

A large blue circular logo containing a white letter "R". The logo is connected to six small blue dots by thin lines, forming a star-like pattern. A horizontal blue line extends from the right side of the "R" logo across the page.

SR Research Report
2014/1/10

Aeon Delight Co., Ltd. (9787)

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Income Statement (Million Yen)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Est.
Total Sales	145,690	140,299	170,905	219,797	248,876	260,000
YoY	5.9%	-3.7%	21.8%	28.6%	13.2%	4.5%
Gross Profit	20,955	21,118	23,989	28,631	30,227	
YoY	11.3%	0.8%	13.6%	19.4%	5.6%	
GPM	14.4%	15.1%	14.0%	13.0%	12.1%	
Operating Profit	9,946	9,970	12,031	13,762	13,901	15,500
YoY	19.4%	0.2%	20.7%	14.4%	1.0%	11.5%
OPM	6.8%	7.1%	7.0%	6.3%	5.6%	6.0%
Recurring Profit	9,812	9,912	12,089	13,784	13,892	15,500
YoY	19.9%	1.0%	22.0%	14.0%	0.8%	11.6%
RPM	6.7%	7.1%	7.1%	6.3%	5.6%	6.0%
Net Income	4,876	5,466	6,495	6,912	7,509	8,300
YoY	11.3%	12.1%	18.8%	6.4%	8.6%	10.5%
Net Margin	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%
Per Share Data						
Number of Shares	41,400	41,400	54,170	54,170	54,170	
EPS	122.9	137.8	142.6	131.8	143.2	158.2
EPS (Fully Diluted)	122.8	137.6	142.3	131.5	142.7	
Dividend Per Share	22.0	27.0	39.0	40.0	46.0	48.0
Book Value Per Share	669.3	787.8	1,005.6	1,095.6	1,202.4	
Balance Sheet (Million Yen)						
Cash and Equivalents	6,991	7,964	13,098	9,707	10,014	
Total Current Assets	30,150	30,026	64,524	72,486	79,323	
Tangible Fixed Assets, net	2,602	2,741	3,756	3,773	3,796	
Other Fixed Assets	3,658	3,977	4,766	4,276	5,257	
Intangible Assets	12,623	11,924	11,577	12,272	12,321	
Total Assets	49,035	48,670	84,624	92,809	100,699	
Accounts Payable	10,551	8,974	22,424	23,720	24,544	
Short-Term Debt	1,688	80	49	41	10	
Total Current Liabilities	20,131	16,281	30,724	33,643	34,955	
Long-Term Debt	56	31	6	15	5	
Total Fixed Liabilities	824	1,024	1,012	983	1,195	
Total Liabilities	20,956	17,306	31,737	34,626	36,151	
Net Assets	28,079	31,364	52,887	58,182	64,547	
Interest-Bearing Debt	1,744	111	55	56	15	
Cash Flow Statement (Million Yen)						
Operating Cash Flow	6,668	7,031	6,808	9,639	-4,358	
Investment Cash Flow	-2,087	-1,966	-3,000	-10,051	7,086	
Financing Cash Flow	-5,255	-4,169	-1,321	-2,722	-2,257	
Financial Ratios						
ROA	10.1%	11.2%	9.7%	7.8%	7.8%	
ROE	19.9%	18.9%	15.5%	12.5%	12.5%	
Equity Ratio	54.1%	64.2%	62.3%	61.9%	62.6%	

Source: Company data, SR Inc. Research

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



Recent Updates

Highlights

On **January 9, 2014**, SR updated comments on Aeon Delight's Q3 FY02/14 results after interviewing management; see the results section for details.

On **January 8, 2013**, the company announced Q3 FY02/14 results.

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

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

Trends & Outlook

Quarterly Trends and Results

Quarterly Performance (million yen)	FY02/13				FY02/14				FY02/14	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	58,584	68,187	65,620	56,485	66,711	66,841	61,256		74.9%	260,000
YoY	10.6%	19.7%	19.0%	3.2%	13.9%	-2.0%	-6.7%			
GP	6,984	7,998	7,790	7,455	8,173	8,808	7,984			
YoY	3.0%	3.5%	10.5%	5.3%	17.0%	10.1%	2.5%			
GPM	11.9%	11.7%	11.9%	13.2%	12.3%	13.2%	13.0%			
SG&A	3,890	3,979	4,500	3,957	4,782	4,624	4,589			
YoY	5.4%	2.1%	16.8%	15.5%	22.9%	16.2%	2.0%			
SG&A / Sales	6.6%	5.8%	6.9%	7.0%	7.2%	6.9%	7.5%			
OP	3,093	4,020	3,289	3,499	3,390	4,185	3,395		70.8%	15,500
YoY	0.2%	5.0%	2.9%	-4.1%	9.6%	4.1%	3.2%			
OPM	5.3%	5.9%	5.0%	6.2%	5.1%	6.3%	5.5%			
RP	3,102	4,022	3,288	3,480	3,403	4,168	3,411		70.9%	15,500
YoY	-1.2%	4.9%	2.4%	-3.3%	9.7%	3.6%	3.7%			
RPM	5.3%	5.9%	5.0%	6.2%	5.1%	6.2%	5.6%			
NI	1,786	2,158	1,561	2,004	1,858	2,289	1,657		69.9%	8,300
YoY	4.8%	7.3%	-1.0%	23.7%	4.0%	6.1%	6.1%			
NPM	3.0%	3.2%	2.4%	3.5%	2.8%	3.4%	2.7%			

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



Quarterly Sales (Million Yen)	FY02/14			
	1Q	2Q	3Q	4Q
Facilities Management	10,622	10,848	11,198	
YoY	2.4%	0.9%	5.2%	
Security Services	8,438	8,367	8,481	
YoY	6.8%	5.8%	6.5%	
Cleaning Services	10,539	10,485	10,642	
YoY	4.1%	4.0%	4.3%	
Construction Work	15,888	13,929	8,254	
YoY	43.4%	-26.2%	-47.7%	
Materials/Supplies Sourcing	10,721	11,023	11,542	
YoY	12.6%	12.8%	14.8%	
Vending Machine Services	7,498	8,716	7,479	
YoY	-0.1%	1.7%	0.8%	
Support Services	2,964	3,433	3,604	
YoY	43.1%	54.8%	2.7%	

Source: Company data, SR Inc. Research

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

Q3 FY02/14 Results (announced on January 8, 2014; please refer to the preceding table)

Cumulative Q3 FY02/14 sales were 194.8 billion yen (+1.3% YoY), operating profit 11 billion yen (+5.5% YoY), recurring profit 11 billion yen (+5.5% YoY) and net income 5.8 billion yen (+5.4% YoY). Gross profit margin improved 1 percentage point over the previous year to 12.8%. The company is gradually seeing the impact of its cost-cutting efforts, such as lowering costs in directly managed properties and reworking ties with partner companies.

An overview of each segment is as follows:

Sales in the Facilities Management segment were 32.7 billion yen (+2.8% YoY). The gross profit margin was 15% (14.4% in Q3 FY02/13). The company secured new contracts with the Aeon group and hotels during Q3 (September to November). The company also added impetus to uptake of its Building Energy Management System (BEMS) by developing functions for controlling existing air-conditioning machines and fridge-freezer facilities. The company also continued constructing a proprietary service for supporting energy management, which records data on how much energy clients are using in different industries and seasons.

Sales in the Securities Services segment were 25.3 billion yen (+6.4% YoY). The gross profit margin was 13.1% (13.2% in Q3 FY02/13). In addition to new securities services contracts, the company added "attender" services (i.e., attendant staff functioning as an information and security provider) to 12 stores. The company says future uptake of these "attender" services appears promising, in light of the favorable feedback they received. The company also undertook a number of security contracts for major events, such as J-League soccer matches (J-League is Japan's national soccer league).

Sales in the Cleaning Services segment were 31.7 billion yen (+4.1% YoY). The gross profit margin was 18.5% (18.8% in Q3 FY02/13). We note that 206 stores began using the company's original coating agent, which replaces floor wax, after the company promoted its uptake. Also, in September 2013, the company installed 14 of its "recirculating, water-saving urinals" in Aeon Shinagawa Seaside Shopping Center (Tokyo). The company is making steady advances in its preparations for mass production of this product, paving the way for full-scale sales drives, but it is a little behind its plan. The company had planned for 1,500 installations this year, but that now looks likely to run into next year. On the other hand, results for this year will receive a small boost as the front-loaded expenses associated with installations will also be delayed.



Sales in the Construction Work segment were 38.1 billion yen (-16.8% YoY). The gross profit margin was 8.6% (7.4% in Q3 FY02/13). This sector saw a fall in earnings on the previous year as LED construction work, which had been concentrated in the previous year, lost momentum. However, the company received a healthy supply of orders for maintenance and upkeep construction work, mainly from within the Aeon group. The improvement in the gross profit margin is because LED-related work comprised a smaller share of total sales. The company will begin selling solar power from FY02/15, but states that its aim is to improve performance in upkeep and maintenance work.

Sales in the Materials and Supplies Sourcing segment were 33.3 billion yen (+13.4% YoY). The gross profit margin was 7.8% (7.1% in Q3 FY02/13). The company started providing hygiene and packaging materials to newly added customers, including Aeon Market Co., Ltd., whose stores became part of the Aeon group last year. Furthermore, as a result of concentrated demand for trays and packaging materials for fresh foods and delicatessen items, sales jumped 45.2% YoY to 6.4 billion yen.

