Aeon Delight / 9787

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Research Coverage Report by Shared Research Inc.

INDEX

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.

Executive summary

- Aeon Delight mainly operates facilities management services (FMS) for large commercial facilities. Segments are: Facilities Management, Security Services, Cleaning Services, Construction Work, Materials and Supplies Sourcing Services, Vending Machine Services, and Support Services. The company also provides services for integrated facilities management and ancillary work that is non-core for the customer. This streamlines overall facility costs and generates rationalization benefits for the customer. In recent years the company's growth strategy has aimed at expanding its FMS services throughout Asia by offering solutions in the areas of safety and security, labor shortages, and the environment. Aeon Delight is the largest facilities management company in Japan. Slightly over 60% of its sales are to companies in the Aeon group to which it belongs. Overseas sales comprise about 6% of the total.
- Breakdown of sales by segment (FY02/20): Cleaning Services 20.2%, Facilities Management 18.9%, Materials and Supplies Sourcing Services 16.6%, Security Services 14.4%, Construction Work 13.6%, Vending Machine Services 10.2%, and Support Services/other 6.1%. Customers from outside the Aeon group include commercial facilities, office buildings and offices, hotels and accommodation facilities, medical and welfare facilities, educational facilities, factories and workshops, warehouses and distribution centers, public facilities, and events. The company operates a recurring revenue business model. Contracts typically last for one year and are usually renewed, maintaining low cancellation rates.
- Most of the company's overseas operations are in China and ASEAN. The key Chinese subsidiaries are Aeon Delight Jiangsu Comprehensive Facility Management Service and Wuhan Xiaozhu Property Management. The strategy is to provide quality facilities management in the Yangtze River Delta and surrounding regions to boost the Aeon Delight brand profile. In ASEAN, the company plans to use its major Indonesian cleaning company PT Sinar Jernih Sarana (SJS, acquired in December 2018) as a launch-pad to expand its business.
- In late March 2019, signs of accounting irregularities emerged at subsidiary Kajitaku. Aeon Delight established a special investigation committee comprised of independent outside experts, which subsequently confirmed the findings of fraudulent accounting. In response, the company restated prior year earnings (a total of JPY16.3bn over FY02/14–FY0219) and put in place measures to prevent a recurrence in the future.

Trends and outlook

- For FY02/20, Aeon Delight reported full-year consolidated sales of JPY308.6bn (+1.9% YoY), operating profit of JPY16.0bn (+22.8% YoY), and net income of JPY9.3bn (+45.7% YoY). The jump in earnings reflected a combination of growth at the Security Services and Cleaning Services segments, margin improvement at the Vending Machine Services segment, and smaller losses at subsidiary Kajitaku (which had previously been found to have engaged in irregular accounting practices).
- For FY02/21, the company forecasts full-year consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. The forecast assumes the impact of the coronavirus pandemic will extend through 1H FY02/21 (depressing operating profit by JPY1.5bn), but the company is still expecting positive growth in earnings for the year as it looks to make up for the delays in the implementation of productivity improvement measures and expand its overseas businesses. The company's dividend forecast for FY02/21 calls for an annual dividend of JPY70.0 per share versus JPY65.0 per share in FY02/20, the planned hike reflecting an increase in its targeted dividend payout ratio from 30% to 35%.
- In October 2018, the company released its Aeon Delight Vision 2025 medium-term plan. This aims to make Aeon Delight a company that creates environmental value and contributes to solving social issues, with a three-pronged growth strategy in Asia: safety and security, the labor shortage, and the environment. It targets sales of JPY525.0bn and operating profit of JPY48.0bn in FY02/26.

Strengths and weaknesses

Shared Research believes the company's strengths are 1) strong ties with the Aeon group, 2) industry leader in comprehensive facilities management services, and 3) cash flow generating ability. Weaknesses include its 1) organic growth challenging, 2) overly dependent on the Aeon group, and 3) mature property management market (see Strengths and weaknesses section for details).

Key financial indicators

Income statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Est.
Sales	**219,797**	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**	**315,000**
YoY	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	4.0%
Gross profit	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	
YoY	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	
GPM	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	
Operating profit	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	16,500
YoY	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	26.6%
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.2%
Recurring profit	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949	16,500
YoY	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	23.5%
RPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.2%
Net income	**6,912**	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**	**10,000**
YoY	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	55.9%
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.2%
Per share data (JPY)										
Shares issued (year-end; '000)	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	-
EPS	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2	200.1
EPS (fully diluted)	131.5	142.7	133.8	151.3	137.6	134.6	121.3	122.6	186.9	-
Dividend per share	40	46	48	50	52	55	61	63	65	70
Book value per share	1,096	1,202	1,303	1,400	1,471	1,559	1,637	1,466	1,579	-
Balance sheet (JPYmn)										
Cash and cash equivalents	9,707	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355	
Total current assets	**72,486**	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**	
Tangible fixed assets	3,773	3,796	4,258	4,361	7,061	9,064	10,041	10,161	9,671	
Investments and other assets	4,276	5,257	5,829	6,268	8,176	8,904	8,512	7,578	7,698	
Intangible fixed assets	12,272	12,321	11,008	10,320	10,006	8,802	7,813	8,103	7,185	
Total assets	**92,809**	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**	
Accounts payable	23,720	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388	
Short-term debt	41	10	5	-	-	271	225	394	252	
Total current liabilities	**33,643**	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**	
Long-term debt	15	5	-	-	-	293	-	15	11	
Total fixed liabilities	**983**	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**	
Total liabilities	**34,626**	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**	
Total net assets	**58,182**	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**	
Cash flow statement (JPYmn)										
Cash flows from operating activities	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	7,371	
Cash flows from investing activities	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838	
Cash flows from financing activities	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392	
Financial ratios										
Total interest-bearing debt	56	15	5	-	-	564	225	409	263	
Net cash	36,971	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092	
ROA (RP-based)	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%	
ROE	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%	
Equity ratio	61.9%	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%	

Source: Shared Research based on company data

Recent updates

Highlights

On **April 27, 2020**, Shared Research updated the report following interviews with Aeon Delight Co., Ltd.

On **April 10**, **2020,** the company announced earnings results for full-year FY02/20; see the results section for details.

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

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY02/18 Q1	FY02/18 Q2	FY02/18 Q3	FY02/18 Q4	FY02/19 Q1	FY02/19 Q2	FY02/19 Q3	FY02/19 Q4	FY02/20 Q1	FY02/20 Q2	FY02/20 Q3	FY02/20 Q4	FY02/21 FY Est.
Sales	75,064	150,738	222,160	292,396	76,370	152,611	226,744	302,915	79,048	157,482	232,643	308,582	315,000
YoY	-0.9%	-0.0%	0.3%	-0.1%	1.7%	1.2%	2.1%	3.6%	3.5%	3.2%	2.6%	1.9%	2.1%
Gross profit	9,003	18,585	27,220	34,871	9,342	17,462	25,840	35,452	9,632	19,763	29,014	38,570	
YoY	-1.7%	3.3%	0.2%	-2.4%	3.8%	-6.0%	-5.1%	1.7%	3.1%	13.2%	12.3%	8.8%	
GPM	12.0%	12.3%	12.3%	11.9%	12.2%	11.4%	11.4%	11.7%	12.2%	12.5%	12.5%	12.5%	
SG&A expenses	5,669	11,167	16,656	21,961	5,556	11,186	16,927	22,421	5,832	11,168	16,909	22,569	
YoY	3.0%	1.9%	2.1%	1.7%	-2.0%	0.2%	1.6%	2.1%	5.0%	-0.2%	-0.1%	0.7%	
SG&A ratio	7.6%	7.4%	7.5%	7.5%	7.3%	7.3%	7.5%	7.4%	7.4%	7.1%	7.3%	7.3%	
Operating profit	3,334	7,418	10,563	12,909	3,785	6,275	8,913	13,030	3,800	8,594	12,104	16,001	16,500
YoY	-8.8%	5.4%	-2.7%	-8.7%	13.5%	-15.4%	-15.6%	0.9%	0.4%	37.0%	35.8%	22.8%	3.1%
OPM	4.4%	4.9%	4.8%	4.4%	5.0%	4.1%	3.9%	4.3%	4.8%	5.5%	5.2%	5.2%	5.2%
Recurring profit	3,367	7,490	10,965	13,381	3,816	6,349	9,307	13,362	3,822	8,655	12,189	15,949	16,500
YoY	-7.8%	6.5%	0.8%	-6.2%	13.3%	-15.2%	-15.1%	-0.1%	0.2%	36.3%	31.0%	19.4%	3.5%
RPM	4.5%	5.0%	4.9%	4.6%	5.0%	4.2%	4.1%	4.4%	4.8%	5.5%	5.2%	5.2%	5.2%
Net income	2,040	4,189	5,558	6,397	2,067	2,838	3,893	6,415	2,070	5,181	7,369	9,348	10,000
YoY	-16.2%	8.2%	-7.6%	-9.8%	1.3%	-32.3%	-30.0%	0.3%	0.1%	82.6%	89.3%	45.7%	7.0%
Net margin	2.7%	2.8%	2.5%	2.2%	2.7%	1.9%	1.7%	2.1%	2.6%	3.3%	3.2%	3.0%	3.2%

Quarterly (JPYmn)	FY02/18 Q1	FY02/18 Q2	FY02/18 Q3	FY02/18 Q4	FY02/19 Q1	FY02/19 Q2	FY02/19 Q3	FY02/19 Q4	FY02/20 Q1	FY02/20 Q2	FY02/20 Q3	FY02/20 Q4
Sales	75,064	75,674	71,422	70,236	76,370	76,241	74,133	76,171	79,048	78,434	75,161	75,939
YoY	-0.9%	0.8%	1.1%	-1.2%	1.7%	0.7%	3.8%	8.5%	3.5%	2.9%	1.4%	-0.3%
Gross profit	9,003	9,582	8,635	7,651	9,342	8,120	8,378	9,612	9,632	10,131	9,251	9,556
YoY	-1.7%	8.5%	-5.9%	-10.7%	3.8%	-15.3%	-3.0%	25.6%	3.1%	24.8%	10.4%	-0.6%
GPM	12.0%	12.7%	12.1%	10.9%	12.2%	10.7%	11.3%	12.6%	12.2%	12.9%	12.3%	12.6%
SG&A expenses	5,669	5,498	5,489	5,305	5,556	5,630	5,741	5,494	5,832	5,336	5,741	5,660
YoY	3.0%	0.9%	2.5%	0.4%	-2.0%	2.4%	4.6%	3.6%	5.0%	-5.2%	-	3.0%
SG&A ratio	7.6%	7.3%	7.7%	7.6%	7.3%	7.4%	7.7%	7.2%	7.4%	6.8%	7.6%	7.5%
Operating profit	3,334	4,084	3,145	2,346	3,785	2,490	2,638	4,117	3,800	4,794	3,510	3,897
YoY	-8.8%	20.8%	-17.8%	-28.5%	13.5%	-39.0%	-16.1%	75.5%	0.4%	92.5%	33.1%	-5.3%
OPM	4.4%	5.4%	4.4%	3.3%	5.0%	3.3%	3.6%	5.4%	4.8%	6.1%	4.7%	5.1%
Recurring profit	3,367	4,123	3,475	2,416	3,816	2,533	2,958	4,055	3,822	4,833	3,534	3,760
YoY	-7.8%	21.8%	-9.5%	-28.7%	13.3%	-38.6%	-14.9%	67.8%	0.2%	90.8%	19.5%	-7.3%
RPM	4.5%	5.4%	4.9%	3.4%	5.0%	3.3%	4.0%	5.3%	4.8%	6.2%	4.7%	5.0%
Net income	2,040	2,149	1,369	839	2,067	771	1,055	2,522	2,070	3,111	2,188	1,979
YoY	-16.2%	49.7%	-36.3%	-22.0%	1.3%	-64.1%	-22.9%	200.6%	0.1%	303.5%	107.4%	-21.5%
Net margin	2.7%	2.8%	1.9%	1.2%	2.7%	1.0%	1.4%	3.3%	2.6%	4.0%	2.9%	2.6%

Source: Shared Research based on company data

Segments	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	75,064	75,674	71,422	70,236	76,370	76,241	74,133	76,171	79,048	78,434	75,161	75,939
YoY	-0.9%	0.8%	1.1%	-1.2%	1.7%	0.7%	3.8%	8.5%	3.5%	2.9%	1.4%	-0.3%
Facilities Management	13,165	12,994	13,412	13,128	14,102	14,014	14,447	13,801	14,928	14,700	14,631	14,030
YoY	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%	7.7%	5.1%	5.9%	4.9%	1.3%	1.7%
Security Services	11,001	10,798	10,712	10,779	11,074	10,991	11,220	11,207	11,143	11,040	11,121	11,343
YoY	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%	4.0%	0.6%	0.4%	-0.9%	1.2%
Cleaning Services	13,743	13,708	13,920	13,926	14,247	14,390	14,456	15,092	15,401	15,527	15,599	15,835
YoY	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%	8.4%	8.1%	7.9%	7.9%	4.9%
Construction Work	11,724	12,396	8,617	8,160	10,503	11,178	9,285	10,504	12,014	11,089	8,921	9,820
YoY	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%	7.8%	28.7%	14.4%	-0.8%	-3.9%	-6.5%
Materials and Supplies Sourcing	12,638	12,502	12,696	12,429	12,906	13,106	12,771	12,224	12,987	12,926	12,641	12,571
YoY	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%	-1.6%	0.6%	-1.4%	-1.0%	2.8%
Vending Machine Services	8,017	8,993	7,544	8,280	8,106	8,286	7,614	7,949	7,699	8,376	7,685	7,784
YoY	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%	0.9%	-4.0%	-5.0%	1.1%	0.9%	-2.1%
Support Services	4,773	4,283	4,519	3,566	5,429	4,276	4,341	5,393	4,872	4,775	4,564	4,557
YoY	-5.7%	13.2%	5.5%	-29.5%	13.7%	-0.2%	-3.9%	51.2%	-10.3%	11.7%	5.1%	-15.5%
Other	-	-	165	19	-	-	-	-	-	-	-	-
Operating profit	3,334	4,084	3,145	2,346	3,785	2,490	2,638	4,117	3,800	4,794	3,510	3,897
YoY	-8.8%	20.8%	-17.8%	-28.5%	13.5%	-39.0%	-16.1%	75.5%	0.4%	92.5%	33.1%	-5.3%
OPM	4.4%	5.4%	4.4%	3.3%	5.0%	3.3%	3.6%	5.4%	4.8%	6.1%	4.7%	5.1%
Facilities Management	1,121	1,142	1,251	1,130	1,477	1,335	1,438	1,308	1,433	1,356	1,250	1,254
YoY	11.4%	-0.8%	13.5%	3.6%	31.8%	16.9%	14.9%	15.8%	-3.0%	1.6%	-13.1%	-4.1%
OPM	8.5%	8.8%	9.3%	8.6%	10.5%	9.5%	10.0%	9.5%	9.6%	9.2%	8.5%	8.9%
Security Services	773	708	637	739	722	681	716	762	730	682	795	831
YoY	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%	12.4%	3.1%	1.1%	0.1%	11.0%	9.1%
OPM	7.0%	6.6%	5.9%	6.9%	6.5%	6.2%	6.4%	6.8%	6.6%	6.2%	7.1%	7.3%
Cleaning Services	1,570	1,525	1,554	1,579	1,683	1,622	1,695	1,694	1,724	1,786	1,781	1,676
YoY	5.8%	0.1%	2.0%	6.6%	7.2%	6.4%	9.1%	7.3%	2.4%	10.1%	5.1%	-1.1%
OPM	11.4%	11.1%	11.2%	11.3%	11.8%	11.3%	11.7%	11.2%	11.2%	11.5%	11.4%	10.6%
Construction Work	911	1,020	691	683	989	1,027	865	1,108	1,094	1,080	669	973
YoY	-2.6%	19.9%	1.5%	-8.1%	8.6%	0.7%	25.2%	62.2%	10.6%	5.2%	-22.7%	-12.2%
OPM	7.8%	8.2%	8.0%	8.4%	9.4%	9.2%	9.3%	10.5%	9.1%	9.7%	7.5%	9.9%
Materials and Supplies Sourcing	710	687	719	752	743	752	641	643	712	643	591	543
YoY	0.3%	8.2%	0.4%	5.2%	4.6%	9.5%	-10.8%	-14.5%	-4.2%	-14.5%	-7.8%	-15.6%
OPM	5.6%	5.5%	5.7%	6.1%	5.8%	5.7%	5.0%	5.3%	5.5%	5.0%	4.7%	4.3%
Vending Machine Services	421	862	217	605	419	114	231	400	256	449	243	448
YoY	-7.5%	-10.5%	-49.8%	-37.1%	-0.5%	-86.8%	6.5%	-33.9%	-38.9%	293.9%	5.2%	12.0%
OPM	5.3%	9.6%	2.9%	7.3%	5.2%	1.4%	3.0%	5.0%	3.3%	5.4%	3.2%	5.8%
Support Services	639	685	692	-3,482	-274	-1,283	-778	65	-124	378	187	-25
YoY	11.1%	18.3%	16.3%	-	-	-	-	-	-	-	-	-
OPM	13.4%	16.0%	15.3%	-97.6%	-5.0%	-30.0%	-17.9%	1.2%	-2.5%	7.9%	4.1%	-0.5%
Eliminations, other	-2,811	-2,545	-2,616	340	-1,974	-1,758	-2,170	-1,863	-2,025	-1,580	-2,006	-1,803

Source: Shared Research based on company data
Note: Segment profits for Q3 FY02/18 and earlier are based on initially disclosed figures.

Full-year FY02/20 results (out April 10, 2020)

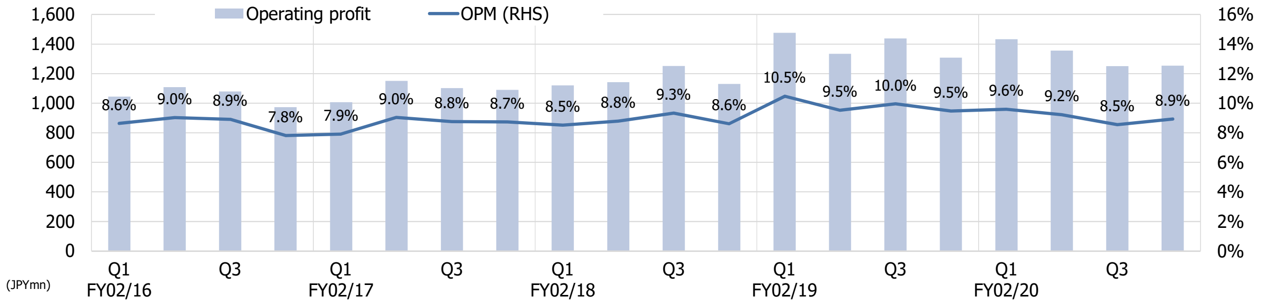
Summary

- For FY02/20, Aeon Delight reported full-year consolidated sales of JPY308.6bn (+1.9% YoY), operating profit of JPY16.0bn (+22.8% YoY), and net income of JPY9.3bn (+45.7% YoY). Sales increased as the company grew business with external parties despite sluggish sales to the Aeon group. The jump in earnings reflected a combination of growth at the Security Services segment and Cleaning Services segment, margin improvement at the Vending Machine Services segment, and smaller losses at subsidiary Kajitaku (which had previously been found to have engaged in irregular accounting practices). Excluding Kajitaku, operating profit was JPY17.2bn (+0.8% YoY). Still, full-year results were short of the company's initial forecast (sales of JPY315.0bn and operating profit of JPY18.0bn, announced in June 2019), the shortfall being attributable in large part to below-plan growth in new contracts and delays in the implementation of productivity improvement measures.
- FY02/21: For FY02/21, the company forecasts consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. This forecast assumes the impact of the coronavirus pandemic will extend through 1H FY02/21, depressing operating profit by some JPY1.5bn. With regard to specific factors driving its operating profit outlook for FY02/21, the company said it is expecting the fallout from coronavirus pandemic to depress operating profit by JPY1.5bn, but sees this being offset by a JPY700mn contribution from smaller losses at Kajitaku and a total of JPY1.3bn in contributions from improvements in all other areas. With regard to the impact of the coronavirus pandemic and related mitigation measures, the company said it sees the drag on sales and earnings extending through 1H FY02/21, and during this period expects to see lower sales and earnings from vending machine operations in Aeon group stores, and declining revenues from event-related services (such as security and travel services) as fewer events are held. Even though Aeon malls themselves are expected to be closed part of the year, Aeon Delight does not expect a sharp decline in demand for its security or cleaning services because the supermarkets that are located within those malls will remain open. Internal initiatives aimed at improving profitability include 1) the implementation of various productivity improvement measures at its facilities management, cleaning, and materials supply businesses, 2) efforts to win more orders for construction work from Aeon group companies, and 3) efforts aimed at increasing its market share both in Japan and overseas.
- Dividend: Aeon Delight forecasts an annual dividend per share of JPY70.0 for FY02/21, up from JPY65.0 in FY02/20. The company previously targeted a dividend payout ratio of 30%, but aims at 35% from FY02/21.
- Deposits: As of end-FY02/20, there were no deposits with affiliated companies (JPY160.0bn as of end-FY02/19), and cash and deposits increased to JPY62.4bn (from JPY44.2bn). The company had previously deposited surplus funds other than working capital with Aeon (TSE1: 8267), but reviewed this policy from the viewpoint of cash governance. There has not been a falling out between the companies. Aeon Delight discussed governance arrangements with Aeon, which agreed to shift to an arrangement where the company managed the funds itself.

