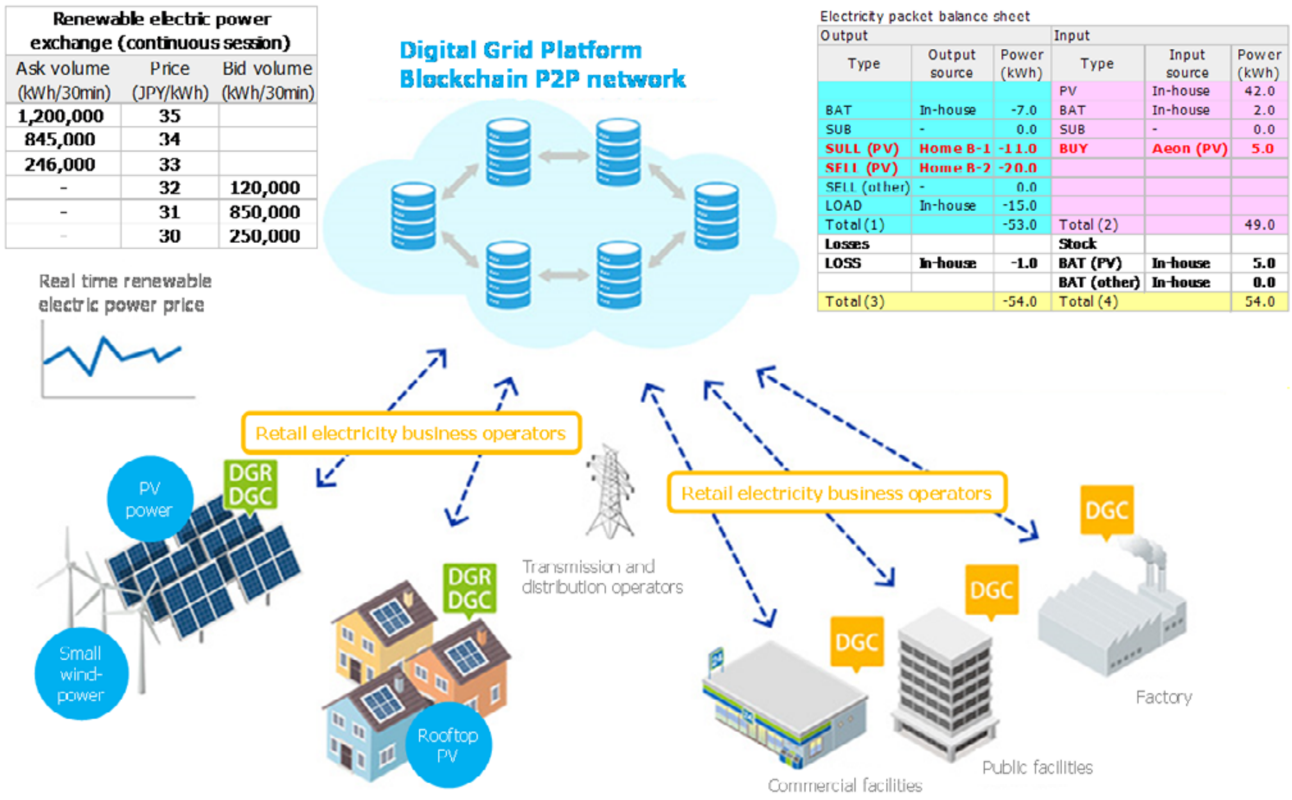
Topics

On **March 28, 2018**, the company announced that it will participate in the renewable energy pilot project utilizing blockchain technology to achieve a carbon-free society. The company plans to install dedicated equipment at 35 Aeon group stores in FY02/19 and at about 1,000 stores in FY02/20. It intends to manage energy and sell it to consumers, utilizing a platform that can identify the type of electric power being generated and trade the power accordingly (scheduled to be completed in FY02/20).

The Aeon group is the first major retailer in Japan to participate in the international RE100 initiative, which calls for businesses to use 100% renewable energy. It has declared its commitment to reducing CO_2 and other greenhouse gas emissions from stores to zero by 2050 (Aeon Decarbonization Vision 2050). As an interim target, the Aeon group hopes to reduce total greenhouse gas emissions from stores by 35% by 2030 (relative to the 2010 level).

The company says the Aeon group consumes about 7.4bn kWh per year (about 0.9% of the total used in Japan; the Aeon group itself uses about 2.0bn kWh, with the rest used by tenants and others), costing more than JPY100bn. The company invests in DIGITAL GRID Corporation (http://www.digitalgrid.com/, President and CEO Rikiya Abe), which was established by Rikiya Abe to promote digital grid technology (after he retired in November 2017 from a position as a specially appointed professor of the University of Tokyo). DIGITAL GRID plans to use this technology to manage and sell electricity derived from renewable sources. It plans to operate an energy transaction system based on renewable energy purchased from individual households and companies and to sell related devices. Aeon Delight's business model is unclear, but it seems likely the company will handle transactions (sales of electricity and devices) with the Aeon group. Shared Research will be watching related developments, particularly because of how large the amounts involved would be.

DIGITAL GRID market



Renewable electric power exchange (continuous session)		
Ask volume (kWh/30min)	Price (JPY/kWh)	Bid volume (kWh/30min)
1,200,000	35	
845,000	34	
246,000	33	
-	32	120,000
-	31	850,000
-	30	250,000

Electricity packet balance sheet

Output			Input		
Type	Output source	Power (kWh)	Type	Input source	Power (kWh)
			PV	In-house	42.0
BAT	In-house	-7.0	BAT	In-house	2.0
SUB	-	0.0	SUB	-	0.0
SULL (PV)	Home B-1	-11.0	BUY	Aeon (PV)	5.0
SELL (PV)	Home B-2	-20.0			
SELL (other)	-	0.0			
LOAD	In-house	-15.0			
Total (1)		-53.0	Total (2)		49.0
Losses			Stock		
LOSS	In-house	-1.0	BAT (PV)	In-house	5.0
			BAT (other)	In-house	0.0
Total (3)		-54.0	Total (4)		54.0

Source: DIGITAL GRID Corporation

Initiatives related to medium-term management plan and contribution to FY02/19 earnings

The following are initiatives Aeon Delight will undertake in relation to IFM, Asia, and technology as part of the medium-term management plan, along with an overview of Construction Work and other segments. Briefly, in regard to IFM, Aeon Delight's three-year target of 10 contracts seems likely to be delayed, as the company plans for two new contracts in FY02/19 and four in FY02/20. In regard to Asia, business is expanding steadily, but the company is actively considering M&A in China and ASEAN to accelerate the process. In regard to technology, it will continue to strengthen efforts to obtain technology it can use in labor reduction. In regard to Construction Work, it expects revitalization-related sales of JPY9.2bn, a YoY increase of more than 30%. It also expects higher profits for its various subsidiaries.

IFM (Integrated Facility Management)

The medium-term plan sets forth a target of ten IFM projects (each project averages roughly JPY1.0bn) over three years. Aeon Delight has been pursuing the establishment of integrated FMS as one of the main aspects of its previous medium-term plan, with the aim of securing a competitive advantage. It has begun to refer to this as IFM (integrated facility management), for the following reasons: a) strong demand for full-scale facility management has paved the way for its introduction, b) the closing of large, multiple-year contracts with a major domestic global enterprise, c) it is globally referred to as IFM. Shared Research believes that the latter is an expression of the company's commitment to global expansion.

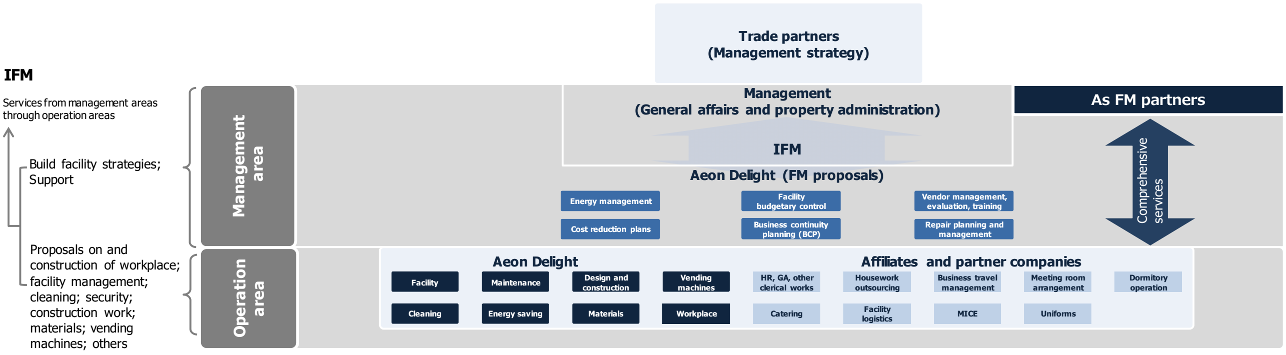
Provision of services which integrate management area on top of the company's conventional area of business

IFM means for the company to provide services integrating management on top of operations–the company's conventional area of business. Its features include support of a management strategy-based FM (facilities management) program as a partner of the client company. The company has been proactive in establishing a foundation for its IFM business, as shown by its prompt compliance with ISO41000/ISO18480, its increased focus on hiring specialist staff, and the establishment of an operating structure for consulting services by its subsidiary GSI.

In September 2016, the company closed a multiple-year IFM contract with a major domestic global pharmaceuticals enterprise, as the client values the efforts Aeon Delight has made thus far and its BCP readiness. The IFM project started operations in December 2016 and sales seem to be increasing more than initially anticipated, due to taking on additional projects. The company has established a headquarters for promotion of its IFM business in October 2016 to quickly prepare itself to capture multiple large orders and manage them. Working closely with GSI, the company expects IFM to be a driver of earnings during the current medium-term plan.

With this future growth in mind, Aeon Delight is also currently focusing on the training of account managers (including external recruitment), seeing it as an urgent business matter due to a perceived shortage of personnel working in management. It has also set its sights on global expansion as it accumulates personnel and expertise. Shared Research also believes its training of account managers has the potential to lead to a strengthening of ties with its existing clients. Further, the company intends to commit multi-lingual personnel to the overseas IFM business.

IFM



Source: Shared Research based on company data

Advancing multi-year, full-fledged IFM contracts

Aeon Delight, which has developed into a major enterprise based on facilities management, significantly shifted its sales strategy in FY02/17 due to a domestic economic environment in which deflation persists. What the company aims for is multi-year contract, full-fledged IFM projects for all-in-one property management. While multi-year contracts have some strict conditions such as guarantees for cost reduction (for example, a 5% reduction over five years) and quality, they cover a wider range of details and services (such as catering services, for example). In addition to sales growth, multi-year contracts have properties which can also contribute to profits through effective management.

Launch of IFM sales in China

In FY02/18, the company established an IFM business model at an early stage and expanded sales in Japan and China. Specifically, it seeks to strengthen its sales structure and work toward the automation of IFM operations. To strengthen its sales structure, it established an IFM sales base in Shanghai, China, in February 2017, and launched sales in April. It has advanced sales activities, with Japanese and foreign companies as its main targets, while seeking to partner with local companies, including major Chinese firms. Through new proposals and replacement of existing IFM companies, Aeon Delight is aiming to expand business to IFM at companies with which it already has some dealings. In order to cover China's vast geographic territory, the company has also worked toward standardizing operations through E-learning.

> Regarding the positioning of subsidiaries in China, each of the subsidiaries in Suzhou and Wuhan have continued to focus on the marketing of operational areas such as facilities management, cleaning, and catering—capitalizing on the government-related networks they have cultivated—while the Shanghai subsidiary provides general management and support of those activities, as well as handling IFM sales.

Developing new routes for capturing demand

Although sales activities proceeded in regard to multiple projects in FY02/18, neither inside nor outside Japan did this result in the capture of any IFM contracts. However, as a result of IFM sales activities, Aeon Delight did capture one large contract for standard FM. IFM is deeply involved with clients' FM strategies at the management level. To those clients, moving to IFM represents a profound change to their internal organizations, so although there have been plenty of inquiries, clients often require significant time before reaching any decision, or else they settle for standard FM.

That said, the company will focus on developing new sales routes in FY02/19 in order to achieve its three-year target of 10 contracts. In Hong Kong and Singapore, the market is being established by companies that introduce IFM contractors to companies desiring IFM. Aeon Delight plans to make use of this sort of market (by submitting bids) in order to accumulate overseas contracts. In Japan, it is teaming up with trust banks. Through these measures, the company is targeting two new IFM contracts in FY02/19 and four in FY02/20.

Aiming for sales of JPY700.0bn in FY02/28

As an IFM company that maximizes client profits through the use of technology, the company aims for sales of JPY700.0bn in FY02/28. In the first five years, the company will focus its efforts on areas such as a) after winning a facilities management contract, the division of services which Aeon Delight can handle in-house and those for which it will form an alliance, b) cost reductions and returns to clients, and c) strengthening its ability to estimate the costs of each business. In the latter five years, the company says it will further accelerate expansion based on the results of the first five years. The winning of ten IFM projects over three years under the current medium-term plan is just a first step. In an effort to expand further after that, the company plans to invest aggressively, especially in personnel.

Initiatives to increase sales per region

With the abovementioned IFM in mind, the company seeks to also increase sales per region for existing FM business as follows: 1) Japan: expand construction work (such as revitalization of commercial facilities), 2) China: expand catering business and share of top five priority markets, 3) ASEAN: enter the Cambodian market and conduct M&A in Indonesia, where market growth is anticipated.

In Japan, the company is focusing on capturing demand for revitalization of commercial facilities. It aimed to increase revitalization-related sales by JPY3.0bn in FY02/18 but achieved an increase of just JPY100mn after slowed demand for remodeling of supermarkets and general supermarkets. However, the company is targeting JPY9.2bn in sales (+JPY2.3bn) in FY02/19. Revitalization demand is high priority and holds a key place, along with IFM, in the company's target of a JPY15.0–20.0bn increase in non-Aeon group sales under its medium-term plan.

Japan: Expansion of renovation work, demand for revitalization of commercial facilities

Regarding demand for revitalization of commercial facilities, in addition to securing a steady flow of renovation projects from Aeon group companies such as Aeon Mall (TSE1: 8905) and Aeon Retail, Aeon Delight is also looking at expanding into new business areas in order to maximize its business opportunities. Although there is only JPY20.0-30.0bn worth of demand for renovations from roughly 350 shopping malls across Japan, when including construction work for replacement tenants, the company estimates that the market expands to JPY200.0bn. Aeon Delight aimed to capture this market under the previous medium-term plan and advanced the reinforcement of its personnel. Under the current medium-term plan, with a favorable market environment, the company aims to reap those rewards.

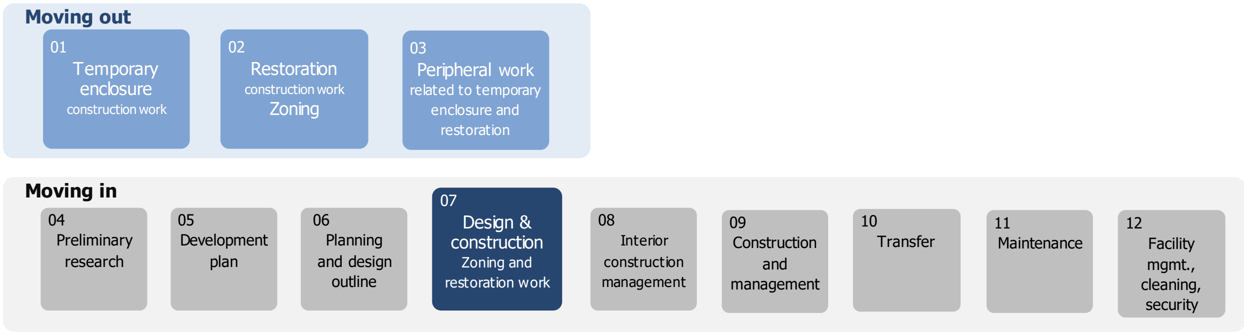
Demand for construction work for replacement tenants

For example, when malls undergo renewals, there is restorative construction work to be done when a tenant moves out, remodeling work to be done to accommodate the new tenant moving in, and there is of course renovation work on the mall itself. By acquiring experience and expertise in all these different types of construction work, Aeon Delight has put itself in a position to not only do the actual work but also supervise the entire construction process. Going forward, Aeon Delight plans to capture even more of the value-added in the store renovation process by moving into other areas such as architecture and store design. Toward this end, Aeon Delight had been beefing up its workforce since the beginning of FY02/18, and making itself more cost competitive versus major interior design companies and general contractors. In FY02/18, with small- and medium-sized tenants as its targets, the company steadily capitalized on related demand.

FY02/19

Aeon Delight plans to further expand related sales in FY02/19. In April 2018, it made U-COM (JPY550mn in sales in FY2016; http://www.ucom-web.co.jp/) a wholly owned subsidiary. Aeon Delight says this store design specialist is strong in China and it hopes U-COM will help it gain traction in capturing demand in Asia. Construction management is now the company's only weakness. Aeon Delight says that if it can plug that hole through acquisitions, its Construction Work segment (FY02/18 sales of JPY40.9bn) could target sales on a level with competing companies (for example, Tanseisha Co., Ltd. [TSE1: 9743], which had FY02/18 sales of JPY75.2bn).

Construction work process for commercial facility tenant replacement



Source: Shared Research based on company data

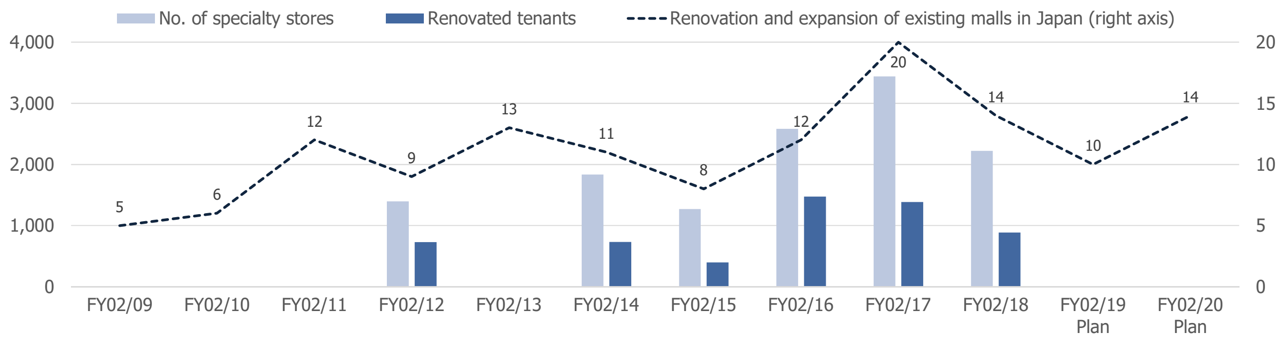
Aeon group-related demand

In terms of the Aeon group, projects targeting Aeon Mall are expected to continue to expand. Over the three years from FY02/18 to FY02/20, Aeon Mall plans to invest JPY100.0bn in the revitalization of existing malls in Japan, of which JPY30.0bn was planned for FY02/18. In fact, it invested JPY70.0bn in FY02/18, JPY40.0bn more than planned, and increased the three-year plan to JPY140.0bn, with JPY30.0bn to be spent in FY02/19 and JPY40.0bn in FY02/20. Aeon Mall generally does major renovations of existing malls once every six years and renovated 12 malls (versus 15 planned) and expanded two in FY02/18. It plans to renovate eight malls and expand two in FY02/19 and renovate 10 and expand four in FY02/20.

One reason for the shortfall in FY02/18 was projects for Aeon Retail, but Aeon Delight believes FY02/18 represented a bottoming out and there will be no further decline in FY02/19.

> Retail sales at malls tend to peak three years after the opening and slow in the fourth and fifth years. Therefore, Aeon Mall renovates its malls when six-year regular lease agreements with specialty store tenants expire. The company's planning takes into account changes in the commercial area, and introduces new specialty stores and renovates and removes existing specialty stores at malls. Changing almost all of the specialty stores helps to remake the entire mall. Spending is JPY300mn– JPY500mn per mall.