Sales in the Vending Machine Services segment were 23.7 billion yen (+0.8% YoY). The gross profit margin was 9.5% (unchanged from Q3 FY02/13). The company continued to develop low-cost vending machines, and machines capable of accepting electronic money. Furthermore, the company's management of soft-drink vending managements saw a net increase of 2,000 units, due to the installation of new units in Sanyo Marunaka shops and new Aeon Malls.

Sales in the Support Services segment were 10 billion yen (+28.2% YoY), a significant increase over the previous year. The gross profit margin was 26.3% (20.5% in Q3 FY02/13). Demographic changes (i.e., growing elderly population) and diversified lifestyle in urban areas contributed to a significant increase in housekeeping services, which recorded a sales increase of 76.6% YoY, and contributed to the improvement of segment sales and profitability. The significant increase in the gross profit margin was due to the fact that commission fees at Aeon Compass Co., Ltd. were included in the calculation of this margin (these fees are not included in the sales figure for this segment; Aeon Compass Co., Ltd. offers third-party services for business trips and conferences).

The company's business in China and the ASEAN region expanded at a healthy rate, to 134 projects in China, 39 projects in Malaysia, and 21 projects in Vietnam. Profits in China seem assured.

The company has maintained its full-year forecasts. The company will need a 15% increase in sales in Q4, and a 30% increase in operating profit to meet those targets. However, the company believes it can achieve them, given that there will be new stores opening in the Aeon group in Q4 (no new stores opened in Q4 FY02/13), and that it will be providing comprehensive facilities management services (FMS) to a flagship Aeon store (AEON Mall Makuhari Shintoshin, which opened in December 2013 in Chiba City).

The company plans to release its new medium-term plan (for FY02/15 through FY02/17) in April 2014. It appears that this plan will focus on the growth of the cleaning services segment and the energy management business. SR believes it will be a reasonable plan, calling for average annual growth of around 5% in sales and 10% in operating profit, in the manner of previous plans.

1H (Q2) FY02/14 Results (announced on October 2, 2013; please refer to the preceding table)

The company maintained its full-year forecasts.



Sales in 1H FY02/14 were 133.5 billion yen (+5.3% YoY), operating profit 7.6 billion yen (+6.5% YoY), recurring profit 7.6 billion yen (+6.3% YoY) and net income of 4.1 billion yen (+5.1% YoY). Gross profit margin improved 0.9 percentage points over the previous year to 12.7%.

An overview of each segment is as follows:

Sales in the Facilities Management segment were 21.5 billion yen (+1.6% YoY), and the segment gross profit margin was 15.5% (14.7% in 1H FY02/13). Sales growth was mainly attributable to new contracts from the Aeon group to manage large-scale facilities from March 2013, coupled with favorable demand from outside the Aeon group such as servicing a large sports stadium, government and public office facilities. In addition, facilities management of newly added resort hotel and prefectural hospital during the previous term contributed to the increase in segment sales.

Sales in the Securities Services segment were 16.9 billion yen (+6.3% YoY), and the segment gross profit margin was 12.8% (13.1% in 1H FY02/13). In addition to new securities services contracts, the company added "attender" services (i.e., attendant staff functioning as an information and security provider) to nine new stores. As of the end of the period, the company was offering attender services at 11 stores. Aeon Delight plans to provide attender services at 15 stores by the end of FY02/14. The company added that it won many contracts for security services at large events (e.g., J-League soccer games).

Sales in the Cleaning Services segment were 21.0 billion yen (+4.0% YoY), and the segment gross profit margin was 18.4% (18.9% in 1H FY02/13). Supported by the company's promotion of its original coating agent, which replaces floor wax, and added 174 new stores using this new product. In addition, the company continued to prepare for mass producing its "recirculating, water-saving urinals" that it developed last year, although the preparations were slightly behind schedule.

Sales in the Construction Work segment were 29.8 billion yen, 0.5% lower YoY largely due to exceptionally strong LED-related sales (16.0 billion yen) a year earlier. The company said that the sales were better than its estimate. The segment gross profit margin was 8.2% (7.9% in 1H FY02/13). LED-related sales and installation work reached 12.0 billion yen, due to stronger than initially expected energy-savings related investments and measures to reduce electricity costs by each of its customers. According to Aeon Delight, the bulk of LED-related sales were made to the Aeon group. Although the company's initial plan for full-year LED-related sales to the Aeon group was 10.0 billion yen, the company appeared to be experiencing LED-related sales per store climbing higher than initially expected.

Sales in the Materials and Supplies Sourcing segment were 21.7 billion yen (+12.7% YoY), and the segment gross profit margin was 8.0% (6.8% in 1H FY02/13). The company started providing hygiene and packaging materials to newly added customers, including Aeon Market Co., Ltd., whose stores became part of the Aeon group last year. Furthermore, as a result of concentrated demand for trays and packaging materials for fresh foods and delicatessen items, sales jumped 61.2% YoY to 4.2 billion yen.

Sales in the Vending Machine Services segment were 16.2 billion yen (+0.8% YoY), and the segment gross profit margin was 10.2% (9.9% in 1H FY02/13). The number of soft drink vending machines under the company's management increased 1,400 units. This significant increase was due to installations of new machines (e.g., electric money-capable, lower-price) and to new installations at stores run by new group companies since last year (e.g., Marunaka Co., Ltd., Daiei, Inc.). In 1H, Aeon Delight installed about 200 units at Daiei stores, adding that it would install roughly 2,000 units in 2H.

Sales in the Support Services segment were 6.4 billion yen (+49.1% YoY), and the segment gross profit margin was 26.3% (16.3% in 1H FY02/13). Demographic changes (i.e., growing elderly population) and diversified lifestyle in urban areas contributed to a significant increase in housekeeping services, which recorded a sales increase of 68.2% YoY, and contributed to the improvement of segment sales and



profitability.

October 3, 2013 1H Results Meeting Summary

Initiatives in 1H FY02/14

Restructuring Efforts

1. Cost Reductions

- Cleaning Services: Profitability improved on lower costs at directly managed properties and lower commissions paid to partner companies
 - Directly managed properties: Optimized work scheduling and process standardization
 - Partner companies: Lowered commissions
- Materials and Supplies: Profitability improved on standardized materials and supplies used at group companies, streamlined logistics network, and better ordering processes

2. New Product/Service Development

- Aeon Delight Coat
 - Plans to use this new floor coating agent at 500 properties (mainly of the Aeon group) and have related sales of 250 million yen
- Aeon Delight Hard Coat (Upgraded Coating Agent)
 - This coating agent eliminates "puffing" work on floors. Due to this feature, the company has begun talks with new potential customers (e.g., specialty stores).

Attender Services

The Securities Services segment's new service line combining securities and information services

- Launched at nine stores during 1H, winning high evaluations
- Launched also at MaxValu Tsingtao at the Wangban Center Building in China, gaining high evaluations and many enquiries

Lifestyle Support Services

- Popular housekeeping service options were packaged and sold at 3,000 locations nationwide (e.g., large home appliance stores, Aeon group stores) with 1H sales surging 68% YoY.

Eco Businesses

- Because LED light bulbs do not dissipate heat, they help reduce air-conditioning costs in spring and summer. Due to this power-saving feature, investment in LED lighting can pay off in less than two years, though requiring installation of peripheral equipment on existing fluorescent lamps. Therefore, demand is likely to increase going forward.
- With its LED light bulbs, Aeon Delight intends to target non-Aeon group clients (e.g., hospitals, hotels) and new applications (i.e., those other than fluorescent lamp replacements).

Electric Vehicle Chargers at Aeon Malls

- Aeon Delight plans to add electric money WAON compatibility to its EV chargers (2014 target: 1,150 chargers at 490 stores).

New Clients

Aeon Delight gained new clients through solutions sales push.

- Solutions sales: Many of target clients are corporates, meaning efficient and effective business propositions are key to success. The company distributed iPads to about 1,000 sales staff, and sales staff are now able to show target clients movies of Aeon Delight services.
- The company increased transactions with new Aeon group stores and new group companies. The



company plans to open 35 new stores in 2H.

ASEAN/China

Aeon Delight provided services in Japan, China, and ASEAN by giving equal emphasis on each region.

- China: The company won new contracts for 49 locations (a total of 136 locations). In July, the company established a joint venture with the leading company in Wuhan.
- Malaysia: The company provided services at 45 locations (mainly vending machine and cleaning services).
- Vietnam: Aeon Delight was developing new businesses there.

Initiatives Planned for 2H FY02/14

Additional Restructuring Efforts

- BEMS Upgrades

In 1H, Aeon Delight jointly developed a new, fridge-freezer control-enabled Building Energy Management System (BEMS) with a large equipment manufacturer. The new BEMS helps reduce power consumption during thawing processes. The company plans to begin selling and installing the new BEMS at Aeon group stores from this 2H, with an eye to selling to non-group clients (e.g., drugstores).

- Urinal Revolution

The company improved its "recirculating, water-saving urinals" further in 1H, claiming that they cut water usage by 90%. The company plans to begin the shipment of the urinals in 2H. In fact, Aeon Delight delivered 14 units to the AEON Shinagawa Seaside Shopping Center (currently being installed).

Expanding Client Base

Aeon Delight plans to begin providing comprehensive facilities management services (FMS) to flagship AEOM stores (AEON Mall Makuhari Shin-toshin in December 2013).

Creating New Markets in Asia

China

- China has yet to see oligopoly in the comprehensive FMS market, thus likely offering business opportunities. Aeon Delight was ranked 10th in the market as of the end of 1H FY02/14.
- Aeon Delight believes that its services are much needed in China, considering Beijing's PM2.5 and other problems.
- Aeon Delight was cooperating with local partners in preparation for new businesses, such as Energy Service Company (ESCO) services. In fact, the company was receiving many enquiries from potential clients in South China and Hong Kong.
- China's Ministry of Commerce is planning to develop about 300 shopping malls with estimated total investment of two trillion yen.