Results by segment

Facilities Management

Facilities Management	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	13,165	12,994	13,412	13,128	14,102	14,014	14,447	13,801	14,928	14,700	14,631	14,030
YoY	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%	7.7%	5.1%	5.9%	4.9%	1.3%	1.7%
Operating profit	1,121	1,142	1,251	1,130	1,477	1,335	1,438	1,308	1,433	1,356	1,250	1,254
YoY	11.4%	-0.8%	13.5%	3.6%	31.8%	16.9%	14.9%	15.8%	-3.0%	1.6%	-13.1%	-4.1%
OPM	8.5%	8.8%	9.3%	8.6%	10.5%	9.5%	10.0%	9.5%	9.6%	9.2%	8.5%	8.9%



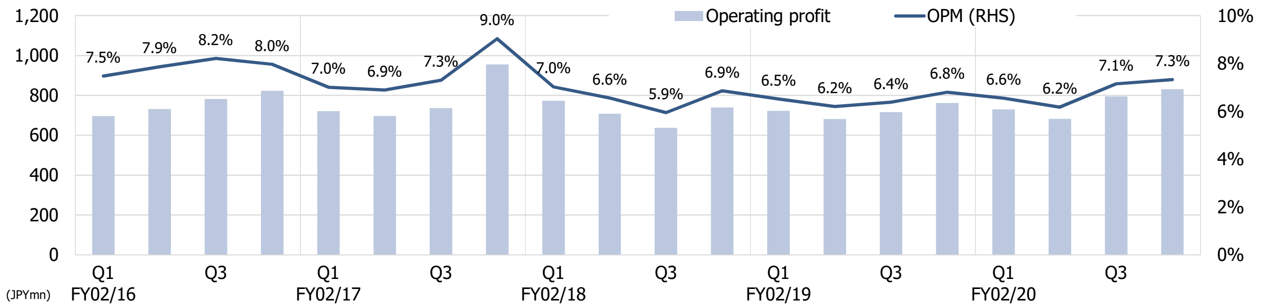
Source: Shared Research based on company data

The Facilities Management segment posted sales of JPY58.3bn (+3.4% YoY) and segment profit of JPY5.3bn (-4.8% YoY). The top-line gains reflected new clients, primarily outside the Aeon group, but profit fell YoY on higher procurement costs. The company boosted the productivity of its personnel with the introduction of its open systems-based integrated facilities management model at the Aeon Fujiidera Shopping Center. However, margins fell as outsourcing charges increased (in areas such as specialist construction) due to rising personnel expenses.

The company is working to shift to managing contractors by area. It aims to lower outsourcing charges by ordering in ways that enable contractors to boost productivity, such as reducing travel times.

Security Services

Security Services	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,001	10,798	10,712	10,779	11,074	10,991	11,220	11,207	11,143	11,040	11,121	11,343
YoY	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%	4.0%	0.6%	0.4%	-0.9%	1.2%
Operating profit	773	708	637	739	722	681	716	762	730	682	795	831
YoY	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%	12.4%	3.1%	1.1%	0.1%	11.0%	9.1%
OPM	7.0%	6.6%	5.9%	6.9%	6.5%	6.2%	6.4%	6.8%	6.6%	6.2%	7.1%	7.3%



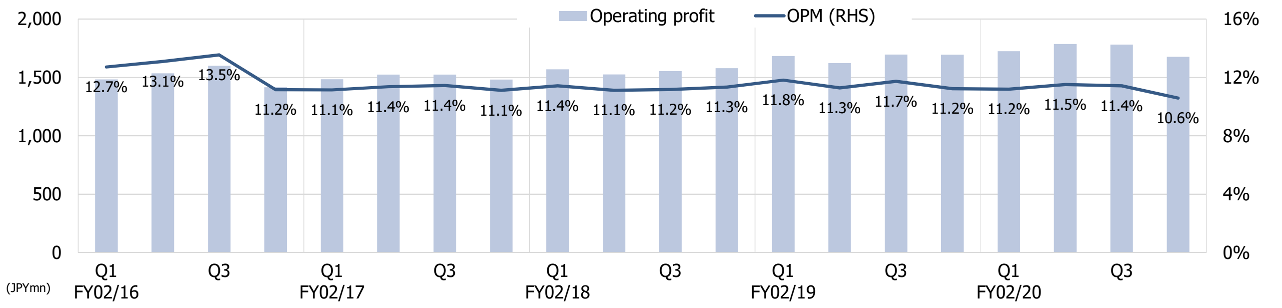
Source: Shared Research based on company data

The Security Services segment posted sales of JPY44.6bn (+0.3% YoY) and profit of JPY3.0bn (+5.4% YoY). Despite rising labor costs amid a worker shortage, the company worked to improve margins through higher prices on contracts and saving energy by automating systems. Operating profit increased as it arrested the ongoing slide in the OPM, boosting it to 6.8% (6.5% in FY02/19).

The company further automated tasks such as facility entrance/exit management and store closing. It has established area-based security structure, and shifted from an on-site management model to an unmanned/patrol model where staff can be dispatched promptly as necessary. It appears that results are gradually starting to flow through.

Cleaning Services

Cleaning Services Quarterly (JPYmn)	FY02/18				FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	13,743	13,708	13,920	13,926	14,247	14,390	14,456	15,092	15,401	15,527	15,599	15,835
YoY	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%	8.4%	8.1%	7.9%	7.9%	4.9%
Operating profit	1,570	1,525	1,554	1,579	1,683	1,622	1,695	1,694	1,724	1,786	1,781	1,676
YoY	5.8%	0.1%	2.0%	6.6%	7.2%	6.4%	9.1%	7.3%	2.4%	10.1%	5.1%	-1.1%
OPM	11.4%	11.1%	11.2%	11.3%	11.8%	11.3%	11.7%	11.2%	11.2%	11.5%	11.4%	10.6%



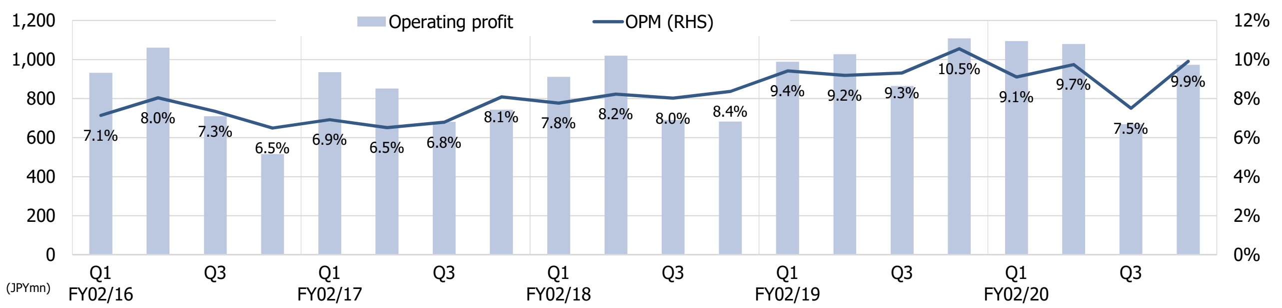
Source: Shared Research based on company data

The Cleaning Services segment posted sales of JPY62.4bn (+7.2% YoY) and profit of JPY7.0bn (+4.1% YoY). The top-line gains reflected contributions from new customers and a full year from PT Sinar Jernih Sarana (SJS), the Indonesian cleaning services company acquired in December 2018 (SJS had roughly JPY2.5bn in sales and JPY140mn in operating profit).

The company is also working to introduce automatic floor cleaning robots to save energy and is selling the product to third parties. It said the robots help maintain a high degree of cleanliness, reduce cleaning time, and facilitate low-cost operations late at night and early in the morning when it is hard to find cleaning personnel.

Construction Work

Construction Work Quarterly (JPYmn)	FY02/18				FY02/19				FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,724	12,396	8,617	8,160	10,503	11,178	9,285	10,504	12,014	11,089	8,921	9,820
YoY	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%	7.8%	28.7%	14.4%	-0.8%	-3.9%	-6.5%
Operating profit	911	1,020	691	683	989	1,027	865	1,108	1,094	1,080	669	973
YoY	-2.6%	19.9%	1.5%	-8.1%	8.6%	0.7%	25.2%	62.2%	10.6%	5.2%	-22.7%	-12.2%
OPM	7.8%	8.2%	8.0%	8.4%	9.4%	9.2%	9.3%	10.5%	9.1%	9.7%	7.5%	9.9%



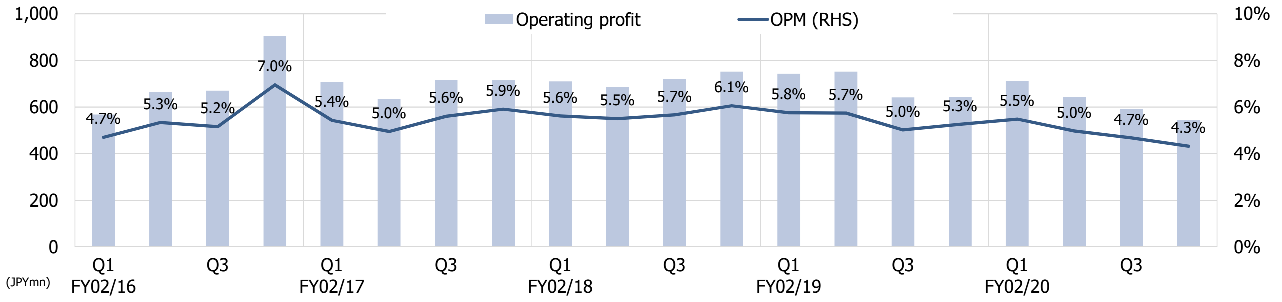
Source: Shared Research based on company data

The Construction Work segment posted sales of JPY41.8bn (+0.9% YoY) and profit of JPY3.8bn (-4.3% YoY) under a fresh operating structure that can provide more localized services. The company won more orders for renovation work across all regions.

However, the company said that a consolidated subsidiary lost an order for a relatively large project. It said that better collaboration within the group might have prevented the loss, and it aims to collaborate more closely with subsidiaries and partners.

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	12,638	12,502	12,696	12,429	12,906	13,106	12,771	12,224	12,987	12,926	12,641	12,571
YoY	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%	-1.6%	0.6%	-1.4%	-1.0%	2.8%
Operating profit	710	687	719	752	743	752	641	643	712	643	591	543
YoY	0.3%	8.2%	0.4%	5.2%	4.6%	9.5%	-10.8%	-14.5%	-4.2%	-14.5%	-7.8%	-15.6%
OPM	5.6%	5.5%	5.7%	6.1%	5.8%	5.7%	5.0%	5.3%	5.5%	5.0%	4.7%	4.3%



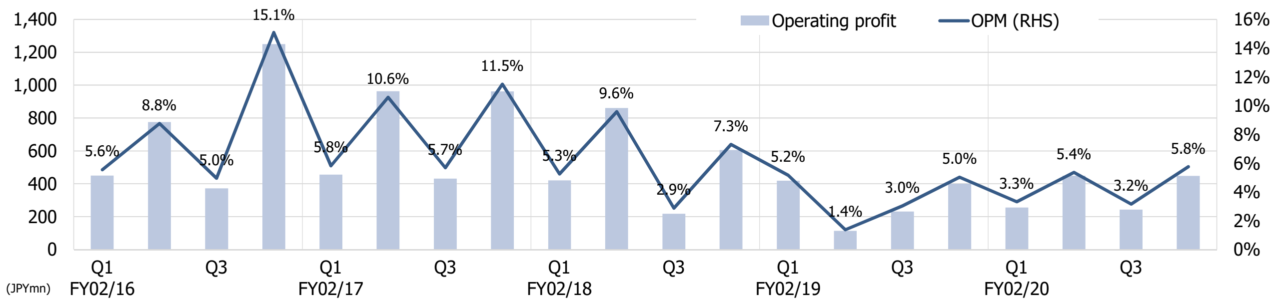
Source: Shared Research based on company data

The Materials and Supplies Sourcing Services segment posted sales of JPY51.1bn (+0.2% YoY) and profit of JPY2.5bn (-10.4% YoY). Sales rose on expanding orders for TOPVALU, Aeon's private brand packaging materials. However, profit declined on lower sales of mainstay paper products and deteriorated distribution efficiency due to lower sales.

The company aims to be a comprehensive supplier of materials handled by the Aeon group, and is working to develop and expand sales of high value-added environmental materials and boost margins by changing its logistics arrangements.

Vending Machine Services

Vending Machine Services	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,017	8,993	7,544	8,280	8,106	8,286	7,614	7,949	7,699	8,376	7,685	7,784
YoY	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%	0.9%	-4.0%	-5.0%	1.1%	0.9%	-2.1%
Operating profit	421	862	217	605	419	114	231	400	256	449	243	448
YoY	-7.5%	-10.5%	-49.8%	-37.1%	-0.5%	-86.8%	6.5%	-33.9%	-38.9%	293.9%	5.2%	12.0%
OPM	5.3%	9.6%	2.9%	7.3%	5.2%	1.4%	3.0%	5.0%	3.3%	5.4%	3.2%	5.8%

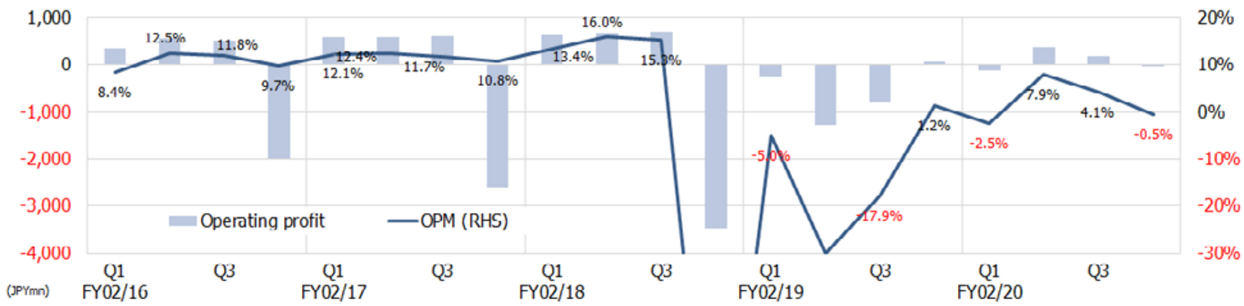


Source: Shared Research based on company data

The Vending Machine Services segment posted sales of JPY31.5bn (-1.3% YoY) and profit of JPY1.4bn (+19.9% YoY). The company installed its own multi-brand vending machines and reviewed machine locations to wean its earnings structure from a reliance on beverage company campaigns, but there still seems to be room for improvement. Segment profit received a JPY306mn boost from reduced depreciation following a review of service life assumptions from FY02/20, based on vending machines' historical replacement periods and physical lifespans.

Support Services

Support Services	FY02/18				FY02/19				FY02/20			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	4,773	4,283	4,519	3,566	5,429	4,276	4,341	5,393	4,872	4,775	4,564	4,557
YoY	-5.7%	13.2%	5.5%	-29.5%	13.7%	-0.2%	-3.9%	51.2%	-10.3%	11.7%	5.1%	-15.5%
Kajitaku	-	-	-	-	2,056	712	777	1,905	1,452	1,307	941	730
YoY	-	-	-	-	-	-	-	-	-29.4%	83.5%	21.1%	-61.7%
Excluding Kajitaku	-	-	-	-	3,373	3,564	3,564	3,488	3,420	3,468	3,623	3,827
YoY	-	-	-	-	-	-	-	-	1.4%	-2.7%	1.7%	9.7%
Operating profit	639	685	692	-3,482	-274	-1,283	-778	65	-124	378	187	-25
YoY	11.1%	18.3%	16.3%	-	-	-	-	-	-	-	-	-
OPM	13.4%	16.0%	15.3%	-97.6%	-5.0%	-30.0%	-17.9%	1.2%	-2.5%	7.9%	4.1%	-0.5%
Kajitaku	-	-	-	-	-661	-1,817	-1,335	-228	-510	-105	-325	-272
YoY	-	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-32.2%	-255.2%	-171.8%	-12.0%	-35.1%	-8.0%	-34.5%	-37.3%
Excluding Kajitaku	-	-	-	-	387	534	557	293	386	483	512	247
YoY	-	-	-	-	-	-	-	-	-0.3%	-9.6%	-8.1%	-15.7%
OPM	-	-	-	-	11.5%	15.0%	15.6%	8.4%	11.3%	13.9%	14.1%	6.5%



Source: Shared Research based on company data

The Support Services segment posted sales of JPY18.8bn (-3.5% YoY) and profit of JPY416mn (versus loss of JPY2.3bn in FY02/19). Scandal-hit subsidiary Kajitaku posted estimated sales of JPY4.4bn (-18.7% YoY) and a narrower loss of JPY1.2bn (loss of JPY4.0bn in FY02/19). The company spun off Kajitaku's housework support business (operating loss of roughly JPY100mn in FY02/20) in view of its significant growth potential. The business got a fresh start as Actia Corporation. In the storefront promotion business (operating loss of JPY1.1bn in FY02/20), the company suspended all new sales while fulfilling existing contracts, and plans to proceed with restructuring related to the spinoff and sale, as soon as possible. The company renamed the remaining Kajitaku specialist storefront promotion business KJS.

The Support Services segment excluding Kajitaku posted sales of JPY14.3bn (+2.5% YoY) and segment profit of JPY1.6bn (-8.1% YoY). The company worked to tap into outsourcing demand for management and operation of customer facilities and peripheral areas but earnings slumped at a subsidiary, Subsidiary Aeon Compass which provides services such as business travel management (BTM) and MICE (meetings, incentive tours, conventions/conferences, and exhibitions).

Overseas businesses

Overseas sales were about JPY19.7bn (up roughly 20% YoY) and operating profit about JPY1.6bn (roughly +50% YoY). PT Sinar Jernih Sarana (SJS), the Indonesian cleaning services company consolidated in December 2018, made a full-year contribution in FY02/20 (about JPY2.5bn in sales and JPY140mn in operating profit). At SJS, the company is applying the integrated facilities management expertise acquired at its Vietnam subsidiary. SJS was getting ready for the switchover to outsourced integrated facilities management at the first and second Aeon malls in Indonesia, and started providing services facilities management and security at the second mall in October 2019.

In China, its two key subsidiaries (Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management) expanded orders for facilities with priority targets of mid- to high-end shopping centers, hospitals and nursing care facilities, infrastructure, and redevelopment precincts. Growth in facilities contracts here helped increase earnings.

Note that the fiscal year-end for key consolidated subsidiaries overseas such as Aeon Delight Jiangsu is December (therefore Q4 means October to December). As a result, any impact of the coronavirus is yet to appear in the accounts.

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

FY02/21 company forecasts (initial forecast)

Full-year company forecasts

	FY02/19			FY02/20			FY02/21
(JPYmn)	1H	2H	FY	1H	2H	FY	FY
Sales	**152,611**	**150,304**	**302,915**	**157,482**	**151,100**	**308,582**	**315,000**
YoY	1.2%	6.1%	3.6%	3.2%	0.5%	1.9%	2.1%
Cost of sales	135,149	132,314	267,463	137,719	132,292	270,011	
Gross profit	**17,462**	**17,990**	**35,452**	**19,763**	**18,807**	**38,570**	
YoY	-6.0%	10.5%	1.7%	13.2%	4.5%	8.8%	
GPM	11.4%	12.0%	11.7%	12.5%	12.4%	12.5%	
SG&A expenses	11,186	11,235	22,421	11,168	11,401	22,569	
SG&A ratio	0.2%	4.1%	2.1%	-0.2%	1.5%	0.7%	
Operating profit	**6,275**	**6,755**	**13,030**	**8,594**	**7,407**	**16,001**	**16,500**
YoY	-15.4%	23.0%	0.9%	37.0%	9.7%	22.8%	3.1%
OPM	4.1%	4.5%	4.3%	5.5%	4.9%	5.2%	5.2%
Recurring profit	**6,349**	**7,013**	**13,362**	**8,655**	**7,294**	**15,949**	**16,500**
YoY	-15.2%	19.0%	-0.1%	36.3%	4.0%	19.4%	3.5%
RPM	4.2%	4.7%	4.4%	5.5%	4.8%	5.2%	5.2%
Net income	**2,838**	**3,577**	**6,415**	**5,181**	**4,167**	**9,348**	**10,000**
YoY	-32.3%	62.0%	0.3%	82.6%	16.5%	45.7%	7.0%

Source: Shared Research based on company data

Key points of FY02/21 initial forecasts (out April 10, 2020)

For FY02/21, the company forecasts consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY, up by about JPY500mn), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. This assumes the coronavirus pandemic will drag on operating profit by some JPY1.5bn, offset by JPY700mn in narrower losses at Kajitaku and a JPY1.3bn increase in operating profit elsewhere.

Impact of coronavirus pandemic

The company expects the impact of the coronavirus pandemic such as temporary closure of some Aeon group stores following the government's emergency declaration of April 7 to persist through 1H (end August). It expects roughly JPY1.2bn of the JPY1.5bn operating profit impact in Japan and JPY300mn overseas. It said that in Japan it expects lower earnings from vending machines in Aeon group stores, lower demand for security as events are put off, and declining business travel. According to the company, while some key customers, Aeon malls, are temporarily closed, supermarket tenants will remain open and need security and cleaning services.