Number of renovated Aeon Malls



Source: Shared Research based on company data

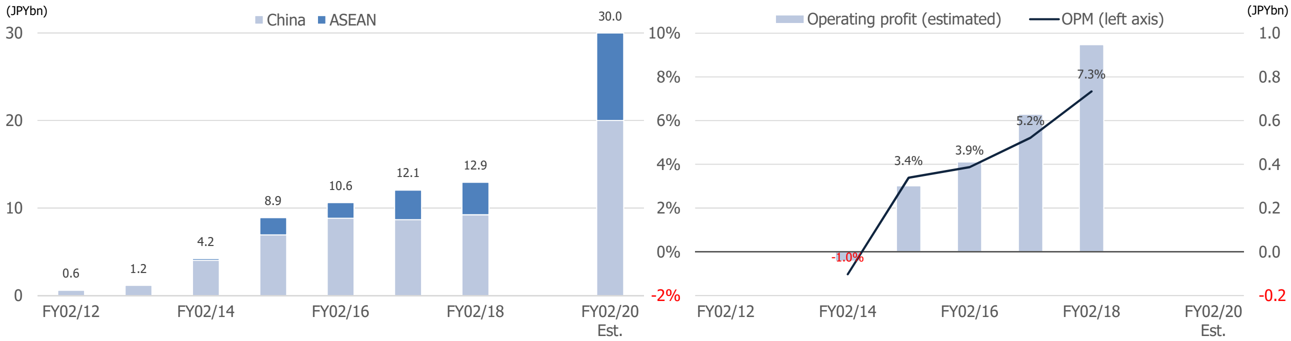
Expansion of overseas businesses

Aeon Delight is targeting JPY30.0bn in total sales from overseas businesses in FY02/20. Of the JPY18.0bn increase over FY02/17 sales, the company is looking for JPY11.0bn from China (including IFM; representing an average annual growth rate of roughly

30%) and JPY7.0bn from ASEAN countries (where sales are expected to grow at 40–50% per annum). This compares with estimated sales of roughly JPY12.0bn in FY02/17 (representing growth of 13.5% YoY), of which an estimated JPY8.0–9.0bn was from China and JPY3.0–4.0bn was from ASEAN. FY02/18 results included sales of JPY12.9bn (+7%), of which more than JPY9.0bn was from China and just under JPY4.0bn was from ASEAN. Achieving the JPY30.0bn target may prove difficult after IFM orders fell short of plan, but initiatives related to the five primary markets in China have been progressing well. We would like to continue watching the company's enhanced efforts to capture IFM demand, initiatives related to SmartFM, and active M&A efforts.

While the overseas business continues to see an increase in investments targeting growth, sales are expanding and profitability is improving.

Overseas business



Source: Shared Research based on data from company presentation and management interview

Business in China

In China, the company is targeting JPY20.0bn in sales in FY02/20. This represents an average growth rate of roughly 30% per annum. In China, property owners are more sensitive to the value of the building than they are in Japan, and Aeon Delight sees facilities management becoming an essential business infrastructure service, much like electric power or water. Since China is a growth market, Aeon Delight is working to develop the as-yet untapped areas of Shandong and Guangdong provinces, move into the large catering services market, and capture demand in the store design and renovation business.

The company continued to aggressively allocate management resources to China in FY02/17 and FY02/18. At the same time, Aeon Delight worked to expand its facilities management service network throughout the entire country, extending its geographical reach with the possible help of acquisitions while strengthening its internal control systems for effective nationwide management.

In order to reach sales of JPY30.0bn and expand the IFM business, the company cites the necessity to set up a network of locations in each region of China; it is currently working to establish bases in areas it has not yet done so. In February 2017, Aeon Delight established a subsidiary in Shanghai which will oversee China operations and promote IFM sales. The subsidiary started sales from April.

In FY02/17, the Wuhan subsidiary launched catering services, since such services have become common for facilities due to requests from local companies. In FY02/19, the company is considering strengthening this service through acquisitions. It also started offering property management services at the Suzhou Yuenqu Hudong shopping mall in FY02/18. Aeon Delight installed a platform, which it developed and leads to energy savings of more than JPY10.0mn annually, and plans to deploy it horizontally going forward. The company is also apparently considering introducing a system which links to tenants' marketing. In FY02/19, as mentioned earlier, it plans to make even greater use of technology to proceed with the adoption of SmartFM, as it deems it likely that labor reduction will progress in China as well.

Furthermore, Aeon Delight made U-COM a wholly owned subsidiary in April 2018. It believes the store design specialist will help it expand business in the renovation field.

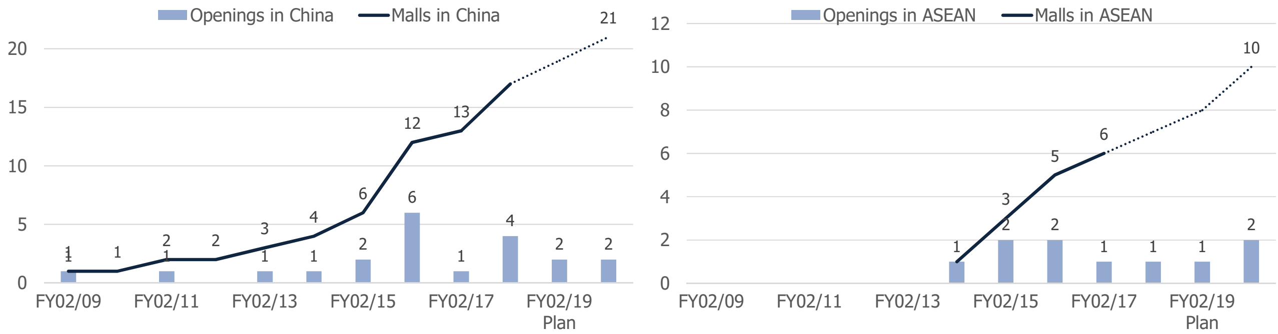
As part of its strategy to win new clients, the company is focusing on medium- to high-end facilities that require quality services and redevelopment areas where much facility management demand can be expected. The former includes five primary markets:

medium- to high-end residential projects, shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities. Focusing on redevelopment areas with high demand entails the company's participation in large urban development projects to win orders. In FY02/18, it steadily captured contracts from major companies, as well as some contracts in Suzhou and expects these contracts to contribute to earnings in FY02/19.

With regard to business in China and ASEAN with Aeon group companies, we note that Aeon Mall opens more new malls each financial year. This is likely to become a factor which supports earnings.

Aeon Delight named facilities manager for Japanese Embassy in Beijing, China: Beginning April 2016, Aeon Delight serves as the facilities manager for the Japanese Embassy in Beijing, China. Since the Japanese Embassy in Beijing is quite large, larger than even the US embassy, it is likely that this will raise Aeon Delight's profile and aid its marketing efforts in China.

Aeon Malls in China and ASEAN countries



Note: Shared Research estimates for FY02/19 based on company plan as indicated in results presentation materials
Source: Shared Research based on company data

ASEAN business

In ASEAN countries, Aeon Delight aims for sales of JPY10.0bn in FY02/20. Unlike China, most of the company's sales in ASEAN countries come from Aeon group companies as in Japan. Growth like that seen in China is unlikely, though, as the regulations governing facilities differs significantly from country to country. Aeon Delight also intends to expand geographically through acquisitions and establish a foundation to become the largest industry player in the ASEAN region.

In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015 to put it on a faster track to get business from Aeon group stores and to accelerate its alliance strategy with Malaysian Harvest. In Vietnam, Aeon Delight is looking to improve the quality of facilities management services it provides and expand the IFM business. In Q1 FY02/19, it expects to begin facilities management work on behalf of the largest Malaysian resort operator, and in Vietnam to begin facilities management work at buildings that house Japanese government offices.

Among new areas, the company is considering entering Cambodia with a branch of the Vietnam subsidiary to pursue an area strategy through M&A of local companies. In Indonesia, in addition to taking on mall-related projects, it is considering alliances with local companies and M&A targeting business acceleration. In Singapore, it is planning to leverage the IFM market.

Overseas businesses of the Aeon group

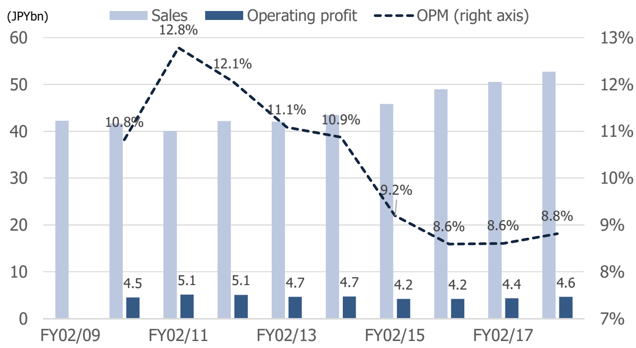
Overseas stores: Aeon Mall			FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18 Est.	FY02/19 Est.	FY02/20 Est.
Store count	China		2	3	4	6	12	13	17	19	21
	ASEAN		-	-	1	3	5	6	7	8	10
		Vietnam			1	2	3	4	4	4	5
		Cambodia				1	1	1	1	2	2
		Indonesia					1	1	2	2	3
		Other									-
	Total		**2**	**3**	**5**	**9**	**17**	**19**	**24**	**27**	**31**
Openings	China			1	1	2	6	1	4	2	2
	ASEAN								1	2	2
		Vietnam									1
		Cambodia								1	
		Indonesia							1		1
		Other									
	Total		**-**	**1**	**1**	**2**	**6**	**1**	**5**	**4**	**4**

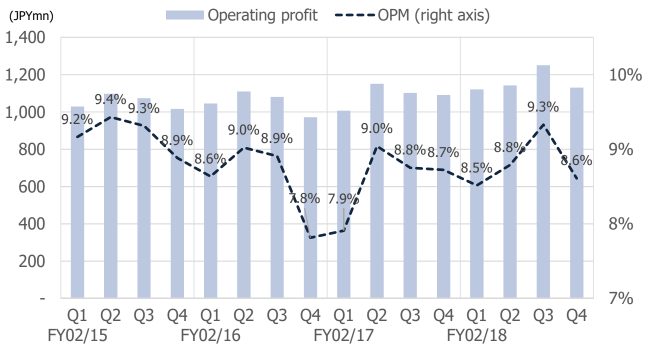
Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/18 YoY change
ASEAN	Malaysia	Aeon Malaysia	28	30	31	33	73	84	88	4
		Aeon BiG Malaysia	-	27	28	28	26	25	21	-4
	Thailand	Aeon Thailand	29	58	69	75	76	77	80	3
	Vietnam	Aeon Vietnam				2	3	4	5	1
		Aeon Citymart					30	30	30	-
		Aeon Fivimart					23	27	25	-2
	Cambodia	Aeon Cambodia				1	1	1	4	3
	Indonesia	Aeon Indonesia					1	1	2	1
	Myanmar	Aeon Orange						14	14	-
	ASEAN total		57	115	128	139	233	263	269	6
China		Aeon Stores Hong Kong	38	42	43	43	49	55	65	10
		Guangdong Aeon	12	15	17	17	18	19	20	1
		Quingdao Aeon Dongtai	7	8	9	10	9	6	6	-
		Aeon South China	8	9	11	10	10	10	10	-
		Beijing Aeon	3	4	4	5	6	7	9	2
		Aeon East China				1	3	4	5	1
		Aeon (Hubei)				1	2	2	4	2
	China total		68	78	84	87	97	103	119	16

Source: Shared Research based on company data

Forecast by segment

Facilities Management

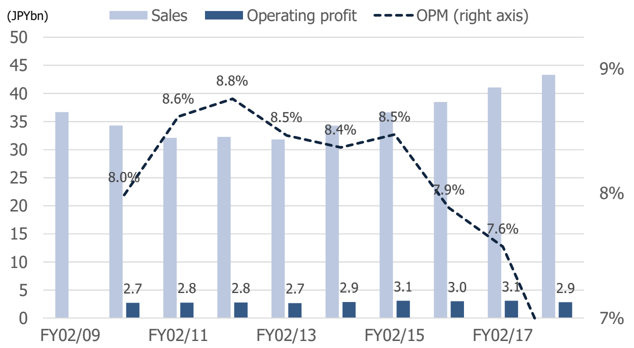


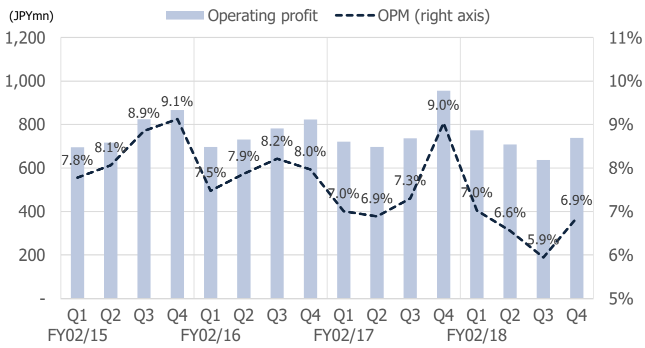


Source: Shared Research based on company data

This segment is mainly composed of IFM business and existing FM business. It is also developing a labor reduction and automation business model that takes advantage of IoT technologies, various sensors, and cloud computing.

Security Services

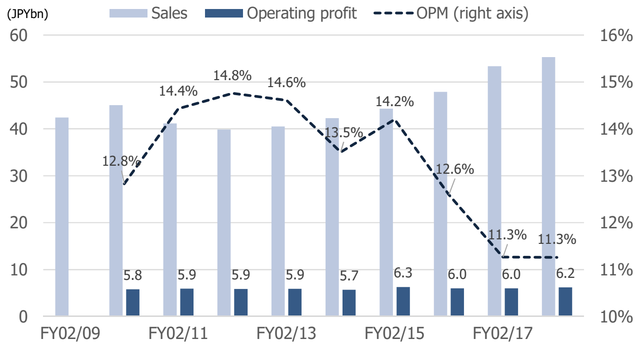


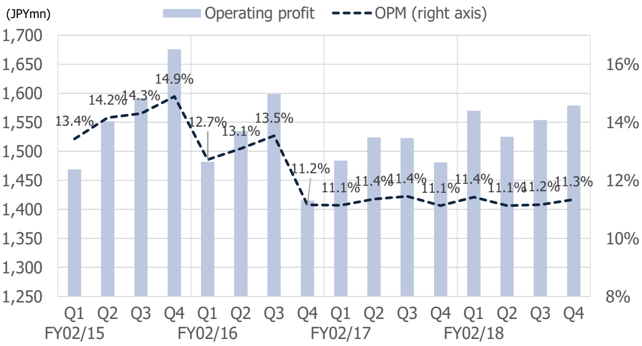


Source: Shared Research based on company data

From Q3 FY02/16 onward, the consolidation of Hakuseisha (of about JPY10.0bn in annual sales, about 30% are from Security Services) was a factor in the declining profitability. In FY02/18, the expanded application of social insurance caused an increase in personnel costs for the full year (only five months were impacted in FY02/17). In addition, expenses related to measures to alleviate the strain brought on by an increasingly tight labor market (including the creation of a new system and improving the work environment to assure that the company can continue securing employees in the future) and higher outsourcing costs led to lower profitability. Rising personnel costs reduced profit by some JPY200mn–300mn, with the impact expected to continue throughout FY02/19. However, pricing negotiations are under way with clients, and the company expects labor-saving initiatives to result in personnel reductions even as prices remain constant or even increase. The company expects to keep the GPM at the FY02/18 level.

Cleaning Services





Source: Shared Research based on company data

In Cleaning Services, the company is making efforts in the following areas: 1) expansion due to IFM, 2) improved profitability of hygienic cleaning, 3) improved cost ratio of regular cleaning services, and 4) improved profitability of Hakuseisha. In regard to hygienic cleaning, although there was no increase in large contracts, the profitability of existing contracts seems to be steadily improving. The company will also continue to make various improvements to the cost ratio for conventional cleaning. It expects the GPM to improve about 0.2pp versus FY02/18.

Hakuseisha

The drop in profitability has been in part attributed to the consolidation of Hakuseisha (out of annual sales of roughly JPY10.0bn, cleaning services account for about 50%) since Q3 FY02/16, but steady improvement was seen in FY02/18. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is an important point. In FY02/17, Aeon Delight conducted reforms carefully so that it did not affect clients. However, full-year FY02/17 results showed delayed progress, partly because the company had not yet fully reformed its income structure. In FY02/18, Aeon Delight actively worked to improve its business structure and profitability, including by adding personnel. Initially it was looking for an improvement in GPM of at least 2pp, but the actual improvement seems to have been just short of 1pp. Although the company sought improvement in existing contracts, there seem to have been some unprofitable projects among new contracts. It expects ongoing improvement in the cost ratio in FY02/19.

Further, J-Front Retailing accounted for approximately one-third of the company's sales in FY03/15 and an increase in related sales is expected as a synergy effect, but such an effect had yet to appear as of FY02/18.

Labor reduction

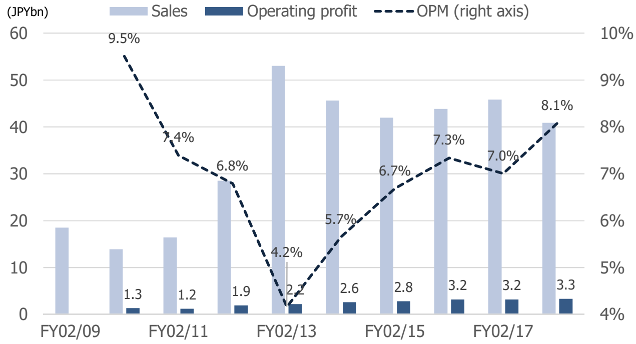
Like Security Services, labor costs are substantial in the Cleaning Services segment and it is impacted by the expansion of eligibility for social insurance. The company has, from earlier, been putting effort into the introduction of cleaning robots as a way to establish a long-term competitive advantage and as a measure for dealing with issues such as labor costs and the securing of personnel. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. In FY02/18, it conducted field testing in cooperation with a US company, with a rollout to facilities delayed by about six months from the original plan of February or March 2018.

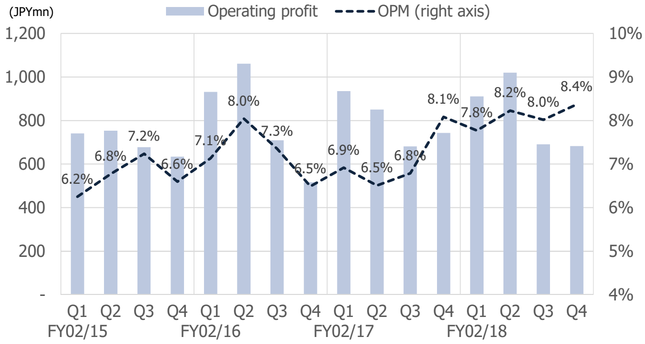
At this time the company is uncertain about just how much it will invest in cleaning robots or whether it would be better off to lease robots rather than buy and then depreciate them over time. Based on the expectation that the biggest boost to efficiency will come from using cleaning robots at large malls, the company sees a phased rollout starting with shopping malls, then proceeding to large general merchandise stores and finally to smaller stores.

Contribution to profit growth and GPM improvement from sales of materials

In the future, the company aims to increase profits through sales of materials, not only of supplies such as wax, but also of cleaning robots. Under the medium-term plan, it appears that the company anticipates a roughly JPY3.0bn increase in sales. Although some maintenance of inventory will be required, the GPM is higher than that for overall Cleaning Services. We will pay attention to sales of materials as a driver of GPM improvement.