Malaysia

Due to instable electricity supply, ESCO services may provide ample opportunities.

Next Medium-Term Plan

Aeon Delight intends to announce its new medium-term plan (FY02/15-FY02/17) next spring.

Q1 FY02/14 Results (announced on July 3, 2013; please refer to the preceding table)

Consolidated sales were 66.7 billion yen (+13.9% YoY), gross profit was 8.2 billion yen (+17.0% YoY), and gross profit margin was 12.2% (11.9% a year earlier). Sales rose after the company added Aeon



Market Co., Ltd. (Peacock Stores) to the Aeon group while winning new clients such as a large stadium, headquarters buildings of major corporations, and commercial facilities. Gross profit margin improved attributable to greater cooperation with partner companies in an effort to lower costs and streamline operations. Gross profit appeared to have exceeded the company's forecast (Q1 guidance not disclosed), mainly due to stronger-than-expected results in the Facilities Management segment.

An overview of each segment is as follows:

Sales in the Facilities Management segment were 10.6 billion yen (+2.4% YoY), with gross profit of 1.6 billion yen (+9.0% YoY, gross profit margin of 15.5%). This segment was supported by new contracts from the Aeon group to manage large-scale facilities from March 2013, as well as favorable demand from outside the Aeon group such as servicing a large stadium, and new contracts for government and public office facilities. In addition, segment sales were also supported by favorable contributions from management services of a resort hotel, which started in the previous term, and a prefectural public hospital.

Sales in the Security Services segment were 8.4 billion yen (+6.8% YoY), gross profit was 1.1 billion yen (+2.1% YoY, gross profit margin of 12.5%). In addition to new security services contracts, the company added "attender" services to four new stores. The company stated that the attender services received positive customer feedback and that such services may expand going forward.

Sales in the Cleaning Services segment were 10.5 billion yen (+4.1% YoY), with gross profit of 1.9 billion yen (+2.0% YoY, gross profit margin of 18.3%). The company promoted its original coating agent, which replaces floor wax, and introduced the product at six additional stores. Furthermore, the company is preparing to market its "recirculating, water-saving urinal," which was developed last year; during the latter half of this fiscal year (the company has not changed its plan to sell 1,500 urinals during FY02/14).

Sales in the Construction Work segment were 15.9 billion yen (+43.4% YoY), with gross profit of 1.3 billion yen (+31.3% YoY, gross profit margin of 7.9%), a significant increase over the previous year. In the environmental operations, the company posted a 70% sales increase YoY after winning a 6.6 billion yen order for LED-related work mainly for the Aeon group. In the renovation operations, demand for store renewal and earthquake-resistant construction work led to a 27% sales increase. It should be mentioned that LED-related work at the Aeon group is nearing its final stages. Thus, sales contributions from this business may begin to decline in Q2 and thereafter.

Sales in the Materials and Supplies Sourcing segment were 10.7 billion yen (+12.6% YoY), with gross profit of 800 million yen (+32.7% YoY, gross profit margin of 7.8%). The company started providing hygiene and packaging materials to newly added customers, including Aeon Market Co., Ltd., whose stores became part of the Aeon group last year.

Sales in the Vending Machine Services segment were 7.5 billion yen (-0.1% YoY), basically flat over the previous year, with gross profit of 700 million yen (+2.7% YoY, gross profit margin of 9.1%). Sales per vending machine were stagnant as consumers remained cautious about spending, despite installing new vending machines in its customer stores, including Marunaka Co., Ltd., that were added to the Aeon group during the previous year. Meanwhile, the company is seeking to install vending machines at Daiei Inc. stores. Although there had been no negotiations between the two companies as of Q1, progress is expected now that Daiei is an Aeon Co., Ltd. subsidiary.

Sales in the Support Services segment were 3.0 billion yen (+43.1% YoY), with gross profit of 700 million yen (+146.1% YoY, gross profit margin of 24.7%), a large increase over the previous year. Kajitaku Co., Ltd. favorably expanded its mainstay housework services and recorded an 18.9% YoY growth in sales. In addition, Aeon Compass Co., Ltd. and General Services Inc., two companies that become consolidated



subsidiaries from the Q2 of last year, also contributed to the strong growth in segment sales. Gross profit recorded strong growth, as a result of Aeon Compass (business travel, conference support services) started booking sales commissions as gross profit (previously booked as sales) during the term.

As a result of adding new consolidated subsidiaries and implementing an aggressive investment strategy, SG&A expenses totaled 4.8 billion yen (+22.9% YoY). Consequently, operating profit was 3.4 billion yen (+9.6% YoY), recurring profit was 3.4 billion yen (+9.7% YoY), and quarterly net profit was 1.9 billion yen (+4.0% YoY).

The company maintained its 1H and full-year earnings forecasts, and conditions remain favorable in Q2 (as of July).

FY02/13 Results

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

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

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

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

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



Full-Year (FY02/14) Outlook

FY02/14 Forecasts (Million Yen)	FY02/13			FY02/14	Company Estimates	
	1H	2H	Full-Year	1H Actual	2H	Full-Year
Sales	126,771	122,105	248,876	133,552	126,448	260,000
YoY	15.3%	11.2%	13.2%	5.3%	3.6%	4.5%
CoGS	111,789	106,859	218,648	116,570		
Gross Profit	14,982	15,245	30,227	16,981		
YoY	3.3%	7.9%	5.6%	13.3%		
GPM	11.8%	12.5%	12.1%	12.7%		
SG&A	7,869	8,457	16,326	9,406		
SG&A / Sales	6.2%	6.9%	6.6%	7.0%		
Operating Profit	7,113	6,788	13,901	7,575	7,925	15,500
YoY	2.9%	-0.9%	1.0%	6.5%	16.8%	11.5%
OPM	5.6%	5.6%	5.6%	5.7%	6.3%	6.0%
Recurring Profit	7,124	6,768	13,892	7,571	7,929	15,500
YoY	2.1%	-0.6%	0.8%	6.3%	17.2%	11.6%
RPM	5.6%	5.5%	5.6%	5.7%	6.3%	6.0%
Net Income	3,944	3,565	7,509	4,147	4,153	8,300
YoY	6.2%	11.5%	8.6%	5.1%	16.5%	10.5%

Source: Company data, SR Inc. Research

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

The FY02/14 forecast calls for consolidated sales of 260 billion yen (+5% YoY), operating profit of 15.5 billion yen (+12% YoY), and net income of 8.3 billion yen (+11% YoY).

SR Inc. estimates sales by segments based on the company's sales breakdown weightings. In the Facilities Management Services segment, SR Inc. forecasts sales of 44.3 billion yen (+5% YoY), support by stable demand from the Aeon group companies. SR Inc. forecasts Security Services sales of 32.8 billion yen (+3% YoY), backed by favorable demand for security cameras, and Cleaning Services sales of 43.7 billion yen (+8% YoY) due to demand for specialized cleaning services from hospitals and other non-commercial facilities. SR Inc. forecasts Construction Work sales of 49.9 billion yen (-6% YoY), as the company expects LED work to decline to 10 billion yen in FY02/14 from 26 billion yen in FY02/13 given that most of work installing LED lighting fixtures at Aeon group retail stores is near completion, contributing to the decline over the previous year. SR Inc. forecasts Materials and Supplies Sourcing sales of 43 billion yen (+10% YoY), supported by stable demand for a wide-range of commercial supplies, and sales of 34.2 billion yen (+10% YoY) in the Vending Machine Services segment, supported by placement in Aeon group retail stores. SR Inc. forecasts sales of 12.0 billion yen (+11% YoY) in the Support segment, due in part to contributions from enhanced operations in residential services.

Aeon Delight has developed a recirculating, water-saving plastic urinal in FY02/12. (Please refer to [News & Topics](#) section). The company plans to mass-produce these urinals starting in 2H of FY02/14. These urinals are expected to be priced at 120,000 yen per unit, and the company expects to sell 1,500 units and generate sales of 180 million yen in FY02/14.

The company forecasts operating profit of 15.5 billion yen (+12% YoY). It intends to reduce costs by 1.2 billion yen through efficiency and reviewing outsourcing expenses. It also plans to improve product mix (i.e., avoid cost overruns for LED installment work) to raise profitability. Consequently, operating profit margin is expected to improve to 6.0% in FY02/14 from 5.6% in FY02/13.

In FY02/14, Aeon Co., Ltd. (TSE1: 8267) intends to open 22 new stores: six Aeon malls, six Aeon Retail shopping centers, and ten MaxValu retail stores. Aeon Delight will provide services to all these stores.



In April 2013, Aeon announced the purchase of Daiei Inc. (TSE1: 8263). Aeon Delight sold 9 billion yen in services to Daiei in FY02/13. According to the company, this could rise to at least 1.5 times the current level if its vending machine services segment is able to gain orders from Daiei after the retailer becomes part of the Aeon group. In addition, Aeon announced that it would make Peacock Store a wholly owned unit that could also provide Aeon Delight with facilities maintenance services.

The company has not assumed any potential benefits from acquisitions by its parent company, Aeon of Daiei and Peacock supermarkets. It forecasts recurring profit of 15.5 billion yen (+12% YoY), and net income of 8.3 billion yen (+11% YoY).

Dividends

Aeon Delight increased dividends for the past nine years, and plans to pay an annual dividend of 48 yen a share (46 yen in FY02/13) in FY02/14.

