LAST UPDATE【2017/1/30】

Aeon Delight | 9787 |

Research Report by Shared Research Inc.

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Key financial indicators

Income statement (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY2/16 Cons.	FY2/17 Est.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**	**305,000**
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	8.5%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,500
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	4.7%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.7%
Recurring profit	8,186	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,500
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.9%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.7%
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**	**10,000**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	3.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.3%
Per share data										
Shares issued ('000, year end)	41,400	41,400	41,400	54,170	54,170	54,170	54,170	54,170	54,170	-
EPS	110	123	138	143	132	143	156	166	184	190
EPS (fully diluted)	-	123	138	142	132	143	155	166	183	-
Dividend per share	25	22	27	39	40	46	48	50	52	55
Book value per share	567	669	788	1,006	1,096	1,202	1,325	1,436	1,553	-
Balance sheet (JPYmn)										
Cash and equivalents	7,673	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386	
Total current assets	**28,764**	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**	
Tangible fixed assets	1,885	2,602	2,741	3,756	3,773	3,796	4,258	4,361	7,086	
Investment and total other fixed assets	3,411	3,658	3,977	4,766	4,276	5,257	5,829	6,268	8,190	
Intangible fixed assets	13,356	12,623	11,924	11,577	12,272	12,321	11,687	10,937	10,397	
Total assets	**47,418**	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**	
Accounts payable	10,293	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457	
Short-term debt	-	1,688	80	49	41	10	5	-	-	
Total current liabilities	**22,533**	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**	
Long-term debt	-	56	31	6	15	5	-	-	-	
Total fixed liabilities	**2,395**	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**	
Total liabilities	**24,929**	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**	
Net assets	**22,488**	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**	
Cash flow statement (JPYmn)										
Cash flows from operating activities	6,472	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303	
Cash flows from investing activities	-2,190	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	
Cash flows from financing activities	-6,094	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	
Financial ratios										
Total interest-bearing debt	-	1,744	111	55	56	15	5	-	-	
Net cash	9,173	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748	
ROA	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%	
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%	
Equity ratio	47.4%	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%	

Source: Shared Research based on company data

Recent updates

Highlights

On **January 30, 2016**, Shared Research updated the report following interviews with AEON DELIGHT, Co., Ltd.

On **January 11, 2017,** the company announced earnings results for Q3 FY02/17; see the results section for details.

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

Operational tie-up

According to a presentation by the Ministry of Economy, Trade and Industry, the market size for home support services will be roughly JPY600bn. In the midst of a growing market, Kajitaku bundled and sold its housework support services primarily to retailers, boosting its earnings.

Through the operational tie-up, Kajitaku will focus on developing housework support services and managing those services. Voyage Nexus will be responsible for features on Kajitaku.com and the Members Personal Page, features that Kajitaku used to run. Voyage Nexus will also improve customer relations and online sales by redesigning the website, making it smartphone compatible, and creating an app for the site. The company will assist in the development of a housework support services system for the staff. The tie-up plans to leverage Voyage Group's user base of roughly 8.4mn to promote and market its housework support services. Voyage Group's user base is primarily women in their 30s and 40s on the Group's websites such as EC Navi, a point navigation site, and PeX, a point exchange platform.

