CFO Message

Building competitive advantage through proactive growth investments by leveraging our robust financial base

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The Role of the CFO

How to execute capital investments that fuel future growth

At the AEON delight Group, we aim to become a corporate group that solves social issues such as ensuring safety and security, resolving labor shortages, and addressing environmental issues in Asia through our facility management ("FM") business. My primary role as CFO is to help boost our enterprise value by developing and implementing plans for the procurement, investment, and allocation of funds to achieve this vision for the future.

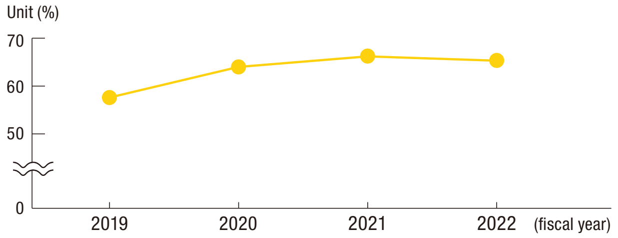
Approach to Financial Strategy

Decisively making growth investments while maintaining financial soundness

The FM business, which is the AEON delight Group's business domain, features a business model that does not require major fixed assets or inventories, and thus is capable of generating stable cash flow. As a result, we have ample liquidity and a high equity ratio (65.3% at the end of FY2022). On the other hand, in order to maintain and improve our return on capital, we need to expand our earnings base in line with the cash accumulated and our shareholders' equity. In other words, the key to our financial strategy is in figuring out how to execute capital investments conducive to future business and profit growth.

Accordingly, we intend to incorporate a financial plan based on the approach of decisively making sustainable growth investments while maintaining financial soundness into the medium-term management plan for FY2024 onward, which we are currently preparing.

Highly stable management base: Equity ratio (%)



Unit (%)

FY2019	FY2020	FY2021	FY2022
57.6	64.0	66.2	65.3

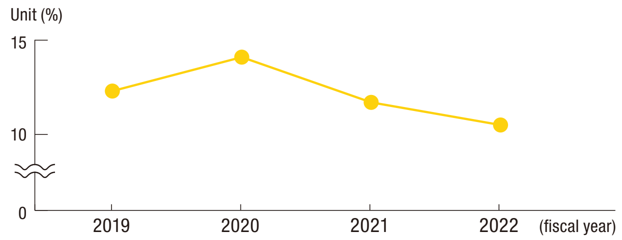
Return on Capital

Boosting business profitability is the biggest challenge

We focus on return on equity (ROE) as an indicator of return on capital, and target an ROE of 12% as a general guideline. Meanwhile, ROE came in at 10.5% in FY2022, and achieving the 12% mark in FY2023 will be difficult.

During the current medium-term management plan period (FY2021-FY2023), we have been unable to fully offset the impact of changes in the business environment, such as the slowdown of economic activities amid the pandemic and the crisis in Ukraine, delays in procurement of equipment and materials, and cost increases, and have fallen far short of our initial earnings projections. In addition, we were not able to execute M&A deals as initially planned under the COVID-19 pandemic. In light of these changes in the environment, we decided on and executed a share buyback of 1.5 million shares in October 2022 with the aim of efficiently managing our capital, but our ROE remains below our target level. In the next medium-term management plan, I believe that improving the profitability of our business is our greatest challenge, and we will formulate the strategies and specific action plans needed to address this. We will steadily invest the management resources necessary to make this happen. The Board of Directors is already discussing the cost of shareholders' equity, which is an important measure of whether or not we are creating shareholder value, and we intend to present our approach and direction regarding this, along with our approach to return on capital, in the next medium-term management plan.

Return on Equity (ROE)



(%)

FY2019	FY2020	FY2021	FY2022
12.3	14.1	11.7	10.5

Stable cash flow generation: Cash and cash equivalents at year-end

Unit (Million yen)

	FY2018	FY2019	FY2020	FY2021	FY2022
Cash flows from operating activities	12,373	7,371	10,403	12,598	8,895
Cash flows from investing activities	12,256	13,838	-7,325	-386	-10,715
Cash flows from financing activities	-19,686	-3,392	-5,324	-4,572	-6,181
Cash and cash equivalents at end of year	43,437	61,151	58,937	67,520	59,996

Key Investment Domains and Approach to Financing

Human resources, DX, M&A

Our three key domains of investment for future growth are human resources, DX, and M&A.

① Human Resources

The AEON delight Group's greatest strength is its on-site capabilities backed by our advanced technical capabilities and expertise. To maintain this strength, we will continue to step up investment in recruitment, training, and other areas related to human capital. In terms of human resource development, we will continue to enhance training for technicians while updating our content in line with the business environment, such as IT literacy to promote DX, and expand training opportunities for branch managers, area managers, site managers, and other management personnel who work closely with the field.

② DX

Due to structural labor shortages, the FM industry is experiencing a serious shortage of manpower and an increasingly aging population of qualified personnel. Furthermore, it is clear from the demographics that these trends will only become more severe in the future. Under these circumstances, the biggest challenge for the AEON delight Group lies in figuring out how to maintain our on-site capabilities, which is our strength. To address this issue, we will proactively invest our management resources in making better use of technology. Specifically, by introducing various types of equipment and accumulating operational know-how, we will reduce the labor and manpower required for on-site operations and achieve centralized management in order to maintain and improve the service we provide to our customers. Through these efforts, we hope to provide safety and security in a sustainable manner. I believe that this transformation is made possible precisely because of AEON delight's leading business scale and expertise in Japan, as well as our robust financial base.

③ M&A

M&A is one of the AEON delight Group's key strategic options to accelerate growth. However, as mentioned earlier, we were unable to fully work on our initiatives during the current medium-term management plan (FY2021-FY2023) owing to changes in the business environment. In the medium-term management plan for FY2024 onward, we will actively explore investment opportunities to strengthen the foundation of our FM operations and to broaden our business domain, as well as to expand the scale and scope of our operations overseas in Asia.

In terms of investment resources, we intend to utilize cash and deposits on hand for these investments, while securing ordinary working capital and funds for unforeseen events. In addition, when executing large investments such as M&A deals, we plan to look into external fund procurement as needed. From the perspective of securing the option of utilizing the capital markets as a means of raising funds, we also received an external rating in 2021 (A- rating from Rating and Investment Information, Inc.)

Shareholder Returns

Aim for steady returns while balancing growth investments

We have continued to increase dividends for 18 consecutive fiscal years since FY2005, in line with our basic policy of paying a stable dividend.

In FY2023, we plan to pay an interim dividend of 43 yen per share and a year-end dividend of 43 yen per share, for an annual dividend of 86 yen per share, assuming that we reach our earnings forecast. This amounts to a consolidated dividend payout ratio of 40% and an increase of 1 yen per share from FY2022, marking the 19th consecutive year of dividend increases. Our basic capital policy is to maintain a stable dividend payout ratio of 40%, and we plan to boost shareholder returns by steadily growing earnings. In addition, we will look into further enhancing shareholder returns, balancing the investments in human resources, DX, M&A, and other areas for future growth, as mentioned previously.

Going forward, we will continue to meet the expectations of our stakeholders by achieving healthy growth in business and earnings over the medium to long term. We look forward to your continued guidance and support.