Future Outlook

Aeon Delight is in the last year of its three-year business plan that covers the period from FY02/12 to FY02/14. The plan called for further growth through an expansion of the comprehensive facilities management business by targeting three markets: urban areas, the ecology and environmental market, and Asia outside Japan. In urban areas, the company targets small retail stores. In the ecology and environmental market, the focus is on energy-efficient LED lighting and solar power panels. The Asia, the company seeks to provide comprehensive facilities management services to high growth countries. At the start of this medium-term business plan, the company forecast sales of 300 billion yen and operating profit of 22 billion yen in FY02/14. However, the company announced latest forecast sales of 260 billion yen and operating profit of 15.5 billion yen in FY02/14 (announced after FY02/13 earnings results on April 9, 2013).

SR Inc. believes that the company will introduce its new medium-term business plan in the current fiscal year FY02/14. Over the medium and long terms, SR Inc. believes that the company will go beyond its comprehensive facilities maintenance services, and further develop its three key markets, urban areas, ecology and environmental market, and Asia outside Japan.



Business

Business Description

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

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

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

M&A Activities

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

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

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

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



M&A activities by Aeon Holding

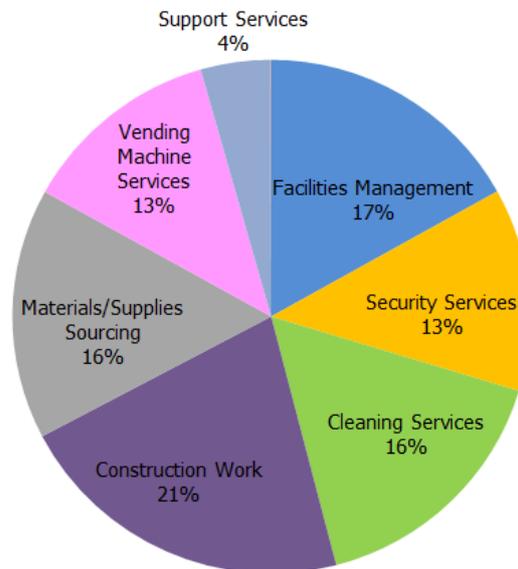
On March 4, 2013, Aeon acquired Peacock Store Ltd., a supermarket operator, from J Front Retailing Co., Ltd. (TSE1: 3086). There were 82 Peacock stores as of March 2013, providing a potential business opportunity for Aeon Delight. In April 2013, the company said that it would raise its stake in Daiei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

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

Business Overview

In FY02/13, Aeon Delight operated seven main business segments: facilities management, security services, cleaning services, construction work, materials and supplies sourcing services, vending machines, and support services.

Sales by Segment (FY02/13)



Source: Company data, SR Inc. Research

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



Business Segments

Facilities Management (17% of total sales): This segment is involved in maintenance, inspection, improvement, operation and management of overall facilities. In FY02/13, sales were 42.1 billion yen in FY02/13 (-0.2% YoY) and operating profit was 4.7 billion yen (-8.3% YoY). Gross profit margin was about 15%, and operating profit margin was about 11%. This business is labor intensive. The company puts personnel on-site at large retail facilities, while smaller facilities are visited periodically and monitored remotely.

The company offers everything from permanent, on-site facilities management services in which staff monitor equipment operations from a control room or disaster prevention center to regular patrol services. This segments operations are highly automated, and can quickly respond to unexpected problems.

The company operates a nationwide AD solution center that provides security services 24 hours a day, 365 days a week. Its network links 600 bases nationwide, and professional technical employees respond to all problems at all hours.

Security Services (13% of total sales): This segment provides comprehensive security services (i.e., security for facilities, security to handle crowds and traffic, and protection of valuable goods). It places security guards at client facilities. In FY02/13, sales were 31.8 billion yen (-1.3% YoY) and operating profit was 2.7 billion yen (-4.6%) in FY02/13. Gross profit margin was relatively low at 13%, compared with 23.5% at Sohgo Security Services Co., Ltd (TSE1: 2331) and 34.8% at Secom Co., Ltd. (TSE1: 9735) for the latest reported fiscal year. This segment outsources most of its work to Aeon Delight Security, a subsidiary.

The company operates highly sophisticated surveillance cameras similar to what is used at casinos. It is able to combine its expertise in facilities management and security know-how in providing made-to-order security plans. These innovative services offer high profitability and growth opportunities.

Cleaning Services (16% of total sales): This segment conducts cleaning services to buildings and facilities. It offers everyday cleaning services and periodic cleaning services on a weekly, monthly or yearly basis. In FY02/13, sales were 40.5 billion yen (+1.7% YoY) and operating profit was 5.9 billion yen (+0.6% YoY). Gross profit margin was 20% (25% for directly operated services). Service contracts are renewed annually (80% of clients renew and are long-term customers).

The company considers cleaning to be a basis for building maintenance that can significantly influences the life of buildings and facilities. Its cleaning services are designated to deliver sanitary control such as sterile filtration or disinfection, and promote the longevity of buildings and facilities.

Construction Work (21% of total sales): This segment conducts large-scale renovation, interior design work, and installation of energy-saving devices (i.e., LED lighting) and solar power systems For FY02/13, sales were 53.1 billion yen (+86.1% YoY) and operating profit was 2.2 billion yen (+14.1% YoY). This segment generates 70% of its sales from Aeon group companies, and has a gross profit margin of about 10%. Revenues from LED installation work were 26 billion yen in FY02/13 (7.4 billion yen in FY02/12), and has forecasted 10 billion yen of replacement work in FY02/14.

The company also provides diagnostic services that address structural degradation through its proprietary technology - a comprehensive diagnostic system for buildings and equipment, energy conservation, and environmental soundness. This innovation incorporates the latest technology and equipment including infrared photography, fiberscopes, and ultrasonic flow meters.

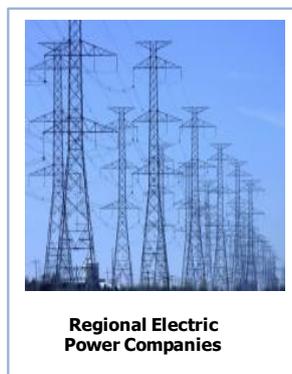
Aeon Delight invested in a special-purpose company that operates a solar-power generation system, and intends to collect dividends from this investment. The company is also pursuing contracts to install solar



panels.



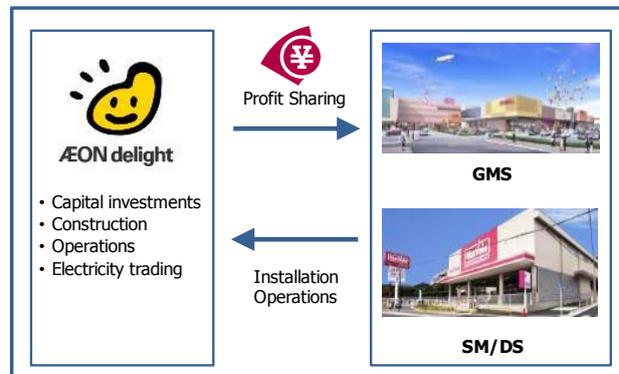
Electric Utility Companies



Regional Electric Power Companies



AEON Group



Source: Company data, SR Inc. Research

Materials and Supplies Sourcing Services (16% of total sales): This segment acts as a purchasing agent for customers. It purchases everything from office consumables to packing materials. Sales in FY02/13 were 39.3 billion yen (+7.0% YoY) and operating profit was 1.5 billion yen (+18.5% YoY). Gross profit margin is about 7% to 8%.

The company proposes ways to reduce costs and streamline operations for purchasing materials and supplies. Since the company can purchase in bulk and reduce costs, customers are willing to subcontract out their purchasing operations to the company. Aeon Delight proposes optimal sourcing strategies based on work schedules to streamline order and delivery systems through its nationwide logistics system, taking advantage of the Aeon group network. The company handles everything from ordering to inventory control and distribution.

Vending Machine Services (13% of total sales): This segment operates soft drink vending machines. It also creates relaxation areas with foliage plants and air purification equipment. In FY02/13, sales were 31.2 billion yen (-3.4% YOY) and operating profit was 2.4 billion yen (+2.8%). Gross margin was 10%. This segment was created after Aeon Delight acquired Certo Corp. (delisted from JASDAQ after being acquired) in September 2010, a vending machine operator 66.4% owned by Aeon. As of FY02/13, the company had a total 38,000 vended machines, and generated 70% of segment sales from supermarkets belonging to the Aeon group. The remainder of sales came from shopping malls operated by Aeon group and non-Aeon companies.

The company offers comprehensive services focused on the installation and maintenance of soft drink



vending machines, as well as providing foliage plants, smoke extractors, and toy vending machines. The company vending machines stock a variety of best-selling products from major manufacturers and achieve per-machine sales that are above the industry average by carrying an optimal product lineup determined by POS data and accurate operation plans that reduce out-of-stock time. This technology helps reduce costs by increasing sales and minimizing the number of machines required.

Vending machines are cash cows that are highly profitable. The company is able to place its vending machine at Aeon group retail stores nationwide that creates a barrier to competitors like Coca-Cola (i.e., Coca-Cola may not be able to place its vending machines in such locations).

Support Services (4% of total sales): This segment provides housework support services, business travel services, training services, and staffing services. The company offers various services to meet the diverse needs of its customers. In FY02/13, sales were 10.8 billion yen (+35.6% YoY) and operating profit was 500 million yen (+223.1% YoY).