Overseas, the company has mainly factored in the impact in China. In China's Q1 (January–March), one of its key customers, Aeon, continued operating five stores in the vicinity of Wuhan. Aeon Delight supported the operation of the stores with its facilities management services. It was also involved in preparations for building a temporary medical facility and provided preparatory cleaning and indoor settings in hotels for medical teams in a limited timeframe. (In recognition of its services it was named a "real estate management services company with advanced infection prevention capabilities" by the Jingxia district government in Wuhan). Some of the company's work was negatively affected by the coronavirus, but it also received unexpected jobs. It said that it expected the negative impact in China overall would be capped at about JPY300mn. The company said it was still assessing the situation in ASEAN, but the business is small, and should not have a major impact.

That said, on April 16, the Japanese government extended its emergency declaration from seven prefectures (Tokyo, Kanagawa, Chiba, Saitama, Osaka, Hyogo, and Fukuoka) to the entire country. Events in Japan are unfolding in a way not anticipated by the company, so future developments bear watching.

Full-year earnings

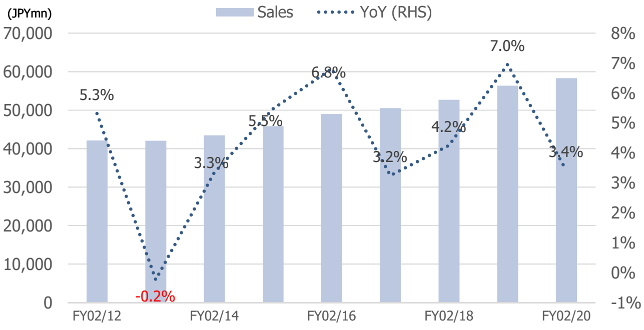
(JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Est.
Sales	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	308,582	315,000
YoY	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	2.1%
Gross profit	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	
YoY	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	
GPM	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	
SG&A expenses	14,868	16,326	18,622	18,900	20,280	21,596	21,961	22,421	22,569	
YoY	24.3%	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%	0.7%	
SG&A ratio	6.8%	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%	7.3%	
Operating profit	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	16,500
YoY	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	3.1%
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.2%
Recurring profit	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949	16,500
YoY	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	3.5%
RPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.2%
Net income	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348	10,000
YoY	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	7.0%
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.2%

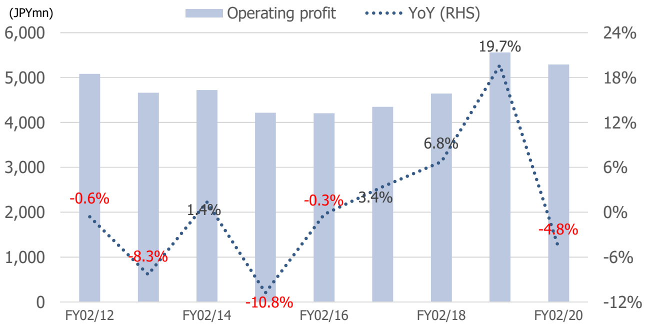
Segment performance (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Est.
Sales	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	308,582	315,000
YoY	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	2.1%
Facilities Management	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364	58,289	
YoY	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	3.4%	
Security Services	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492	44,647	
YoY	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	0.3%	
Cleaning Services	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185	62,362	
YoY	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	7.2%	
Construction Work	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470	41,844	
YoY	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	0.9%	
Materials and Supplies Sourcing	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007	51,125	
YoY	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	0.2%	
Vending Machine Services	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955	31,544	
YoY	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	-1.3%	
Support Services	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439	18,768	
YoY	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	-3.5%	
Operating profit	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	16,500
YoY	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	3.1%
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.2%
Facilities Management	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558	5,293	
YoY	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	-4.8%	
OPM	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	9.1%	
Security Services	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881	3,038	
YoY	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	5.4%	
OPM	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	6.8%	
Cleaning Services	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694	6,967	
YoY	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	4.1%	
OPM	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	11.2%	
Construction Work	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989	3,816	
YoY	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	-4.3%	
OPM	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	9.1%	
Materials and Supplies Sourcing	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779	2,489	
YoY	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	-10.4%	
OPM	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	4.9%	
Vending Machine Services	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164	1,396	
YoY	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	19.9%	
OPM	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	4.4%	
Support Services	312	741	336	281	-580	-850	-1,466	-2,270	416	
YoY	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-	-	
OPM	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	2.2%	
Elimination, other	-	-6,180	-7,334	-6,574	-7,003	-7,279	-7,632	-7,765	-7,415	

Source: Shared Research based on company data

Facilities Management

Facilities Management (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364	58,289
YoY	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	3.4%
Operating profit	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558	5,293
YoY	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	-4.8%
OPM	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	9.1%





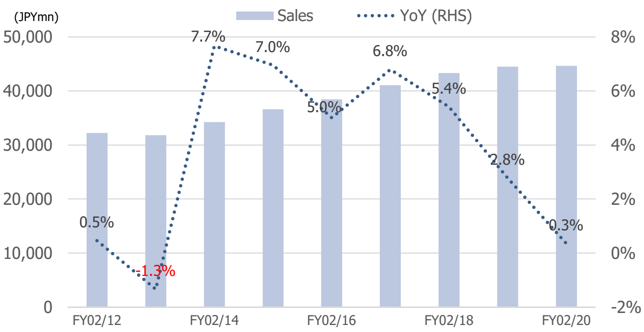
Source: Shared Research based on company data

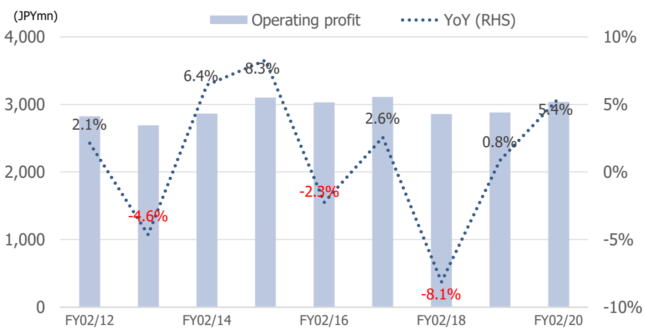
The company aims to lift margins in the Facilities Management business through standardization and streamlining workflows. Margins declined in FY02/20 on higher outsourcing charges amid rising personnel expenses. In FY02/21, the company plans to manage its contractors on a regional basis, to boost their effective utilization rates and align outsourcing costs with benefits.

As of end-FY02/20, the company had introduced its integrated facilities management based on open network systems in five stores. It plans to boost this to 35 stores by the end of FY02/21. While sales per property are likely to decline slightly, the company expects labor cost savings to outstrip this, generating earnings growth. The company expects higher sales and profit for the segment overall in FY02/21.

Security Services

Security Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492	44,647
YoY	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	0.3%
Operating profit	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881	3,038
YoY	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	5.4%
OPM	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	6.8%



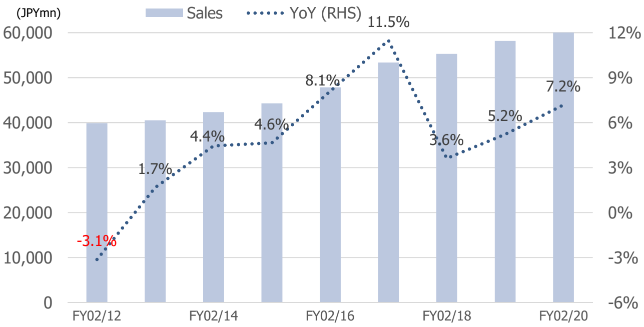


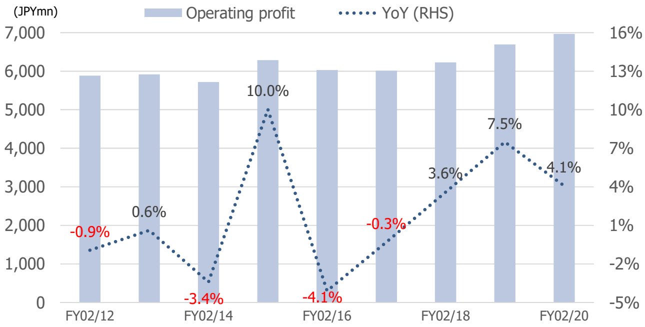
Source: Shared Research based on company data

The company expects demand for event security in the Security Services segment to decline amid cancellations due to the pandemic, but Shared Research estimates that less than 10% of segment sales come from this area. The impact of the Olympics and Paralympic Games postponement should be minimal as the company had not been contracted for associated security work. It plans to continue focusing on installing facility entry/exit and store closing systems to reduce the number of security personnel per building and boost margins. It expects sales to be roughly flat YoY in FY02/21, but for operating profit to grow.

Cleaning Services

Cleaning Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185	62,362
YoY	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	7.2%
Operating profit	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694	6,967
YoY	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	4.1%
OPM	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	11.2%



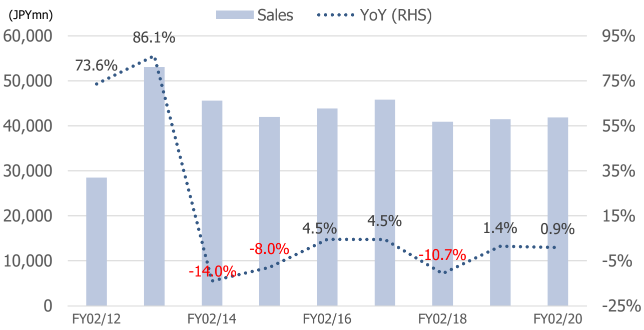


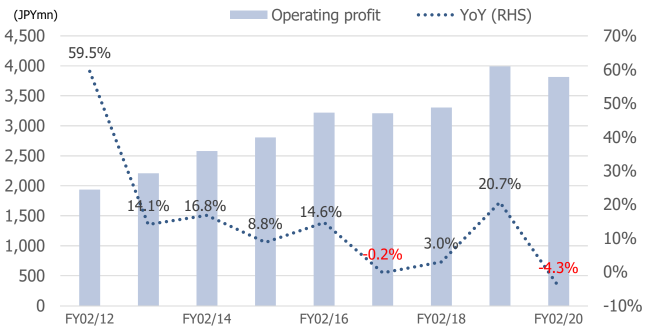
Source: Shared Research based on company data

In the Cleaning Services business, the company has not yet adequately passed through rising personnel costs to prices for some properties, so it plans to raise prices and weed out low-margin contracts. It also aims to continue improving workflows at individual sites and to introduce more cleaning robots to boost productivity. The aim is to augment the labor force primarily late at night and early morning when it is hard to obtain staff. The company expects slight sales growth and an improving OPM in FY02/21.

Construction Work

Construction Work (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470	41,844
YoY	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	0.9%
Operating profit	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989	3,816
YoY	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	-4.3%
OPM	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	9.1%



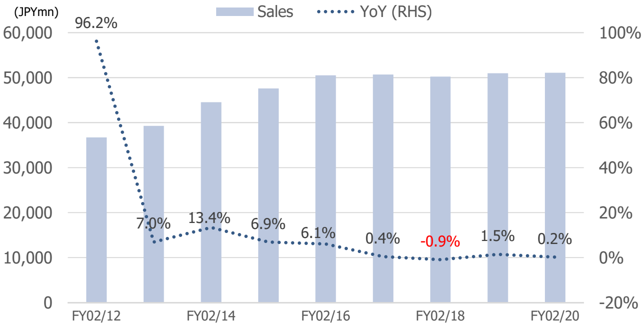


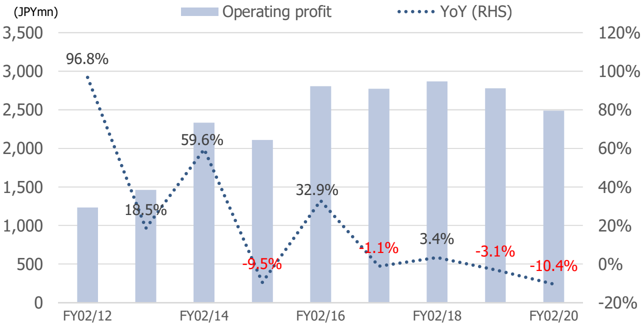
Source: Shared Research based on company data

In the Construction Work business, the company plans to maintain its strategy from FY02/20 of winning orders in the large markets in Kanto and Kansai. It is strengthening its contract systems in these areas, and aims to get involved in more projects from the design stage and win more major contracts. It is also stepping up collaboration with subsidiaries and business partners to prevent lost orders and win new ones. Construction work is easier to carry out in the current environment as some commercial facilities are closed or operating under reduced hours. The company hopes the segment will drive profit growth in FY02/21 as it fine tunes the construction schedule.

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007	51,125
YoY	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	0.2%
Operating profit	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779	2,489
YoY	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	-10.4%
OPM	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	4.9%



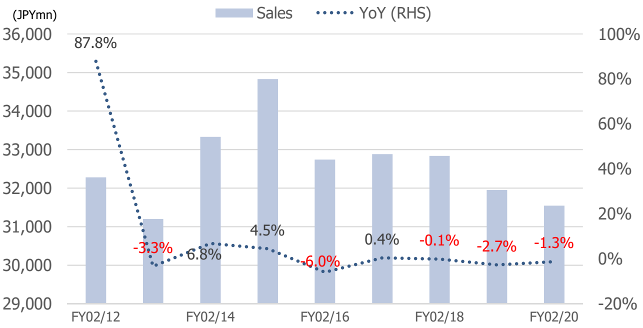


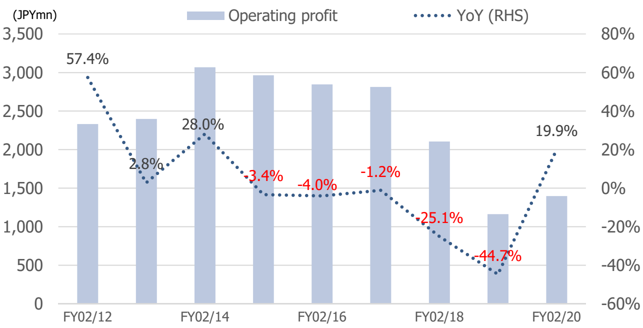
Source: Shared Research based on company data

In the Materials and Supplies Sourcing Services business, the company aims to win new customers, while also growing (or regaining) sales of high value-added products to major customers. It also aims to lower procurement costs through segment wide bulk purchases, which were previously conducted at the area level. Although in FY02/20 margins were dragged down by delivery inefficiencies, the company aims to streamline its delivery arrangements and lower logistics costs. It expects slight growth in sales and profit in FY02/21.

Vending Machine Services

Vending Machine Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955	31,544
YoY	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	-1.3%
Operating profit	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164	1,396
YoY	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	19.9%
OPM	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	4.4%



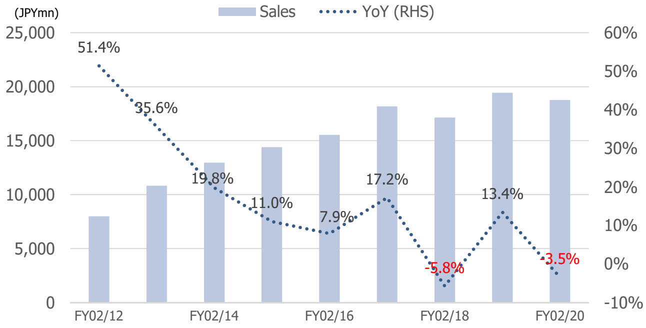


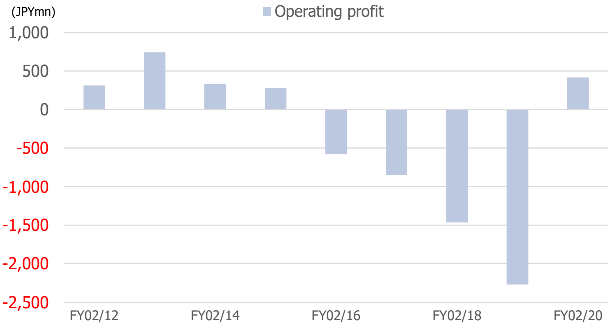
Source: Shared Research based on company data

The company expects segment sales to decline on lower customer traffic at commercial facilities. It hopes to revive the business once the influence of the pandemic settles down, but conditions may remain tough.

Support Services

Support Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439	18,768
YoY	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	-3.5%
Operating profit	312	741	336	281	-580	-850	-1,466	-2,270	416
YoY	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-	-
OPM	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	2.2%





Source: Shared Research based on company data

The company expects lower losses at the former Kajitaku (primarily at the KJS storefront promotion business), but earnings at Aeon Compass (involved in business travel arrangement and rental conference rooms) are likely to decline due to the pandemic. We understand that the company expects narrower losses at Kajitaku (positive impact of JPY700mn at the operating profit level) will outweigh the drag on earnings from the pandemic (roughly JPY500mn).

Longer-term initiatives

The company expects the coronavirus will have a drag about JPY300mn on operating profit in China, but it will work to grow the business from a longer term perspective. In light of the results of an urban redevelopment project Aeon Delight Jiangsu has been involved in since 2016 in Suzhou (facilities management concentrated in the Gaotie Xincheng project area), the company plans to participate in a new urban development project from 2020. At its Wuhan Xiaozhu subsidiary, it plans to 1) support customers as they return business to normal, 2) tap into demand for catering and road cleaning emerging in the wake of the coronavirus, and 3) roll out new services in nursing care and housekeeping suited to the medium- and high-end residences the company manages.

In the domestic market, the company aims to focus on shifting to service level agreement (SLA) contracts as well as building energy management infrastructure (power supply using blockchain technologies).

Transitioning to SLA contracts: Up until now, prices were usually set based on the number of personnel dispatched, but the company aims to move to contracts based on service levels. The aims are twofold: boosting personnel productivity and improving services. This will entail the use of equipment, automation, and systems while shifting from arrangements where personnel are stationed at individual facilities to staff patrolling within areas.

Energy management business: The company aims to conduct trials with a view to winning energy management contracts for the Aeon group. The Urawa Misono pilot project finished at end-March 2020, and the company wants to deepen its understanding with a new trial in FY02/21. It also plans to start supplying power to Aeon group stores, starting with small shops.

Historical forecast accuracy

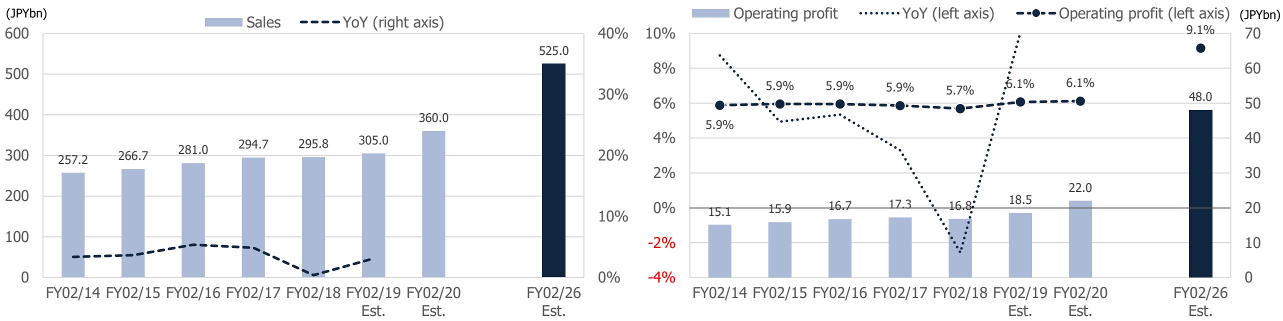
Results vs. Initial Est. (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Sales (Initial Est.)	213,000	260,000	260,000	270,000	280,000	305,000	305,000	305,000	315,000
Sales (Results)	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	308,582
Results vs. Initial Est.	**3.2%**	**-4.3%**	**-1.3%**	**-1.6%**	**-0.7%**	**-4.1%**	**-4.1%**	**-0.7%**	**-2.0%**
Operating profit (Initial Est.)	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500	18,000
Operating profit (Results)	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001
Results vs. Initial Est.	**-3.8%**	**-16.3%**	**-5.7%**	**-3.8%**	**-14.4%**	**-19.2%**	**-28.3%**	**-29.6%**	**-11.1%**
Recurring profit (Initial Est.)	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500	18,000
Recurring profit (Results)	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949
Results vs. Initial Est.	**-3.6%**	**-16.3%**	**-5.8%**	**-3.3%**	**-14.5%**	**-18.5%**	**-25.7%**	**-27.8%**	**-11.4%**
Net income (Initial Est.)	7,600	8,700	8,300	8,600	9,400	10,000	10,700	11,000	10,800
Net income (Results)	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348
Results vs. Initial Est.	**-9.1%**	**-13.7%**	**-15.2%**	**-7.4%**	**-22.9%**	**-29.1%**	**-40.2%**	**-41.7%**	**-13.4%**

Source: Shared Research based on company data.
Note: Results through FY02/18 have not been retrospectively adjusted.

Aeon Delight Vision 2025

In October 2018, the company announced Aeon Delight Vision 2025 (“Vision 2025”) medium-term plan. 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.