Construction Work

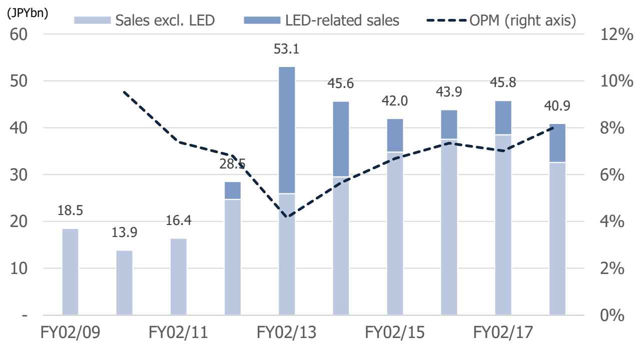


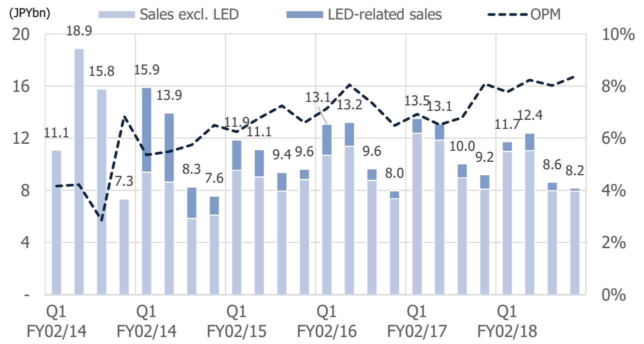


Source: Shared Research based on company data

As discussed earlier in the report, the company is focusing on capturing demand for revitalization of commercial facilities from clients within the Aeon group, and on winning construction work for replacement tenants from clients outside the group. It expects LED-related sales to be similar to the FY02/18 level or to increase slightly.

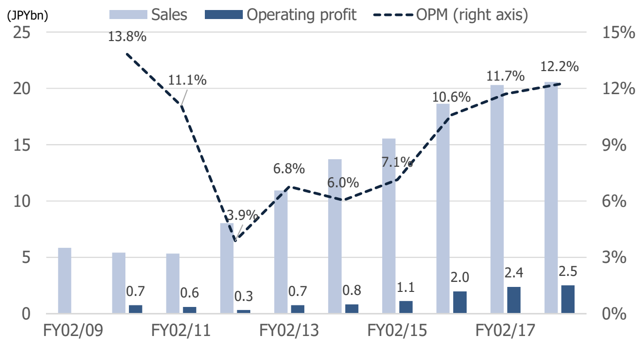
LED-related sales

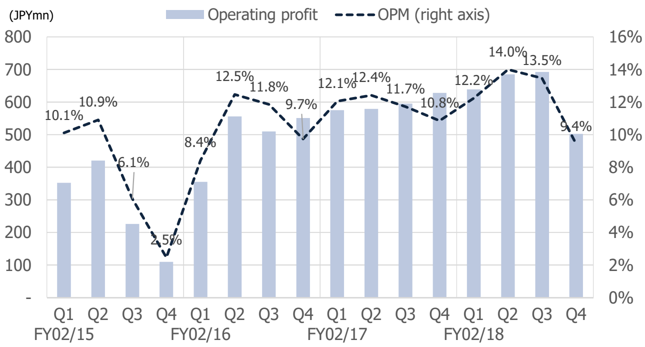




Source: Shared Research based on company data

Support Services business





Note: Kajitaku sales figures are Shared Research estimates based on company results presentation materials
Source: Shared Research based on company data

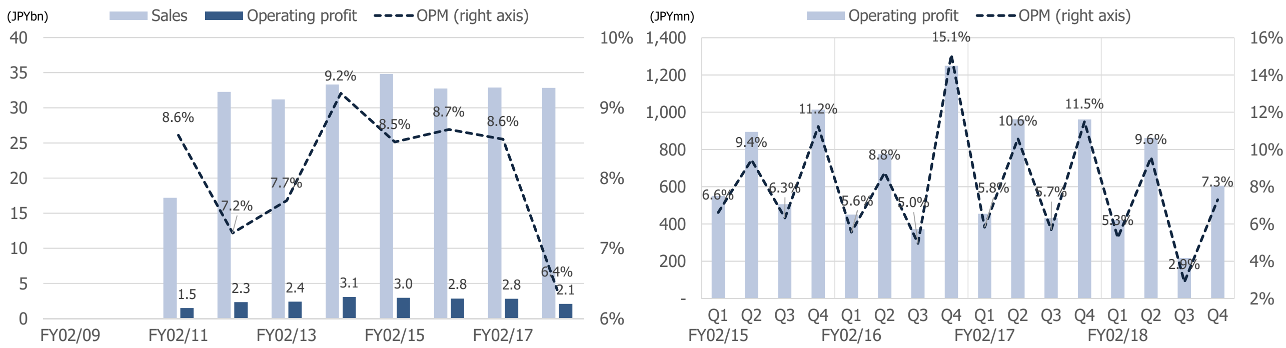
As shown in the accompanying figure, earnings at Support Services have been rising steadily, and, combined with its high profitability, the proportion of consolidated operating profit accounted for by this segment has been increasing. Subsidiaries Kajitaku and Aeon Compass were the main drivers of growth. The drivers at Kajitaku to date have been Kaji Cloud services and small business support services (expanded introduction of ID photo machines and next-generation multi-function copy machines), but in 2H FY02/18 small business support services saw a slowdown (reactionary falloff from the favorable performance of ID photo machines in FY02/17), resulting in lower profit for full-year FY02/18. Aeon Delight expects higher profit in FY02/19 with the launch in earnest of online sales of Kaji Cloud (in a business alliance with VOYAGE GROUP). At Aeon Compass, the company anticipates the drivers to be B2B businesses such as Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), which have continued to perform strongly.

It should be noted that part of the IFM business is included in this segment.

Business alliance with VOYAGE GROUP:
On December 6, 2016, VOYAGE GROUP, Inc. (TSE: 3688) announced that it is entering a comprehensive operational tie-up for online sales of housework support services with Kajitaku Co., Ltd., an Aeon Delight subsidiary (97.7% stake) that operates the Aeon group's housework support operations. VOYAGE also announced that on December 8, 2016 it will establish a wholly owned subsidiary, Voyage Nexus, to manage the online sales of housework support services. The service launched in fall 2017.

Operational tie-up:
According to a presentation by the Ministry of Economy, Trade and Industry, the market size for home support services will be roughly JPY600bn. In the midst of a growing market, Kajitaku bundled and sold its housework support services primarily to retailers, boosting its earnings.
Through the operational tie-up, Kajitaku will focus on developing housework support services and managing those services. Voyage Nexus will be responsible for features on Kajitaku.com and the Members Personal Page, features that Kajitaku used to run. Voyage Nexus will also improve customer relations and online sales by redesigning the website, making it smartphone compatible, and creating an app for the site. The company will assist in the development of a housework support services system for the staff. The tie-up plans to leverage VOYAGE GROUP's user base of roughly 8.4mn to promote and market its housework support services. VOYAGE GROUP's user base is primarily women in their 30s and 40s on the group's websites such as EC Navi, a point navigation site, and PeX, a point exchange platform.

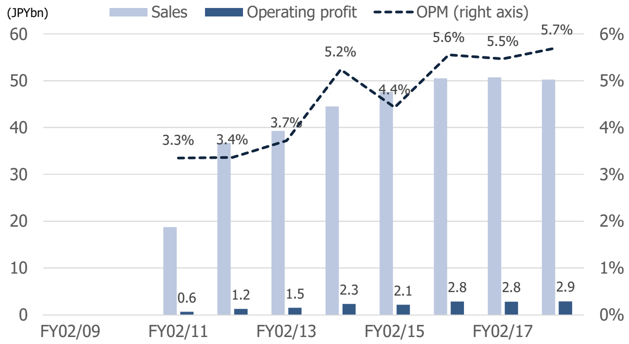
Vending Machine Services

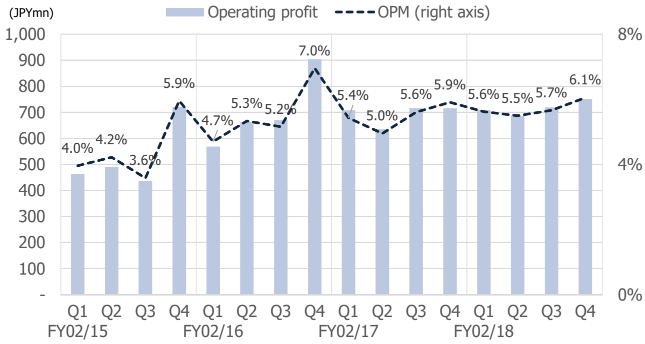


Source: Shared Research based on company data

In Vending Machine Services, we will continue to focus on the advertising business. Aeon Delight plans to proceed with the introduction of equipped vending machines to expand the business (internal targets are 2,500 vending machines during 1H and 3,000 by the end of the financial year).

Materials and Supplies Sourcing Services





Source: Shared Research based on company data

Reference: Previous medium-term plan (released April 2014)

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

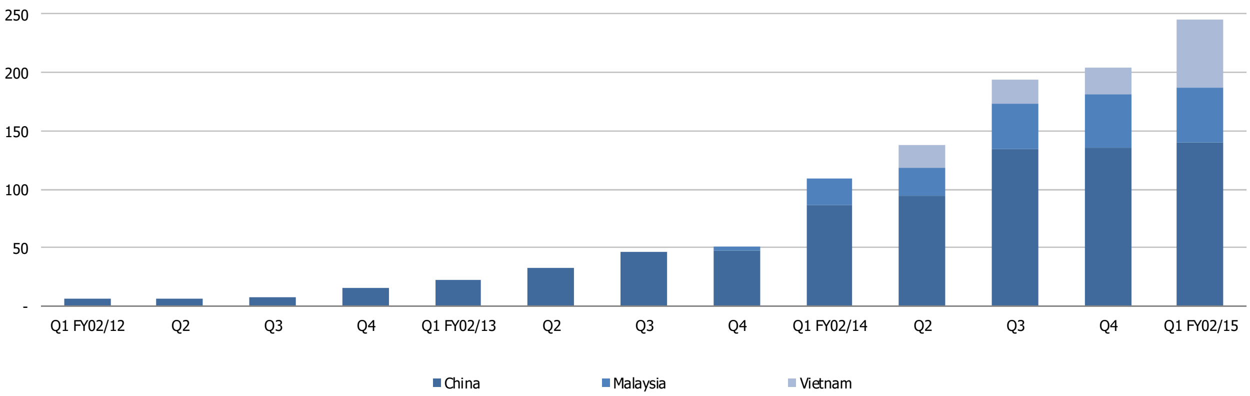
Although specific figures have not been disclosed, Aeon Delight expects approximately 1/3 of the increase in sales to come from sales toward the domestic Aeon group, 1/3 to come from overseas (including overseas Aeon group companies), and the remaining 1/3 to come from domestic sales, excluding Aeon 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: Shared Research based on 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 numbers 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 shopping centers (SCs) in Asian countries such as China, Vietnam, and Indonesia. Aeon Delight is aiming to capture opportunities for its integrated 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 an integrated 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 is establishing a federalized management structure in China, and an integrated 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 integrated FMS 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 integrated FMS (Creating competitive advantages)

One of the focal points of the medium-term plan is establishing integrated 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 integrated 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 integrated 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 cost of sales 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.

Responding to ISO41000, the international standard in the facilities management industry

ISO announced in the first half of 2015 that it would develop a new international standard for facilities management (FM)—ISO41000. The new standard will make possible standardized FM services worldwide.

With the spread of ISO41000 and ISO18480, contract with clients will shift to SLA (service level agreement). This means that contract based on service quality and results is expected to be the mainstream, replacing the conventional contract based on the number of workers, hours, and shifts. Aeon Delight has proactively begun adjusting to ISO18480, a preliminary step to ISO41000, and has already incorporated its content to the company's FM services. Shared Research thinks such a proactive response to ISO41000 may well result in a competitive edge over the medium to long term.

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:

- Active business development and organizational restructuring with solutions-based sales in mind;
- HR development with an emphasis on service quality;
- 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 60–70% of sales 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. The company is aiming to increase the share of work handled for Aeon Mall by following its overseas expansion in recent years and keeping a close relationship. Aeon Delight also handles between 60% and 70% of the facilities management work at MaxValu retail stores owned the Aeon.

M&A activities

Aeon Delight has pursued growth through acquisitions, with aggressive acquisitions overseas in particular in recent years. It has also proceeded with the establishment of subsidiaries through alliances with other companies and in 2018 announced collaboration with SECOM to create a new business model for small and medium facilities.

Business model

Aeon Delight became a leading integrated facilities management operator through its relationship with the Aeon group. It has also grown through acquisitions. The company derives its earnings by providing an integrated, all-in-one package of facilities management services to large 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 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 facilities maintenance given its size and economy of scale, which further reinforces its strength and position. Thus, Shared Research believes that Aeon Delight’s position within the commercial facilities industry is likely to improve, as the company has know-how and expertise.

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). When the company takes on integrated facilities management work, sales and profits will be booked across segments. With the expansion of IFM, sales of catering services (included in Support Services) are expected to increase, for example, and, as a result, segment analysis is becoming less effective.

(JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Est.	Change
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	295,839	305,000	+9,161
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	0.4%	3.1%	
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	38,903		
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	-0.2%		
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	13.2%		
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	22,091		
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%	7.4%	5.1%	1.6%		
SG&A ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	7.5%		
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812	18,500	+1,688
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%	+0.4pp
Recurring profit	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	17,284	18,500	+1,216
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	-0.6%	7.0%	
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.8%	6.1%	+0.2pp
Net income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,316	11,000	+684
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	0.8%	6.6%	
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%	3.6%	+0.1pp

Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Est.	Change
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	295,839	305,000	+9,161
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699		
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290		
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297		
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897		
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265		
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834		
Support Services	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583		
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	0.4%	3.1%	
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%		
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%		
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%		
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%		
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%		
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%		
Support Services		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%		
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812	18,500	+1,688
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644		
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857		
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228		
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305		
Materials and Supplies Sourcing			-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868		
Vending Machine Services			-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105		
Support Services			748	590	312	741	829	1,108	1,972	2,377	2,518		
Elimination, other			-	-	-	-6,180	-7,334	-6,929	-7,406	-7,389	-7,707		
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%	
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%		
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%		
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%		
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%		
Materials and Supplies Sourcing				-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%		
Vending Machine Services				-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%		
Support Services				-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%		
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%	+0.4pp
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%		
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%		
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%		
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%		
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%		
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%		
Support Services			13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%		
OP composition													
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.4%	18.7%	17.4%	17.7%	18.9%		
Security Services			18.1%	15.6%	14.4%	13.4%	13.0%	13.7%	12.6%	12.6%	11.6%		
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.8%	27.8%	25.0%	24.4%	25.4%		
Construction Work			8.8%	6.8%	9.9%	11.0%	11.7%	12.4%	13.3%	13.0%	13.5%		
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.5%	9.3%	11.6%	11.3%	11.7%		
Vending Machine Services				8.3%	11.9%	11.9%	13.9%	13.1%	11.8%	11.4%	8.6%		
Support Services			5.0%	3.3%	1.6%	3.7%	3.7%	4.9%	8.2%	9.6%	10.3%		

Source: Shared Research based on company data

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

Facilities Management (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699
YoY	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%
Operating profit	4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644
YoY	-	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%
OPM	10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%

Source: Shared Research based on company data

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 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.

Utilization of technology: Next-generation facilities management model

The next-generation facilities management model refers to an open facilities management network system developed by the company. The system is currently in operation at two commercial facilities: one in Suzhou, China and one in Chiba, Japan. While acquiring contracts for IFM services that integrate management for companies, the company is also enthusiastic about creating a de facto standard for facilities management in Asia using this platform.

Using IoT, the system performs remote monitoring and automatic control of air conditioning and lighting (and eventually refrigeration). It is an open network utilizing existing control equipment and IoT; it has a low installation cost (in some cases, it can reduce costs by half through multiple vendors); enables lower operation costs by reducing necessary manpower through remote monitoring; and saves energy (system in China saw 25% energy saving for air conditioning and 16% energy saving in Chiba, Japan). In China, a 50% reduction is expected after the system is applied to lighting and refrigerators. Likewise, a 30% reduction is expected in Chiba, Japan. The company is watching out for replacement demand for central monitors (every 15–20 years) to capture replacement orders with its accumulated commercial facilities management know-how. It also plans to utilize its big data and AI.

While leveraging its track record for large commercial facilities, its specialty, the company is also rolling out the system in other areas including drug stores to secure market share. In Asia ex. Japan, new purchases account for most market demand while in Japan most demand is replacement demand. The company intends to make its services the de facto industry standard not only in IFM but also in conventional facilities management.

The company appears to be considering several business models such as one that generates more sales and profits at installation, one that generates sales and profit through operation, and one that generates profit when energy savings or other measures exceed a certain level. The company's next-generation facilities management system, one of its value added services, leads to less manpower required for commercial facilities. As such, profitability is expected to rise with sales.

Monitoring screens displayed at a large facility in Chiba (operates in parallel with a central monitor)

Source: Shared Research based on company data

Security Services

Security Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290
YoY	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%
Operating profit	2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857
YoY	-	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%
OPM	8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%

Source: Shared Research based on company data

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

Cleaning Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297
YoY	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%
Operating profit	5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228
YoY	-	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%
OPM	12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%

Source: Shared Research based on company data

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 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 an 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. The following is an overview of the hygienic cleaning business launched in FY02/15.

Hygienic cleaning business

The company believes the hygienic cleaning business will continue to steadily increase sales. There are more than 1.5mn hospital beds in medical facilities across Japan, out of which the number of hospital beds at medical facilities Aeon Delight has hygienic cleaning contracts with still make up only roughly 1%. Aeon Delight began offering hygienic cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. These two major hospitals boosted the number of hospital beds for which the company was providing hygienic cleaning services by 7,000 to 14,000. As of the end of April 2016, the company is providing hygienic cleaning services for approximately 16,000 beds. As of April 2017, that number has remained flat but the company is in the middle of expanding sales to about 100 hospitals. For sales to hospitals, it takes about three years from general bidding to winning a project, as many large hospitals are under the jurisdiction of the government. The company is in the process of finalizing a sales scheme which can win orders in three years, and expects sales to steadily build up during the medium-term plan period.

Japanese hospitals and clinics

As of January 1, 2017	Hospitals	Beds	Clinics	Beds
Total	**8,439**	**1,559,948**	**101,505**	**102,145**
National	327	129,048	540	2,229
Public medical institutions	1,213	317,571	3,617	2,572
Social insurance-related organizations	53	16,006	483	9
Public service corporations	229	57,404	558	314
Medical corporations	5,757	863,283	41,445	74,916
Private schools	111	55,634	181	57
Social welfare services	198	34,316	9,376	330
Individuals	235	23,419	42,414	21,143
Other	316	63,267	2,891	575

Source: Shared Research based on data from Ministry of Health, Labour and Welfare

Because many of the large national hospital chains are keen on implementing management reforms, Aeon Delight believes that its integrated facilities management service can match these hospital chains' needs for improved sanitation, environmental conditions, safety, peace of mind, service standardization, and cost reductions. Contract renewal for hygienic cleaning services typically happens every year. That said, few companies replace the cleaning services provided by major groups servicing many medical facilities nationwide. Aeon Delight presents proposals capitalizing on 1) its roughly 600 bases nationwide; 2) its name recognition as a publicly traded company and as a member of the Aeon group; 3) its track record with major medical institutions; and 4) the visible quality of its cleaning services.

Because hospitals and other medical centers must take steps to prevent patients from becoming infected or transmitting their disease to others while they are in the hospital, Aeon Delight actually offers clients a numerical scale that gives them a visual measure of cleaning quality. During FY02/15, most of the marketing for its hygienic cleaning services was done by a special sales team. However, after receiving training and all the related sales tools, local offices have also been doing their own marketing since FY02/16. The profitability of hygienic cleaning services was still relatively low in FY02/16, in part because it was the first fiscal year that the company serviced a major hospital. However, it appears profitability has been improving from FY02/17 as its cleaning staff becomes increasingly proficient at their duties.