This segment grew through acquisitions. The company acquired Kajitaku Co., Ltd., a housework services provider, and A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, in 2011. These purchases contributed to strong operating profit growth in FY02/13.

Related companies

Aeon Delight is a diverse company with a wide-range of companies conducting various services to customers. Approximately half of these companies operate outside of Japan.

Domestic companies

Aeon Light Academy Co., Ltd. (training support; 100% owned by Aeon Delight)

Aeon Delight Security Co., Ltd. (security services; 100% owned)

Kankyouseibi Co., Ltd. (Security and services, cleaning services; 100% owned)

Aeon Compass Co., Ltd. (business-travel support; 55.0% owned)

Do Service Co., Ltd. (cleaning services; 100% owned)

A to Z Service Co. Ltd. (facilities maintenance services; owned 55.3% owned)

Kajitaku Co., Ltd. (housework services; 90.0% owned)

FMS Solution Co., Ltd. (IT support; 70.0% owned)

General Services Inc. (outsourcing consulting; 51% owned)

A-Life Support Co., Ltd. (condominium maintenance; owned 85.8% owned)

Overseas Business

In April 2011, Aeon Delight began providing maintenance services to two Aeon group retail operations in China; combined with existing contracts, the company is currently servicing six Aeon China commercial facilities. Aeon is one of the most successful retailers in China and Asia. In June 2011, Aeon Delight secured the contract to provide maintenance for a government operated commercial facility in Beijing. SR Inc. believes this development shows that the company can compete with local service providers. The company has established subsidiaries in Vietnam and Malaysia to capitalize on Aeon's expansion into such markets. The company has expertise in understanding the local markets, sourcing in people, and offering comprehensive facilities maintenance work in Asian countries.

Despite accelerated growth of overseas facilities management services, contributions from these activities have yet to make a significant impact on the company's earnings. SR Inc. estimated that Aeon Delight generated around 25 billion yen, less than 10% of total sales, from outside Japan in FY02/13. However, the company considers China and other Asian countries as major areas of growth. The company forecasts sales of 1 trillion yen in FY02/21, of which 300 billion yen is expected from China and 200 billion from ASEAN countries.



Overseas companies

Aeon Delight (China) Co., Ltd. (facilities management services, 100% owned by Aeon Delight)

Aeon Delight (Hangzhou) Service Outsourcing Co., Ltd. (outsourcing services, 70.0% owned)

Aeon Delight Sufang (Suzhou) Comprehensive Facility Management Service Co., Ltd. (maintenance services, 51.0% owned)

Aeon Delight (Vietnam) Co., Ltd. (facilities management, 100% owned)

Aeon Delight (Malaysia) Sdn. Bhd. (facilities management, 100% owned)

Business Model

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

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

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

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

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



Profitability Snapshot, Financial Ratios

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

Profit Margins (Million Yen)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13
	Cons.	Cons.	Cons.	Cons.	Cons.
Gross Profit	20,955	21,118	23,989	28,631	30,227
Gross Profit Margin	14.4%	15.1%	14.0%	13.0%	12.1%
Operating Profit	9,946	9,970	12,031	13,762	13,901
OP Margin	6.8%	7.1%	7.0%	6.3%	5.6%
EBITDA	11,441	11,563	13,818	16,107	16,138
EBITDA Margin	7.9%	8.2%	8.1%	7.3%	6.5%
Net Profit Margin	3.3%	3.9%	3.8%	3.1%	3.0%
Financial Ratios					
ROA	10.1%	11.2%	9.7%	7.8%	7.8%
ROE	19.9%	18.9%	15.5%	12.5%	12.5%
Total Asset Turnover	3.0	2.9	2.6	2.5	2.6
Working Capital	7,502	7,330	7,298	9,047	22,366
Current Ratio	149.8%	184.4%	210.0%	215.5%	226.9%
Quick Ratio	135.8%	166.6%	195.4%	201.0%	207.6%
OCF / Current Liabilities	0.31	0.39	0.29	0.30	-0.13
Net Debt / Equity	-18.7%	-25.0%	-24.7%	-16.6%	-15.5%
OCF / Total Liabilities	0.3	0.4	0.2	0.3	-0.1
Cash Cycle (days)	14.3	14.8	10.4	8.2	18.5
Changes in Working Capital	108	-172	-32	1,749	13,319

Source: Company data, SR Inc. Research

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

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

Source: Company data, SR Inc. Research

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

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



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

Source: Company data, SR Inc. Research

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

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

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

Source: Company data, SR Inc. Research



Strengths & Weaknesses

Strengths

- **Strong ties with the Aeon Group:** Aeon Delight is able to leverage from the Aeon group's vast network of commercial facilities, such as supermarkets and shopping malls. The company gained expertise in providing a wide range of property management services such as maintenance, cleaning, and security. It is able to expand with Aeon, the industry foremost retailer, and also provide expertise to other large-scale retailers. It provides 70% and 80% of the Aeon group's facilities-related services. The company is able to leverage economies of scale from the Aeon group. This provides for a stable recurring-revenue model.
- **Industry leader in comprehensive commercial maintenance services:** Aeon Delight is the industry leader capable of providing comprehensive all-in-one building maintenance services such as facilities management, security, cleaning, and renovations. Its competitors can only provide one to two of these services (i.e., security or cleaning). Owners of large-scale commercial facilities and buildings are would prefer to contract such services to one service provider rather than negotiate with each individual service provider based on their specialty. The company's ability to provide such comprehensive service is a competitive advantage over its competitors.
- **Financial strength to buy growth:** Aeon Delight has a very strong balance sheet. SR Inc. believes that this balance sheet could be used aggressively to buy growth. According to the Japan Building Maintenance Association, there are currently over 5,000 property maintenance service providers throughout Japan. This market is relatively mature, and a realignment of the industry is possible. Aeon Delight, with its financial strength and industry prowess, would be able to acquire smaller firms with specialized services in local areas. This could lead to further growth and expansion. The company is able to benefit from economies of scale. It can leverage its balance to buy growth since it has a recurring stable source of revenue from the Aeon group. The company could take on debt to expand its business since it has an under leveraged balance sheet.

Weaknesses

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



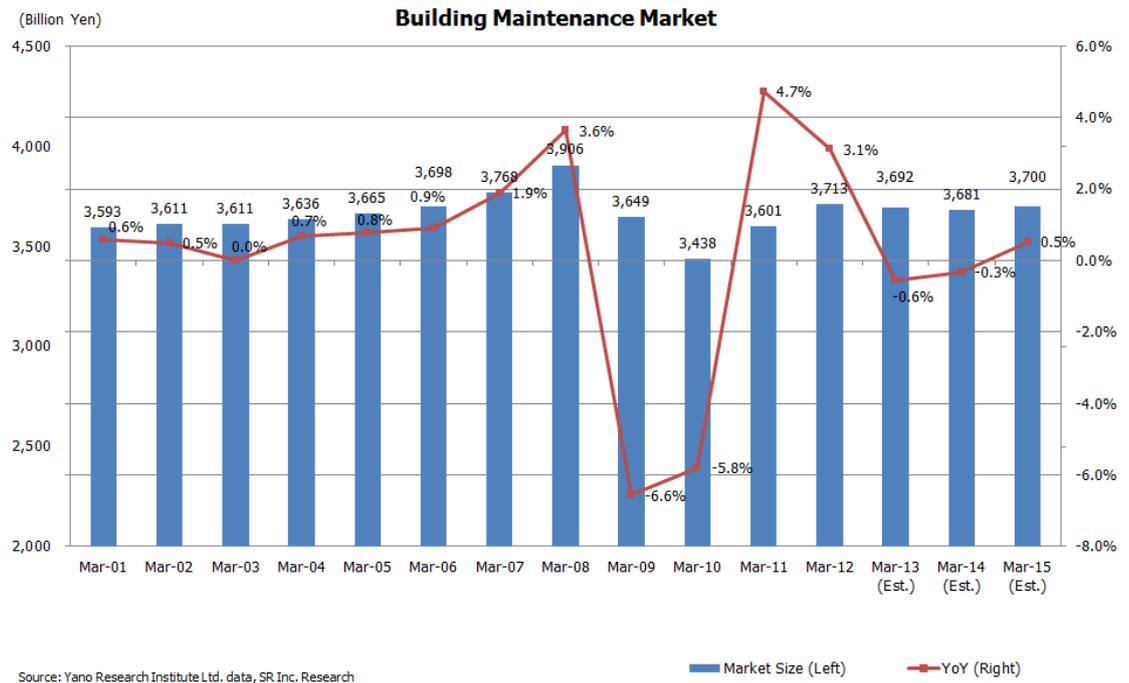
Market and Value Chain

Market Overview

Building maintenance market valued at ¥3.3trn

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

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



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



Retail Operations



Source: Company data, SR Inc. Research

Commercial Facilities Development Operations



Source: Company data, SR Inc. Research

LED

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

Recirculating, water-saving, plastic urinal

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



Analysis of potential market

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

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

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

AEON Group Stores by Format (Domestic & Overseas)

	Feb. 2009	Feb. 2010	Feb. 2011	Feb. 2012	Feb. 2013
GMS	603	601	590	590	598
Supermarket	1,231	1,267	1,307	1,537	1,708
Discount Store	41	52	72	105	152
DIY Store	127	125	127	122	123
Supercenter	31	33	32	29	26
Department Store	1	1	1	1	1
Convenience Store	3,270	3,514	3,811	4,121	4,462
Specialty Store	4,746	4,475	3,305	3,424	3,664
Other Retail Format	87	180	268	418	562
Financial Service	395	386	401	460	527
Services	1,621	1,549	1,410	1,383	1,394
Total	12,153	12,183	11,324	12,190	13,217
					0
AEON MALL	51	53	56	59	62
AEON TOWN	42	44	45	107	115

Source: AEON Co. data, SR Inc. Research

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

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

Source: AEON Co. data, SR Inc. Research

Aeon Delight has expanded operations on back of its accumulated expertise and strong track record in maintaining many commercial facilities for the Aeon group companies. Competitors appear to be focused on office buildings and condominiums, rather than commercial complexes, which are Aeon Delight's core competence.