Vision 2025



Source: Shared Research based on company data

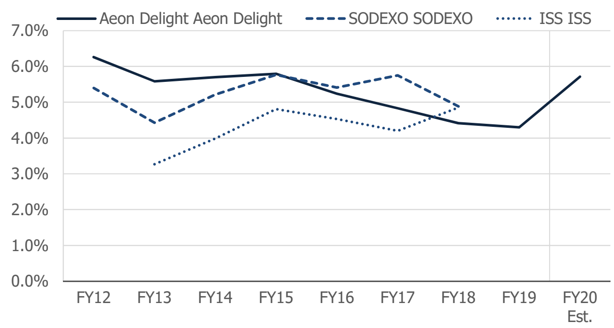
Domestic businesses

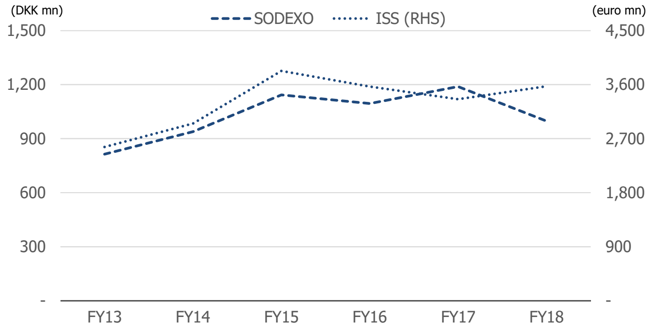
In Japan, Aeon Delight will construct AD economic zone using the AD platform, improve efficiency and reduce customer costs by establishing labor-saving/unmanned systems, expand its share in the facility management market through customer-focused sales activities and collaborations with other companies, 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.

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 according to the company. 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.

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





Source: Shared Research based on company data

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 Aeon Delight (AD) platform to develop AD economic zone.

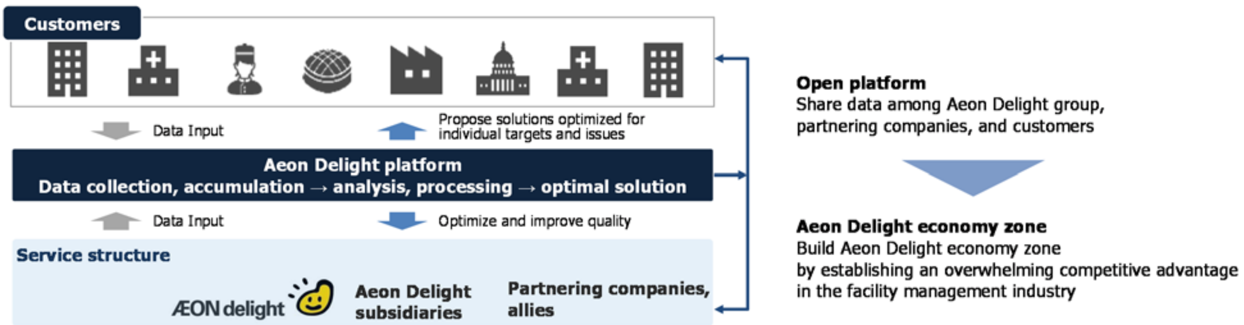
Market share: Aeon Delight estimates the domestic market is worth JPY3.7tn (based on FY02/18 sales in the Facilities Management, Security Services, and Cleaning Services businesses).

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 of energy consumption, 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 buildings, commercial facilities, hotels, hospitals, and public facilities and proposes optimal, quality, and effective solutions that address specific challenges for each type of facility. The company notes that (1) it expects the platform to be deployed at all Aeon stores (low initial costs means quick returns), (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 additional FM services. By taking charge of areas ranging from power supply to facilities 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 stronger competitive advantage by building an AD economic zone.

AD platform



Source: Shared Research based on company data

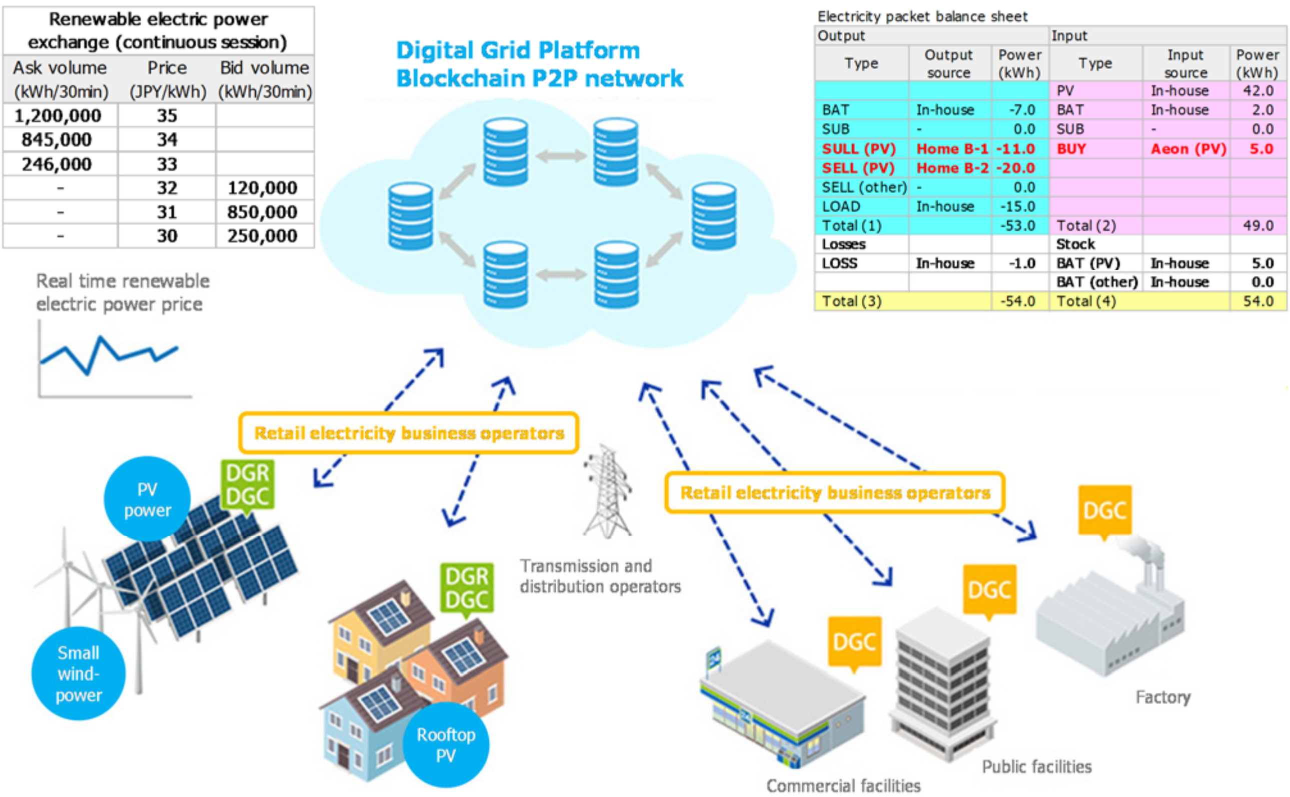
New environmental business: Energy management business

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 (TSE1: 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. Further in the future, it aims to develop the environmental service in regions surrounding Aeon group stores, and establish a growing energy management business that includes all aspects from supplying necessary energy to regional communities to reducing energy consumption for commercial facilities. The company's Vision 2050 sales forecasts for the business do not factor in expansion to surrounding regions and targets for sales to group stores are on the conservative side.

The two concurrent avenues planned to achieve the Aeon Decarbonization Vision 2050 are promotion of energy conservation and a transition to renewable energy. According to public materials from Aeon, it plans to save energy by using IoT technology and integrated remote management, and hints at using the company's AD platform. It also plans to use newly developed technology from Aeon Delight to manage and retail renewable energy. In effect, the company appears likely to supply all of the electric power needs of the Aeon group.

The bulk of the Aeon group's power supply goes to air conditioning, refrigerated display cases for cold and frozen foods, and lighting. Using highly precise, real-time management, the company plans to use its AD platform to optimize the Aeon group's energy consumption, using demand projections through AI and accumulated data on the group's energy consumption. Turning to renewable energy, the company will utilize the rooftop solar power generation facilities of Aeon stores, procure renewable energy, and leverage the blockchain technology of investee Digital Grid Corporation to demonstrate the viability of renewable energy.

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

Overseas FM business

In the overseas business, 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).

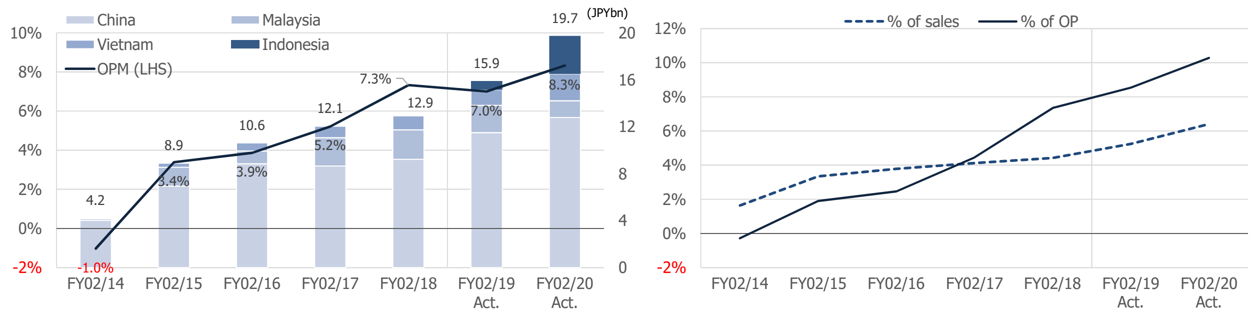
Note: After releasing Vision 2025, the company purchased a major Indonesian cleaning company, PT Sinar Jernih Sarana (SJS), in December 2018. It started providing integrated facilities management services at shopping malls in Indonesia applying expertise acquired in Vietnam.

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%) in October 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

China's SmartFM (including operations of DeepBlue Technology)

Source: Shared Research based on company data

Profit margins

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 released in April 2017 (covering FY02/18–20) 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.

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 by the Aeon group.

M&A activities

Aeon Delight is active in M&A. It has purchased companies in cleaning, building management, and store interior construction. It has also purchased companies in businesses ancillary to facilities management, and been proactive in seeking out alliances in other formats. In 2018 it announced collaboration with SECOM (TSE1: 9735) to create a new business model for small and medium-sized 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. (not listed), Biru Daiko Co., Ltd., Nihon Housing Co., Ltd. (TSE2: 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 seven main business segments: facilities management, security services, cleaning services, construction work, materials and supplies sourcing services, vending machines, support services and other. 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.

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)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364	58,289
YoY	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	3.4%
Operating profit	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558	5,293
YoY	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	-4.8%
OPM	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	9.1%

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 with few contract cancellations. 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. Operating profit margin is about 9%. 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 five commercial facilities including 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)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492	44,647
YoY	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	0.3%
Operating profit	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881	3,038
YoY	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	5.4%
OPM	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	6.8%

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, and recurring revenue business with ongoing security services is common. This segment outsources most of its work to Aeon Delight Security, a subsidiary. Due to heavy personnel costs for security guards, the operating profit margin is stuck in the 6% range.

The company also offers an attendant security service, 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. Although costs will arise from staff training, this business provides high added value.

Cleaning Services

Cleaning Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185	62,362
YoY	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	7.2%
Operating profit	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694	6,967
YoY	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	4.1%
OPM	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	11.2%

Source: Shared Research based on company data

The company provides cleaning services, mainly in large shopping centers for the Aeon group. Because large commercial facilities tend to have a wide variety of people passing through and frequent layout changes, it is a relatively difficult area of the cleaning industry. Although it is a labor-intensive business, 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 recurring revenue business and the company has built long-term relationships with about 80% of its customers in this segment.

On an orders-received basis, the business is composed of about 10–20% work performed directly by the company, and 80–90% work performed by outsourcing partners. Primary outsourcing partners are Do Service Co., Ltd. and Kankyouseibi Co., Ltd.

Approximately 30,000 persons are involved in the cleaning services business. In recent years, the company has been working to secure orders in the hygienic cleaning business, previously untapped territory for it, which can lead to high value-added services.

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 2–3%. Aeon Delight began offering hygienic cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. As of April 2015, the company was providing hygienic cleaning services for 14,000 beds. In 2018, that number has increased to over 25,000 beds. 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.

Japanese hospitals and clinics

As of March 31, 2018	Hospitals		Clinics	
		Beds		Beds
Total	**8,389**	**1,554,524**	**101,860**	**97,514**
National	326	128,371	540	2,202
Public medical institutions	1,208	316,193	3,567	2,489
Social insurance-related organizations	53	16,008	468	-
Public service corporations	217	54,472	525	303
Medical corporations	5,758	866,272	42,330	72,487
Private schools	113	56,048	185	38
Social welfare services	203	34,853	9,723	339
Individuals	201	18,974	41,748	19,059
Other	310	63,333	2,774	597

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

Because many of the large domestic 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, so it is difficult to turn it into a recurring revenue business. That said, a limited number of companies have the scale needed to provide bulk cleaning services for major groups with 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 sharing all the related sales tools, local offices have also been doing their own marketing since FY02/16. The profitability was low when the company entered the hygienic cleaning business. However, it appears profitability has been improving as its cleaning staff becomes increasingly proficient at their duties.

Construction Work

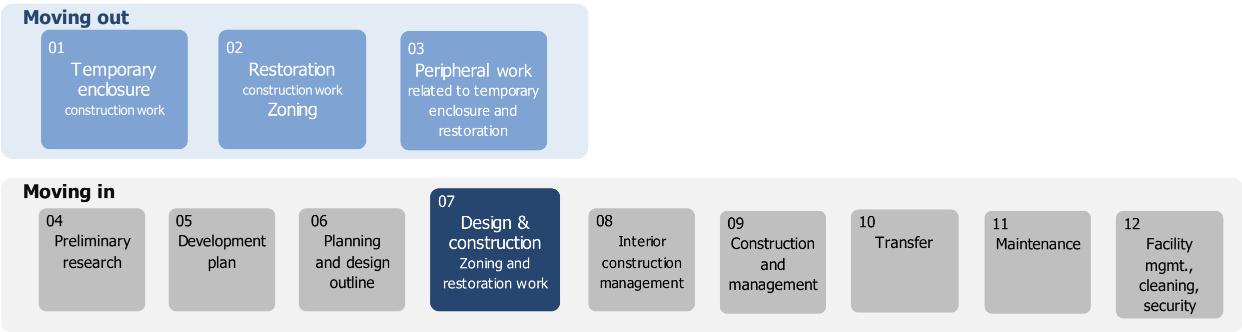
Construction Work (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470	41,844
YoY	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	0.9%
Operating profit	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989	3,816
YoY	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	-4.3%
OPM	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	9.1%

Source: Shared Research based on company data

This segment conducts large-scale renovation, interior design work, restoration, and installation of energy-saving devices (i.e., LED lighting) and solar power systems. This segment generates roughly 60% of its sales from Aeon group companies. Renovation is remodeling (not designing) of Aeon retail locations, such as replacing signage, or modifying retail floor space. In recent years, there has been an increasing amount of work related to changeover of tenants inside Aeon malls (restoration and new interiors).

In April 2018, Aeon Delight made store design specialist U-COM a wholly owned subsidiary, and the upstream approach has enabled it to win an increasing number of contracts from outside the Aeon group.

Construction work process for commercial facility tenant replacement



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007	51,125
YoY	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	0.2%
Operating profit	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779	2,489
YoY	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	-10.4%
OPM	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	4.9%

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. It is difficult to add value in this area, but the operating profit margin is about 5%.

Vending Machine Services

Vending Machine Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955	31,544
YoY	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	-1.3%
Operating profit	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164	1,396
YoY	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	19.9%
OPM	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	4.4%

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 FY02/19). 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. In September 2010, Aeon Delight acquired vending machine operator Certo Corp., which spun off from the trading division of Aeon.

Also, aiming for a business model change, the company seeks to increase the number of vending machines equipped with digital signage functionality (about 2,700 machines at end-FY02/19) and capture advertising revenues.

Support Services

Support Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.
Sales	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439	18,768
YoY	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	-3.5%
Operating profit	312	741	336	281	-580	-850	-1,466	-2,270	416
YoY	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-	-
OPM	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	2.2%

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.

The company entered the BPO services market with the acquisition of General Services, Inc. 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): Actia: household support services.

Kajitaku: In 2019, accounting fraud was discovered at subsidiary Kajitaku, which operated storefront promotion and housework support businesses. The company submitted corrected financial statements covering FY02/14 through FY02/18. In February 2020, it spun off the housework support business, which got a new start under the name Actia. Kajitaku was renamed KJS, and halted all sales. It is fulfilling existing contracts and plans to proceed with restructuring related to the spinoff and sale.

Additionally, 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.

Overseas business

Aeon Delight sees China and ASEAN as main growth drivers. In China, the company mainly operates through its subsidiaries in Suzhou and Wuhan. It made both wholly owned subsidiaries in 2018 to speed up decision making. For now, it plans to target the Yangtze River Delta and surrounding regions to build up its brand power as a company that provides quality facilities management. In the medium term, it plans to expand its business to the northern and southern regions. In ASEAN, the company has subsidiaries in Indonesia, Malaysia, and Vietnam. The Indonesian business purchased in 2018 is the second-largest company in the cleaning industry in the promising Indonesian market. Aeon Delight plans to provide its expertise in other facility services and win outsourcing contracts locally.

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 that are non-core activities for many companies. Its competitors can only provide one to two of these services (i.e., security or cleaning). The number of companies that can provide one-stop services is limited.
- **Cashflow generating ability:** Over the past five years, average operating cashflow has been JPY11.0bn per annum, and the company has spent JPY2.8bn per year on the acquisition of tangible fixed assets, generating total cashflow of about JPY8.0bn. The company is using stable cash flow to invest strategically in acquisitions and technological development based on its longer-term vision. If there are no investment outlets that meet its growth strategy, the cash flow funds shareholder returns. Over the past five years, Aeon Delight has spent an average of JPY3.0bn in dividend payments (cash flow basis) yearly. In FY02/19 it spent JPY9.9bn on a share buyback. The company targets a dividend payout ratio of 35% from FY02/21 onward.

Weaknesses

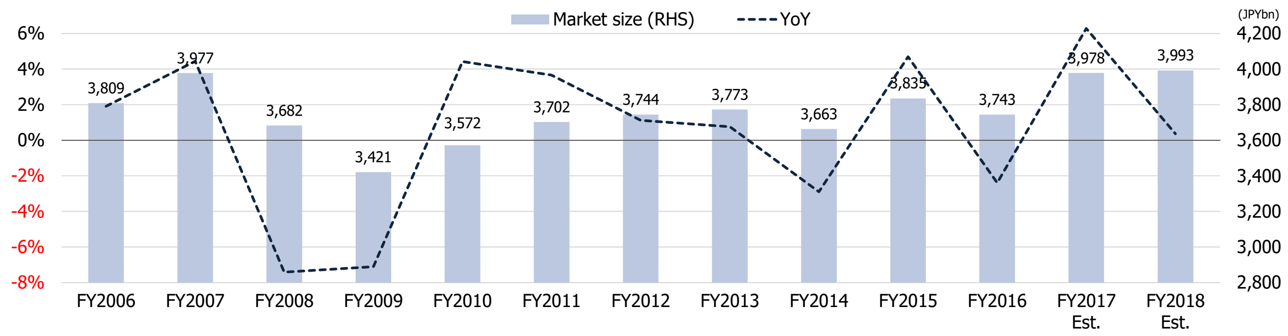
- **Organic growth challenging:** Aeon Delight depends mainly on the domestic market which generates about 95% of sales. The markets for its existing businesses in Japan are mature, which is a weakness in terms of the company's growth potential. It will be challenging to sustain growth, as Aeon Delight must rely on aggressive development overseas and winning contracts in ancillary businesses as an FMS company and growing market share.
- **Overly dependent on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives just over 60% 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 roughly JPY4.0tn in FY2017 (April 1, 2016 to March 31, 2017), up 6.3% YoY, according to a survey released in July 2019 by Yano Research Institute Ltd. This put the market size back around its FY2007 levels.

> 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.

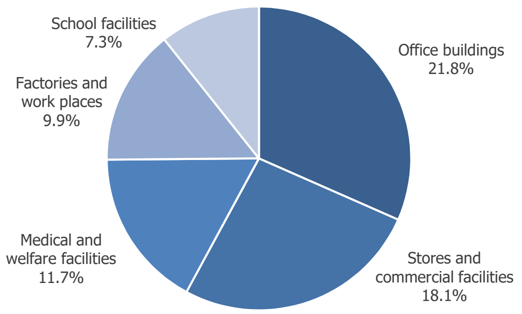


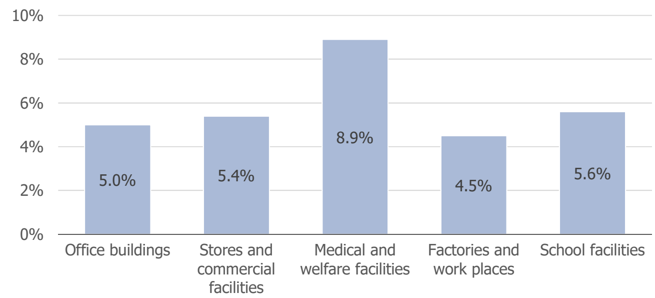
Source: Shared Research based on Yano Research Institute Ltd. materials (July 9, 2019)

Building maintenance services were mainly used by office buildings (22%), shops and commercial facilities (18%), medical and welfare facilities (12%), factories and work places (10%), and educational facilities (7%). The company has a significant share of the shop and commercial facilities market, but low shares in office buildings, medical and welfare facilities, and factories and work places, leaving ample scope to grow.

Sales growth rates by end user were up 5.0% YoY for office buildings, up 5.4% YoY for shops and commercial facilities, up 8.9% YoY for medical and welfare facilities, up 4.5% YoY for factories and workshops, and up 5.6% YoY for educational facilities. Market growth was strong for medical and welfare facilities and about 5% for others (such as office buildings and commercial facilities).