In addition, the recent rise in labor costs is providing a tailwind for the company. That is to say, bidding prices for projects at large hospitals are often bound to incorporate the rise in labor costs stemming from labor shortage. However, by capitalizing on its network across Japan, the company can, for example, bring on board managers from regions that are easy to recruit in, enabling the company to demonstrate its competitive advantage compared to local and other companies. Along with other advantages, such as cleaning quality visibility, the company expects to steadily increase the number of projects it wins. Aeon Delight started providing cleaning services at about five hospitals during Q1 FY02/18. As these projects were won by regional branch sales representatives, it is clear that the results of initiatives on the sales side are starting to show.

Construction Work

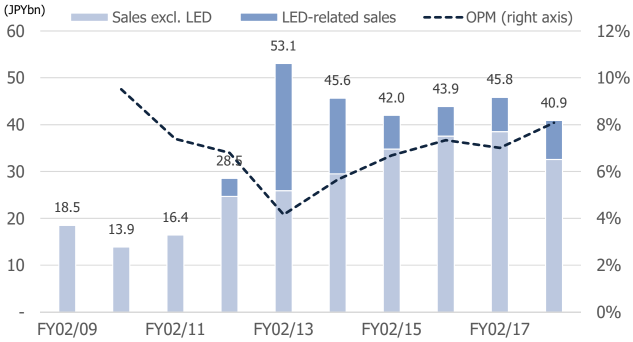
Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305
YoY	-	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%
OPM	9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%

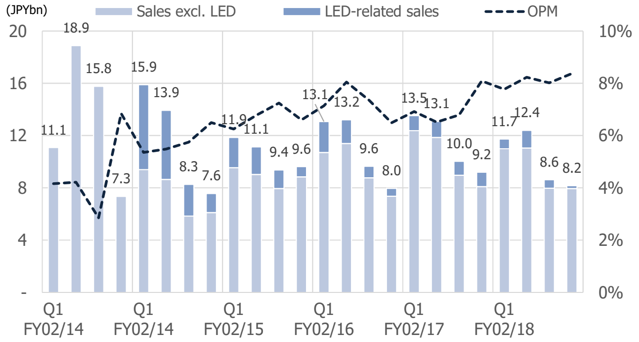
Source: Shared Research based on company data

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 is remodeling (not designing) of Aeon retail locations, such as replacing signage, or modifying retail floor space. Sales for Aeon Mall have not been significant, since individual tenant stores perform their own renovation work. However, Aeon Delight has been steadily gaining experience in related construction and in April 2018 made store design specialist U-COM a wholly owned subsidiary as it strengthens its efforts to obtain contracts from Aeon Mall facilities and tenants.

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





Source: Shared Research based on company data

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868
YoY	-	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%
OPM	-	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%

Source: Shared Research based on company data

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

Vending Machine Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834
YoY	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%
Operating profit	-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105
YoY	-	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%
OPM	-	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%

Source: Shared Research based on company data

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 (as of the end of FY02/16). About 80% of vending machine sales come from machine in supermarkets belonging to the Aeon group. The remaining 20% of sales came from machines in 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.

Also, aiming for a business model change, the company seeks to increase the number of vending machines equipped with digital signage functionality (about 1,500 machines at end-FY02/17) and capture advertising revenues.

Addition of advertising business will alter business model of Vending Machine Services business

As of the end of FY02/16, Aeon Delight owned more than 40,000 vending machines. Up until last year, the company has been busy expanding the selection of private brand goods offered in its vending machines and has also began installing new vending machines with digital signage (hereafter referred to as DS vending machines). As of the end of FY02/16, Aeon Delight had roughly 800 DS vending machine, more than any other domestic competitor. Although falling short of initial plans in FY02/17, the number of DS vending machines increased to about 1,500. In FY02/18, the company aims to increase that number to 2,500, and, to take full advantage of these new machines, it plans to continue advancing use of their digital signboards to run video ads.

The DS vending machines Aeon Delight is using are already equipped for video streaming and, since they are mainly located in shopping malls, their value as an advertising medium is quite high. It takes about nine seconds from the time the customer selects a drink and the drink is delivered, enough time to run an effective ad. The number of equipped vending machines and advertising revenues both missed targets in FY02/17. In FY02/18, while still small in size, the company aims to roughly double advertising revenues. If it appears that the increase in equipped vending machines and ads are effective, the company will install more DS vending machines in subsequent years.

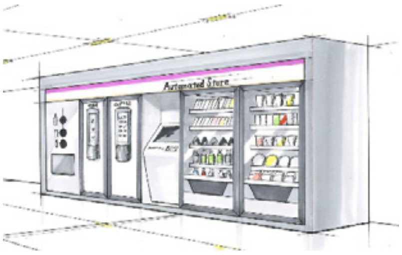
According to statistics compiled by the Japan Vending Machine Manufacturers Association, in 2014 there were roughly 2.2mn beverage vending machines installed, generating annual sales of JPY1.87tn. Based on these figures, we estimate that the average beverage vending machine generates annual sales of JPY850,000. At an average cost per can of JPY120, this means the average vending machine sells around 7,000 canned drinks a year. During FY02/17, Aeon Delight will have an average of about 1,400 DS vending machine installed. Multiplied by average sales of 7,000 per machine, these DS vending machine will sell about 10mn canned drinks. This means nine-second commercials will be played, and almost certainly heard, 10mn times (in addition, other video messages may be playing other times). How the ads will be priced is as yet unclear, but Aeon Delight does expect to bring in at least some income from running ads on DS vending machines. We will be following the situation closely to see to what extent these ad revenues contribute to overall earnings.

Utilization of technology: Micro-markets (unmanned stores)

In Vending Machine Services, the company plans to roll out micro-markets (unmanned stores) as parts of its business restructuring to utilize technology. Micro-markets target offices with 300–1,000 workers (offices with fewer than 300 workers are covered by vending machines, while offices with more than 1,000 workers are covered by convenience stores). The company has been conducting a demonstration experiment at Aeon Mall Funabashi since August 2017. It had about 50,000 vending machines in the Vending Machine Services business (90% are installed within the Aeon group) but is looking for a new business structure that does not center on beverage vending machines. This includes shifting toward digital signage and micro-markets.

Convenience store chains have been installing similar vending machines, but the company’s business model is advantageous in that even daily sales of JPY100,000 surpass the breakeven point and generate a profit. After the breakeven point, gross profit is effectively equal to operating profit. Micro-markets have some issues with logistics and supply operations, but the market deserves a close watch. Competition in intra-office retail space includes the Aeon group, which has a company running retail stores such as My Basket, and convenience store chains, which have also entered this field.

Example of installed micro-market



Source: Shared Research based on company data

Support Services

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%
Operating profit	748	590	312	741	829	1,108	1,972	2,377	2,518
YoY	-	-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%
OPM	13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%

Source: Shared Research based on company data

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.

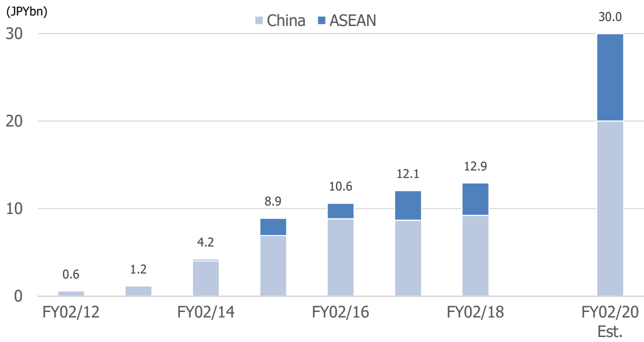
The main subsidiaries in the segment are 1) Aeon Compass: mainly B2B services including Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), and 2) Kajitaku: mainly small business support services, such as sales of copy machines, and household support services. Together, these two subsidiaries are the main growth drivers of the Support Services segment. Kajitaku provides “Kaji Cloud,” a housework services package. In fall 2017, Aeon Delight launched online sales of Kaji Cloud in cooperation with VOYAGE GROUP (TSE1: 3688).

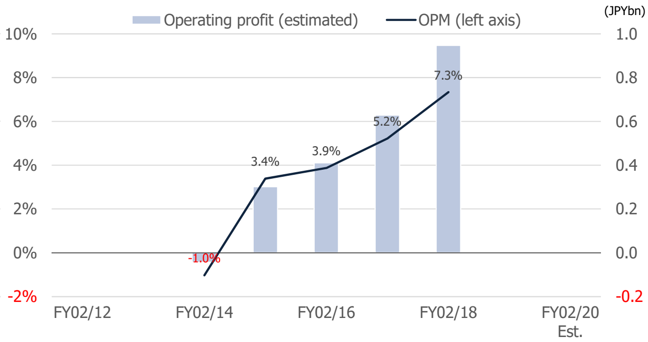
A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was acquired in 2011. A to Z Service operates a 24 hour, 365 days a year call center to provide comprehensive support services for retail chains in small shopping centers. Aeon Delight Academy, Co., Ltd. operates the “Aeon Delight Academy Nagahama” in Shiga Prefecture to provide real-world training. It also operates a staffing service for technical professions.

Further, under comprehensive contracts in IFM, the proportion of sales made up by catering services is expected to increase. As such, it is important to note that catering services sales will be reported in this segment.

Overseas business

Under its medium-term plan, Aeon Delight is looking to expand into China and Asia. In China, the Shanghai subsidiary is serving as headquarters for the country and handling IFM sales, while the Suzhou and Wuhan subsidiaries, capitalizing on the government-related networks they have cultivated, continue to focus on sales activities for operational areas such as facilities management, cleaning services, and catering services. In ASEAN, the company has subsidiaries in Malaysia and Vietnam.





Source: Shared Research based on company data

Strengths and weaknesses

Strengths

- **Strong ties with the Aeon group:** Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated from 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 integrated 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 integrated 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 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 integrated service is a competitive advantage over its competitors.
- **Financial strength to buy growth:** Aeon Delight has a very strong balance sheet. Shared Research 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

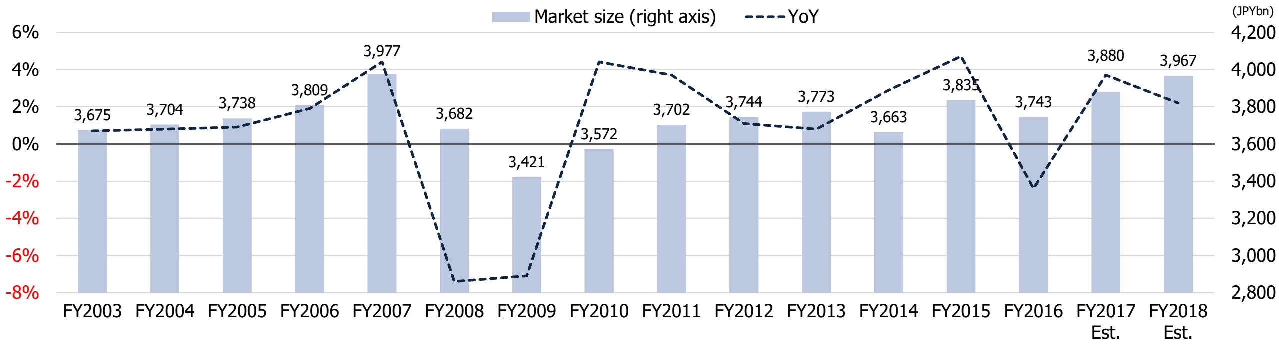
- **Organic growth challenging:** Aeon Delight has grown through acquisitions. Therefore, organic growth may be a challenge because the market is relatively mature. There is limited domestic growth and overseas offers one avenue of expansion. M&A activities could dry up, and this could have an impact 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 retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large 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

Japan's building maintenance market was worth JPY3.7tn in FY2016 (April 1, 2016 to March 31, 2017), down 2.4% YoY, according to November 2017 data from Yano Research Institute Ltd.

> Building maintenance market includes building cleaning, facilities maintenance, and security services. It also includes repair work, renovation work, and renewal work undertaken by building maintenance companies. But businesses unrelated to building maintenance are not included in the data even though they are undertaken by these companies.



Source: Shared Research based on Yano Research Institute Ltd., (November 9, 2017)

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 JPY960bn in FY02/12. Retail stores accounted for 17% of its cleaning business sales, while hotels made up a mere 2%.

Analysis of potential market

Floor space is a direct measure of potential market size for the company's facilities maintenance services.

According to data released by the Ministry of Land, Infrastructure, Transport, and Tourism in March 2010, total floor space of Japan's hospitals and medical facilities was around 13.4mn sqm.

Aeon Delight generated JPY14.1bn in sales from cleaning services to Aeon Retail in FY02/12. Total floor space of Aeon Retail was 3.97mn sqm, which translates to JPY355,000 in annual sales per sqm for Aeon Delight.

If sales per sqm and workers' hourly pay were the same across the board (in reality, cleaning hospitals is more expensive), Shared Research estimates that potential demand from hospitals and other medical facilities is JPY50bn (JPY355,000/sqm x 13.4mn sqm).

The ministry data also show that total floor space of non-residential buildings owned by corporations was about 1.7bn sqm. 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 JPY6.2tn (JPY355,000/sqm x 1.7bn sqm).

Aeon Delight's business environment is affected by the store-opening plans and corporate acquisition strategy of Aeon group. Therefore, Aeon group's aggressive M&A strategy would quicken the pace of growth for Aeon Delight.

Aeon group stores by format (domestic and overseas)

	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
GMS	603	601	590	590	598	617	618	625	626	584
Supermarket	1,231	1,267	1,307	1,537	1,708	1,977	2,038	2,121	2,130	2,185
Discount store	41	52	72	105	152	353	381	530	566	568
DIY store	127	125	127	122	123	122	121	120	119	122
Supercenter	31	33	32	29	26	26	29	28	28	28
Department store	1	1	1	1	1	1	1	1	1	1
Convenience store	3,270	3,514	3,811	4,121	4,462	4,581	4,683	5,061	4,348	4,324
Specialty store	4,746	4,475	3,305	3,424	3,664	3,853	3,932	4,331	5,261	5,436
Drugstore and pharmacy							3,347	3,765	3,980	4,376
Other retail formats	87	180	268	418	562	756	884	803	856	909
Financial service	395	386	401	460	527	641	698	701	705	690
Services	1,621	1,549	1,410	1,383	1,394	1,519	1,640	1,934	2,013	2,045
Total	12,153	12,183	11,324	12,190	13,217	14,440	18,382	20,020	20,633	21,268
Aeon Mall	51	53	56	59	62	137	148	161	166	174
Aeon Town	42	44	45	107	115	122	130	134	139	140
Total	93	97	101	166	177	259	278	295	305	314

Source: Shared Research based on company data

Stores by Format in China, South Korea, and ASEAN region

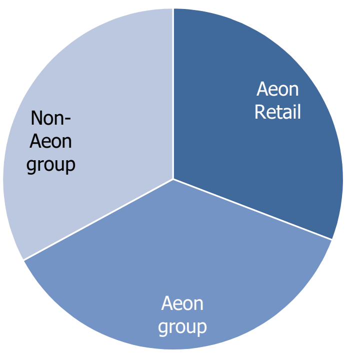
	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
GMS	42	46	52	54	61	69	77	84	87	94
Supermarket	18	19	25	44	81	95	101	115	173	175
Discount store	-	-	-	-	22	23	24	24	23	21
Convenience store	-	-	-	2,033	2,294	2,370	2,532	2,840	2,998	3,172
Specialty store	-	-	-	37	55	61	42	44	52	54
Other retail formats	18	21	24	27	29	29	30	79	97	116
Financial service	-	-	-	236	279	302	339	339	342	324
Services	-	-	-	25	41	95	180	282	335	390
Total	78	86	101	2,456	2,862	3,044	3,325	3,845	4,107	4,346

Source: Shared Research based on company data

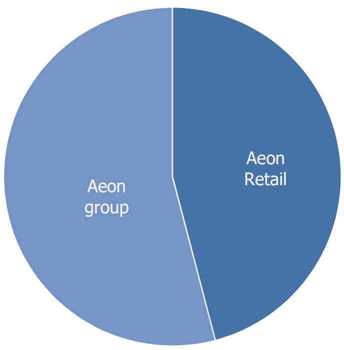
Customers

Aeon Delight generates almost 70% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall, and MaxValu 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. Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%.

Sales composition by customer



Aeon Retail versus Aeon group



Source: Shared Research based on company data

Competition

Aeon Delight derives some 60-70% of its sales from the Aeon group. Within the group, Aeon Delight's share in Aeon Retail is about 80%. The company's share in Aeon Mall is about 60%, while its share in MaxValu companies is between 60% and 70%.

Aeon Delight's competitors include SECOM Co., Ltd. (TSE1: 9735) and Sohgo Security Services Co., Ltd. (TSE1: 2331) in security services. It competes with Azbil Corporation (TSE1: 6845), Nippon Kanzai Co. Ltd. (TSE1: 9728), and Tokyu Community Corporation (TSE1: 4711) 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, while in the energy-saving business, major rivals are NTT Facilities, Inc. 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 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 facilities require comprehensive services such as maintenance, cleaning, and security, all-in-one. Instead of hiring a contractor for each service, large 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 retail stores and office buildings, due to its expertise in providing an all-in-one package of services.

The company's market share within the Aeon group is high. Being a group company, Aeon Delight is well aware of the business practices and facility characteristics that are common throughout the Aeon group and the risk of its competitors gaining a significant portion of the market share is fairly slim.