The company is affected by the Aeon group's store openings and acquisitions. The Aeon group organizes its retail stores into the following segments: general merchandise stores, supermarkets, discount stores, strategic small stores, specialty stores, and drugstores and pharmacies. Aeon Delight is positioned to provide services to each of these retail segments.

Customers

Aeon Delight generates most of its sales from the Aeon group companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, public facilities, and event operators. The company's largest customer is Aeon Retail, which accounted for 35.9% of its facilities management services segment sales in FY02/13. Its share of Aeon Mall's business is about 60%, and its share of MaxValu's business is 60% to 70% as of FY02/13. Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%. Construction work accounted for the largest portion of segment sales at 49.9% (as of FY02/13).

Facilities Management Services

	AEON RETAIL	Segment Sales	% of Segment Sales
Facilities Management	12,642	42,050	30.1%
Security Services	15,129	31,805	47.6%
Cleaning Services	13,727	40,519	33.9%
Construction Work	26,484	53,071	49.9%
Materials/Supplies Sourcing	11,956	39,284	30.4%
Vending Machine Services	5,609	31,200	18.0%
Support Services	3,720	10,823	34.4%
Total	89,270	248,756	35.9%

Source: Company data, SR Inc. Research



Competition

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

Barriers to Entry

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

Strategy

Aeon Delight's strategy is to grow existing business through expansion of comprehensive services to customers inside and outside of the Aeon Group. The company capitalizes on the Aeon group's expansion plans and generates 65% of sales from group companies. Over the medium term, the company aims to expand sales to non-Aeon group companies and lower this weighting to around 40%. It plans to do this by leveraging its main strength - the ability to take on comprehensive management contracts for large facilities - and by expanding into airports, factories, hospitals, and other retail facilities. Some of the specialty store operators also have outlets in non-Aeon shopping centers. SR Inc. expects the specialty store and services business to expand more quickly than the Aeon group's shopping centers.

Aeon Delight adopted a growth-through-acquisition strategy as mentioned above. (Please refer to M&A Activities section). The company acquired businesses that strengthened its integrative capabilities, and intends to do the same going forward. In addition, the company implemented a three-year medium-term (FY02/12 to FY02/14) business plan aimed at strengthening its comprehensive facilities maintenance services. Aeon Delight has targeted three markets: major urban area market, ecology and environmentally friendly market, and the Asian market.

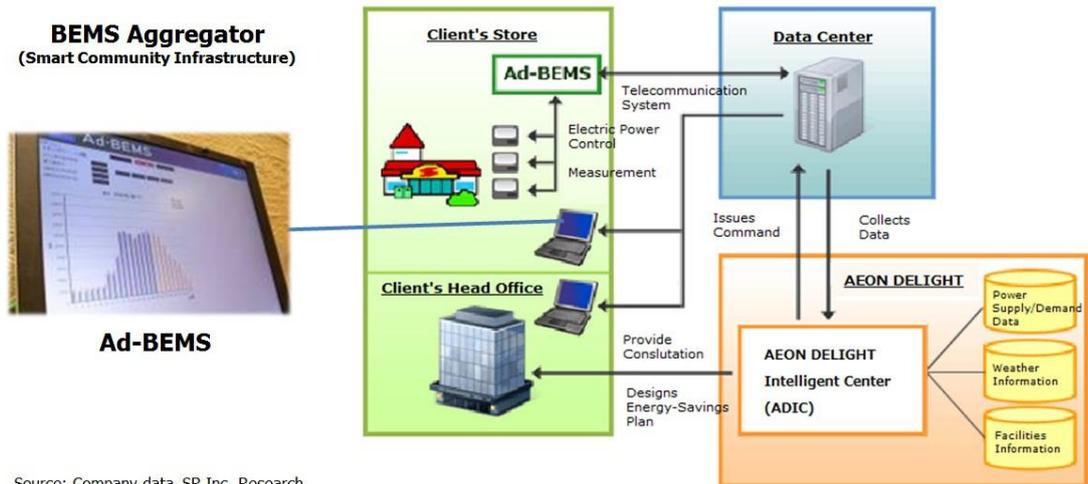


Major urban area market

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

Ecology and environmentally friendly market

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



Source: Company data, SR Inc. Research

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

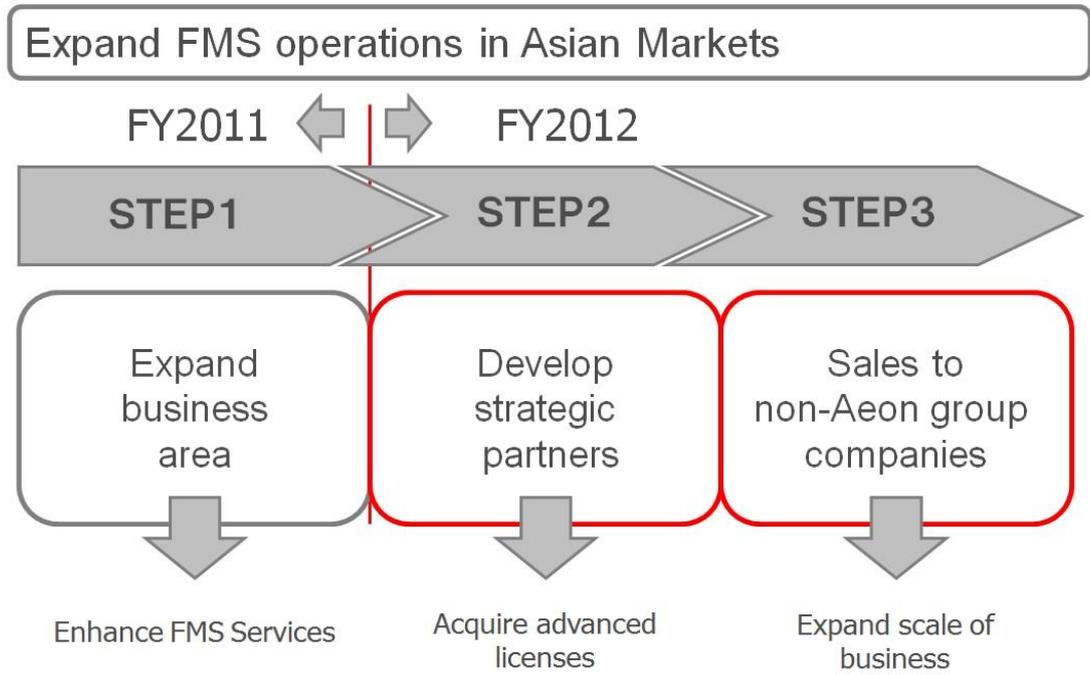
As part of Aeon group's energy-saving initiative announced in August 2012, Aeon Delight is developing an electric vehicle battery charger that uses Aeon Retail's electronic money, WAON.



Asian market

Aeon Delight accelerated growth of overseas facilities management services. The company acquired expertise in the Chinese market through years of operations there and intends to offer facilities management services. It is winning orders from foreign-affiliated companies in China, increasing businesses with existing clients, and forming partnerships with local companies in this market. It had 87 projects in China as of the end of FY02/13, of which 57 were outside the Aeon group. The company intends to continue expanding during FY02/14 by forming ventures with local companies. In addition to Beijing, Tianjin, Guangdong, and Jiangsu, where it already has a presence, Aeon Delight plans to enter the Shandong, Hubei, and Zhejiang markets.

The company intends to continue expanding during FY02/14 by forming ventures with local companies. In FY02/13, Aeon Delight established subsidiaries in Malaysia and Vietnam. However, contributions from these activities did not make a significant impact on earnings. SR Inc. estimated that Aeon Delight generated around 25 billion yen, less than 10% of total sales, from outside Japan in FY02/13. The company considers China and other Asian countries as major areas of growth, and in the longer term, forecasts sales of 300 billion yen from China and 200 billion from ASEAN countries by FY02/12.



Source: Company data, SR Inc. Research

Aeon Delight generates 65% of its sales from Aeon group companies in Japan. The company plans to reduce this figure to around 40% going forward by expanding into new markets.