Building maintenance market (left) and sales growth rates (right): FY2017 estimates





Source: Shared Research based on Yano Research Institute Ltd. materials (July 9, 2019)

Aeon group stores by format (domestic and overseas)

	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
GMS	590	598	617	618	625	626	584	583	613
Supermarket	1,537	1,708	1,977	2,038	2,121	2,130	2,159	2,166	2,229
Discount store	105	152	353	381	530	566	568	587	592
DIY store	122	123	122	121	120	119	122	122	120
Supercenter	29	26	26	29	28	28	28	27	25
Department store	1	1	1	1	1	1	1	1	1
Specialty store	4,121	4,462	4,581	4,683	5,061	4,348	4,332	4,039	3,900
Convenience store	3,424	3,664	3,853	3,932	4,331	5,261	5,436	5,449	5,350
Drugstore and pharmacy				3,347	3,765	3,980	4,376	4,817	5,127
Other retail formats	418	562	756	884	803	856	907	1,015	1,147
Financial services	460	527	641	698	701	705	690	640	658
Services	1,383	1,394	1,519	1,640	1,934	2,013	2,045	2,070	2,067
Total	12,190	13,217	14,440	18,382	20,020	20,633	21,248	21,516	21,829
Aeon Mall	59	62	137	148	161	166	174	180	172
Aeon Town	107	115	122	130	134	139	140	140	
Total	166	177	259	278	295	305	314	320	

Source: Shared Research based on company data

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

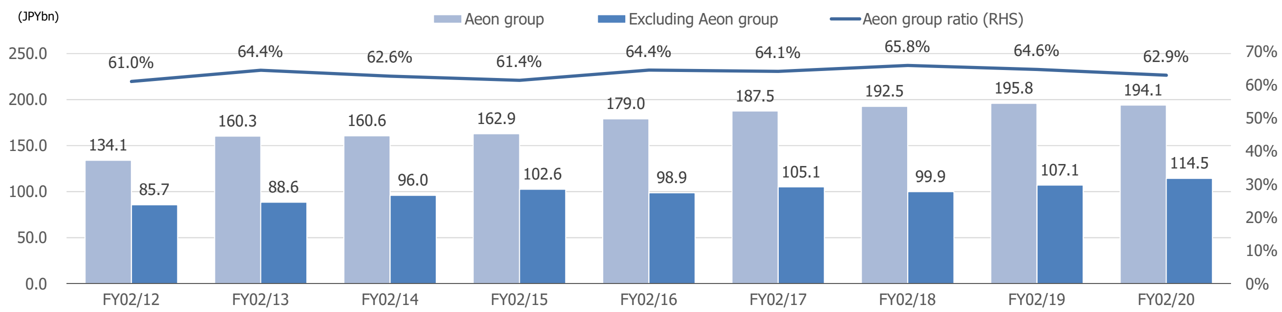
	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
GMS	54	61	69	77	84	87	94	96	102
Supermarket	44	81	95	101	115	173	150	150	126
Discount store	-	22	23	24	24	23	21	22	22
Specialty store	2,033	2,294	2,370	2,532	2,840	2,998	3,172	3,252	3,353
Drugstore									29
Convenience store	37	55	61	42	44	52	54	39	5
Other retail formats	27	29	29	30	79	97	115	124	147
Financial services	236	279	302	339	339	342	324	276	295
Services	25	41	95	180	282	335	390	426	446
Total	2,456	2,862	3,044	3,325	3,845	4,107	4,320	4,385	4,525

Source: Shared Research based on company data

Customers

Aeon Delight generates almost 65% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall (TSE1: 8905), 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.

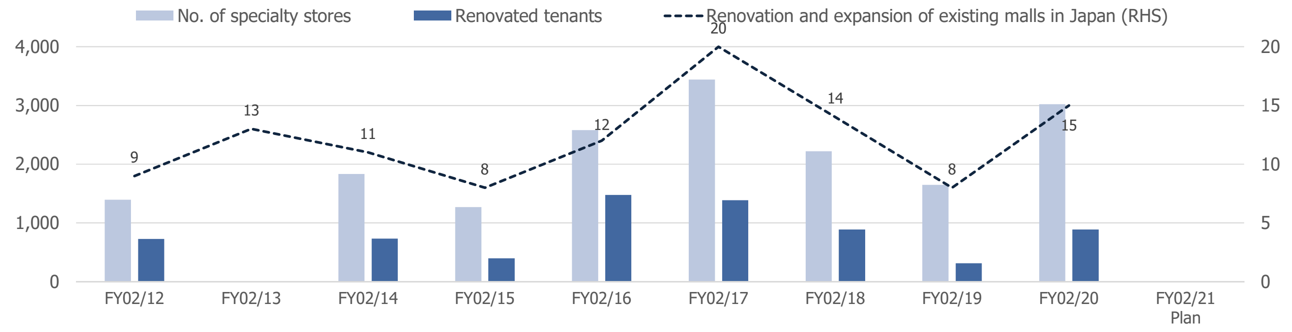
Sales composition by customer



Source: Shared Research based on company data

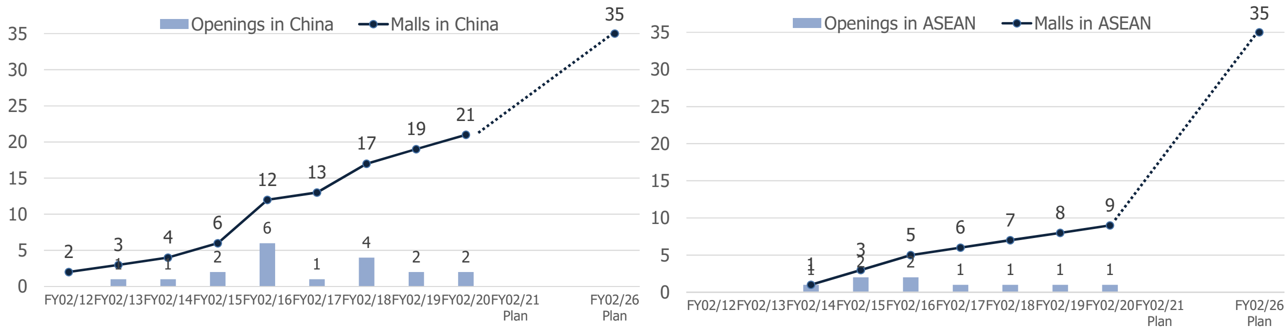
Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%.

Number of renovated Aeon Malls



Source: Shared Research based on company data

Aeon Malls in China and ASEAN countries



Source: Shared Research based on company data

Overseas businesses of the Aeon group

Overseas stores: Aeon Mall			FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21 Est.
Store count	China		2	3	4	6	12	13	17	19	21	
	ASEAN		-	-	1	3	5	6	7	8	9	
		Vietnam			1	2	3	4	4	4	5	
		Cambodia				1	1	1	1	2	2	
		Indonesia					1	1	2	2	2	
	Total		**2**	**3**	**5**	**9**	**17**	**19**	**24**	**27**	**30**	
Openings	China			1	1	2	6	1	4	2	2	
	ASEAN								1	2	1	
		Vietnam									1	
		Cambodia								1		
		Indonesia							1			
	Total		**-**	**1**	**1**	**2**	**6**	**1**	**5**	**4**	**3**	

Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
ASEAN	Malaysia	Aeon Malaysia	28	30	31	33	73	84	88	100	119
		Aeon BiG Malaysia	-	27	28	28	26	25	21	22	22
	Thailand	Aeon Thailand	29	58	69	75	76	77	80	78	51
	Vietnam	Aeon Vietnam				2	3	4	5	6	18
		Aeon Citymart					30	30	30	26	25
		Aeon Fivimart					23	27	25	-	-
	Cambodia	Aeon Cambodia				1	1	1	4	7	11
	Indonesia	Aeon Indonesia					1	1	2	2	2
	Myanmar	Aeon Orange						14	14	15	14
	ASEAN total		57	115	128	139	233	263	269	256	262
China		Aeon Stores Hong Kong	38	42	43	43	49	55	65	63	65
		Guangdong Aeon	12	15	17	17	18	19	20	23	23
		Quingdao Aeon Dongtai	7	8	9	10	9	6	6	6	7
		Aeon South China	8	9	11	10	10	10	10	8	7
		Beijing Aeon	3	4	4	5	6	7	9	9	9
		Aeon East China				1	3	4	5	5	7
		Aeon (Hubei)				1	2	2	4	5	5
	China total		68	78	84	87	97	103	119	119	123

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 (not listed) 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. (not listed) 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)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Sales	**219,797**	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**
YoY	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%
Cost of sales	191,166	218,648	223,409	231,281	243,089	256,871	257,524	267,463	270,011
Gross profit	**28,631**	**30,227**	**33,245**	**34,290**	**34,836**	**35,736**	**34,871**	**35,452**	**38,570**
YoY	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%
GPM	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%
SG&A expenses	14,868	16,326	18,622	18,900	20,280	21,596	21,961	22,421	22,569
YoY	24.3%	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%	0.7%
SG&A ratio	6.8%	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%	7.3%
Operating profit	**13,762**	**13,901**	**14,622**	**15,390**	**14,556**	**14,139**	**12,909**	**13,030**	**16,001**
YoY	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%
Non-operating income (expenses)	22	-9	-22	82	-22	124	472	332	-52
Non-operating income	281	213	163	228	253	434	608	590	339
Non-operating expenses	260	221	186	145	275	309	136	258	391
Recurring profit	**13,784**	**13,892**	**14,600**	**15,472**	**14,534**	**14,263**	**13,381**	**13,362**	**15,949**
YoY	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%
RPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%
Extraordinary gains (losses)	953	133	1,236	695	2,040	1,224	1,475	195	659
Implied tax rate	45.7%	45.3%	46.1%	44.1%	46.0%	45.9%	42.9%	46.2%	38.3%
Net income attrib. to non-controlling interests	132	104	188	310	386	533	598	664	245
Net income	**6,912**	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**
YoY	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%

Source: Shared Research based on company data
Note: The company restated prior-year results in June 2019.

Balance sheet

Balance sheet (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
ASSETS									
Cash and deposits	9,707	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355
Accounts receivable	31,240	44,673	34,448	35,757	34,328	35,360	35,739	40,089	42,612
Allowance for doubtful accounts	-657	-144	-290	-168	-360	-202	-130	-167	-242
Inventories	1,527	2,237	2,575	2,663	2,840	3,218	2,623	2,211	1,822
Deposits for consumption to subsidiaries and affiliates	27,320	18,020	32,420	41,326	37,362	31,713	32,000	16,000	-
Other current assets	3,349	4,523	8,196	8,476	9,634	9,292	8,543	6,405	5,815
Total current assets	**72,486**	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**
Buildings	1,217	1,089	1,046	1,009	1,629	1,631	1,582	1,479	1,458
Facilities and equipment for area management	246	274	238	211	190	175	-	-	-
Tools, furniture, and fixtures	1,918	2,079	2,487	2,516	2,651	3,307	4,892	5,064	4,846
Land	284	282	278	278	1,978	1,975	1,975	2,032	2,032
Construction in progress	-	-	-	-	-	-	-	-	-
Other fixed assets	108	72	209	345	610	1,974	1,591	1,585	1,334
Total tangible fixed assets	**3,773**	**3,796**	**4,258**	**4,361**	**7,061**	**9,064**	**10,041**	**10,161**	**9,671**
Goodwill	11,249	10,801	9,399	8,452	7,654	6,813	6,113	6,865	5,975
Other	1,023	1,520	1,609	1,867	2,352	1,989	1,699	1,338	1,209
Total intangible fixed assets	**12,272**	**12,321**	**11,008**	**10,320**	**10,006**	**8,802**	**7,813**	**8,103**	**7,185**
Investment securities	2,577	2,973	3,897	3,768	4,463	4,546	5,334	4,256	3,623
Deferred tax assets	406	288	254	284	310	551	330	412	1,763
Other	1,517	2,196	1,877	2,750	3,896	4,342	3,458	3,264	2,347
Allowance for doubtful accounts	-224	-200	-199	-535	-494	-536	-610	-355	-36
Investments and other assets	**4,276**	**5,257**	**5,829**	**6,268**	**8,176**	**8,904**	**8,512**	**7,578**	**7,698**
Total fixed assets	**20,322**	**21,375**	**21,096**	**20,950**	**25,244**	**26,772**	**26,367**	**25,842**	**24,554**
Total assets	**92,809**	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**
LIABILITIES	-	-	-	-	-	-	-	-	-
Accounts payable	23,720	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388
Short-term debt	41	10	5	-	-	271	225	394	252
Other	9,882	10,401	12,622	15,771	17,377	21,666	18,541	20,137	20,410
Total current liabilities	**33,643**	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**
Long-term debt	15	5	-	-	-	293	-	15	11
Other	968	1,190	1,556	2,387	3,925	5,921	6,474	7,652	6,756
Total fixed liabilities	**983**	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**
Total liabilities	**34,626**	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	18,753	18,770	18,818	18,850	18,862	18,949	19,019	13,888	13,880
Retained earnings	35,285	40,539	45,112	50,505	55,099	59,355	62,756	65,910	72,063
Treasury stock	-460	-458	-449	-443	-441	-436	-430	-10,327	-10,208
Other comprehensive income	647	992	1,711	1,373	525	799	1,484	466	-86
Share subscription rights	173	205	165	166	221	263	303	299	186
Non-controlling interests	545	1,260	1,547	1,869	2,168	2,434	2,773	2,062	2,213
Total net assets	**58,182**	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**
Working capital	9,047	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046
Total interest-bearing debt	56	15	5	-	-	564	225	409	263
Net cash	36,971	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092
Shareholders's equity	57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887
Equity ratio	61.9%	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%

Source: Shared Research based on company data
Note: The company restated prior-year results in June 2019.

Assets

In order of value, the company’s assets are cash and deposits (JPY62.4bn, FY02/20), accounts receivable (JPY42.6bn), tangible fixed assets (JPY9.7bn), and intangible fixed assets (JPY7.2bn). The aggregate of cash and deposits and deposits for consumption from associates is over JPY60.0bn, but interest-bearing debt is just JPY300mn, for a cash-rich balance sheet. Tangible fixed assets and intangible fixed assets are small as the company’s business structure does not require a large balance sheet. In FY02/20 the company ended its policy of leaving deposits with Aeon, from a cash governance perspective.

Majority of its investment securities are with Aeon Mall (TSE1: 8905), Aeon Kyushu (TSE JASDAQ: 2653), Aeon Fantasy (TSE1: 4343), and MaxValu companies.

Shareholders' equity

At end-FY02/20, the equity ratio was 57.6%. Although it declined to 54.4% at end-FY02/19 following the restatement of prior-year earnings accompanying the Kajitaku accounting fraud, it subsequently recovered.

Profitability and financial ratios

Profit margins (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Gross profit	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570
GPM	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%
Operating profit	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%
EBITDA	16,107	16,138	17,054	17,856	17,014	16,928	16,038	16,391	19,168
EBITDA margin	7.3%	6.5%	6.6%	6.7%	6.1%	5.8%	5.5%	5.4%	6.2%
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%
Financial ratios									
ROA (RP-based)	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%
ROE	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%
Total asset turnover	2.5	2.6	2.4	2.3	2.2	2.2	2.1	2.2	2.3
Working capital	9,047	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046
Current ratio	215.5%	226.9%	228.7%	222.2%	227.3%	236.1%	241.2%	211.6%	229.9%
Quick ratio	201.0%	207.6%	201.3%	198.3%	200.1%	209.5%	218.4%	194.8%	214.3%
OCF / Current liabilities	30.0%	-12.7%	57.5%	40.1%	22.3%	25.2%	28.2%	24.6%	14.7%
OCF / Total liabilities	27.8%	-12.1%	52.3%	35.2%	20.7%	22.0%	24.4%	20.9%	13.2%
Cash conversion cycle (days)	8.2	18.5	22.3	15.4	10.1	9.7	12.4	13.6	18.3
Change in working capital	1,749	13,319	-7,219	-1,661	-4,775	4,753	-922	3,791	4,713

Source: Shared Research based on company data

Statement of cash flows

Cash flow statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Cash flows from operating activities (1)	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	7,371
Pre-tax profit	12,977	13,920	13,420	14,807	16,526	14,089	12,247	13,166	15,548
Depreciation	1,265	1,130	1,294	1,341	1,699	2,069	2,414	2,602	2,352
Impairment losses	-	-	678	578	250	122	39	123	175
Amortization of goodwill	1,080	1,107	1,138	770	759	720	715	759	815
Change in working capital	-1,187	-13,728	10,386	2,008	-552	449	1,035	-53	-4,745
Income taxes	-5,404	-6,578	-6,114	-6,615	-6,336	-6,602	-6,115	-5,188	-6,506
Other	908	-209	557	4,345	-2,043	856	3,233	964	-268
Cash flows from investing activities (2)	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838
Purchase of tangible and intangible fixed assets	-1,184	-1,607	-1,999	-1,903	-2,414	-4,113	-3,228	-2,059	-2,361
Proceeds from sale of tangible and intangible fixed assets	27	147	41	18	116	24	14	15	-
Acquisition of shares in subsidiaries affecting the scope of consolidation	-1,266	-694	-388	-	-4,771	-	-	-1,516	-
Payments of deposit for consumption to subsidiaries and affiliates	-150,420	-170,520	-212,400	-220,511	-218,798	-229,151	-250,400	-284,000	-192,500
Collection of deposit for consumption from subsidiaries and affiliates	142,020	180,020	198,000	211,605	222,762	234,800	250,113	300,000	208,500
Other	772	-260	114	-574	-150	673	835	-184	199
Free cash flow (1+2)	**-412**	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**	**10,902**	**24,629**	**21,209**
Cash flows from financing activities	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392
Net change in short-term borrowings	-2	-25	-	-	-	219	-28	179	-143
Net change in long-term borrowings	-475	-6	-	-	-	324	90	-2	-3
Payment of dividends	-2,205	-2,256	-2,464	-2,573	-2,676	-2,842	-2,996	-3,259	-3,195
Acquisition of treasury stock	13	2	57	37	14	28	41	-9,906	109
Acquisition of shares in subsidiaries not affecting the scope of consolidation	-	-	-	-	-	-57	-21	-6,458	-
Other	-53	28	-68	-58	-159	-72	-350	-240	-160
Other	-3	26	99	172	-229	-6	80	-228	-98
Change in cash and cash equivalent	-3,137	497	2,351	3,447	3,997	11,530	7,718	4,715	17,719
Cash and cash equivalent (year-end)	9,179	9,676	12,028	15,476	19,473	31,004	38,722	43,437	61,151

Source: Shared Research based on company data
Note: The company restated prior-year results in June 2019.

Cash flows from operating activities

Cash flows from operating activities for the company are mainly from net income before tax, depreciation, goodwill amortization, and changes to working capital. Fluctuations are comparatively small as the company runs a large proportion of recurring revenue type businesses.

Cash flows from investing activities

Annual spending on acquiring tangible and intangible fixed assets is about JPY3.0bn, small compared to operating cash flow. Because the company is relatively aggressive in acquisitions, in some years there is a significant increase in share purchases. On the surface, cash flows from investing activities mainly vary with funds deposited at Aeon.

Cash flows from financing activities

The main element in the company's financing cash flows is dividend payments. There were significant outflows in FY02/19 including JPY9.9bn to buy back the company's shares and additional amounts to make consolidated subsidiaries fully owned.

Cash conversion cycle (days)	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20
Accounts receivable turnover	7.4	6.6	6.5	7.6	7.9	8.4	8.2	8.0	7.5
Days in accounts receivable	**49.4**	**55.7**	**56.3**	**48.2**	**46.0**	**43.5**	**44.4**	**45.7**	**48.9**
Inventory turnover	127.3	116.2	92.9	88.3	88.3	84.8	88.2	110.7	133.9
Days in inventory	**2.9**	**3.1**	**3.9**	**4.1**	**4.1**	**4.3**	**4.1**	**3.3**	**2.7**
Accounts payable turnover	8.3	9.1	9.6	9.9	9.1	9.6	10.1	10.3	10.9
Days in accounts payable	**44.1**	**40.3**	**37.9**	**36.9**	**40.1**	**38.1**	**36.1**	**35.3**	**33.4**
Cash conversion cycle (days)	**8.2**	**18.5**	**22.3**	**15.4**	**10.1**	**9.7**	**12.4**	**13.6**	**18.3**

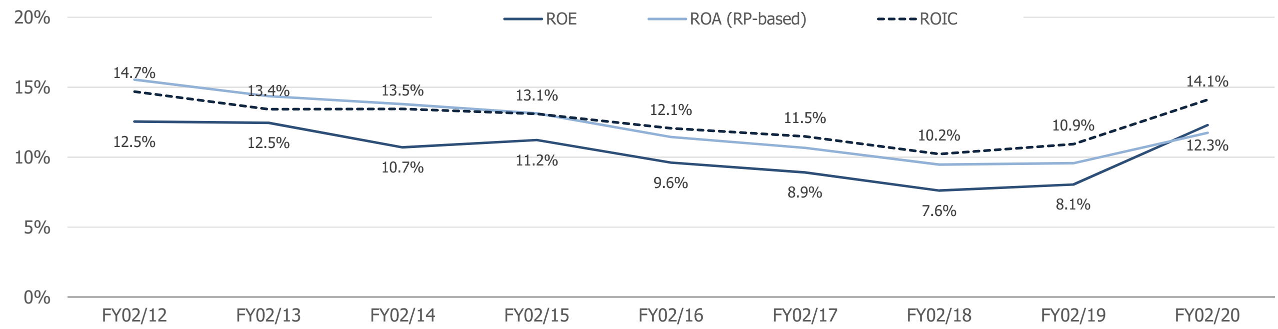
Source: Shared Research based on company data

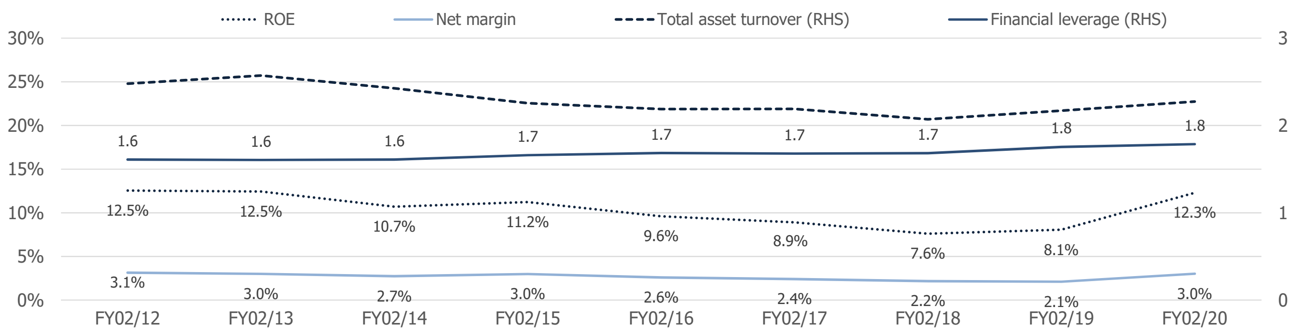
Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers.