Financial Statements

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.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**	**294,725**	**295,839**	**305,000**
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,669	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897	
Materials and Supplies Sourcing		-	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265	
Vending Machine Services		-	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834	
Support Services, and Other	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306	20,584	
YoY	**23.7%**	**5.9%**	**-3.7%**	**21.8%**	**28.6%**	**13.2%**	**3.4%**	**3.7%**	**5.4%**	**4.9%**	**0.4%**	**3.1%**
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	
Materials and Supplies Sourcing		-	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	
Vending Machine Services		-	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	
Support Services, and Other		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%	
Cost of sales	118,692	124,735	119,180	146,916	191,166	218,648	223,528	231,588	243,651	255,729	256,935	
Gross profit	**18,827**	**20,955**	**21,118**	**23,989**	**28,631**	**30,227**	**33,714**	**35,117**	**37,390**	**38,995**	**38,903**	
YoY	**18.1%**	**11.3%**	**0.8%**	**13.6%**	**19.4%**	**5.6%**	**11.5%**	**4.2%**	**6.5%**	**4.3%**	**-0.2%**	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	13.2%	
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	22,091	
SG&A ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	7.5%	
Operating profit	**8,331**	**9,946**	**9,970**	**12,031**	**13,762**	**13,901**	**15,115**	**15,861**	**16,707**	**17,257**	**16,812**	**18,500**
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	-2.6%	10.0%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%	6.1%
Non-operating income (expenses)	-144	-134	-58	58	22	-9	-23	82	-23	124	472	
Non-operating income	129	108	88	208	281	213	163	228	253	434	608	
Non-operating expenses	273	241	147	149	260	221	186	145	275	309	136	
Recurring profit	**8,187**	**9,812**	**9,912**	**12,089**	**13,784**	**13,892**	**15,092**	**15,943**	**16,684**	**17,381**	**17,284**	**18,500**
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	-0.6%	7.0%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.8%	6.1%
Extraordinary gains (losses)	221	1,050	691	990	953	133	557	372	1,790	1,182	1,435	
Extraordinary gains	58	110	457	5	73	80	28	15	816	525	170	
Extraordinary losses	163	940	234	985	880	53	529	357	974	657	1,265	
Income taxes	3,702	4,026	4,618	4,613	5,932	6,306	6,192	6,530	6,469	6,463	5,261	
Implied tax rate	45.8%	44.8%	45.6%	41.5%	45.7%	45.3%	42.4%	41.9%	39.1%	37.5%	32.5%	
Minority interests	-	80	50	-	132	104	237	344	398	547	610	
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**	**10,238**	**10,316**	**11,000**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	0.8%	6.6%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%	3.6%

Source: Shared Research based on company data
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 FY 02/10. These businesses were designated as Support Services from FY 02/11 after the company merged with Certo Corp. in September 2010. Materials and Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Profitability and financial ratios

Profit margins (JPYmn)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	38,903
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	13.2%
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%
EBITDA	9,712	11,441	11,563	13,818	16,107	16,138	17,547	18,327	19,568	20,191	20,062
EBITDA margin	7.1%	7.9%	8.2%	8.1%	7.3%	6.5%	6.8%	6.9%	7.0%	6.9%	6.8%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%
Financial ratios											
ROA (RP-based)	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%	12.8%	12.1%
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%	12.0%	11.0%
Total asset turnover	2.9	3.0	2.9	2.6	2.5	2.6	2.4	2.2	2.2	2.2	2.1
Working capital	7,394	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952	11,401	16,841
Current ratio	127.7%	149.8%	184.4%	210.0%	215.5%	226.9%	229.9%	224.0%	235.8%	255.1%	276.4%
Quick ratio	123.6%	135.8%	166.6%	195.4%	201.0%	207.6%	208.9%	207.5%	216.2%	227.4%	250.3%
OCF / Current liabilities	29.4%	31.3%	38.6%	29.0%	30.0%	-12.7%	57.5%	40.1%	22.5%	26.3%	31.0%
Net debt / Equity	40.8%	27.6%	34.6%	60.4%	63.5%	43.4%	63.1%	73.4%	68.7%	68.3%	70.9%
OCF / Total liabilities	26.0%	31.8%	40.6%	21.5%	27.8%	-12.1%	52.3%	35.5%	21.8%	24.7%	29.3%
Cash cycle (days)	14.0	14.3	14.8	10.4	8.2	18.5	20.3	11.7	11.3	10.9	13.1
Changes in working capital	968	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181	-2,551	5,440

Source: Shared Research based on company data

Historical forecast accuracy

Results vs. Initial Est. (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.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.
Sales (Initial Est.)	120,000	145,000	150,000	181,000	213,000	260,000	260,000	270,000	280,000	305,000	305,000
Sales (Results)	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	295,839
Results vs. Initial Est.	**14.6%**	**0.5%**	**-6.5%**	**-5.6%**	**3.2%**	**-4.3%**	**-1.1%**	**-1.2%**	**0.4%**	**-3.4%**	**-3.0%**
Operating profit (Initial Est.)	-	9,100	10,100	12,050	14,300	16,600	15,500	16,000	17,000	17,500	18,000
Operating profit (Results)	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	16,812
Results vs. Initial Est.	**-**	**9.3%**	**-1.3%**	**-0.2%**	**-3.8%**	**-16.3%**	**-2.5%**	**-0.9%**	**-1.7%**	**-1.4%**	**-6.6%**
Recurring profit (Initial Est.)	6,800	9,000	9,900	12,105	14,300	16,600	15,500	16,000	17,000	17,500	18,000
Recurring profit (Results)	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	17,284
Results vs. Initial Est.	**20.4%**	**9.0%**	**0.1%**	**-0.1%**	**-3.6%**	**-16.3%**	**-2.6%**	**-0.4%**	**-1.9%**	**-0.7%**	**-4.0%**
Net income (Initial Est.)	3,600	4,600	5,200	6,470	7,600	8,700	8,300	8,600	9,400	10,000	10,700
Net income (Results)	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,316
Results vs. Initial Est.	**21.7%**	**6.0%**	**5.1%**	**0.4%**	**-9.1%**	**-13.7%**	**-1.7%**	**1.5%**	**2.7%**	**2.4%**	**-3.6%**

Source: Shared Research based on company data
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	FY02/16	FY02/17	FY02/18
ASSETS										
Cash and deposits	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386	31,717	39,536
Accounts receivable	18,025	16,284	28,246	31,240	44,673	37,420	40,055	39,512	36,958	37,437
Allowance for doubtful accounts	-188	-122	-226	-657	-144	-290	-168	-360	-202	-130
Inventories	28	20	1,476	1,527	2,237	2,504	2,618	2,897	3,050	3,088
Deposits for consumption from associates	2,500	3,000	18,920	27,320	18,020	32,420	41,326	37,362	31,713	32,000
Other current assets	2,794	2,880	3,010	3,349	4,523	5,728	5,066	5,877	9,169	8,283
Total current assets	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**	**112,405**	**120,214**
Buildings	762	1,185	1,234	1,217	1,089	1,046	1,009	1,642	1,644	1,593
Facilities and equipment for area management	343	305	265	246	274	238	211	190	175	-
Tools, furniture, and fixtures	-	-	1,791	1,918	2,079	2,487	2,516	2,663	3,319	4,900
Land	475	284	284	284	282	278	278	1,978	1,975	1,975
Construction in progress	13	15	-	-	-	-	-	-	-	-
Other fixed assets	1,009	952	182	108	72	209	345	610	1,974	1,591
Total tangible fixed assets	**2,602**	**2,741**	**3,756**	**3,773**	**3,796**	**4,258**	**4,361**	**7,086**	**9,089**	**10,060**
Goodwill	11,974	11,295	10,546	11,249	10,801	10,078	9,069	7,989	7,038	6,255
Other	649	629	1,031	1,023	1,520	1,609	1,867	2,408	2,056	1,780
Total intangible fixed assets	**12,623**	**11,924**	**11,577**	**12,272**	**12,321**	**11,687**	**10,937**	**10,397**	**9,095**	**8,036**
Investment securities	1,730	2,050	2,983	2,577	2,973	3,897	3,768	4,463	4,546	5,334
Deferred tax assets	534	289	278	406	288	254	284	310	551	330
Other	1,566	1,779	1,701	1,517	2,196	1,877	2,750	3,911	4,353	3,462
Allowance for doubtful accounts	-172	-141	-196	-224	-200	-199	-535	-494	-536	-610
Investments and other assets	**3,658**	**3,977**	**4,766**	**4,276**	**5,257**	**5,829**	**6,268**	**8,190**	**8,915**	**8,516**
Total fixed assets	**18,885**	**18,644**	**20,100**	**20,322**	**21,375**	**21,775**	**21,567**	**25,674**	**27,099**	**26,613**
Total assets	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**	**139,505**	**146,828**
LIABILITIES	-	-	-	-	-	-	-	-	-	-
Accounts payable	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457	28,607	23,684
Short-term debt	1,688	80	49	41	10	5	-	-	271	225
Other	7,892	7,227	8,251	9,882	10,401	12,600	15,738	16,364	15,187	15,103
Total current liabilities	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**	**44,065**	**43,486**
Long-term debt	56	31	6	15	5	-	-	-	293	-
Other	768	993	1,006	968	1,190	1,500	1,908	2,527	3,057	2,780
Total fixed liabilities	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**	**3,350**	**2,780**
Total liabilities	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**	**47,416**	**46,267**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	2,963	2,964	18,741	18,753	18,770	18,818	18,850	18,862	18,949	19,020
Retained earnings	20,852	25,366	30,575	35,285	40,539	46,235	52,388	59,393	66,795	74,115
Treasury stock	-461	-461	-461	-460	-458	-449	-443	-441	-436	-430
Other comprehensive income	-42	145	645	647	992	1,711	1,373	525	799	1,484
Share subscription rights	72	110	149	173	205	165	166	221	263	303
Minority interests	1,456	-	-	545	1,260	1,597	1,922	2,200	2,480	2,829
Total net assets	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**	**92,089**	**100,561**
Working capital	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952	11,401	16,841
Total interest-bearing debt	1,744	111	55	56	15	5	-	-	564	225
Net debt (net cash)	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748	62,866	71,311
Equity ratio	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%	64.0%	66.4%

Source: Shared Research based on company data
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 (JPY6.2bn; 4.3% of total assets as of FY02/18) 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 JPY31.5bn and liabilities of JPY15.3bn.

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. However, receivables are diversified among a large portion of counterparties, and the largest is JPY1.0bn from Japan Beverage Holdings.

Shareholders' equity

Equity 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, Shared Research believes that the company could use financial leverage (i.e., use of debt to acquire additional assets) to expand business and its equity.

Shareholder returns

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.

Statement of cash flows

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
Cash flows from operating activities (1)	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303	11,703	13,568
Cash flows from investing activities (2)	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666
Free cash flow (1+2)	**4,581**	**5,065**	**3,808**	**-412**	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**	**10,902**
Cash flows from financing activities	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264
Depreciation and amortization (A)	1,495	1,593	1,787	2,345	2,237	2,432	2,466	2,861	2,934	3,250
Capital expenditures (B)	-707	-912	-792	-1,184	-1,607	-1,999	-1,903	-2,414	-4,113	-3,228
Working capital changes (C)	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181	-2,551	5,440
Simple FCF (NI + A + B - C)	**5,556**	**6,319**	**7,522**	**6,324**	**-5,180**	**17,737**	**10,740**	**7,924**	**11,372**	**-5,418**

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

In FY02/13, net cash used in operations was JPY4.4bn (net cash provided by operations was JPY9.6bn in FY02/12), attributed to a JPY12.6bn increase in accounts receivables related rise in LED construction work for the Aeon group, and JPY6.6bn paid in corporate income taxes. Prior to FY02/13, cash flows from operating activities ranged from JPY6.5bn in FY02/08 to JPY9.6bn in FY02/13.

Cash flows from investing activities

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

Cash flows from financing activities

In FY02/13, net cashed used in financing activities were dividend payments of JPY2.3bn. 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 JPY13.3bn YoY (JPY13.4bn increase in accounts receivables and JPY710mn increase in inventories minus JPY820mn increase in accounts payable). Depreciation and amortization of goodwill totaled JPY2.2bn and capital expenditures were JPY1.6bn. Net income totaled JPY7.5bn. Simple free cash flow was negative JPY5.2bn at the end of FY02/13.

Cash conversion cycle (days)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18
Accounts receivable turnover	8.0	8.2	8.2	7.7	7.4	6.6	6.3	6.9	7.1	7.7	8.0
Accounts receivable days	**45.7**	**44.7**	**44.6**	**47.6**	**49.4**	**55.7**	**58.2**	**53.0**	**51.7**	**47.4**	**45.9**
Inventory turnover	6,247.0	6,565.0	4,965.8	196.4	127.3	116.2	94.3	90.4	88.4	86.0	83.7
Days in inventory	**0.1**	**0.1**	**0.1**	**1.9**	**2.9**	**3.1**	**3.9**	**4.0**	**4.1**	**4.2**	**4.4**
Accounts payable turnover	11.5	12.0	12.2	9.4	8.3	9.1	8.7	8.0	8.2	9.0	9.8
Accounts payable days	**31.7**	**30.5**	**29.9**	**39.0**	**44.1**	**40.3**	**41.8**	**45.4**	**44.5**	**40.7**	**37.1**
Cash conversion cycle (days)	**14.0**	**14.3**	**14.8**	**10.4**	**8.2**	**18.5**	**20.3**	**11.7**	**11.3**	**10.9**	**13.1**

Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

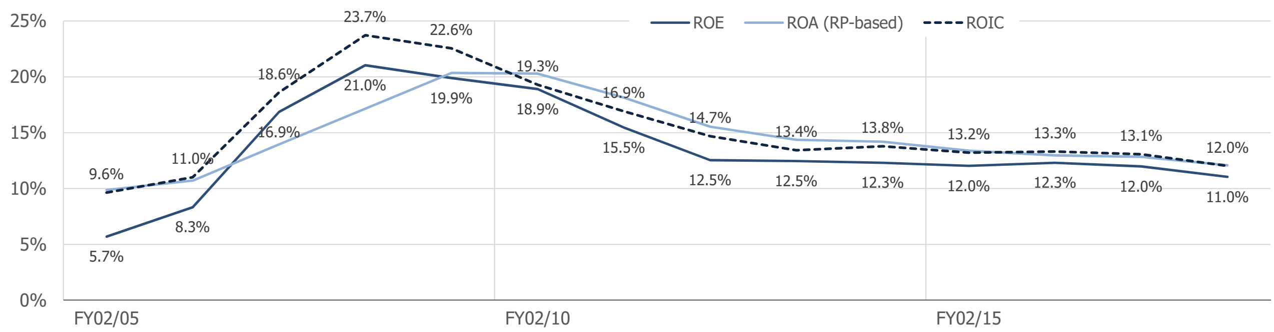
The company acquired Certo Corp., a provider of office supplies and operator of soft drink beverage vending machines in September 2010. Inventory turnover rate deteriorated due to increased inventories from acquired company.

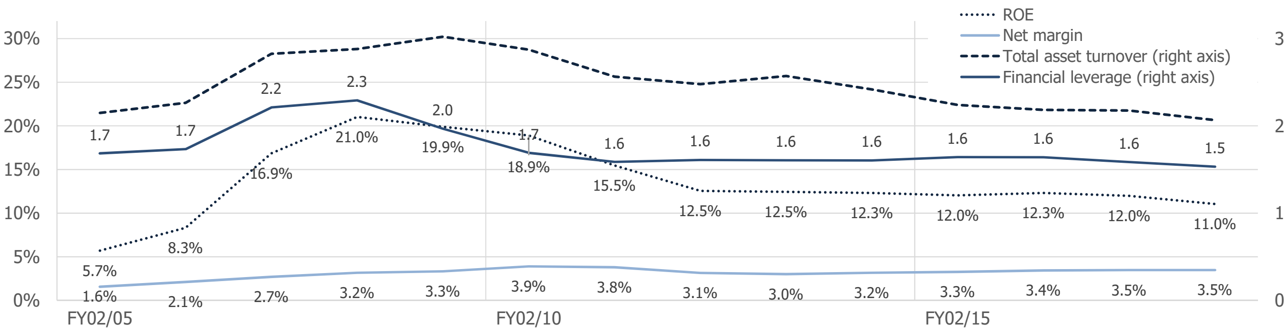
Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers. In FY02/13, its cash-conversion cycle increased due to increased LED installation work for Aeon group companies.

ROE and dividends

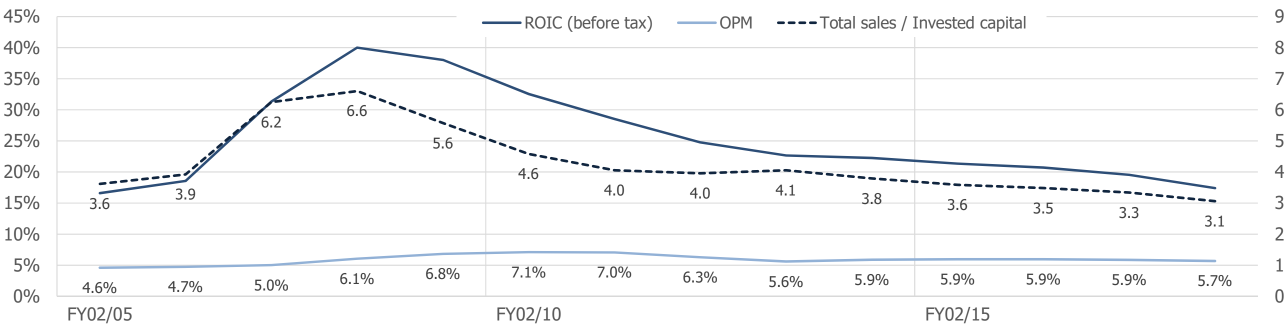
(JPYmn)	FY02/05 Cons.	FY02/06 Cons.	FY02/07 Cons.	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.
ROE	**5.7%**	**8.3%**	**16.9%**	**21.0%**	**19.9%**	**18.9%**	**15.5%**	**12.5%**	**12.5%**	**12.3%**	**12.0%**	**12.3%**	**12.0%**	**11.0%**
Net margin	1.6%	2.1%	2.7%	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%
Total asset turnover	2.15	2.26	2.83	2.88	3.02	2.87	2.56	2.48	2.57	2.42	2.24	2.18	2.18	2.07
Financial leverage	1.68	1.73	2.21	2.29	1.97	1.69	1.59	1.61	1.61	1.60	1.64	1.64	1.58	1.53
ROA (RP-based)	**9.9%**	**10.7%**	**13.9%**	**17.1%**	**20.3%**	**20.3%**	**18.1%**	**15.5%**	**14.4%**	**14.2%**	**13.4%**	**13.0%**	**12.8%**	**12.1%**
ROIC	**9.6%**	**11.0%**	**18.6%**	**23.7%**	**22.6%**	**19.3%**	**16.9%**	**14.7%**	**13.4%**	**13.8%**	**13.2%**	**13.3%**	**13.1%**	**12.0%**
NOPAT	1,457	1,749	3,307	4,941	5,899	5,913	7,136	8,162	8,245	9,370	9,832	10,753	11,551	11,624
Interest-bearing debt + Net assets	15,104	15,893	17,791	20,829	26,156	30,649	42,209	55,590	61,400	67,942	74,408	80,748	88,327	96,720
ROIC (before tax)	16.6%	18.6%	31.3%	40.0%	38.0%	32.5%	28.5%	24.8%	22.6%	22.2%	21.3%	20.7%	19.5%	17.4%
OPM	4.6%	4.7%	5.0%	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.7%
Total sales / Invested capital	3.62	3.92	6.25	6.60	5.57	4.58	4.05	3.95	4.05	3.79	3.58	3.48	3.34	3.06

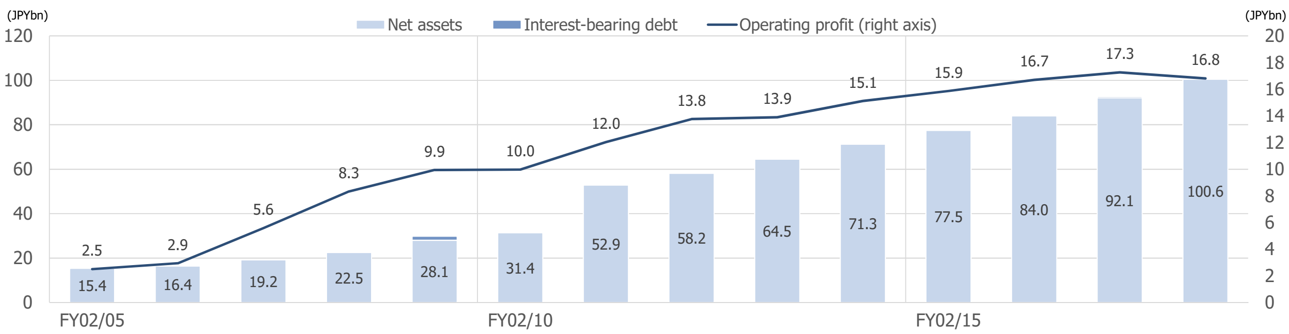
ROE





ROIC

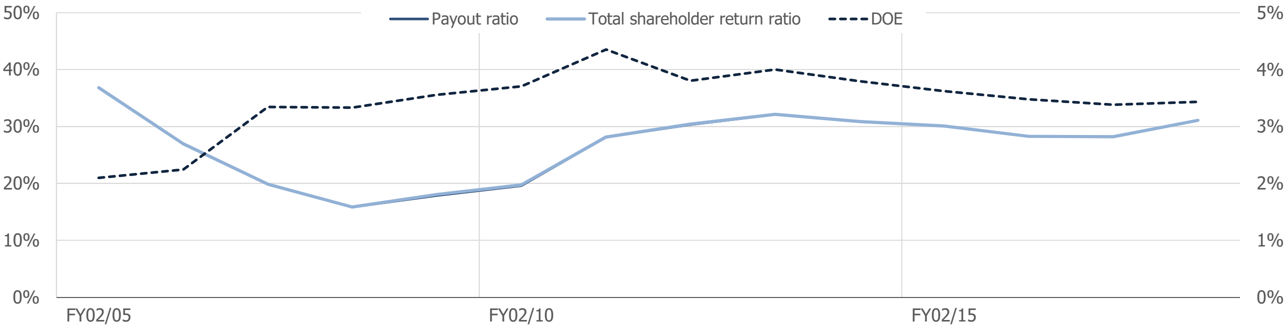




Source: Shared Research based on company data

Dividends

(JPYmn)		FY02/06 Cons.	FY02/07 Cons.	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.
Total dividends	a)	357	595	694	872	1,071	1,828	2,097	2,413	2,519	2,625	2,731	2,890	3,207
Total treasury stock acquired	b)	-	1	-	9	8	1	6	1	1	1	-	-	-
Total returns to shareholders	c) = a) + b)	357	596	694	881	1,079	1,829	2,103	2,414	2,520	2,626	2,731	2,890	3,207
Net income attributable to parent company shareholders	d)	1,324	2,999	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,316
Dividend payout ratio	a) / d)	27.0%	19.8%	15.8%	17.9%	19.6%	28.1%	30.3%	32.1%	30.9%	30.1%	28.3%	28.2%	31.1%
Total shareholder return ratio	c) / d)	27.0%	19.9%	15.8%	18.1%	19.7%	28.2%	30.4%	32.1%	30.9%	30.1%	28.3%	28.2%	31.1%
Net assets available to common shareholders		16,413	19,169	22,488	26,551	31,254	52,738	57,464	63,082	69,554	75,407	81,579	89,346	97,429
Average of beginning and end of year	f)	15,893	17,791	20,829	24,520	28,903	41,996	55,101	60,273	66,318	72,481	78,493	85,463	93,388
Before deducting assets available to holders of Class A preferred shares		16,413	19,169	22,488	26,551	31,254	52,738	57,464	63,082	69,554	75,407	81,579	89,346	97,429
EPS	(JPY)	64.3	151.2	110.4	122.9	137.8	142.6	131.8	143.2	155.5	166.2	183.9	194.8	196.2
Dividend per share	(JPY)	18.0	30.0	25.0	22.0	27.0	39.0	40.0	46.0	48.0	50.0	52.0	55.0	61.0
Dividend on equity ratio	a) / f)	2.2%	3.3%	3.3%	3.6%	3.7%	4.4%	3.8%	4.0%	3.8%	3.6%	3.5%	3.4%	3.4%



Source: Shared Research based on company data

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 filing 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.