Historical Financial Statements

Income Statement

Income Statement (Million Yen)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Est.
Sales						
Facilities Management	42,253	41,666	40,019	42,147	42,050	
YoY	5.1%	-1.4%	-4.0%	5.3%	-0.2%	
Security Services	36,670	34,281	32,088	32,235	31,805	
YoY	2.3%	-6.5%	-6.4%	0.5%	-1.3%	
Cleaning Services	42,403	45,050	41,142	39,852	40,519	
YoY	3.2%	6.2%	-8.7%	-3.1%	1.7%	
Construction Work	18,515	13,889	16,420	28,513	53,071	
YoY	-	-	18.2%	73.6%	86.1%	
Materials/Supplies Sourcing Services			18,718	36,730	39,284	
YoY	-	-	-	96.2%	7.0%	
Vending Machine Services			17,188	32,280	31,200	
YoY	-	-	-	87.8%	-3.3%	
Support Services			5,271	7,980	10,823	
YoY	-	-	-	51.4%	35.6%	
Other	5,846	5,412	56	57	119	
YoY	62.8%	-7.4%	-	1.8%	108.8%	
Total Sales	145,690	140,299	170,905	219,797	248,876	260,000
YoY	5.9%	-3.7%	21.8%	28.6%	13.2%	4.5%
CoGS	124,735	119,180	146,916	191,166	218,648	
Gross Profit	20,955	21,118	23,989	28,631	30,227	
YoY	11.3%	0.8%	13.6%	19.4%	5.6%	
GPM	14.4%	15.1%	14.0%	13.0%	12.1%	
SG&A	11,008	11,148	11,957	14,868	16,326	
SG&A / Sales	7.6%	7.9%	7.0%	6.8%	6.6%	
Operating Profit	9,946	9,970	12,031	13,762	13,901	15,500
YoY	19.4%	0.2%	20.7%	14.4%	1.0%	11.5%
OPM	6.8%	7.1%	7.0%	6.3%	5.6%	6.0%
Non-Operating Income	108	88	208	281	213	
Non-Operating Expenses	241	147	149	260	221	
Recurring Profit	9,812	9,912	12,089	13,784	13,892	15,500
YoY	19.9%	1.0%	22.0%	14.0%	0.8%	11.6%
RPM	6.7%	7.1%	7.1%	6.3%	5.6%	6.0%
Extraordinary Gains	110	457	5	73	80	
Extraordinary Losses	940	234	985	880	53	
Tax Charges	4,026	4,618	4,613	5,932	6,306	
Implied Tax Rate	45%	46%	42%	46%	45%	
Net Income	4,876	5,466	6,495	6,912	7,509	8,300
YoY	11.3%	12.1%	18.8%	6.4%	8.6%	10.5%
Net Margin	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%

Source: Company data, SR Inc. Research

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

Engineering-training operations, staffing operations, and document-management operations were part of the "Other" section until FY02/10.

These businesses were designated as Support Services from FY02/11 after the company merged with Certo Corp. in September 2010.

Materials/Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Earnings Estimates and Results

In FY02/13, earnings fell short of its revised forecasts announced following Q3 FY02/13 results. Sales were 248.9 billion yen (compared to revised estimate of 260.0 billion yen), operating profit of 13.9 billion yen (16.6 billion yen), and net income of 7.5 billion yen (8.7 billion yen). The short fall was due to less than expected contributions from newly acquired subsidiaries.



For FY02/14, the company forecasts sales of 260.0 billion yen (+4% YoY), operating profit of 15.5 billion yen (+12% YoY), and net income of 8.3 billion yen (+11% YoY), supported by favorable expansion of mainstay facilities management services, and improved efficiencies and cost reductions.

Initial CE vs. Results (Million Yen)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.
Sales (Initial CE)	120,000	145,000	150,000	181,000	213,000	260,000
Sales (Results)	137,519	145,690	140,299	170,905	219,797	248,876
Initial CE vs. Results	14.6%	0.5%	-6.5%	-5.6%	3.2%	-4.3%
Operating Profit (Initial CE)	-	9,100	10,100	12,050	14,300	16,600
Operating Profit (Results)	8,330	9,946	9,970	12,031	13,762	13,901
Initial CE vs. Results	-	9.3%	-1.3%	-0.2%	-3.8%	-16.3%
Recurring Profit (Initial CE)	6,800	9,000	9,900	12,105	14,300	16,600
Recurring Profit (Results)	8,186	9,812	9,912	12,089	13,784	13,892
Initial CE vs. Results	20.4%	9.0%	0.1%	-0.1%	-3.6%	-16.3%
Net Profit (Initial CE)	3,600	4,600	5,200	6,470	7,600	8,700
Net Profit (Results)	4,379	4,876	5,466	6,495	6,912	7,509
Initial CE vs. Results	21.6%	6.0%	5.1%	0.4%	-9.1%	-13.7%

Source: Company data, SR Inc. Research

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



Balance Sheet

Balance Sheet (Million Yen)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.
ASSETS					
Cash and Equivalents	6,991	7,964	13,098	9,707	10,014
Accounts Receivable	18,025	16,284	28,246	31,240	44,673
Allowance for Doubtful	-188	-122	-226	-657	-144
Inventories	28	20	1,476	1,527	2,237
Deposit of Subsidiaries and Affiliates	2,500	3,000	18,920	27,320	18,020
Other Current Assets	2,794	2,880	3,010	3,349	4,523
Total Current Assets	30,150	30,026	64,524	72,486	79,323
Buildings	762	1,185	1,234	1,217	1,089
Machinery for Area Control, net	343	305	265	246	274
Tools, Furniture, and Fixtures, net	-	-	1,791	1,918	2,079
Land	475	284	284	284	282
Construction in Progress	13	15	-	-	-
Other Fixed	1,009	952	182	108	72
Total Tangible Fixed Assets	2,602	2,741	3,756	3,773	3,796
Investment Securities	1,730	2,050	2,983	2,577	2,973
Deferred Tax Assets	534	289	278	406	288
Other	1,566	1,779	1,701	1,517	2,196
Allowance for Doubtful	-172	-141	-196	-224	-200
Total Other Fixed Assets	3,658	3,977	4,766	4,276	5,257
Goodwill	11,974	11,295	10,546	11,249	10,801
Other	649	629	1,031	1,023	1,520
Total Intangible Assets	12,623	11,924	11,577	12,272	12,321
Total Fixed Assets	18,885	18,644	20,100	20,322	21,375
Total Assets	49,035	48,670	84,624	92,809	100,699
LIABILITIES					
Accounts Payable	10,551	8,974	22,424	23,720	24,544
Short-Term Debt	1,688	80	49	41	10
Other Current Liabilities	7,892	7,227	8,251	9,882	10,401
Total Current Liabilities	20,131	16,281	30,724	33,643	34,955
Long-Term Debt	56	31	6	15	5
Other Fixed Liabilities	768	993	1,006	968	1,190
Total Long-Term Liabilities	824	1,024	1,012	983	1,195
Total Interest-Bearing Debt	1,744	111	55	56	5
Total Liabilities	20,956	17,306	31,737	34,626	36,151
Shareholder Equity	28,079	31,364	52,887	58,182	64,547
Issued Capital	3,238	3,238	3,238	3,238	3,238
Reserves	2,963	2,964	18,741	18,753	18,770
Retained Earnings	20,852	25,366	30,575	35,285	40,539
Treasury Stock	-461	-461	-461	-460	-458
Total Accumulated Other Comprehensive Income	-42	145	645	647	992
Share Warrants	72	110	149	173	205
Minority Interests	1,456	-	-	545	1,260
Total Shareholder Equity (Net Assets)	28,079	31,364	52,887	58,182	64,547
Working Capital	7,502	7,330	7,298	9,047	22,366
Interest-Bearing Debt	1,744	111	55	56	15
Net Debt (Net Cash)	(5,247)	(7,853)	(13,043)	(9,651)	(9,999)

Source: Company data, SR Inc. Research

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

Assets

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



Total assets expanded to 100.7 billion yen at the end of FY02/13 compared to 92.8 billion yen in FY02/12, attributable to increased accounts receivables (+13.4 billion), inventories (+710 million yen), and reduced deposits to subsidiaries and affiliates (-9.3 billion yen). Almost 80% of assets were liquid assets. Majority of its 3 billion yen in investment securities are with Aeon Mall, Aeon Kyushu Co., Ltd. (JASDAQ: 2653), Aeon Fantasy Co., Ltd. (TSE1: 4343), and MaxValu companies.

Liabilities

Total liabilities grew slightly to 36.2 billion yen at the end of FY02/13 from 34.6 billion yen in FY02/12, mainly due to increased accounts payable (824 million yen). Aeon Delight was basically debt free, with a mere 5 million of interest-bearing debt at the end of FY02/13. Cash and deposits exceeded interest-bearing debt for the past six years.

Net Assets

Net assets increased to 64.5 billion yen at the end of FY02/13 from 58.2 billion yen in FY02/12, due to increased retained earnings of 5.3 billion yen after recording a net income of 7.5 billion yen and paying dividends of 2.2 billion yen.

Equity Capital

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

	FY02/07	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13
Equity Capital Ratio	39.9%	47.4%	54.1%	64.2%	62.3%	61.9%	62.6%
ROE	16.9%	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%

Source: Company data, SR Inc. Research

Outstanding Shares

Aeon Delight completed a two-for-one stock split in December 2007 (FY02/08). Its outstanding shares increased by 12,769,000 following its September 2010 acquisition of Certo Corp., a transaction that called for 1.3 shares for each Certo share. Aeon group companies owned 60% of the company's shares outstanding as of FY02/13.

(in thousands)	FY02/07	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13
Outstanding shares	20,700	41,400	41,400	41,400	54,170	54,170	54,170

Source: Company data, SR Inc. Research

Shareholder Rewards

Aeon Delight paid a dividend of 46 yen per share in FY02/13, and plans to pay 48 yen per share in FY02/14, the ninth straight year of increased dividend payments. Aeon Delight provides shareholders with gift packages and Aeon gift certificates.