ROE and dividends

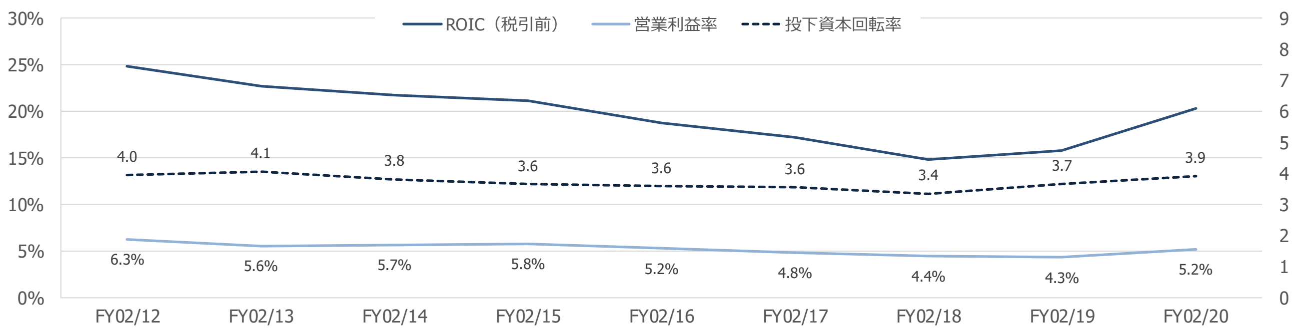
(JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/20 Cons.
ROE	**12.5%**	**12.5%**	**10.7%**	**11.2%**	**9.6%**	**8.9%**	**7.6%**	**12.3%**
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	3.0%
Total asset turnover	2.48	2.57	2.42	2.25	2.19	2.19	2.07	2.27
Financial leverage (equity multiplier)	1.61	1.61	1.61	1.66	1.68	1.68	1.68	1.79
ROA (RP-based)	**15.5%**	**14.4%**	**13.8%**	**13.1%**	**11.4%**	**10.7%**	**9.5%**	**11.7%**
ROIC	**14.7%**	**13.4%**	**13.5%**	**13.1%**	**12.1%**	**11.5%**	**10.2%**	**14.1%**
NOPAT	8,162	8,245	9,064	9,540	9,368	9,464	8,925	11,101
Interest-bearing debt＋Net assets	55,590	61,400	67,356	72,854	77,616	82,421	87,268	78,749
ROIC (before tax)	24.8%	22.6%	21.7%	21.1%	18.8%	17.2%	14.8%	20.3%
OPM	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	5.2%
Sales / Invested capital	3.95	4.05	3.81	3.65	3.58	3.55	3.35	3.92

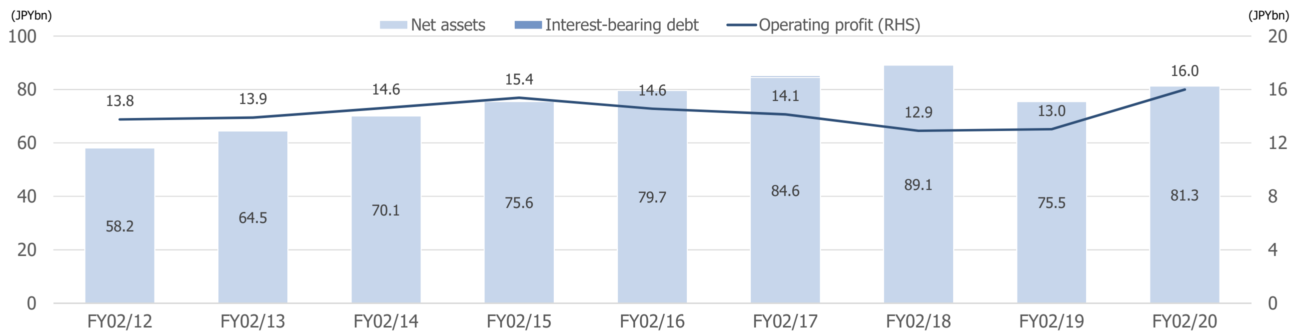
ROE





ROIC

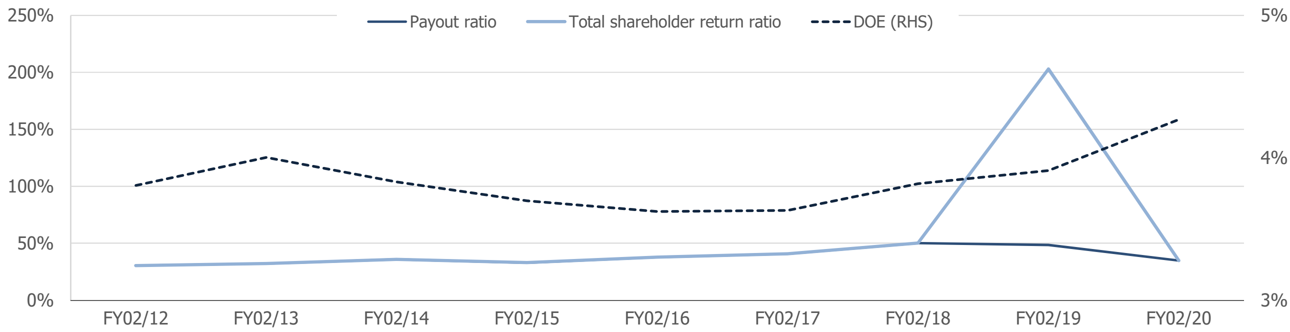




Source: Shared Research based on company data

Dividends

(JPYmn)		FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.
Total dividends	a)	2,097	2,413	2,519	2,625	2,731	2,890	3,207	3,114	3,246
Total treasury stock acquired	b)	6	1	1	1	-	-	1	9,906	-
Total returns to shareholders	c) = a) + b)	2,103	2,414	2,520	2,626	2,731	2,890	3,208	13,020	3,246
Net income attributable to parent company shareholders	d)	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348
Dividend payout ratio	a) / d)	30.3%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	48.5%	34.7%
Total shareholder return ratio	c) / d)	30.4%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	203.0%	34.7%
Net assets available to common shareholders		57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887
Average of beginning and end of year	f)	55,101	60,273	65,758	70,978	75,404	79,596	83,987	79,623	76,033
Before deducting assets available to holders of Class A preferred shares		57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887
EPS	(JPY)	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2
Dividend per share	(JPY)	40.0	46.0	48.0	50.0	52.0	55.0	61.0	63.0	65.0
Dividend on equity ratio	a) / f)	3.8%	4.0%	3.8%	3.7%	3.6%	3.6%	3.8%	3.9%	4.3%



Source: Shared Research based on company data

Shareholder returns

The company said that it pays dividends with a standard payout ratio of 30% based on its basic stance on capital policy. In FY02/19, it spent JPY9.9bn to buy back its own shares. It plans to adopt a dividend payout ratio of 35% in FY02/21.

Aeon Delight's stance on capital policy

1. The company will use proactive investments to achieve sustainable growth. It will work to boost shareholder value in the longer term and increase returns to shareholders as the company grows. Further, the company views return on equity (ROE) as an important benchmark of capital efficiency, and is currently aiming at a level of 12%.
2. The company will place importance on the balance in the distribution of annual profit between growth investments and shareholder returns and has a standard stable dividend payout ratio of 30%.

Other information

History

Date		Description
April	1973	Nichii Japan Development Co., Ltd. established in Higashi, Osaka
February	1976	Changed name to Japan Maintenance Co., Ltd., following absorption-type merger with Nichii Maintenance Co., Ltd.
September	2006	Following absorption-type merger with Aeon Techno Service Co., Ltd., Japan Maintenance changed name to Aeon Delight Co., Ltd.
November	2007	Wholly owned subsidiary Aeon Delight (Beijing) Co., Ltd. (now Aeon Delight (China) Co., Ltd.) established
October	2008	Acquires 40% of shares in Kankyouseibi Co., Ltd. (Utsunomiya, Tochigi) and made it affiliate
April	2009	Acquires 40% of shares in Do Service Co., Ltd. (Nishinari, Osaka) and made it affiliate
September	2010	Absorption-type merger with Certo Corp., supplier of vending services to business supply companies
April	2011	Acquires 90% of shares in Kajitaku Inc. (Chuo, Tokyo) and made it subsidiary
May		Acquired additional shares in A to Z Service Co., Ltd. (Shinjuku, Tokyo) and made it subsidiary
December		With 70% stake, established joint venture FMS Solution Co., Ltd. (Mihama, Chiba) with Vinculum Japan Corporation (now VINX Corp.)
March	2012	Established wholly owned subsidiary, Aeon Delight (Malaysia) Sdn. Bhd.
August		Aeon Delight (Beijing) Co., Ltd. (now Aeon Delight (China) Co., Ltd.) and Tianjin Teda Co., Ltd. established joint venture, Aeon Delight (Tianjin) Co., Ltd.
October		Acquired 53.7% of shares in General Services, Inc. (Chiyoda, Tokyo) and made it subsidiary
October		Acquired 54.9% of shares in Aeon Compass Co., Ltd. (Mihama, Chiba) via third-party allocation and made it subsidiary
December		Established A-Life Support Co., Ltd. (Chuo, Tokyo) a 85.8% owned joint venture with Familynet Japan Corporation
December		Acquired 51% of shares in Aeon Delight Sufang (Suzhou) Comprehensive Facility Management Service Co., Ltd. (now Aeon Delight (Jiangsu)) and made it subsidiary
January	2013	Established wholly owned subsidiary Aeon Delight (Vietnam) Co., Ltd.
July		Acquired 51% of shares in Wuhan Xiaozhu Comprehensive Facility Management Service Co., Ltd. and made it subsidiary
November		Established Kikugawa-Ishiyama Solar Co., Ltd. (Kikugawa, Shizuoka), a 37% owned joint venture with Recycle One Co., Ltd. (now Renova, Inc.) and one other partner; Kikugawa-Horinouchiya Solar Co., Ltd., a 37% owned joint venture with Recycle One and two other partners
December	2015	Acquired shares in Hakuseisha Co., Ltd. (Chiyoda, Tokyo) via tender offer and made it subsidiary
March	2016	Acquired remaining VINX Corp. stake in FMS Solution Co., Ltd. via tender offer and made it wholly owned subsidiary
December		Acquired remaining Familynet Japan Corporation stake in A-Life Support Co., Ltd. in September 2016, and conducted absorption-type merger
March	2017	Established wholly owned subsidiary Aeon Delight (Shanghai) Management Co., Ltd.
April		Wuhan Xiaozhu Comprehensive Facility Management Service Co., Ltd. established wholly owned subsidiary Wuhan Xiaozhu Hotel Management Service Co., Ltd.
June		Absorption-type mergers with FMS Solution Co., Ltd. and Aeon Delight Seres Co., Ltd.
April	2018	Established Aeon Delight DeepBlue Technology (Shanghai) Co., Ltd., a 65% owned joint venture with DeepBlue Technology Co., Ltd.
May		Acquired 100% of shares in U-COM Co., Ltd. (Minato, Tokyo) and made it subsidiary
November		Acquired additional shares in Aeon Delight (Jiangsu) Comprehensive Facility Management Service Co., Ltd. and Wuhan Xiaozhu Comprehensive Facility Management Service Co., Ltd., and made them wholly owned subsidiaries
December		Acquired 90% of shares in PT Sinar Jernih Sarana, and made it subsidiary

Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Aeon Co., Ltd.	14,350	28.7%
Aeon Retail Co., Ltd.	11,558	23.1%
Goldman Sachs & Co. Regular Account (Standing proxy: Goldman Sachs Securities Co., Ltd.)	2,264	4.5%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,575	3.2%
Japan Trustee Services Bank, Ltd. (Trust account)	1,356	2.7%
Aeon Delight Business Partners Stockholding Association	1,025	2.1%
ORIGIN TOSHU Co., Ltd.	854	1.7%
Northern Trust Company AVFC Re Fidelity Funds (Standing proxy: The Hongkong and Shanghai Banking Corporation, Limited, Tokyo Branch, Custody Department)	783	1.6%
State Street Bank and Trust Client Omnibus Account OM02 505002 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	631	1.3%
Aeon Delight Employees Shareholding Association	480	1.0%

Source: Shared Research based on company data
(As of end-August, 2019)

Aeon group companies own about 60% of the company.

Corporate governance

Organizational form and capital structure	Organization	Company with Audit & Supervisory Board	
	Controlling shareholders	None	
	Parent company ticker	Aeon Co., Ltd. 8267	
Directors	Number of directors (per Articles of Incorporation)	20	
	Directors' term of office (per Articles of Incorporation)	1	year
	Number of directors	6	
	Outside directors	3	
	Independent outside officers	3	
Audit & Supervisory Board	Existence of Audit & Supervisory Board	Y	
	Number of members of Audit & Supervisory Board (per Articles of Incorporation)	5	
	Number of members of Audit & Supervisory Board	4	
	Outside members	2	
	Independent outside officers	1	
General shareholders meeting	Participation to electronic voting platform	Y	
Voting platform	Preparation of convening notices in English	Y	Disclosed online
Investor relations	Corporate disclosure policy	Y	Disclosed online
	Regular briefings for individual investors	Y	
	Briefings by representative directors	Y	
	Regular briefings for analysts and institutional investors	Y	
	Online access to IR documents	Y	Disclosed online
	Dedicated IR section and/or staff	Y	
Other	Foreign shareholding ratio (as of July 2019)	Between 20% and 30%	
	Independent officers	4	
	Implementation of measures regarding director incentives	Stock option plan in place	
	Disclosure of individual director's compensation	None	
	Policy to determine amount and calculation method of remuneration	Y	
	Corporate takeover defenses	None	

Source: Shared Research based on company data

Top management

President and CEO: Kazumasa Hamada (born in 1964) joined Jusco Co., Ltd. (currently Aeon Co., Ltd.) in 1987. Appointed as head of management planning department, Posful Corp. (currently Aeon Hokkaido Corp.) in 2006 and executive officer in 2007; regional office manager of Hokuriku, Shinetsu Regional Company in February 2011 and executive officer in March that year. In 2013 he was appointed director and control & accounting officer of Aeon Co., Ltd. In 2015, he was named regional office manager of Kitakanto and Niigata Company of Aeon Retail Co., Ltd. and director and senior managing officer of Aeon Retail. In 2017 he became senior managing executive officer at Aeon Retail. In March 2018 he was dispatched to Aeon Delight Co., Ltd. as an advisor, before being appointed to his current position as president and CEO of Aeon Delight in May 2018. In December 2018 he was appointed representative commissioner at PT Sinar Jernih Sarana. In June 2019 he was appointed chief administrative officer, head of business administration division, and head of finance division of Aeon Delight.

Employees

Aeon Delight had 20,877 employees and an average of 7,181 temporary employees on a consolidated basis as of end-FY02/19. At the parent level, there were 4,050 employees and 2,634 temporary employees. The average age, average length of employment, and average annual salary on a parent basis were as follows:

- ▷ Average age: 46.0 years
- ▷ Average length of employment: 11.0 years
- ▷ Average annual salary: JPY4.6mn

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

Q3 FY02/20 results (out January 10, 2020)

Summary

- For the nine-month period through Q3 FY02/20, Aeon Delight reported consolidated sales of JPY232.6bn (+2.6% YoY), operating profit of JPY12.1bn (+35.8% YoY), and net income of JPY7.4bn (+89.3% YoY). Results were in line with the company's initial full-year forecast (announced on June 28, 2019); sales of JPY315.0bn and operating profit of JPY18.0bn. At subsidiary Kajitaku, which had previously engaged in improper accounting practices, estimates put sales at JPY3.7bn (+4.3% YoY) and operating losses at JPY940mn (versus loss of JPY3.8bn in cumulative Q3 FY02/19). Without Kajitaku, consolidated sales for the nine-month period were up 2.6% YoY and operating profit up 2.5% YoY. Results by segment were mixed, with the Security Services segment, Cleaning Services segment, and Vending Machine Services segment reporting higher earnings and the Materials and Supplies Sourcing Services segment, Facilities Management segment, and Construction Work segment reporting lower earnings. With results for the first nine months of FY02/20 leaving Aeon Delight with 73.9% of its full-year target for consolidated sales (versus 74.9% in cumulative Q3 FY02/19), 67.2% of its full-year target for operating profit (versus 68.4%), and 68.2% of its full-year for net income (versus 60.7%), the company made no changes to its initial forecast for the full year and continues to target consolidated sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY).
- The Facilities Management segment posted sales of JPY44.3bn (+4.0% YoY) and a segment profit of JPY4.0bn (-5.0% YoY). The top-line gains reflected the addition of new clients and the success of efforts to win orders for facilities maintenance and upgrades (such as the replacement of aging elevators and escalators) through proactive proposal marketing to facility owners in the name of improving the safety of facility users. The top-line gains notwithstanding, segment earnings for the nine-month period finished down as margins were squeezed by an even faster increase in purchasing costs. Also during the period, the company rolled out its self-developed integrated facilities management model, making its first installation of the new open systems-based model in the Aeon Fujiidera Shopping Center.
- The Security Services segment posted sales of JPY33.3bn (+0.1% YoY) and a segment profit of JPY2.2bn (+4.2% YoY). Even as tight labor market conditions continued to push up labor costs, the company managed to improve margins with the help of higher unit prices on contracts and ongoing efforts to automate systems to handle tasks such as facility entrance/exit management and store closings.
- The Cleaning Services segment posted sales of JPY46.5bn (+8.0% YoY) and a segment profit of JPY5.3bn (+5.8% YoY). The top-line gains reflected contributions from new customers and PT Sinar Jernih Sarana (SJS), the Indonesian cleaning services company acquired in December 2018. Also during the period, the company continued its roll out self-guided floor cleaning robots at the facilities it cleans and also continued selling the labor-saving robots to others.
- The Construction Work segment posted sales of JPY32.0bn (+3.4% YoY) and a segment profit of JPY2.8bn (-1.3% YoY). The top-line gains reflected the move to an operating structure capable of providing more localized services and a rising order flow in response to growing demand for renovation work in all regions. The drop in segment earnings was attributed to lagging efforts on the part of consolidated subsidiaries to address demand for construction work and lower margins on repair projects undertaken in the wake of the natural disasters that hit Japan in FY02/19.
- Materials and Supplies Sourcing Services segment posted sales of JPY38.6bn (-0.6% YoY) and a segment profit of JPY1.9bn (-8.9% YoY). Efforts to expand orders for Aeon's private brand packaging materials (*TOPVALU*) notwithstanding, overall sales at

the segment finished the nine-month period down. Segment earnings also finished short of year-ago levels, this despite cuts in logistics and other expenses as part of an overall effort to improve profitability.

- ▷ The Vending Machine Services segment posted sales of JPY23.8bn (-1.0% YoY) and a segment profit of JPY948mn (+24.1% YoY). After declining in Q1, segment sales and earnings have risen in both Q2 and Q3 as the company moved to install more of its own multi-brand vending machines (which offer products from a number of different brands) and continued reassessing locations and relocating vending machines as needed to areas conducive to higher sales. The jump in segment profit reflects a JPY232mn boost from changes in accounting assumptions for the useful life of vending machines following a comprehensive review of past records for replacement periods and physical longevity.
- ▷ The Support Services segment posted sales of JPY14.2bn (+1.2% YoY) and a segment profit of JPY441mn (versus loss of JPY2.3bn) in cumulative Q3 FY02/19. Outside of Kajitaku, the company worked to expand its offering of B2B outsourcing services to meet the needs of client companies in peripheral areas such as business travel management and operations management for meetings, incentive tours, conventions/conferences, exhibitions.
- ▷ Overseas subsidiaries reported combined sales of approximately JP13.9bn (versus JPY10.9bn during the same nine-month period the previous year) and operating profit of roughly JPY1.1bn (versus JPY700mn). In China, the company switched the focus of its facilities management business from the number of facilities under management to floor space under management, and set its sights, geographically speaking, on servicing the areas of China where Aeon group stores are located. In Indonesia, the company began providing its comprehensive facilities management service (includes both facilities management and security services) to the Aeon group's number one and number two mall in October 2019.
- ▷ With regard to Kajitaku, the company reported that it would be spinning off the housework support business of this wholly owned subsidiary but would continue to operate the business under a newly established entity. The company has suspended all new sales and installations of equipment in order to focus on improving fulfillment of existing contracts. Because the market for housework support services still holds promise, the company intends to continue pursuing business in this field; plans call for moving to the next growth stage by better focusing management resources and firmly establishing core competencies.