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.

Major shareholders

Aeon group companies own about 60% of the company.

Top shareholders	Shares held ('000)	Shareholding ratio
Aeon Retail Co., Ltd.	16,558	30.6%
Aeon Co., Ltd.	6,103	11.3%
Reform Studio Co., Ltd.	3,994	7.4%
Goldman Sachs & Co. Regular Account (Standing proxy: Goldman Sachs Securities Co., Ltd.)	2,209	4.1%
ORIGIN TOSHU Co., Ltd.	1,854	3.4%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,003	1.9%
Aeon Delight Business Partners Stockholding Association	987	1.8%
Aeon Ryukyu Co., Ltd.	855	1.6%
Japan Trustee Services Bank, Ltd. (Trust account)	688	1.3%
Strate Street Bank and Trust Client Omnibus Account OM02 505002 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	606	1.1%

Source: Shared Research based on company data
(As of February 28, 2018)

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 13,430 employees and an average of 6,879 temporary employees on a consolidated basis as of end-FY02/18. At the parent level, there were 4,034 employees and 2,399 temporary employees. The average age, average length of employment, and average annual salary on a parent basis were as follows:

- Average age: 45.9 years
- Average length of employment: 10.7 years
- Average annual salary: JPY4.8mn

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.

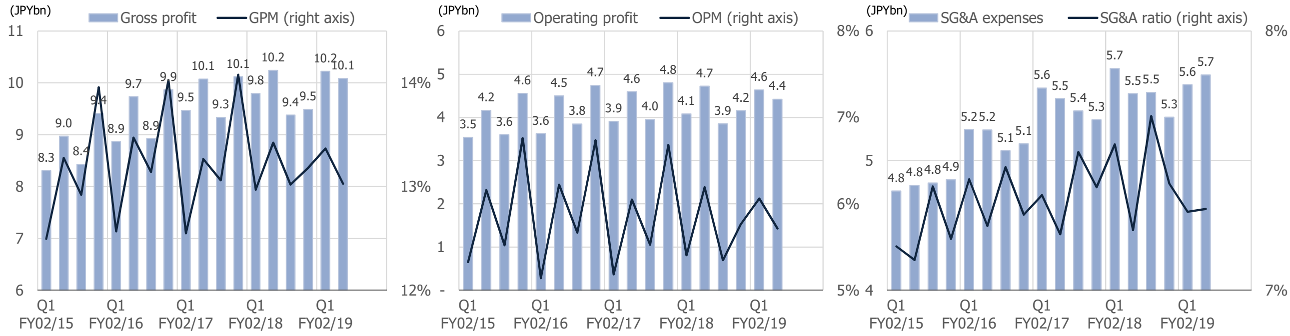
Historical financial statements and news

Historical financial statements

1H FY02/19 results (Out October 10, 2018)

- 1H FY02/19: Sales up 1.4%, operating profit up 2.9%. Results in line with initial forecasts. Announced 2025 targets (sales of JPY525bn, operating profit of JPY48bn)
  - 2025: In Japan, expand market share by constructing Aeon Delight (AD) economic zone. Overseas, concentrate management resources in China and aim to become a top ten company in the industry
- Vision 2025: Aim for above targets with “safety and security,” “labor shortage,” and “environment” as key pillars of growth strategy in Asia
  - Convert medium-term initiatives related to IFM, Asia, and technology into management principle and strategies, and rethink tactical approach. In addition to growth in existing FM business, target higher sales and profit in China and new businesses. Build organizational structure that supports sharing of information among employees and directors and allows directors to execute responsibilities
  - Japan (existing businesses): Target sales increase of JPY60.0bn. Leverage open AD platform to develop AD economic zone and expand market share
  - Japan (new businesses): Target sales increase of JPY100.0bn. Provide energy management services (tied to AD platform) to Aeon stores and surrounding areas
  - Overseas business (China): Target sales increase of JPY40.0bn. Turn two core companies into wholly owned subsidiaries, and focus on shopping centers, high-end residential projects, factories, medical institutions, and public infrastructure
  - Profit margins: In Japan, aim to substantially raise profit margins by leveraging AD platform in existing businesses, reducing labor, and improving productivity, while also targeting contributions from new businesses. Overseas, look for further growth in profit margins
  - 1H progress: Constructed a labor-saving model for large commercial facilities with an eye toward the AD platform; developed a dispersed management system; opened an R&D facility through joint investment with China-based AI company; pushed forward with final tests on cleaning robots; and participated in electricity transaction verification business using blockchain technology
- Segment earnings: Key driver of JPY250mn profit growth was Facilities Management (+JPY550mn), followed by Cleaning Services (+JPY210mn, higher productivity), Construction Work (+JPY90mn, higher margins on portfolio changes and review of project estimates), and Materials and Supplies Sourcing Services (+JPY100mn on higher sales). These offset lower profit in Vending Machine Services and other segments
  - Vending Machine Services: Operating profit down JPY750mn (-58% YoY). In addition to being midway through transitioning to a new revenue model, results were impacted by Q2 heavy rains and typhoons
- 2H: Facilities Management, Cleaning Services, and Materials and Supplies Sourcing Services expected to maintain performance exceeding initial forecasts. Profits in Construction Work expected to grow thanks to large projects concentrated in 2H. Despite the dropout of one-time factors that had an impact in Q2, Vending Machine Services expected to remain sluggish as it is midway through transitioning to a new revenue model. Support Services to aim for recovery

Earnings



Source: Shared Research based on company data

Earnings overview

1H FY02/19: Sales up 1.4%, operating profit up 2.9%. Results in line with initial forecasts. Announced 2025 targets (sales of JPY525.0bn, operating profit of JPY48.0bn)

In 1H FY02/19, Aeon Delight reported sales of JPY153.9bn (+1.4% or +JPY2.1bn YoY) and operating profit of JPY9.1bn (+2.9% or +JPY300mn YoY). OPM increased 0.1pp YoY to 5.9% as initiatives to boost productivity in Japan and abroad have lowered CoGS and SG&A expenses, compensating for an increase in outsourcing expenses in Security Services as well as delays in product supply caused by natural disasters and the ongoing alteration of the revenue model in Vending Machine Services. The shortfall in Vending Machine Services was offset by other businesses. The company notes steady progress in achieving full-year estimates.

Gross profit increased JPY300mn YoY, an underwhelming outcome compared to the initial forecast (+JPY3.0bn over the full year). Shared Research thinks quarterly trends (Q1: +JPY400mn, Q2: -JPY200mn) suggest Vending Machine Services weighed down profit. At the same time, the company kept SG&A expenses firmly under control while staying focused on operating profit and continuing to secure specialist staff.

> Reversal of allowance for doubtful accounts and some reductions in personnel expenses were temporary factors that contributed to the YoY decline in SG&A expenses in Q1, but initiatives to internally deal with the work previously outsourced were successful. Shared Research thinks the increase in SG&A expenses in Q2 was partly due to progress steadily being made in securing specialists.

Business environment and company initiatives

In Japan the labor shortage due to the declining working-age population and aging of society is a social issue, and labor shortages are also becoming apparent in China. The company is taking a number of initiatives to improve productivity in Japan and overseas. It has also continued to strengthen activities to market IFM to fulfill its customers' outsourcing needs.

The company has established a joint venture with leading IT company DeepBlue Technology (Shanghai) Co., Ltd., which has strengths in basic research into artificial intelligence and applications development in China. This will become an R&D center for the company, and aims to develop SmartFM by fusing expertise Aeon Delight has developed in Japan in facilities management with advanced technologies in AI, IoT, and robotics. Aeon Delight says that SmartFM would improve convenience for facilities users and yield significant gains in productivity (cost cuts for customers and the company itself).

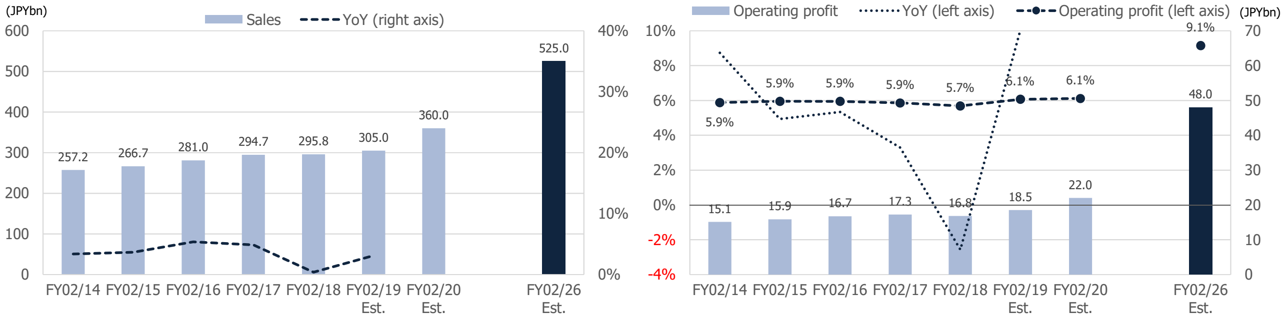
These initiatives are based on the medium-term business plan. At 1H earnings announcement, the company announced new targets for 2025 and three pillars of its growth strategy under the medium-term plan Aeon Delight Vision 2025. The company indicated its resolve to take specific initiatives to accelerate implementation of the medium-term plan based on its vision. An overview of the growth strategy and 1H are as follows.

Aeon Delight Vision 2025

Objectives

Aeon Delight Vision 2025 does not represent a departure from the medium-term plan, which outlines three perspectives that are highly tactical in nature: IFM, Asia, and technology (next-generation facilities management). Vision 2025 fully encompasses these perspectives, but brings the focus back to Aeon Delight's management principle and converts the medium-term initiatives into management strategies, which include IFM, Asia, and technology as composing elements. The current medium-term plan reflects a consensus reached through three drawn-out discussion sessions led by President Hamada (who became president in May) and attended by all directors, including Chairman Nakayama (who formerly served as president). On October 1, 2018, the company pushed through structural reforms and personnel changes aimed at realizing Vision 2025 objectives, and clarified responsibilities for all directors. We understand the Board of Directors has been engaged in intense debates for hours, which exceed the originally scheduled meeting time.

Vision 2025



Source: Shared Research based on company data

Management principle, strategies, and tactics

Aeon Delight's management principle calls for the creation of "environmental value" for clients and regional communities. In accordance with this principle, Vision 2025 aims to transform Aeon Delight into a company that creates environmental value and contributes to solving social issues, with "safety and security," "labor shortage," and "environment" as three pillars of its growth strategy. Its FY02/26 targets are JPY525.0bn in sales (+JPY230.0bn vs. FY02/18, CAGR of 7.4%), JPY48.0bn in operating profit (+JPY31.2bn vs. FY02/18, CAGR of 14.0%), and a 9.1% OPM (+3.5pp vs. FY02/18, CAGR of 0.4pp). The company is also aiming for top ten sales and top-level OPM globally and number one sales in Asia in the facility management industry. To become one of the top ten companies in the world, the company is aiming to expand its market share in Japan by constructing Aeon Delight (AD) economic zone and concentrating management resources in China for its overseas operation.

In Japan, Aeon Delight will construct AD economic zone using the AD platform, improve efficiency and reduce customer costs by establishing labor-saving/unmanned systems, expand its share in the facility management market through customer-focused sales activities and collaborations with other companies, and develop an energy management business as the pillar of its new business. The company is aiming to become a top ten company in China through making two core companies wholly-owned subsidiaries*, establishing the AD brand in its stronghold of east China to serve as a business foundation to expand across the entire county, and constructing systems for branding, recruitment, and management in China.

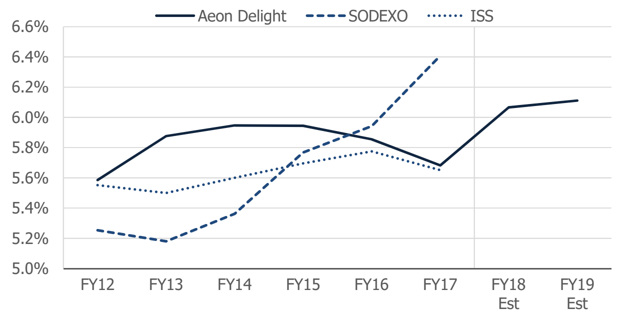
The company will earnestly engage in the energy management business. Aeon group's annual energy consumption volume is 7.4bn kWh (about 1% of the 2016 overall energy consumption in Japan of 850.5bn kWh). Against this backdrop, it participated in Aeon Decarbonization Vision 2050 as a company in charge of managing energy consumption of the Aeon group. The company expects this business to include everything from supplying necessary energy to regional communities to reducing energy usage at facilities. In addition, as the issue of plastic pollution in oceans grows more serious, the company plans to evolve its Materials and Supplies Sourcing Services to an environmental materials business which can make proposals from as early as the stage of selecting raw materials.

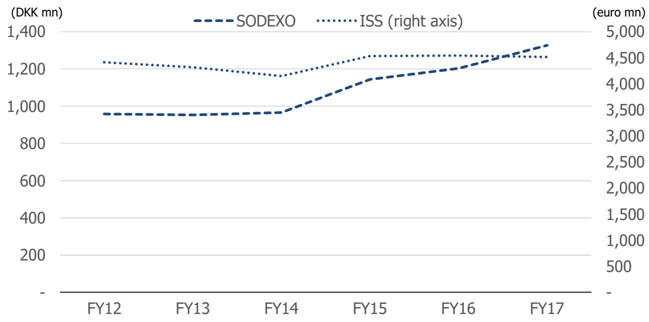
Making two core companies wholly-owned subsidiaries: The company signed a share acquisition agreement on October 10 to acquire the remaining 49% of shares in Aeon Delight Jiangsu and Wuhan Xiaozhu. It aims to accelerate its growth in China by unifying operations, strengthening partnerships, and accelerating decision-making processes.

Assumptions underpinning targets

The company has set meaningful targets for sales and operating profit that not only factor in the business environment and competitive landscape but also reflect accumulated tactical effects. These targets reflect aspirations to become the sales leader in Asia and achieve top ten sales and top-level OPM globally. The projected sales increase of JPY230.0bn breaks down as (1) a rise of about JPY100.0bn in the existing FM business (+JPY60.0bn in Japan, +JPY40.0bn in China), and (2) a rise of about JPY100.0bn in the new environmental business. Aeon Delight considered sales and growth prospects of leading global companies in Asia, and formulated a strategy to establish itself as the leader in sales in Asia. Its OPM target of 9.1% (+3.4pp from FY02/18) was similarly set in reference to the 5% level for global leaders such as ISS and SODEXO. The following is an overview of initiatives by segment to achieve the targets.

Aeon Delight, ISS, SODEXO OPM (left) and operating profit (right)





Source: Shared Research based on company data

Existing FM business in Japan

In response to worker shortages, the existing FM business will aim to become the sales leader in the Asian FM market by (1) increasing its FM market share (currently 4.1%) and expanding business areas in Japan, and (2) concentrating management resources into China to join the top ten companies by sales in that country. Vision 2025 targets an increase in sales of over JPY100.0bn, which will evidently be difficult to achieve through organic growth alone. The company intends to expand its market share by leveraging the AD platform to develop AD economic zone.

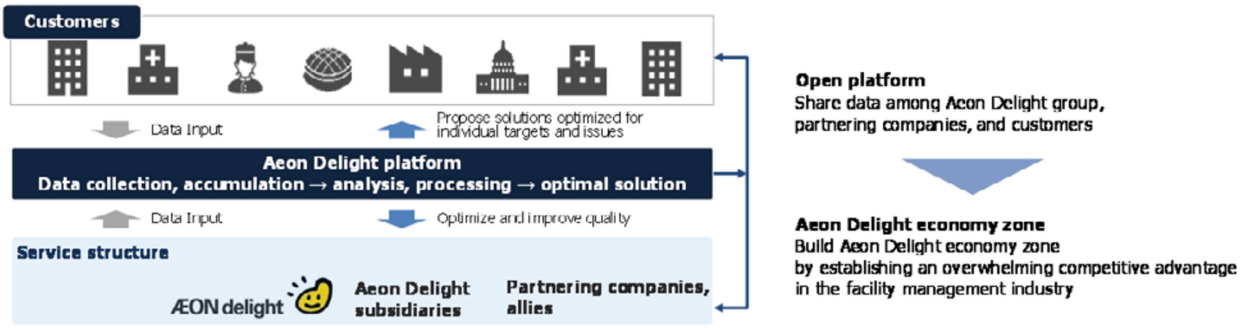
Market share: Aeon Delight estimates the domestic market is worth JPY3.7tn (based on FY02/18 sales in the Facilities Management, Security Services, and Cleaning Services businesses).

AD platform

The AD platform is a management platform for customer facilities. It aims to utilize various sensors and IoT systems to control all aspects of facility management ranging from power supply to air conditioning, equipment, lighting, entrance/exit control, security and disaster prevention, and digital signage. Its objectives are to make facility management more intelligent, achieve greater efficiency and reduced costs through automated control, centralize data, and make it visible in real time. In contrast to traditional closed systems that rely on a central monitoring system, the AD platform stands out because of its open (low-cost) format that does not require a central monitoring system.

The AD platform caters to a wide range of facilities from office building to commercial facilities, proposes optimal solutions that address specific challenges for each type of facility, and aims to deliver improved efficiency and quality. The company notes that (1) the platform is expected to be deployed at all Aeon stores (albeit with some variation in scale), (2) customers will find it difficult to cancel the service once they get used to its convenience and efficiency, and (3) a partial deployment in the early stages will also generate opportunities to secure various types of ancillary FM work. By taking charge of areas ranging from power supply to management, security and cleaning, interior design and construction work accompanying tenant store openings and closures, and operation of other facility infrastructure such as vending machines, the company aims to gain a competitive advantage and build AD economic zone with affiliated companies and other partners.