Statement of Cash Flows

Cash Flow Statement (Million Yen)	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.
Operating Cash Flow (1)	6,668	7,031	6,808	9,639	-4,358
Investment Cash Flow (2)	-2,087	-1,966	-3,000	-10,051	7,086
Free Cash Flow (1+2)	4,581	5,065	3,808	-412	2,728
Financial Cash Flow	-5,255	-4,169	-1,321	-2,722	-2,257
Depreciation & Amortization (A)	1,495	1,593	1,787	2,345	2,237
Capital Expenditures (B)	-707	-912	-792	-1,184	-1,607
Working Capital Changes (C)	108	-172	-32	1,749	13,319
Simple FCF (NI + A + B - C)	5,556	6,319	7,522	6,324	-5,180

Source: Company data, SR Inc. Research

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

Operating Cash Flow

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

Investment Cash Flow

A significant portion of cash flow from investments stems from M&A activities, including 1.2 billion yen used in acquisitions in FY02/12. In FY02/13, net cash provided by investing activities was 7.1 billion yen, attributable to a net inflow of 9.5 billion yen in deposit collections from subsidiaries, and outflow of 1.6 billion for acquisition of assets.

Financial Cash Flow

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

Simple Free Cash Flow

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



Cash Conversion Cycle	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13
	Cons.	Cons.	Cons.	Cons.	Cons.
Accounts Receivable Turnover	8.2	8.2	7.7	7.4	6.6
Days in Accounts Receivable	44.7	44.6	47.6	49.4	55.7
Inventory Turnover	6565.0	4965.8	196.4	127.3	116.2
Days in Inventory	0.1	0.1	1.9	2.9	3.1
Payables Turnover	12.0	12.2	9.4	8.3	9.1
Days in Payables	30.5	29.9	39.0	44.1	40.3
Cash Conversion Cycle (days)	14.3	14.8	10.4	8.2	18.5

Source: Company data, SR Inc. Research

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

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



Other Information

History

Japan Maintenance

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

Aeon Techno Service

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

Merger

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

Aeon Delight

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

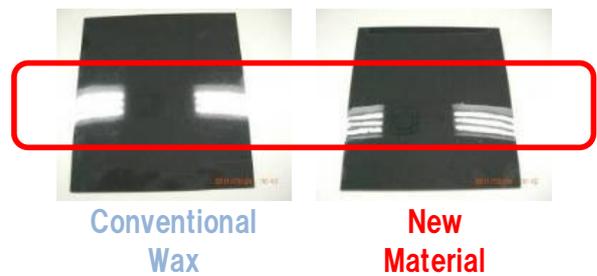
News & Topics

In FY02/12, Aeon Delight developed recirculating, water-saving plastic urinals. These urinals reduce water consumption by 90%. According to Aeon Delight, a train station in which 500 people use the restroom daily could save at least 160,000 yen a year with one urinal (500 people x 1.8 liters x 365 x 0.55 yen x 90%). This calculation is based on the assumption that water and sewage cost 550 yen per 1,000 liters, and that conventional urinals require 1.8 liters of water per use. Aeon Delight plans to sell these urinals for 120,000 yen per unit.



Source: Company data, SR Inc. Research

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



Source: Company data, SR Inc. Research



Major Shareholders

Aeon group companies own over 60% of the company.

As of February 28, 2013

Top Shareholders	Amount Held
Aeon Retail Co., Ltd.	42.94%
Aeon Co., Ltd.	16.81%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1.91%
Aeon Delight Business Partners	1.33%
Japan Trustee Services Bank, Ltd. (Trust Account)	1.31%
The Bank of New York Treaty JASDEC Account	1.27%
Aeon Delight Employees	1.24%
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1.15%
Northern Trust Company (AVFC: Sub-account British Client)	1.09%
JP Morgan Chase US Pension Treaty JASDEC	1.06%

Source: Company data, SR Inc. Research

Top Management

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

Employees

Aeon Delight had 9,018 employees and an average of 5,184 temporary employees on a consolidated basis as of FY02/13. At the parent level, there were 3,777 employees and 2,169 temporary employees. The average age, average length of employment, and average annual salary on a parent basis are as follows:

- Average age: 46 years and 6 months
- Average length of employment: 10.0 years
- Average annual salary: 5.2 million yen

Investor Relations

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



By the Way

Corporate Social Responsibility (CSR) Activities

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

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

- Promotion of energy-saving lighting equipment
The company is promoting energy-saving lighting devices, such as light emitting diode (LED) lamps, that significantly reduce electricity consumption. The company seeks to help clients cut carbon dioxide emissions and reduce expenses by selecting the most suitable source of lighting depending on the situation and intended use, such as lighting for room interior or a parking space, and for illuminating a billboard.
- Proposal for environmentally friendly packaging
The company proposes a variety of packaging materials, including biomass materials obtained during the growth process of plants that do not increase carbon dioxide when burned, as well as water based gravure printing that has low environmental impact.
- Introduction of environmentally friendly vending machines
The company introduced environmentally friendly vending machines that can reduce electricity consumption by as much as 45% a year with the use of heat pumps and LED lighting. The company unveiled heat-pump vending machines in 2008, and those equipped with LED lighting in 2011.
- Participation in Aeon 1% Club
Aeon 1% Club supports projects to protect the environment, boost international cultural and human exchange, promote regional cultural and social activities, and donate to welfare projects. It is an initiative under which group companies contribute 1% of their pretax profits so that these activities can be maintained regardless of the companies' business performances.
- Tree planting through Aeon Environmental Foundation
The company participated in a tree-planting event in Beijing, China in fiscal year 2010, took part in a similar project in Jakarta, Indonesia in fiscal year 2011 and 2012, respectively. For the tree planting event in Jakarta held during fiscal year 2012, the company sponsored participation of endorsing companies, in addition to having its employees from Japan volunteering for the event
- "Clean Day" on the 11th Day of Each Month
The company designated the 11th day of each month as "Clean Day," where employees clean streets around their workplaces before the start of the working day.

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

- Volunteering at social welfare facilities
The company conducts volunteer activities at nationwide welfare facilities once a year, using the system of the Aeon Social Welfare Foundation.
- Shopping basket cleaning outsourced to vocational aid facilities
The company outsources cleaning of its shopping baskets to vocational aid centers. Shopping baskets used at its stores are sent to six "washing centers" within the vocational facilities, where the baskets are



washed and applied with anti-bacterial coating.

- Construction of a school in Laos (completed in June 2008)
The Aeon Delight Group conducted fund raising activities, and through the Aeon 1% Club and the Japan Committee for UNICEF, constructed and donated a school in Laos named "Aeon Good-Job School."

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





Company Profile

<p>Company Name AEON DELIGHT CO., LTD.</p>	<p>Head Office Minamisemba Heart Bldg. 2-3-2 Minamisemba Chuo-ku, Osaka City Osaka, Japan 542-0081</p>															
<p>Phone +81-6-6260-5621</p>	<p>Listed On Tokyo Stock Exchange 1st Section</p>															
<p>Established November 16, 1972</p>	<p>Exchange Listing September 29, 1995</p>															
<p>Website http://www.aeondelight.co.jp/english/</p>	<p>Fiscal Year-End February</p>															
<p>IR Contact</p>	<p>IR Web http://www.aeondelight.co.jp/english/ir/</p>															
<p>IR Mail</p>	<p>IR Phone</p>															
<p>Main Consolidated Segments (% of total sales)</p> <table border="0"> <tr> <td>Facilities Management</td> <td>16.90</td> <td>%</td> </tr> <tr> <td>Security Services</td> <td>12.79</td> <td>%</td> </tr> <tr> <td>Cleaning Services</td> <td>16.29</td> <td>%</td> </tr> <tr> <td>Construction Work</td> <td>21.33</td> <td>%</td> </tr> <tr> <td>Others</td> <td>32.69</td> <td>%</td> </tr> </table> <p>(as of February 2013)</p>	Facilities Management	16.90	%	Security Services	12.79	%	Cleaning Services	16.29	%	Construction Work	21.33	%	Others	32.69	%	
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<p>Directors</p> <p>Ippei Nakayama, President & Chief Executive Officer Ryuichi Yamada, Director & Vice President Shigeyuki Hayamizu, Director & Executive Managing Officer Tajiro Yashi, Director & Executive Managing Officer Yutaka Furutani, Executive Officer & Corporate Advisor Manabu Oshima, Executive Officer Kazunaka Watanabe, Auditor (Outside Corporate) Koushi Yamaura, Auditor (Outside Corporate) Hiroharu Kinoshita, Auditor (Outside Corporate)</p> <p>(as of May 2013)</p>	<p>Shares Outstanding (including treasury shares) 54,169,633 shares (as of February 2013)</p> <p>Shareholders Capital 3.2 billion yen (as of February 2013)</p> <p>Main Subsidiaries AEON DELIGHT Academy Co., Ltd. AEON DELIGHT Security Co., Ltd. Kankyouseibi Co., Ltd. AEON DELIGHT (China) Co., Ltd. Do Service Co., Ltd.</p> <p>Main Banks Mizuho Bank Ltd.</p>															
<p>Employees (consol.) 9,018 Employees (parent) 3,777 Average age (parent) 46.6 years Average salary (parent) 5.1 million yen (as of February 2013)</p>	<p>Auditors Deloitte Touche Tohmatsu LLC</p>															



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Creek & River Co., Ltd.	Lasertec Corp.	3-D Matrix, Ltd.
Daiseki Corp.	MAC-HOUSE Co.	TOKAI Holdings Corp.
Digital Garage Inc.	Medinet Co., Ltd.	Verite Co., Ltd.
Don Quijote Co., Ltd.	MIRAIT Holdings Corp.	WirelessGate, Inc.
Dream Incubator Inc.	mobcast inc.	Yellow Hat Ltd.
Elecom Co.	NAIGAI TRANS LINE LTD.	Yumeshin Holdings
EMERGENCY ASSISTANCE JAPAN Co.	NanoCarrier Ltd.	ZAPPALLAS, INC.
en-Japan Inc.	Nippon Parking Development Co., Ltd.	

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