Results by segment

Facilities Management

Segment sales were JPY14.6bn (+1.3% YoY) and operating profit JPY1.3bn (-13.1% YoY). While sales remained on an uptrend due to new orders, operating profit fell YoY. The company said it has been able to curtail personnel expense growth by boosting productivity per employee in directly managed facilities, but it has been unable to make sufficient productivity gains in subcontracted facilities so that outsourcing (procurement) costs have increased, leading to lower profit.

Aeon Delight is working to improve productivity at facilities where it has outsourced management. Up until now, many of these have been dispersed over a wide area for some reasons in the past. The company is working toward geographic consolidation of outsourced facilities (such as bulk orders for those in the vicinity of specific Aeon malls) to improve productivity, effectively curtailing outsourcing costs. The company aims to reduce the number of money-losing facilities by negotiating to review contract prices for facilities management in areas where it is difficult to consolidate and boost productivity.

The company installed its open building automation system in an Aeon group mall for the first time at the Aeon Fujiidera Shopping Center which opened in September 2019. In the past, equipment and devices placed in facilities (such as lights, air conditioning units, electronic security devices, and elevators) were designed separately by various manufacturers and had to be controlled individually. This meant facilities had to have a central control room and emergency center managed by several on-site employees. The open systems architecture that Aeon Delight provides collects data directly from different manufacturers' equipment and devices and connects them via a network. Integrated control enables energy savings, efficient facilities management, and remote operations. The company's system also uses mobile devices to coordinate with security and cleaning services, enabling cross-business collaboration and boosting efficiency.

Advantages to the facilities management outsourcer (Aeon Delight customer) include the ability to constantly check on facilities remotely (using smartphone or other devices) and reduce energy consumption. Aeon Delight (managing facilities under contract) can reduce the number of on-site personnel, substituting partly with staff who can rotate around multiple locations within a region, and thereby cutting personnel expenses. The company thinks it can thus boost profit while offering competitive pricing and increase the number of contracts (boost market share) in the medium term. Aeon Delight wants to adopt open systems architecture in GMS renovation projects in FY02/21.

Aeon Delight will lose some existing contracts with the planned closure of some Aeon group stores in FY02/21. The company aims at steady profit growth by growing orders from outside the group to drive sales, as well as trimming its outsourcing costs.

Security Services

Segment sales were JPY11.1bn (-0.9% YoY) and operating profit JPY795mn (+11.0% YoY). The company said progress was largely as expected. Aeon Delight is reviewing its customer contracts against a backdrop of rising personnel expenses and the labor shortage. The company is boosting profitability through efficiency gains such as collaborating with SECOM's regional security services and effective use of automated security to reduce the number of personnel on-site at facilities under management (in general, reducing the number of personnel stationed leads to lower contract prices). Furthermore, albeit small in impact, the company won contracts for transport security services in Oita and Shizuoka for the 2019 Rugby World Cup in Japan, helping to improve margins in event security services.

Cleaning Services

Segment sales were JPY15.6bn (+7.9% YoY) and operating profit JPY1.8bn (+5.1 YoY). There was a net contribution from the company's Indonesian cleaning service company SJS (consolidated subsidiary since December 2018: expected annual contribution of about JPY3.0bn in sales and JPY100mn in operating profit). Also driving growth were new contracts outside the Aeon group for US military bases, residential property, and shared offices.

SJS won a cleaning contract for its second Aeon mall starting in October 2019. Combined with this, it also won contracts for facilities maintenance and security services, leveraging business expertise from Japan. At the time of its acquisition, SJS was a cleaning company, but is evolving into a comprehensive facilities management company. Going forward, it is likely to contribute to areas outside the Cleaning Services segment, although the contribution will be small.

Construction Work

Segment sales were JPY8.9bn (-3.9% YoY) and operating profit JPY669mn (-22.7% YoY). Natural disaster repair work boosted earnings in Q3 FY02/19, but there were few such orders in Q3 FY02/20, leading to the fall in sales and profits. However the company appears to have a large number of non-disaster related projects, so prospects are for earnings to remain solid in the short term.

In Aeon group related work, Aeon Mall is aggressively renovating its existing shopping centers so the company appears to have its eye on winning renovation orders for properties where it cannot participate during new construction. Outside the group, the company said that changing the organization to become closer to local communities has sped up management decision-making and it is winning an increasing number of regional orders. Although Q3 sales fell at A to Z Service, a company subsidiary since 2011, it said this was due to issues with the timing of customer orders and that project volume had not decreased. Despite falls in sales and profit in Q3, the segment has a high likelihood of growth in both going into FY02/21.

Materials and Supplies Sourcing Services

Segment sales were JPY12.6bn (-1.0% YoY) and operating profit JPY591mn (-7.8% YoY). The main factor in lower sales was moves by some major customers to procure some products in-house. The company is underpinning sales by expanding contract supplies of packaging materials for Aeon's private brand, TOPVALU, and growing procurement for the group's supermarkets. The company aims to underpin earnings by increasing the volume of environmentally friendly products it handles through joint development with outside organizations and streamlining distribution.

Vending Machine Services

Segment sales were JPY7.7bn (+0.9% YoY) and operating profit JPY243mn (+5.2% YoY). Lower depreciation, following a comprehensive review of service life taking into account historical replacement periods and physical life, boosted Q3 operating profit by JPY78mn. Aeon Delight aims to boost profitability per machine via three initiatives: 1) installing more of its own multibrand vending machines which feature a mix of brands from several companies; 2) reviewing vending machine locations; and 3) using digital signage in collaboration with beverage companies.

Support Services

Segment sales were JPY4.6bn (+5.1% YoY) and operating profit JPY187mn (JPY778mn loss in Q3 FY02/19). Lower losses from Kajitaku were the main driver of improved earnings. Shared Research estimates that operating profit was down slightly YoY excluding Kajitaku.

At Kajitaku the freeze on new machine orders in the storefront promotion business, the root cause of its problems, remains in place. Shared Research understands that the company is considering a number of options for the business within the scope of existing provisions, including divestment of the business.

Aeon Delight was unable to promote the household support services sufficiently in light of problems at the storefront promotion business, which temporarily stymied sales growth, but the company said that orders have been recovering recently. Aeon Delight had expected the household support services business to turn profitable in FY02/20, but this looks difficult, given that sales have fallen short of targets. The company hopes to move this business into the black in FY02/21 by mobilizing its in-house resources effectively (for example it will redeploy personnel from the cleaning business or use outsourcing to win cleaning contracts it previously missed out on due to lack of personnel).

1H FY02/20 results (out October 9, 2019)

Summary

- For 1H FY02/20, the company reported consolidated sales of JPY157.5bn (+3.2% YoY), operating profit of JPY8.6bn (+37.0% YoY), and net income of JPY5.2bn (+82.6% YoY). Sales and operating profit were in line with the company's initial forecast (made on June 28) for sales of JPY158.0bn and operating profit of JPY8.5bn. At subsidiary Kajitaku, which had previously engaged in improper accounting practices, estimates put 1H sales at JPY2.8bn (-0.4% YoY) and operating loss at JPY616mn (versus operating loss of JPY2.5bn in 1H FY02/19). Excluding Kajitaku, 1H sales were up 3.3% YoY and operating profit up 5.2% YoY. The Cleaning Services, Construction Work, Vending Machine Services, and Security Services segments all reported higher operating profits while the Materials and Supplies Sourcing Services segment and Facilities Management segment reported lower operating profits versus 1H FY02/19. Having made no changes to its initial full-year forecast for FY02/20, the company is still targeting full-year sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY).
- Facilities Management: 1H segment sales of JPY29.6bn were up 5.4% YoY; segment profit of JPY2.8bn was down 0.8% YoY. The top-line gains reflected successful customer development efforts in facilities management plus added sales from the expansion of ancillary contract work for client companies, including the installation of new automatic fire extinguisher systems for kitchens and ducts, periodic inspection of fire prevention systems and equipment, and emergency generator load-testing. The top-line gains notwithstanding, segment profit finished the period down slightly, due in part to R&D spending on the creation of a model integrated facilities management system using an open systems approach.

- Security Services: 1H segment sales of JPY22.2bn were up 0.5% YoY; segment profit of JPY1.4bn was up 0.6% YoY. Tight labor market conditions continued to push up wages, but the company was able to price security service contracts so as to absorb the labor cost increases.
- Cleaning Services: 1H segment sales of JPY30.9bn were up 8.0% YoY; segment profit of JPY3.5bn was up 6.2% YoY. Top-line growth reflected a combination of an increase in new customers and contributions from PT Sinar Jernih Sarana (SJS), the cleaning services business in Indonesia that became a consolidated subsidiary in December 2018. The Cleaning Services business also reported progress in rollout and sales of self-guided floor cleaning robots (designed to reduce labor costs).
- Construction Work: 1H segment sales of JPY23.1bn were up 6.6% YoY; segment profit of JPY2.2bn was up 7.8% YoY. The gains reflect the construction business' successful move to an operating structure capable of providing more localized services. Orders grew in response to demand for renovation work in all regions.
- Materials and Supplies Sourcing Services: 1H sales of JPY25.9bn were down 0.4% YoY; segment profit of JPY1.4bn was down 9.4% YoY. Overall sales at the segment finished down despite efforts to expand orders for packaging materials for TOPVALU, Aeon's private brand. Segment profit also finished down YoY despite cuts in logistics and other expenses as part of an overall effort to improve profitability.
- Vending Machine Services: 1H segment sales of JPY16.1bn were down 1.9% YoY; segment profit of JPY705mn was up 32.3% YoY. After declining in Q1, both segment sales and profit were up in Q2, bolstered by the installation of more of the company's own multibrand vending machines (which feature products from various brands) and the ongoing relocation of vending machines. The jump in segment profit reflects a JPY154mn boost from changes in accounting assumptions for the useful life of vending machines after a comprehensive review of past track records for replacement periods and physical life.
- Support Services: 1H segment sales of JPY9.6bn were down 0.6% YoY; the segment profit was JP254mn (versus a loss of JPY1.6bn in 1H FY02/19). Kajitaku sales were down due to the suspension of new equipment sales and installation in the storefront promotion business, but the operating loss at Kajitaku narrowed sharply. Outside of Kajitaku, the Support Services segment saw solid gains from its B2B outsourcing services business that provides operations and management services for client companies in peripheral areas such as business travel management (BTM) and MICE events (i.e., meetings, incentive tours, conventions/conferences, exhibitions).
- Overseas: Overseas subsidiaries reported combined 1H sales of some JPY9.1bn (versus around JPY7.1bn in 1H FY02/19) and operating profit of roughly JPY700mn (versus JPY400mn). The gains were driven by contributions from SJS, the cleaning services business in Indonesia that became a consolidated subsidiary in December 2018, and further expansion in China.
- 2H initiatives: Initiatives planned for 2H to help the company meet its full-year forecast include aggressive measures to improve profitability at its Facilities Management business and Cleaning Services business, and measures aimed at winning more orders at its Construction Work business. At Facilities Management, the company is looking to improve its cost ratio by speeding up its push to reduce costs with the help of operating efficiency gains and moves to labor-saving open systems. At Cleaning Services, all of branch offices will be carefully reviewing the profitable of their cleaning contracts on a building-by-building basis and weeding out low-margin contracts. At its Construction Work business, the company is looking to create more flexible construction project teams to better serve the needs of large markets in the Kanto and Kansai regions and prevent opportunity losses.

Results by segment

Facilities Management

Facilities Management: 1H segment sales of JPY29.6bn were up 5.4% YoY; segment profit of JPY2.8bn was down 0.8% YoY. The top-line gains reflected successful customer development efforts in facilities management plus added sales from the expansion of ancillary contract work for client companies (primarily for the Aeon group), including the installation of new automatic fire extinguisher systems for kitchens and ducts, periodic inspection of fire prevention systems and equipment, and emergency generator load-testing. The top-line gains notwithstanding, segment profit finished the period down slightly, due in part to R&D spending on the creation of a model integrated facilities management system using an open systems approach.

The company introduced its open systems approach to integrated facilities management at Aeon Fujiidera Shopping Center which opened in September 2019. According to Aeon Delight, it is the first shopping center in the Aeon group with integrated facilities management services using an open building automation system.

In the past, equipment and devices placed in facilities (such as lights, air conditioning units, electronic security devices, and elevators) were designed separately by various manufacturers and had to be controlled individually. This meant facilities had to have a central control room and emergency center managed by several on-site employees. The open systems architecture that Aeon Delight provides collects data directly from different manufacturers' equipment and devices and connects them via a network. Integrated control enables energy savings, efficient facilities management, and remote operations.

Advantages to the facilities management outsourcer (Aeon Delight customer) include the ability to constantly check on facilities remotely (using smartphone or other devices) and reduce energy consumption. Aeon Delight (managing facilities under contract) can reduce the number of on-site personnel, substituting partly with staff who can rotate around multiple locations within a region, and thereby cutting personnel expenses. The company thinks it can thus boost profit while offering competitive pricing and increase the number of contracts (boost market share) in the medium term.

Aeon Delight also said its small and medium-sized office buildings services offered in collaboration with SECOM (TSE1: 9735) are making gradual inroads. The model entails Aeon Delight offering services other than security (such as facilities and equipment management) to SECOM customers in Kanagawa Prefecture, where trials are underway. These involve providing services to 300 sites, primarily small and medium-sized office buildings.

Security Services

Security Services: 1H segment sales of JPY22.2bn were up 0.5% YoY; segment profit of JPY1.4bn was up 0.6% YoY. Personnel expenses remained in an uptrend as tight labor market conditions continued to push up wages, and the cost of nighttime labor increased amid workstyle reforms. However, the company was able to secure profit growth as it made headway with the optimization of prices per contract (passing through costs to customers).

The company's collaboration with SECOM is making progress in Security Services as well. The partners were able to automate nighttime security at Aeon Nishiarai, which Aeon Delight manages under contract. While the company already had in place electronic security equipment with cameras and sensors, it managed to eliminate personnel expenses for nighttime security by utilizing SECOM's business resources involved in security for the nearby district (including general residential areas). Such changes to security arrangements could lead to lower prices per contract for the company in some cases, but they increase gross profit and improve the GPM. Aeon Delight has already automated nighttime security at 23 shopping centers, and hopes to raise this count to 100 locations by end-FY02/20. Its aim is to develop a competitive security service amid ongoing growth in personnel expenses.

Cleaning Services

Cleaning Services: 1H segment sales of JPY30.9bn were up 8.0% YoY; segment profit of JPY3.5bn was up 6.2% YoY. Top-line growth reflected a combination of an increase in new customers and contributions from SJS, the cleaning services business in Indonesia that became a consolidated subsidiary in December 2018.

Shared Research understands that SJS contributed sales of about JPY1.5bn and operating profit of nearly JPY100mn in 1H. This is solid progress given that the company expected SJS to book sales of about JPY3.0bn and operating profit of about JPY100mn in full-year FY02/20. At the time of the acquisition (December 2018) SJS provided cleaning and ancillary services, but plans to expand into facilities management and security in the future using Aeon Delight's accumulated expertise in these areas. It will begin with services to the Aeon group facilities in Indonesia. Using these facilities as showrooms, it plans to rollout services to facilities owned by local businesses.

The Cleaning Services business also reported progress in rollout and sales of self-guided floor cleaning robots (designed to reduce labor costs). Aeon Delight started using and selling automatic floor cleaning robots (made by Tennant Company in the US) in November 2018 and had sold a total of 18 units in 1H FY02/20. The company aims at further growth, and plans to sell 50 units in 2H. It is making progress on automation projects to deal with the labor shortage in the cleaning business.

Aeon Delight is stepping up its moves to boost margins in the cleaning business. As some of its contracts had become low-margin amid mounting personnel expenses, all branch offices would carefully review individual contracts, and boost profitability by weeding out those with lower margins. It also plans to collaborate with Aeon group companies to win high value-added contracts by promoting high-margin cleaning services and products that require special technology (e.g. cleaning for escalator steps and food preparation areas).

Construction Work

Construction Work: 1H segment sales of JPY23.1bn were up 6.6% YoY; segment profit of JPY2.2bn was up 7.8% YoY. In Q2, sales declined YoY, but Aeon Delight said that there was no cause for concern as this reflected the deferment of some work to Q3 and beyond due to customer circumstances.

In fact, the gains reflect the construction business' successful move to an operating structure capable of providing more localized services following organizational restructuring in March 2019. Orders grew in response to demand for renovation work in all regions. The company said that construction demand remained strong due to major renovations and work accompanying the replacement of tenants in commercial facilities. In addition to offering services closely tied to the community, the company aims to take advantage of robust demand through close collaboration with companies in the Aeon Delight and Aeon groups.

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing Services: 1H sales of JPY25.9bn were down 0.4% YoY; segment profit of JPY1.4bn was down 9.4% YoY. Despite a sales boost from growth in orders for packaging materials for TOPVALU, Aeon's private brand, overall sales at the segment finished down as a key customer changed to in-house procurement for some products. Segment profit also finished down YoY despite cuts in logistics and other expenses as part of an overall effort to improve profitability. Aeon Delight plans to increase the number of eco-friendly materials which it hopes will help drive sales growth.

Vending Machine Services

Vending Machine Services: 1H segment sales of JPY16.1bn were down 1.9% YoY; segment profit of JPY705mn was up 32.3% YoY. After declining in Q1, both segment sales and profit were up in Q2, bolstered by the installation of more of the company's own multibrand vending machines (which feature products from various brands) and the ongoing relocation of vending machines.

From around Q2 FY02/19, Aeon Delight installed more of its own multibrand vending machines and reviewed vending machine locations as it was no longer possible to depend on beverage company rebates. Reducing lost opportunities by controlling out-of-stock situations also contributed to profit growth. The jump in segment profit reflects a JPY154mn boost from changes in accounting assumptions for the useful life of vending machines after a comprehensive review of past track records for replacement periods and physical life.

Support Services

Support Services: 1H segment sales of JPY9.6bn were down 0.6% YoY; the segment loss of JP254mn compares with a loss of JPY1.6bn in 1H FY02/19. Estimated results for Kajitaku were sales of JPY2.8bn (-0.4% YoY) and an operating loss of JPY616mn (operating loss of JPY2.5bn in 1H FY02/19). Kajitaku sales were down due to the suspension of new equipment sales and installation in the storefront promotion business, but the operating loss at Kajitaku narrowed sharply.

Excluding Kajitaku, Support Services segment sales were JPY6.9bn (-0.7% YoY) and segment profit was JPY869mn (-5.7% YoY). Outside of Kajitaku, the Support Services segment saw solid gains from growth in integrated facilities management services and its outsourcing services business that provides operations and management services for client companies in peripheral areas such as business travel management (BTM) and MICE events (i.e., meetings, incentive tours, conventions/conferences, exhibitions).

Aeon Delight has suspended new equipment sales and installation in the storefront promotion business that was the source of Kajitaku's problems. It is also working to improve existing contracts with particularly poor terms. The company expects the market for housework support services to grow, and will make upfront investments as needed, bearing in mind the need to be selective and focused.

Overseas

Overseas subsidiaries reported combined 1H sales of some JPY9.1bn (versus around JPY7.1bn in 1H FY02/19) and operating profit of roughly JPY700mn (versus JPY400mn). The gains were driven by contributions from SJS, the cleaning services business in Indonesia that became a consolidated subsidiary in December 2018, and further expansion in China.

Intention to deliver on medium-term plan

At its interim results briefing, the company reiterated its intention to strengthen its moves to meet the targets set out in its medium-term plan, Aeon Delight Vision 2025 (released in October 2018). There was some concern voiced about the effect of the Kajitaku incident on some of the other core businesses. However, the negative impact to date has been minor, and Aeon Delight is making progress on arrangements to prevent a recurrence. There is no change in strategic direction–namely to become a company that creates environmental value and contributes to solving social issues, with a three-pronged growth strategy in Asia around the themes of safety and security, the labor shortage, and the environment. The company maintained its FY02/26 targets of sales of JPY525.0bn and operating profit of JPY48.0bn.