AD platform



Source: Shared Research based on company data

Initiatives from 2H FY02/18 also conducted as part of AD platform rollout

From 2H FY02/18, Aeon Delight undertook initiatives in the context of the AD platform rollout. In FY02/18, it recognized labor reduction as the biggest and most urgent issue it faces, since labor shortages impact not only the business environment, but the company directly (blunting its ability to capture new contracts). In 2H FY02/18, the company raised the management priority of developing labor reduction and automation facility management (FM) models as soon as possible. From early FY02/19, it made consecutive announcements related to labor reduction and automation. These included the establishment of a joint venture with DeepBlue Technology (China), an agreement to collaborate with SECOM on a new business model, and the launch of a floor cleaning robot jointly developed with Tennant Company (US; NSYE: TNC). It will also establish a more efficient model for a major general supermarket chain that allows reductions in on-site staffing (resulting in cost reductions for the chain and Aeon Delight) and will test a labor reduction model that reduces client costs by 40% at major commercial facilities and allows the company to halve the number of on-site staff. These initiatives arose from the sense of urgency surrounding labor shortages.

Platform that confers benefits to Aeon Delight, customer facilities, and partners

The aforementioned initiatives are part of the AD platform efforts. Labor reduction and automation in facility management and floor cleaning robots are important parts of building the AD platform, and the research lab jointly operated with DeepBlue Technology will also play a critical role. The company will leverage technology to capture big data comprising information automatically obtained from various sensors under its labor reduction and automation FM model, and visually collected information on everyday operations through its dispersed management system Delight Viewer, which is still under development. It plans to use AI to analyze such data at the jointly operated research lab, and share findings with AD economic zone participants. This approach is expected to deliver benefits to the company, its customer facilities, and its partners. In short, we understand that Vision 2025 is not meant to be a departure from the current medium-term plan or management principle, but rather represents a comprehensive strategy that encompasses both.

Overview of targets

Aeon Delight intends to leverage the AD platform to expand its market share and build AD economic zone. According to the company, it currently leads the FM sector, but its market share stands at only 4.1%. This is largely because the market is populated with a large number of small and medium-sized business operators, but Aeon Delight has a competitive advantage from its nationwide network and its AD platform, particularly under the business environment in which worker shortages have become a major issue. By facility type, the company’s market share is nearly 15% for commercial facilities, but only 2–3% for office buildings, and roughly 1% for medical institutions. The company intends to strengthen its market share for commercial facilities by securing further contracts from Aeon stores under Aeon Decarbonization Vision 2050, and expand its share for office and other buildings through collaborations with other companies. At the results briefing in April 2018, management revealed that it was aiming to introduce the AD platform at security service customers of SECOM, and that it may be able to secure a higher market share if it succeeds in providing bundled services that also include cleaning and other services to these customers. We look forward to seeing further developments related to SECOM customers.

Collaboration with SECOM: In April 2018, Aeon Delight announced a collaborative effort with SECOM to develop a new FM business model that can capture FM demand from the 2.2mn companies in Japan that have adopted machine security (remote security using sensors). This demand amounts to 2.2mn companies × JPY30,000/month (an amount similar to the fee for machine security). For example, if the company can win contracts with 2.2mn companies × 10% market share × JPY30,000/month × 12 months, sales would be about JPY80.0bn. A 20% market share would mean about JPY160.0bn in sales. The nature of the collaboration is unclear, but a 50:50 split would mean JPY40.0bn or JPY80.0bn respectively for Aeon Delight. At a briefing, the company said the sales teams of both companies would try to capture demand for safety and security at medium-sized facilities (20,000sqm and smaller) and together they are targeting a market share of about 20% by FY02/21. We will be watching related developments.

Details of announcement: On April 10, 2018, Aeon Delight agreed to collaborate with SECOM to establish a new FM business model. The content of the collaboration includes 1) by leveraging the service bases, technologies, and expertise of both companies, realizing labor reduction and automation for the management and operation of large facilities conventionally handled by on-site guards; 2) developing a one-stop service for small and medium facilities to resolve issues related to safety, security, comfort, and convenience; 3) coordinating client development by leveraging the sales abilities of both companies; and 4) promoting coordination on the development of overseas businesses by both companies, starting in China, where the market is growing fast.

Floor cleaning robot

In August 2018, Aeon Delight announced it will begin sales of a floor cleaning robot that was jointly developed with US-based Tennant Company. The company has completed testing of the robot at its stores, and plans a full-scale launch from 2H FY02/19. The robot achieves a roughly 70% reduction in labor compared to solutions operated by cleaning staff, and thus helps resolve worker shortages. Cleaning staff is hard to secure because the bulk of the cleaning work is conducted at night, when stores and offices are closed. Responding to such demand, the company will start external sales of the robot in November. Aeon Delight will work with its partners to develop and secure new contracts, and the robot will become another asset to reduce lost opportunities and expand its AD economic zone.

New environmental business: Energy management business

In the new environmental business, Aeon Delight will offer renewable-energy management and retail services based on the Aeon Decarbonization Vision 2050 pursued by Aeon (TSE: 8267). Aeon group's annual energy consumption volume in FY02/18 is 7.4bn kWh (about 1% of the 2018 overall energy consumption in Japan of 850.5bn kWh), and exceeds over JPY100.0bn. Aeon Delight will 1) pursue economies of scale in power procurement, 2) secure a position that allows it to reduce peak time demand for the group's total energy consumption volume (1% of overall energy consumption in Japan), and 3) utilize projections obtained from big data. The company aims to redirect savings gained from these efforts into added value. In the future, it aims to develop the environmental business in regions surrounding group stores, and establish an energy management business that includes all aspects from supplying necessary energy to regional communities to reducing energy consumption for commercial facilities. The company's sales forecasts for the business do not factor in expansion to surrounding regions and assume conservative targets for sales to group stores.

The two avenues to achieve the Aeon Decarbonization Vision 2050 are promotion of energy conservation and a transition to renewable energy. Aeon Delight intends to promote energy-saving measures through the AD platform that was discussed above, and will accordingly take charge of the group's power supply, the bulk of which goes to air conditioning, refrigerated display cases for cold and frozen foods, and lighting. Using highly precise, real-time management, the AD platform looks to reduce demand by optimizing demand projections through AI and accumulated data on the group's energy consumption, which represents 1% of Japan's total energy consumption. Turning to renewable energy, the company will utilize the solar power generation facilities of Aeon stores, procure renewable energy, and leverage the technology of investee Digital Grid Corporation (see Full-year company forecasts section) to demonstrate the viability of renewable energy. We should add that Aeon Delight has no plans to construct thermal power generation facilities.

Environmental materials business

To help reduce the global environmental load, Aeon Delight intends to go beyond renewable energy initiatives. As the issue of plastic pollution in oceans is growing more serious, the company plans to evolve its Materials and Supplies Sourcing Services to an environmental materials business which can make proposals from as early as the stage of selecting raw materials.

Overseas FM market

The overseas business is the only area in which the Vision 2025 diverges from the medium-term plan. The latter calls for FY02/20 overseas sales of JPY30.0bn (+JPY18.0bn from FY02/17), breaking down as JPY20.0bn in China (+JPY11.0bn, CAGR of 30%), JPY10.0bn for the ASEAN region (+JPY7.0bn, CAGR of 40–50%), with both regions expected to deliver strong growth.

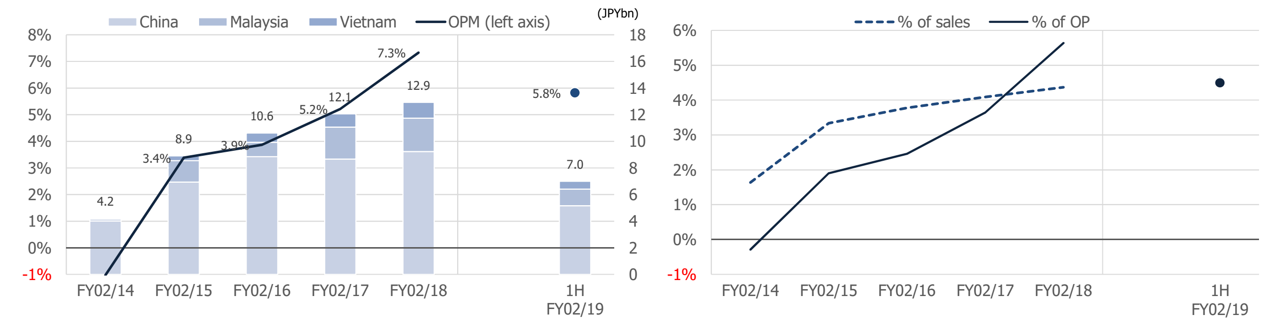
Conversely, Vision 2025 looks for sales in the ASEAN region to remain flat, and targets a rise of JPY40.0bn in China. This apparently reflects the company's belief that (1) management resources need to be concentrated in China to rapidly establish a foothold in the massive Chinese market where building construction continues, and (2) the business model for ASEAN operations needs to be revamped because the company's independent foray into countries such as Vietnam and Malaysia ultimately has not led to the acquisition of expertise (in contrast to China, where Aeon Delight achieved growth by acquiring local companies that already possessed the necessary expertise).

China business

The China business reported sales of nearly JPY10.0bn in FY02/18, and targets sales of JPY50.0bn in FY02/26. This is another meaningful target underpinned by the fact that leading companies in China generate sales of JPY20.0–30.0bn (according to the company), and the belief that a target of JPY50.0bn is feasible if factoring in growth from the acquisition of a rival. To this end, Aeon Delight turned two core companies into wholly owned subsidiaries (from previous stakes of 51%) on October 10, 2018, thus establishing the business foundations to accelerate growth in the China business. The company aims to strengthen its brand in China and join the top ten companies in the facility management industry by unifying its Chinese operations, strengthening cooperation between the two subsidiaries and Japan, and accelerating related decision-making process.

The five markets in China targeted under Vision 2025 correspond to the five strategic markets in the medium-term plan: (1) medium to high-end commercial facilities, (2) medium to high-end residential projects, (3) high-end factories (operated by Japanese, foreign, or Chinese leading companies), (4) care facilities such as nursing homes and hospitals, and (5) subway and other transport infrastructure facilities. The company has already won contract work in each of these markets. It is expanding the scope of its contract work, and also broadening operations beyond East China. Its aim is to establish the AD platform in East China, lay the foundations that support business expansion throughout China, and join the top ten companies.

Overseas sales and OPM (left), China sales (right)



Source: Shared Research based on company data

Profit margins

We have discussed the breakdown of the JPY230.0bn sales increase above, but Vision 2025 also looks for sharp growth in profit margins, calling for OPM of 9.1% in FY02/26 (3.4pp increase from 5.7% in FY02/18). This target is based on comparable margins (5–6%) achieved by global leaders such as SODEXO and ISS. Aeon Delight believes it can achieve such an ambitious level based on a unique approach that combines technology and AD economic zone. It plans to incrementally improve OPM, mirroring its approach for sales growth.

By market, Aeon Delight looks for the following:

- ▷ Existing FM market in Japan: Improve profit margins through cost reductions for Aeon Delight and its customers through deployment of the AD platform, which is premised on a labor-saving FM model
- ▷ Chinese market: Overseas OPM already reached over 8% in 1H FY02/19, exceeding consolidated OPM of 5.9%, but the company will leverage its labor-saving model to achieve a further increase in China, a market that is facing worker shortages like Japan

▷ New businesses: The company will aim for OPM that surpasses consolidated OPM (5.6% in FY02/18) through procurement, big data utilization, and highly efficient power management of the Aeon group's energy consumption, which corresponds to roughly 1% of overall energy consumption in Japan. Aeon Delight looks to improve profitability of its subsidiaries in Japan by clarifying each company's function within the group, with consideration given to organizational restructuring

Vision 2025 does not include any references to IFM. This does not mean the company has abandoned IFM altogether, but rather that IFM is just one proposal underpinning sales. Because of its transparent cost structure, IFM makes it difficult to secure high margins. While the medium-term plan calls for IFM-driven sales growth, Shared Research believes Vision 2025 places greater emphasis on high profit margins achieved through the AD platform and AD economic zone in Japan and through reaping benefits of growth momentum in China.

Progress on high priority initiatives under medium-term business plan (as of 1H FY02/19)

Under its medium-term business plan, the impact of personnel shortages is becoming increasingly evident and the introduction of labor-saving measures (to increase efficiency and create a high-margin business model) is becoming an increasingly large and pressing problem. As the biggest challenge for Aeon Delight in FY02/19 and subsequent years will be overcoming manpower shortages, it is essential that the Facilities Management business move to a business model that requires either fewer workers or full automation as soon as possible.

Main initiatives for FY02/19

In Japan, during the course of 1H the company is looking to establish a labor-saving model for large commercial facilities that will reduce the cost to the client by 40% and reduce its own on-site staffing costs by 50%, and begin putting that model to use in several facilities during 2H. For the visiting services for small and medium-sized facilities, the company is looking at working with SECOM to create a new business model. While reducing on-site staffing requirements on the one hand, Aeon Delight is looking to create a more efficient and higher-margin business model by expanding its network of offices that can provide visiting facilities management services while at the same time holding down personnel costs and increasing its unit billing rate.
In China, amid the country's rapid move to digital technology, the company plans to establish a labor-saving/fully automated business model ("smart facilities management") and find new ways to add value that make the facilities under management more appealing.

Progress in 1H

The company has initiatives to boost productivity in the following areas. Large facilities in Japan: trial runs of remote monitoring and automatic control for facilities management using sensing technologies with an eye toward the rollout of the AD platform. Small and medium-sized facilities in Japan: labor-saving initiatives in 30 staffed locations through process streamlining and standardization, enabling it to redeploy personnel to visiting locations and expand sales opportunities. Collaborations: the company is collaborating with SECOM to develop a new business model that supports regional communities.

On the large facilities front, a trial run that includes Delight Viewer is currently underway at Aeon Mall Tokoname in Aichi Prefecture. Aeon Delight is focused on streamlining manpower allocation and costs in regional areas rather than individual stores, and it is incrementally building a model that balances staffing with sensors. It plans to also introduce the model at Aeon Mall Fujiidera slated to open in the spring of 2019. Because Delight Viewer does not require large-scale construction to install sensors and other equipment, the company intends to introduce it at Aeon Style facilities in the northern Kanto area. Management aims for simultaneous advancement of each stage at other stores and areas.

Small and medium-sized facilities appear to be smoothly progressing in line with plan, which calls for elimination of 90 positions at staffed facilities (about 90 locations) in FY02/19. About 30 positions were already eliminated in Q1, mainly from GMS. This had a depressing effect on revenues, but profits still increased JPY10mn as use of qualified workers at visiting service locations reduced manpower needs and the company booked new contracts. Management aims to maintain the momentum from Q2 onward by focusing on expansion to shopping malls, which are bigger than GMS. Collaboration efforts are still in the early stages, but the company aims to build a business model during FY02/19.

The company is also growing business in Asia. China: focusing marketing activities on its priority targets of medium- and high-end facilities, winning new contracts for overall management of large commercial and transport infrastructure facilities. ASEAN: strengthened sales organization in Vietnam, expanding services offered to local companies that are rolling out chains and winning contracts for factory cleaning services from Japanese corporations. In 2H, the company turned two core companies in China into wholly owned subsidiaries (discussed in more detail below).

China is the earnings driver of the overseas business, which saw sales expand a healthy 30% YoY. Sales in China grew an especially robust 25%. The focus is on securing relatively lucrative contracts, a strategy which has improved the business portfolio and boosted OPM. Overseas OPM in 1H (5.8%) reflected a decline from the full-year level in FY02/18 (7.3%), but this was mainly attributable to upfront spending on a large-scale facility management contract and business restructuring in Malaysia. The impact of such spending is expected to persist in Q3 and beyond, and business restructuring efforts should also accelerate. Note, however, that profit margins in the China business are steadily growing.

The small scale of ASEAN operations limits the impact to earnings, but operating profit appears to have declined in both Malaysia and Vietnam. Aeon Delight noted operations in Malaysia are struggling while sales in Vietnam are steadily rising. It established a track record of winning contracts in Q1 by acquiring projects at Vietnamese industrial parks that host many Japanese companies. Going forward, the company looks to pick up other clients at the industrial parks. In Malaysia, it looks to streamline the scale of its operations, and is pushing through reforms aimed at sparking renewed growth.

For expanding the customer base, the focus overseas is to steadily expand contracted properties mainly from non-group companies. In Japan, the focus is to start providing service to R&D centers of public research organizations, pharmaceutical manufacturers' office buildings, foreign-affiliated companies' offices, and hospitals while also eyeing expansion of non-group customers.

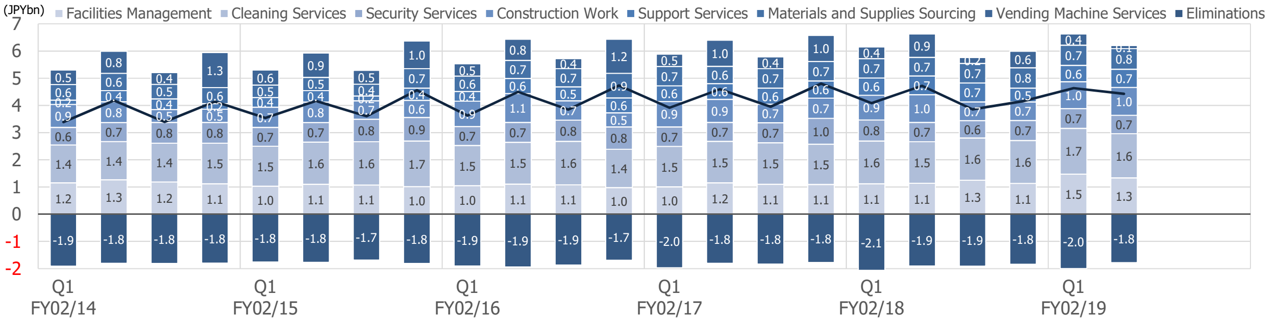
Full-year forecasts (as of end-Q1, for reference)

For FY02/19, the company is forecasting sales of JPY305.0bn (+3.5% or +JPY9.2bn YoY), operating profit of JPY18.5bn (+10.0% or +JPY1.7bn), and a net income of JPY11.0bn (+6.6% or +JPY700mn). This works out to an operating profit margin of 6.1% and net income margin of 3.6%. The projected JPY1.7bn increase in operating profit reflects expected growth in gross profit of JPY3.0bn versus a JPY1.2bn increase in SG&A expenses. The projected increase in gross profit is based on 1) a JPY800mn increase in gross profit from new IFM clients, 2) JPY300mn from the Construction Work segment, 3) JPY600mn from business expansion in Asia, 4) JPY700mn from labor-saving measures and an accompanying improvement in margins, and 5) JPY600mn from growth at domestic subsidiaries.

Q1 earnings were in line with Aeon Delight's full-year forecasts, and the company expects the trend to continue in Q2. The forecasts assume higher pricing for Security Services contracts to reflect rising wages and expanded revitalization-related Construction Work demand. Vending Machine Services profits are projected to further improve from Q3. Factors that temporarily lowered SG&A expenses in Q1 (e.g., reductions in personnel expenses and reversal of allowance for doubtful accounts) are not expected to be repeated from Q2, but overall SG&A expenses are expected to remain in line with the company's full-year projection of a JPY1.2bn YoY increase.

Segment overview

Operating profit by segment



Source: Shared Research based on company data

- Facilities Management (operating profit JPY2.8bn, +JPY550mn YoY): In addition to new contracts, the company won increased orders for scheduled fire safety equipment testing and emergency generator load testing to support customer compliance efforts, as well as associated fault repairs.
- Security Services (JPY1.4bn, -JPY80mn YoY): Aeon Delight conducted ongoing initiatives to reform workstyles starting with improving the workplace environment to facilitate recruitment, and made progress on systematizing services such as building access control and security patrols, but profit was impacted by higher outsourcing costs.
- Cleaning Services (JPY3.3bn, +JPY210mn YoY): In addition to new contracts, the company made further progress on the development and sale of environmentally friendly materials, and ongoing efforts to reduce labor and improve productivity drove profit growth.
- Construction Work (JPY2.0bn, +JPY90mn YoY): The company became more aggressive in marketing renovation work to shopping centers and malls accompanying tenant turnover, and thoroughly reviewed estimates for individual projects to boost margins. Portfolio changes and improved margins enabled profit growth despite lower sales.
- Materials and Supplies Sourcing Services (JPY1.5bn, +JPY100mn YoY): More contracts to provide Aeon private brand packaging materials, and trial installations of inventory management systems to support customers' cost-cutting efforts and strengthen relationships.
- Vending Machine Services (JPY530mn, -JPY750mn YoY): More terminals are handling WAON electronic money and more digital signage, but profit was down due to the company being in process of altering revenue model and delays in product supply caused by natural disasters in Q2.
- Support Services (JPY1.3bn, -JPY60mn YoY): Consolidated subsidiaries such as Kajitaku that provide housework and small business support services contributed to sales growth. We provide simple supplemental information below.

The company announced its plan to launch a floor cleaning robot in late November 2018.

Toward 2H

Mirroring the trend in 1H, Aeon Delight expects earnings to finish in line with forecasts in 2H. Its segment outlook is as follows:

- Security Services: Push forward with labor reduction initiatives amid lingering impact from higher outsourcing costs
- Cleaning Services: Gradually introduce cleaning robots through the year-end (to about 20) to contribute to cost reductions
- Materials and Supplies Sourcing Services: Make progress with renovation work and other large projects in line with plan, and increase profit margins for upstream projects in design, which has been strengthened through the conversion of U-COM into a subsidiary
- Vending Machines: Although depreciation will increase in conjunction with a change in earnings model, the magnitude of the YoY decline in operating profit should narrow from Q2

Supplemental segment information (as of end-Q1, for reference)

Aeon Delight aims to improve **Security Services** profit margins through negotiation of higher contract prices to reflect increased costs such as personnel expenses, and by streamlining human resources deployment. Costs associated with improving the workplace environment at subsidiaries have been increasing since Q4 FY02/18 and are projected to wind down from Q4 FY02/19.

Cumulative effects of past **Cleaning Services** initiatives, coupled with improved profitability of subsidiary Hakuseisha Co., Ltd. lifted GPM. Hakuseisha accounted for 20–30% of the JPY110mn increase in operating profit.

Construction Work OPM is rising as a result of an improved portfolio mix stemming from a decline in the sales weighting of relatively low-margin LED-related work. While there were no increases in lucrative projects such as store design, revitalization-related revenues fell slightly. GSM: Revitalization-related demand fell short of plan in FY02/18, but the downward momentum seems to have come to a stop in Q1, although it was down slightly. Shopping malls: Demand was especially pronounced in Q1 FY02/18 so there was a pull-back in Q1 FY02/19. Shopping mall tenants (restoration to original state when leaving, renovation work such as interior work for store openings): there was special demand in Q1 FY02/18 for restoration work owing to withdrawal from Japan of a foreign apparel company.

Gross and operating profits remained flat on successful efforts to improve profitability such as increased scrutiny of project estimates. There are already indications of increased shopping mall related demand (including tenants) from Q2, and the company expects a reversal of the previous downward trend in H1. It plans to conduct marketing activities in line with full-year estimates (JPY2.3bn YoY increase to JPY9.2bn).

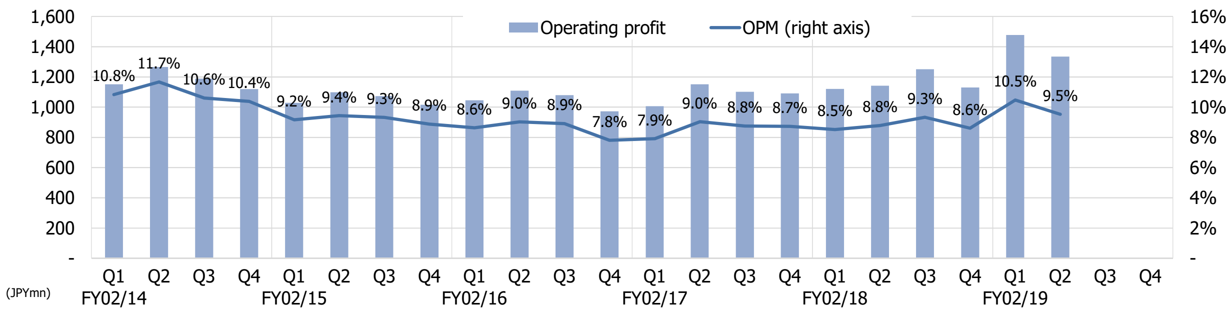
Going forward, the company anticipates contributions from U-COM, which the company made a wholly-owned subsidiary in April 2018. Aeon Delight acquired U-COM to position itself as a comprehensive service provider (from planning to maintenance) by expanding its offerings beyond traditional mainstays of production/construction, maintenance, and restoration/remodeling to include more upstream services such as survey/planning, design, and design supervision. We will monitor progress on this front going forward.

In **Vending Machine Services**, the revenue model for some vending machines is being changed and this resulted in operating profit declining slightly in Q1. The plan is to improve profit margins by converting the business structure of about 5,000 vending machines each year (currently Aeon Delight operates about 43,000 vending machines). About 1,200 machines were converted in Q1 and a similar level is planned for Q2 and beyond. Ad revenue from vending machines with digital signage appears to have boosted sales. Aeon Delight forecasts YoY profit growth from Q3.

Eroding **Support Services** operating profit was largely attributable to declining profits of Aeon Compass. Large travel-related projects tend to impact Aeon Compass' earnings and this was a factor in Q1. Higher operating profits by Kajitaku stem from expansion of the profitable online mail order business.

Reference

Facilities Management

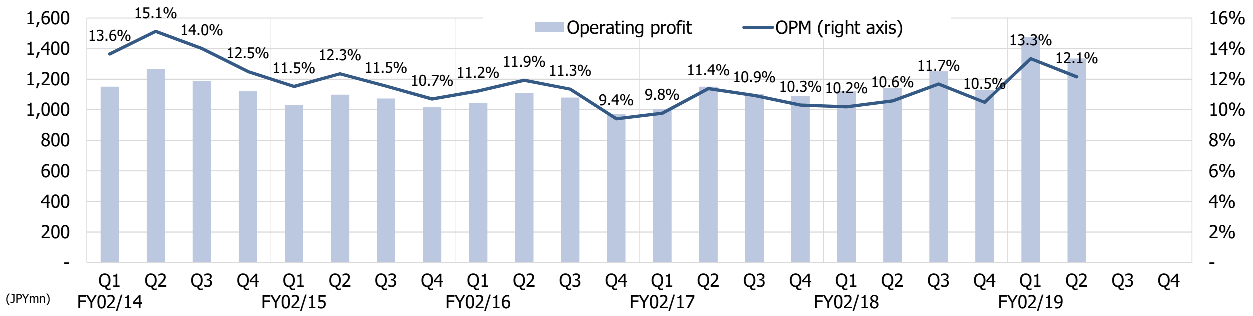


Facilities Management (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507	13,165	12,994	13,412	13,128	14,102	14,014
YoY	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%
Operating profit	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091	1,121	1,142	1,251	1,130	1,477	1,335
YoY	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%	13.5%	3.6%	31.8%	16.9%
OPM	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%	9.3%	8.6%	10.5%	9.5%

Facilities Management (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699
YoY	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%
Operating profit	4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644
YoY	-	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%
OPM	10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%

Source: Shared Research based on company data

Security Services

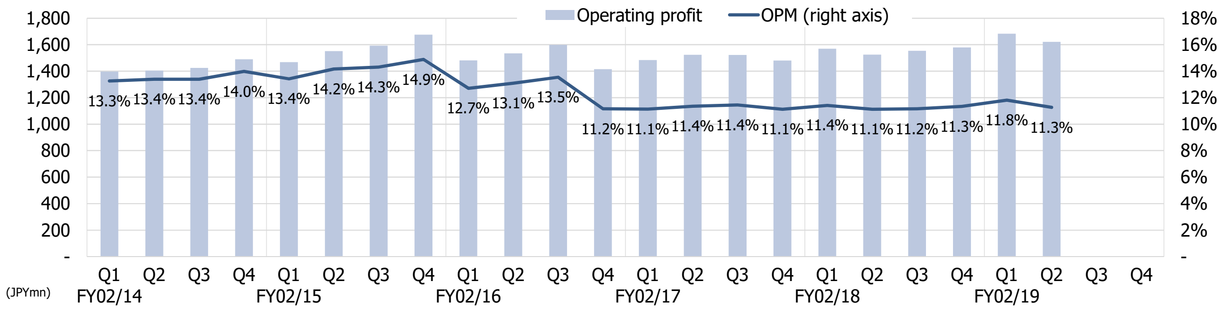


Security Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580	11,001	10,798	10,712	10,779	11,074	10,991
YoY	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%
Operating profit	696	731	782	823	721	697	736	956	773	708	637	739	722	681
YoY	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%
OPM	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%	5.9%	6.9%	6.5%	6.2%

Security Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290
YoY	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%
Operating profit	2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857
YoY	-	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%
OPM	8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%

Source: Shared Research based on company data

Cleaning Services

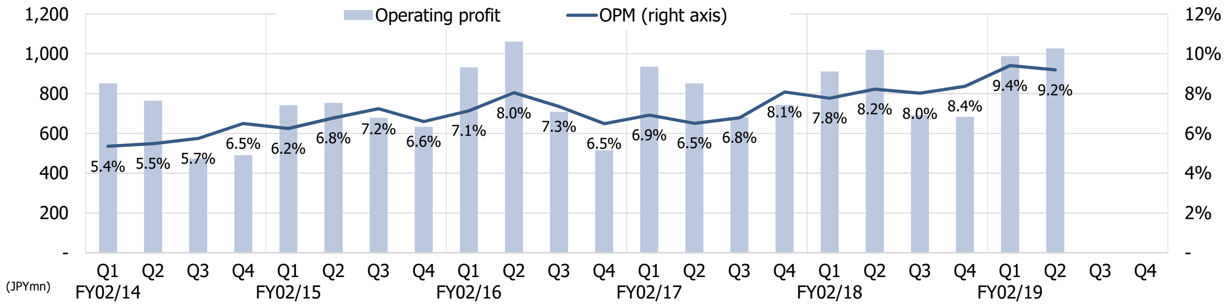


Cleaning Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314	13,743	13,708	13,920	13,926	14,247	14,390
YoY	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%
Operating profit	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481	1,570	1,525	1,554	1,579	1,683	1,622
YoY	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%	2.0%	6.6%	7.2%	6.4%

Cleaning Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297
YoY	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%
Operating profit	5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228
YoY	-	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%
OPM	12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%

Source: Shared Research based on company data

Construction Work

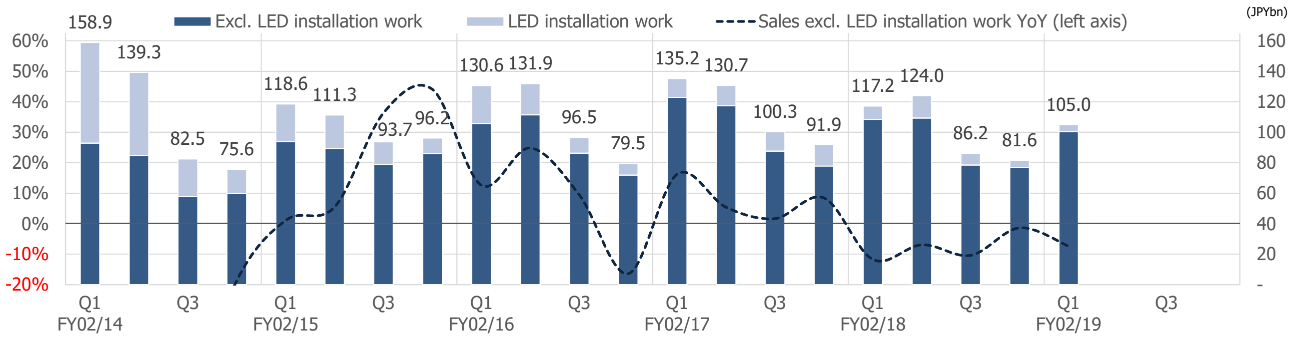


Construction Work (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193	11,724	12,396	8,617	8,160	10,503	11,178
YoY	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%
Operating profit	932	1,061	709	516	935	851	681	743	911	1,020	691	683	989	1,027
YoY	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%	1.5%	-8.1%	8.6%	0.7%
OPM	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%	8.0%	8.4%	9.4%	9.2%

Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305
YoY	-	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%
OPM	9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%

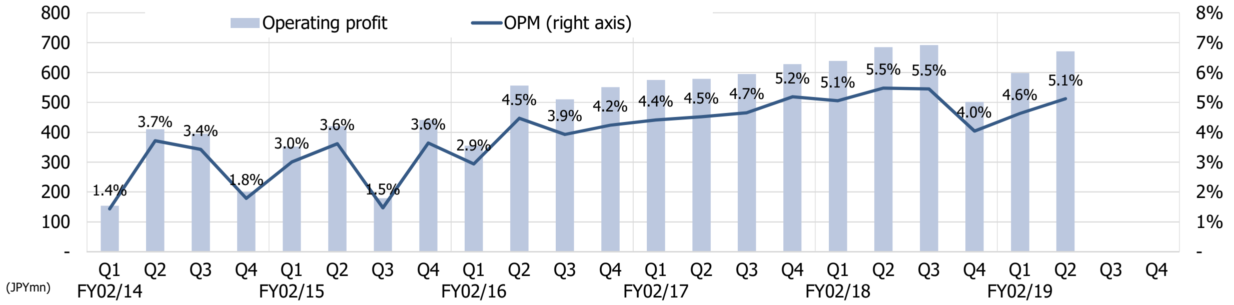
Source: Shared Research based on company data

Sales from work other than LED lighting installations



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

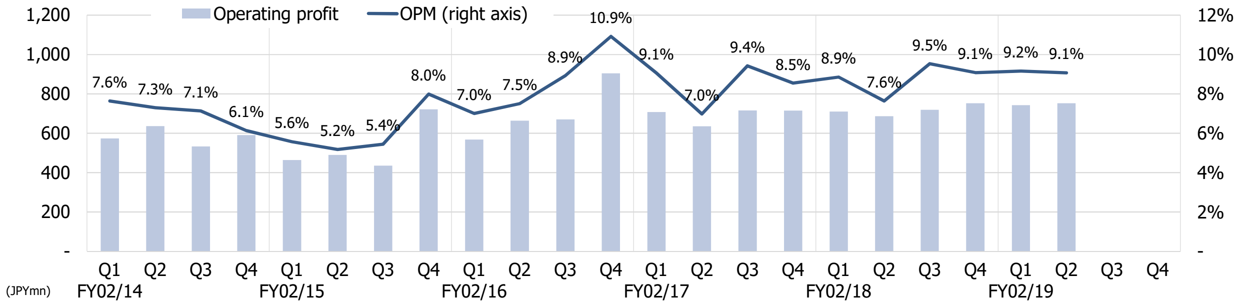


Materials and Supplies Sourcing (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102	12,638	12,502	12,696	12,429	12,906	13,106
YoY	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%
Operating profit	568	664	670	904	708	635	716	715	710	687	719	752	743	752
YoY	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%	0.4%	5.2%	4.6%	9.5%
OPM	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%	5.7%	6.1%	5.8%	5.7%

Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868
YoY	-	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%
OPM	-	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%

Source: Shared Research based on company data

Vending Machine Services



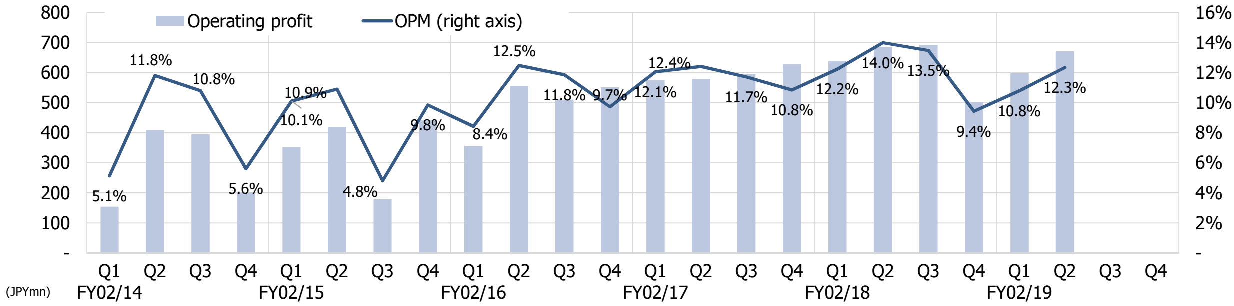
Source: Shared Research based on company data

Vending Machine Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369	8,017	8,993	7,544	8,280	8,106	8,286
YoY	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%
Operating profit	450	775	372	1,249	455	963	432	962	421	862	217	605	419	114
YoY	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%	-49.8%	-37.1%	-0.5%	-86.8%
OPM	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%	2.9%	7.3%	5.2%	1.4%

Vending Machine Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834
YoY	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%
Operating profit	-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105
YoY	-	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%
OPM	-	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%

Source: Shared Research based on company data

Support Services



Support Services (JPYmn)	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2
Sales	4,214	4,459	4,304	5,662	4,771	4,666	5,079	5,790	5,223	4,896	5,139	5,325	5,538	5,439
YoY	21.0%	15.8%	15.5%	26.4%	13.2%	4.6%	18.0%	2.3%	9.5%	4.9%	1.2%	-8.0%	6.0%	11.1%
Operating profit	355	556	510	551	575	579	595	628	639	685	692	502	598	671
YoY	0.9%	32.4%	125.7%	400.9%	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%	16.3%	-20.1%	-6.4%	-2.0%
OPM	8.4%	12.5%	11.8%	9.7%	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%	13.5%	9.4%	10.8%	12.3%

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%
Operating profit	748	590	312	741	829	1,108	1,972	2,377	2,518
YoY	-	-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%
OPM	13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%

Source: Shared Research based on company data

News & topics

March 2018

On **March 28, 2018**, the company announced that it will participate in the renewable energy pilot project utilizing blockchain technology to achieve a carbon-free society. The company plans to install dedicated equipment at 35 Aeon group stores in FY02/19 and at about 1,000 stores in FY02/20. It intends to manage energy and sell it to consumers, utilizing a platform that can identify the type of electric power being generated and trade the power accordingly (scheduled to be completed in FY02/20).

On **March 19, 2018**, the company announced changes in representative directors. Senior managing executive officer Kazumasa Hamada will assume the role of president and current president Ippei Nakayama will assume the role of chairman of the board of directors (effective on the day of the annual general shareholder meeting in May 2018).

On **the same day**, the company announced it plans to establish AeonDelight DeepBlue Technology (Shanghai) Co., Ltd., a joint venture with DeepBlue Technology (Shanghai) Co., Ltd. (China) on April 26, 2018. The company will have a 65% stake in the new company, while DeepBlue Technology (Shanghai) will have 35%.

Reasons for establishing a new company

DeepBlue Technology (Shanghai) possesses strengths in the basic research and application development for AI and provides integrated solutions for the processes from R&D to product planning, development, and production. The new company will function as an R&D center specializing in R&D to create SmartFM, a new business model for facilities management (FM) which utilizes the company’s wealth of expertise amassed in Japan, combined with the cutting-edge technology. SmartFM will utilize AI and IoT in visual monitoring control systems, security systems, and assorted robot technology in order to make customer facilities more intelligent, improve the convenience of facility users, and significantly increase productivity by automating and streamlining operations. In the future, the company aims to launch SmartFM in China, Japan, and ASEAN nations.

Aeon Delight prioritizes Integrated Facility Management (IFM), Asia, and technology in its medium-term management plan. The establishment of the new company is one of the initiatives to achieve goals in the plan.

The company expects little impact on FY02/18 full-year results from the establishment of the joint venture and plans to disclose promptly if it determines that there is an impact in the future.

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Company profile

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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**
https://www.aeondelight.co.jp/english/	February
IR Contact	**IR Web**
-	https://www.aeondelight.co.jp/english/ir/

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