Q1 FY02/20 results (out July 5, 2019)

Summary

- In Q1 FY02/20, sales were JPY79.0bn (+3.5% YoY), operating profit was JPY3.8bn (+0.4% YoY), and net income attributable to owners of parent was JPY2.1bn (+0.2% YoY). Kajitaku, the group subsidiary found to have engaged in improper accounting practices, reported sales of JPY1.5bn (-29.4% YoY) and an operating loss of JPY510mn (versus an operating loss of JPY662mn in Q1 FY02/19). Excluding Kajitaku, sales were JPY77.6bn (+4.4% YoY) and operating profit was JPY4.3bn (-3.1% YoY). The accounting treatment of provisions and reversals in Q1 had a different impact than normal years. Shared Research understands that underlying operating profit was on the order of JPY4.5–4.6bn (+1–3% YoY). (We expect these differences to normalize in 1H results.)
- Facilities Management: Sales were JPY14.9bn (+5.9% YoY) and segment profit was JPY1.4bn (-3.0% YoY). In addition to the increase in new customer development, the expansion of contract orders in related business, such as the rollout of automatic fire extinguisher systems for kitchens and ducts, the periodic inspection of fire protection equipment, and the execution of emergency generator load tests, contributed to the increase in sales. However, although sales rose, the large increase in expenses meant that profit declined.
- Security Services: Sales were JPY11.1bn (+0.6% YoY) and segment profit was JPY730mn (+1.1% YoY). With personnel expenses rising due to tight labor supply–demand balance, the company was successful in optimizing contract unit prices. The operating profit margin improved to 6.6% from 6.5% in Q1 FY02/19.
- Cleaning Services: Sales were JPY15.4bn (+8.1% YoY) and segment profit was JPY1.7bn (+2.4% YoY). Sales growth reflected an increase in new customers and results from SJS, the cleaning services business in Indonesia, which became a consolidated

subsidiary in December 2018. The company also made progress in introducing and selling automatic floor cleaning robots, which should lead to labor saving.

- Construction Work: Sales were JPY12.0bn (+14.4% YoY) and segment profit was JPY1.1bn (+10.6% YoY). The company implemented an improved planning and design system in FY02/19, resulting in a higher order efficiency. Strengthened relationships with partner companies through community-based systems also contributed to an increase in contract orders for renovation work. The company carried out a restructuring at the start of FY02/20 and established new construction departments in its Kanto and Kansai branches, developing a system that is closely aligned to demand for renovation work in each area. Expanding the number of orders received is a key focus of attention going forward.
- Materials and Supplies Sourcing Services: Sales were JPY13.0bn (+0.6% YoY) and segment profit was JPY712mn (-4.2% YoY). Efforts to expand contract orders for packaging materials for TOPVALU, Aeon's private brand, contributed to increased sales. On the other hand, although the company worked to improve profitability through initiatives such as reduced distribution expenses, overall expenses increased and segment profit declined.
- Vending Machine Services: Sales were JPY7.7bn (-5.0% YoY) and segment profit was JPY256m (-38.9% YoY). In order to generate profits from favorable locations (such as large commercial facilities with large sales per unit), the company is switching to installation of the machines that contain an assortment of products from different beverage makers. Therefore results are currently in a transition period. Profit was boosted by JPY77mn after a change in accounting policy, with an amendment in the useful life of vending machines implemented following a comprehensive review of replacement period and physical life.
- Support Services: Sales were JPY4.9bn (-10.3% YoY) and the segment loss was JPY124mn (versus a JPY274mn loss in Q1 FY02/19). Kajitaku sales fell sharply due to the suspension of new equipment sales and installation in the storefront promotion business. Sales in the Support Services business excluding Kajitaku increased 1.4% YoY, and segment profit decreased 0.3% YoY. The company is working to expand its provision of services to meet outsourcing needs for business travel, conference and exhibition management, as well as management of customer facilities and the surrounding environment.
- Overseas businesses: Based on a simple sum of local subsidiaries' results, sales were roughly JPY4.4bn (JPY3.4bn in Q1 FY02/19), and operating profit about JPY300mn (JPY200mn). In addition to growth in the Chinese business, the consolidation of SJS in Indonesia contributed to growth.

Results by segment

Facilities Management

Facilities Management sales were JPY14.9bn (+5.9% YoY) and segment profit was JPY1.4bn (-3.0% YoY). In addition to the increase in new customer development, the expansion of contract orders in related business, such as the rollout of automatic fire extinguisher systems for kitchens and ducts, the periodic inspection of fire protection equipment, and the execution of emergency generator load tests, contributed to the increase in sales. However, segment profit declined despite higher sales due to significant cost increases.

The company is developing what it calls the Aeon Delight Platform (AD Platform) with the aim of easing the labor shortage for its clients. Companies generally use central control rooms to manually monitor surveillance camera data and information on plumbing, heating, lighting, and air-conditioning for each individual building. Aeon Delight is building a platform to gather the data from individual items of equipment using IoT technology and enable remote monitoring. It hopes that in future artificial intelligence (AI) will enable it to have forewarning of equipment failures and prevent accidents. Currently, the company is incurring upfront platform development costs.

Security Services

Security Services sales were JPY11.1bn (+0.6% YoY) and segment profit was JPY730mn (+1.1% YoY). With personnel expenses rising due to tight labor supply–demand balance, the company was successful in optimizing contract unit prices. The operating profit margin improved to 6.6% from 6.5% in Q1 FY02/19. This solid result came despite an environment where it is hard to win new outsourcing contracts due to the difficulty of obtaining security personnel. In collaboration with SECOM (TSE1: 9735), the company is developing arrangements where it will be able to grow the business even when personnel are hard to come by and is focusing on automated nighttime security (entry/exit control, remote monitoring, and patrols).

Cleaning Services

Cleaning Services sales were JPY15.4bn (+8.1% YoY) and segment profit was JPY1.7bn (+2.4% YoY). Sales growth reflected an increase in new customers and results from PT Sinar Jernih Sarana (SJS), the cleaning services business in Indonesia, which became a consolidated subsidiary in December 2018.

Aeon Delight started using and selling automatic floor cleaning robots (made by Tennant Company in the US) in November 2018 and had sold a total of 18 units by end-Q1. It is making progress on automation projects to deal with the labor shortage in the cleaning business.

Construction Work

Construction Work sales were JPY12.0bn (+14.4% YoY) and segment profit was JPY1.1bn (+10.6% YoY). Aeon Delight implemented an improved planning and design system and proposals from the upstream end in FY02/19, resulting in a higher order efficiency. It also saw results from reshuffling its portfolio. The company said it also was experiencing increased orders for expansion and renovation from Aeon Mall (TSE1: 8905).

The company carried out a restructuring at the start of FY02/20 and established new construction departments in its Kanto and Kansai branches, developing a system that is closely aligned to demand for renovation work in each area. Expanding the number of orders received is a key focus of attention going forward.

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing Services sales were JPY13.0bn (+0.6% YoY) and segment profit was JPY712mn (-4.2% YoY). Efforts to expand contract orders for packaging materials for TOPVALU, Aeon's private brand, contributed to increased sales. In Q1, the company received increased orders for PET bottle labels made to TOPVALU specifications. On the other hand, although the company worked to improve profitability through initiatives such as reduced distribution expenses, overall expenses increased and segment profit declined.

Vending Machine Services

Vending Machine Services sales were JPY7.7bn (-5.0% YoY) and segment profit was JPY256m (-38.9% YoY). The company has embarked on structural reform in this business to wean itself from dependence on beverage companies' incentives. In order to generate profits from favorable locations (such as large commercial facilities with large sales per unit), the company is switching to installation of the machines that contain an assortment of products from different beverage makers, and machines with digital signage. Therefore results are currently in a transition period. Profit was boosted by JPY77mn after a change in accounting policy, with an amendment in the useful life of vending machines implemented following a comprehensive review of replacement period and physical life. (Because most of the machines are installed indoors, they have a longer service life than vending machines in general.)

Support Services

Support Services sales were JPY4.9bn (-10.3% YoY) and the segment loss was JPY124mn (versus a JPY274mn loss in Q1 FY02/19). Kajitaku sales fell sharply due to the suspension of new equipment sales and installation in the storefront promotion business. It appears that there was some impact from the conservative accounting treatment applied to the period covering the tenure of the previous management at Kajitaku after the investigation period by the special investigation committee (FY02/13–FY02/19). Kajitaku is apparently not covering fixed costs due to lower sales, but Aeon Delight expects some personnel to be absorbed by the parent level, where there is a personnel shortfall. Sales in the Support Services business excluding Kajitaku increased 1.4% YoY, and segment profit decreased 0.3% YoY. The company is working to expand its provision of services to meet outsourcing needs for business travel, conference and exhibition management, as well as management of customer facilities and the surrounding environment.

Full-year FY02/19 results (out June 28, 2019)

Summary

- On June 28, 2019, Aeon Delight announced earnings results for full-year FY02/19, the special investigation committee's investigation report regarding improper accounting at subsidiary Kajitaku Co., Ltd., and corrections to its historical financial statements.
- Kajitaku: The investigation report revealed that Kajitaku's improper accounting inflated company profits by JPY16.3bn on a cumulative basis between FY02/14 and FY02/19. The company also announced corrections to its historical financial statements. As of end-FY02/19, the company reported BPS of JPY1,466 (JPY1,853 in FY02/18 prior to corrections) and an equity ratio of 54.4% (66.4%). Aeon Delight dismissed involved parties and held management responsible through dismissals and compensation reductions. In response to the special investigation committee's recommendations, the company will work to strengthen the group's governance system and formulate effective measures to prevent reoccurrence.
- FY02/19 results: The company reported sales of JPY302.9bn (+3.6% YoY), operating profit of JPY13.0bn (+0.9% YoY), and net income of JPY6.4bn (+0.3% YoY). If excluding Kajitaku's performance, Aeon Delight booked approximately JPY17.0bn in operating profit (+6.1% YoY). Considering Kajitaku's operating profit forecast for FY02/19 was JPY1.2bn before the investigation, the company's performance net of Kajitaku was in line with the original operating profit forecast of JPY18.5bn. Aeon Delight repurchased 2.7mn shares for a total of JPY9.9bn through a tender offer between December 5, 2018 and January 8, 2019.
- FY02/20 forecast: The company expects sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), net income of JPY10.8bn (+68.4% YoY), EPS of JPY216.35, and dividend per share of JPY65 (dividend payout ratio of 30.0%). Aeon Delight expects Kajitaku-related one-time expenses to drop out, and Construction Work, Facilities Management, and Cleaning Services to drive business performance.

Improper Accounting at Kajitaku

Impact of improper accounting

Kajitaku was founded in August 2008 and became an Aeon Delight subsidiary when the company acquired 90% of issued shares in April 2011. As of March 1, 2019, Aeon Delight owned 97.8% of outstanding shares. Kajitaku's key businesses are storefront promotions (sales, installation, maintenance and management of coin-operated copy machines and photo booths inside supermarkets and drug stores) and household support services (housekeeping and laundry services for consumers). In FY02/18, prior to the investigation, the storefront promotions business generated sales of JPY7.0bn and operating profit of JPY1.2bn while the household support services business generated sales of JPY1.2bn and an operating loss of JPY84mn. The improper accounting occurred in the storefront promotions business.

Cumulative corrections for past five years (FY02/14–FY02/18) and FY02/19

No.	Item	Amount (JPY mn)	Summary
1	Billing correction for not-yet-installed devices	-2,281	Cumulative impact on net assets for the entire period under review
2	Correction of fictitious sales	-2,601	
3	Correction of photo booth purchases	-1,722	
4	Correction of used copy machine purchases	-1,298	
5	Correction of miscellaneous purchases	-248	
6	Devaluation of inventory	-1,296	Period under review: From March 2013 through end of February 2019)
7	Correction of receivables balance	-46	
8	Correction of temporary account	50	
9	Other corrections	-281	
	Cumulative impact of corrections made by special investigation (Subtotal)	**-9,721**	
10	Amount difference due to correctoins to revenue recognition	-3,780	
	Cumulative impact of corrections (FY02/14–FY02/19) (Subtotal)	**-13,502**	
11	Recorded loss provisions	-2,750	
	Cumulative impact (Grand total)	-16,252	

Source: Shared Research based on company data

The investigation uncovered and corrected improper accounting across various aspects of the business, including billing for not-yet-installed devices, fictitious sales, and inventory valuations. The improper accounting started small, recognizing sales early to meet financial targets. This gradually escalated to various aspects of the business in greater scale.

According to Aeon Delight's announcement on May 24, 2019, the special investigation committee estimated an impact on net assets of roughly JPY9.6bn, but the June 28, 2019 announcement revised this figure to JPY16.3bn. Upon closer examination of Kajitaku's contract details, part of Kajitaku's recognized sales should have been recorded as advances received. The company made corrections to its revenue recognition, in which it previously recorded prepayment for future maintenance services as sales upon completing the installation of devices. Additionally, Kajitaku had contracts that required loss provisions. Despite a low possibility of recording sufficient sales from its devices after installation, Kajitaku contractually guaranteed its customers a sales minimum in an attempt to drive unit sales. The sales would be supplemented by Kajitaku if the minimums were not met, resulting in a loss for the company. Aeon Delight recorded additional expenses for the losses that are likely to be incurred, expanding the impact on earnings.

Clarifying management responsibility

People involved in the improper accounting practice at Kajitaku were punished, including the dismissal of the former CEO and former director of the storefront promotions business. Similar measures were taken at Aeon Delight, including the dismissal of the board chairperson and the director in charge of overseeing Kajitaku. Additionally, the company announced compensation reductions for other directors.

Special investigation committee's recommendations and Aeon Delight's prevention plan

Upon completing its investigation, the special investigation committee made several recommendations in order to prevent reoccurrence. The recommendations include a change of mindset of officers, curbing excessive emphasis on budget control when managing subsidiaries, and developing compliance system for subsidiaries.

Recommendations made by Special Investigation Committee	
1. Recommendation for improvements on subsidiary management	
1	Change of mindset of officers
2	Curb excessive emphasis on budget control when managing subsidiaries
3	Clarification of department and director responsible for compliance management system of subsidiaries
4	Expansion of compliance, subsidiary management, and management audit departments
5	Dispatch full-time officer and staff to subsidiaries
2. Recommendations for reoccurrence prevention for Kajitaku	
1	Renewal of Kajitaku management team, increase number of directors
2	Improve corporate culture and compliance awareness
3	Reinforcement of Administration Division, especially Accounting Department
4	Develop compliance system and conduct organizational reform at Kajitaku
5	Clarify operating procedures and enforce compliance

Basic policy for reoccurrence prevention	
1. Reoccurrence prevention plan for Aeon Delight	
1	Promote further improvement in compliance system through changing mindset of officers
2	Revise subsidiary management system for solid and sustained growth of group companies
3	Develop compliance system for group companies
4	Reform organizations to provide to group companies support for solid management, appropriate monitoring, and audits with fraud prevention in mind
5	Dispatch full-time officers and staff for daily involvement in operations, detect fraud early through personnel exchanges, improve organizational culture
2. Reoccurrence prevention plan for Kajitaku	
1	Renewal of Kajitaku management team, emphasis on compliance by new CEO
2	Improve corporate culture and compliance awareness
3	Ensure reliability and visualize operations of finance, accounting, and budgeting duties
4	Develop compliance system, enforce compliance and monitoring of company rules
5	Clarify operating procedures and enforce compliance

Source: Shared Research based on company data

Aeon Delight established basic management policies to change the executive team’s mindset for further improvement of compliance, revisit subsidiary management strategies to drive stable and sustainable group company growth, and develop a compliance system across the group in order to prevent reoccurrence. Going forward, the company intends to develop a detailed action plan.

When questioned about the risk of reoccurrence at the results briefing, the special investigation committee made several comments such as “if the company adopts reoccurrence prevention measures in line with our recommendations, the risk of reoccurrence will be low” and “we also conducted simple investigations at subsidiaries other than Kajitaku and found no fraud.” Based on the investigation report and discussions during the results briefing, Shared Research believes the risk of additional losses and reoccurrence of fraud is low.

Meanwhile, Kajitaku will stop accepting new orders for its office equipment business (coin-operated copy machines and photo booths) for the time being. As a result, the company expects sales to decline and not cover fixed costs. For FY02/20, Aeon Delight anticipates the storefront promotions business to record an operating loss of JPY500mn and the household support services business to break even.

FY02/19 results (comparison with revised FY02/18 results)

In FY02/19, Aeon Delight reported sales of JPY302.9bn (+3.6% YoY), operating profit of JPY13.0bn (+0.9% YoY), and net income of JPY6.4bn (+0.3% YoY). The Support Services segment, which includes Kajitaku, reported an operating loss of JPY2.3bn in FY02/19 compared to JPY1.5bn in FY02/18, deteriorating by JPY804mn YoY. Excluding the impact of the Support Services business, operating profit was up JPY925mn YoY.

Business performance was driven by the Facilities Management, Construction Work, and Cleaning Services businesses. The Facilities Management business generated JPY5.6bn in operating profit, up JPY914mn from FY02/18. The primary drivers were increased orders of routine fire protection equipment inspections and emergency power generator load tests from customers looking to strengthen disaster prevention systems. The Construction Work business delivered JPY4.0bn in operating profit, up JPY684mn from FY02/18, as the company started providing value-added services such as design proposals for commercial facility renovation projects from the planning stage. Cleaning Services operating profit came in at JPY6.7bn, up JPY466mn from FY02/18, with improved productivity and service quality as a result of rolling out small group activities and developing facility-specific standard operating procedure manuals. Additionally, the company started introducing and selling automatic floor cleaning robots.

Meanwhile, the Vending Machine Services business posted weaker performance, with operating profit at JPY1.2bn, down JPY941mn from FY02/18. This was largely due to the abnormal frequency of heavy rain and typhoons during the FY02/19 summer season, resulting in inventory shortages in some regions. Rising personnel expenses for inventory restocking also pressured margins.

News & topics

November 2019

On **November 29, 2019,** the company announced an incorporation-type company split of a subsidiary company.

The company announced a spin-off of the household support services business of wholly owned subsidiary Kajitaku through an incorporation-type company split. The newly formed company will be a wholly owned subsidiary of Aeon Delight Co., Ltd. The company made Kajitaku (operates the storefront promotion and household support services business) a subsidiary in 2011 with aims to capture synergies in small store and condo management business areas. In 2019, however, accounting fraud issues emerged in Kajitaku’s storefront promotion business. Based on the recommendations of a special investigation committee made up of external experts with no conflicts of interest with the company and Kajitaku, the company adopted an action plan to prevent a recurrence of the incident and is working to restructure Kajitaku. After discussions on the future direction of Kajitaku, the company decided to continue the household support services business, where market expansion is expected. Meanwhile, the company suspended new equipment sales and installation for the storefront promotion business and decided to focus on fulfilling existing contracts. In order to carry out the decisions, the company decided to transfer the household support services business to the newly formed company and keep the storefront promotion business in Kajitaku. The company split is planned to take effect on February 4, 2020 and the expected impact on consolidated results is minimal.

September 2019

On **September 30, 2019,** the company announced the establishment of a Recurrence Prevention Committee.

On July 22, 2019 Aeon Delight adopted an action plan to prevent a recurrence of the Kajitaku incident. The plan is based on the findings and recommendations of a special investigation committee made up of external experts with no conflicts of interest with the company. Under the action plan, Aeon Delight executed a structural reorganization to strengthen its governance arrangements and is taking company-wide measures to prevent a recurrence. It planned to establish a Recurrence Prevention Committee effective October 1, 2019. Including external experts, the committee will act as an advisory body with the aim of implementing upgraded countermeasures and offering objective assessments. In principle, the committee will evaluate the progress of activities to prevent recurrence on a quarterly basis, and report to the board of directors via the secretariat. Aeon Delight believes that strengthening its governance arrangements and wide-scale implementation of measures to prevent recurrence will give it a more robust management structure. It is working to regain the trust of its stakeholders by accelerating its growth strategy as the Aeon Delight group.

May 2019

On **May 31, 2019,** the company announced that its request for extending the submission deadline of its annual securities report was approved and the new deadline was set for July 1, 2019.

The company had announced on May 29, 2019 its decision to apply to the Kinki Local Finance Bureau for an extension to the submission deadline of its annual securities report. The approval received from the bureau at this time extended this deadline to July 1, 2019 (originally May 31, 2019).

The special investigation committee, established to investigate the improper accounting practice at Aeon Delight's consolidated subsidiary Kajitaku, is scheduled to issue a final report at the end of June 2019. The company explained that it planned to prepare its annual securities report based on the results of the final investigation and submit it to the authorities by July 1, 2019 upon completing the audit procedures.

On **May 24, 2019,** the company announced the receipt of interim report from the special investigation committee on improper accounting at consolidated subsidiary Kajitaku.

The company received a report from the special investigation committee regarding inappropriate accounting at consolidated subsidiary Kajitaku Co., Ltd. According to the special committee report, the accounting problem was found to have an effect of -JPY9.6bn in total (including modification of claims for uninstalled properties, adjustment for fictitious sales, and adjustment to purchase of certification photo machines) on net assets of the consolidated financial statements for the period under review (March 2013–February 2019). Net assets at Aeon Delight's latest result announcement (end-Q3 FY02/19) was JPY99.3bn; by simple calculation, 9.7% of the net assets was affected by inappropriate accounting.

On **May 10, 2019**, the company announced that the agenda of its annual general meeting of shareholders will not be the same as usual, and that it had set a base date (for voting rights determination) for the convocation of an extraordinary general meeting of shareholders.

On April 5, 2019, the company announced that the release of its full-year FY02/19 results would be delayed due to the possibility that a consolidated subsidiary may have engaged in improper accounting. An investigation is underway by the company and committee of independent experts with whom it has no conflict of interest. For this reason, the company will not be able to complete all procedures for announcing its earnings results by May 30, 2019, the scheduled date of its annual general meeting of shareholders. The company will therefore take the following steps:

1) Change part of its articles of incorporation at the annual general meeting of shareholders
2) Secure stable dividends by passing a resolution at the annual general meeting of shareholders to pay a year-end dividend of JPY32 per share (up JPY1 per share from the previous year)
3) Not report FY02/19 earnings results at the annual general meeting of shareholders
4) Set May 31 as the base date of voting rights determination at an extraordinary general meeting of shareholders to be held within three months of that date.

Shared Research understands that the company plans to announce FY02/19 earnings results by the end of August 2019.

Company profile

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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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