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

Trends and outlook

Quarterly trends and results

Quarterly Performance	FY02/15				FY02/16				FY02/17			FY02/15	FY02/16	FY02/17	FY02/17	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3 cml.	Q3 cml.	Q3 cml.	% of FY	FY Est.
Sales	66,475	67,574	65,237	67,419	70,529	72,254	67,906	70,352	75,472	75,928	71,472	199,286	210,689	222,872	73.1%	305,000
YoY	-0.4%	1.1%	6.5%	8.0%	6.1%	6.9%	4.1%	4.4%	7.0%	5.1%	5.3%	2.3%	5.7%	5.8%		8.5%
Gross profit	8,306	8,972	8,429	9,410	8,864	9,734	8,923	9,869	9,471	10,073	9,334	25,707	27,521	28,878		
YoY	1.6%	1.9%	5.6%	7.6%	6.7%	8.5%	5.9%	4.9%	6.8%	3.5%	4.6%	3.0%	7.1%	4.9%		
GPM	12.5%	13.3%	12.9%	14.0%	12.6%	13.5%	13.1%	14.0%	12.5%	13.3%	13.1%	12.9%	13.1%	13.0%		
SG&A expenses	4,766	4,809	4,828	4,853	5,239	5,237	5,076	5,130	5,560	5,479	5,384	14,403	15,552	16,423		
YoY	-0.3%	4.0%	5.2%	5.4%	9.9%	8.9%	5.1%	5.7%	6.1%	4.6%	6.1%	2.9%	8.0%	5.6%		
SG&A-to-sales ratio	7.2%	7.1%	7.4%	7.2%	7.4%	7.2%	7.5%	7.3%	7.4%	7.2%	7.5%	7.2%	7.4%	7.4%		
Operating profit	3,540	4,162	3,601	4,558	3,625	4,496	3,848	4,738	3,911	4,594	3,950	11,303	11,969	12,455	71.2%	17,500
YoY	4.4%	-0.5%	6.1%	10.0%	2.4%	8.0%	6.9%	3.9%	7.9%	2.2%	2.7%	3.0%	5.9%	4.1%		4.7%
OPM	5.3%	6.2%	5.5%	6.8%	5.1%	6.2%	5.7%	6.7%	5.2%	6.1%	5.5%	5.7%	5.7%	5.6%		5.7%
Recurring profit	3,558	4,167	3,614	4,604	3,652	4,487	3,876	4,669	3,908	4,598	3,965	11,339	12,015	12,471	71.3%	17,500
YoY	4.6%	-0.0%	6.0%	12.0%	2.6%	7.7%	7.2%	1.4%	7.0%	2.5%	2.3%	3.3%	6.0%	3.8%		4.9%
RPM	5.4%	6.2%	5.5%	6.8%	5.2%	6.2%	5.7%	6.6%	5.2%	6.1%	5.5%	5.7%	5.7%	5.6%		5.7%
Net income	2,015	2,365	2,003	2,342	2,078	2,604	2,292	2,684	2,681	2,661	2,295	6,383	6,974	7,637	76.4%	10,000
YoY	8.4%	3.3%	20.9%	-0.6%	3.1%	10.1%	14.4%	14.6%	29.0%	2.2%	0.1%	10.0%	9.3%	9.5%		3.5%
Net margin	3.0%	3.5%	3.1%	3.5%	2.9%	3.6%	3.4%	3.8%	3.6%	3.5%	3.2%	3.2%	3.3%	3.4%		3.3%

Segment results	FY02/15				FY02/16				FY02/17			FY02/15	FY02/16	FY02/17	FY02/17	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q3 cml.	Q3 cml.	Q3 cml.	% of FY	FY Est.
Sales	66,475	67,574	65,237	67,419	70,529	72,254	67,906	70,352	75,472	75,928	71,472	199,286	210,689	222,872	73.1%	305,000
Facilities Management	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732	12,593	34,402	36,520	38,044		
Security Services	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116	10,080	27,131	28,122	30,488		
Cleaning Services	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420	13,308	33,031	35,190	40,051		
Construction Work	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070	10,033	32,357	35,902	36,621		
Materials and Supplies Sourcing	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822	12,779	35,497	37,515	38,638		
Vending Machine Services	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101	7,599	25,804	24,462	24,510		
Support Services	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666	5,080	11,062	12,975	14,517		
YoY	-0.4%	1.1%	6.5%	8.0%	6.1%	6.9%	4.1%	4.4%	7.0%	5.1%	5.3%	2.3%	5.7%	5.8%		
Facilities Management	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	5.3%	6.2%	4.2%		
Security Services	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	7.3%	3.7%	8.4%		
Cleaning Services	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	4.3%	6.5%	13.8%		
Construction Work	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	-15.0%	11.0%	2.0%		
Materials and Supplies Sourcing	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	6.6%	5.7%	3.0%		
Vending Machine Services	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	8.9%	-5.2%	0.2%		
Support Services	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	9.1%	17.3%	11.9%		
Operating profit	3,540	4,162	3,601	4,558	3,625	4,496	3,848	4,738	3,911	4,594	3,950	11,303	11,969	12,455	71.2%	17,500
Facilities Management	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151	1,102	3,201	3,234	3,259		
Security Services	695	717	824	866	696	731	782	823	721	697	736	2,236	2,209	2,154		
Cleaning Services	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524	1,523	4,613	4,616	4,531		
Construction Work	741	754	678	634	932	1,061	709	516	935	851	681	2,173	2,702	2,467		
Materials and Supplies Sourcing	464	490	436	721	568	664	670	904	708	635	716	1,390	1,902	2,059		
Vending Machine Services	551	894	506	1,014	450	775	372	1,249	455	963	432	1,951	1,597	1,850		
Support Services	352	420	179	441	355	556	510	551	575	579	595	951	1,421	1,749		
Elimination	-176	-108	-72	-81	-140	-165	-201	-130	-129	-109	-98	-356	-506	-336		
Amortization of goodwill	-276	-275	-288	-286	-285	-293	-292	-292	-228	-202	-200	-839	-870	-630		
Company-wide expenses	-1,309	-1,381	-1,374	-1,303	-1,478	-1,479	-1,381	-1,270	-1,617	-1,495	-1,538	-4,064	-4,338	-4,650		
YoY	4.4%	-0.5%	6.1%	10.0%	2.4%	8.0%	6.9%	3.9%	7.9%	2.2%	2.7%		5.9%	4.1%		
Facilities Management	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	-11.2%	1.0%	0.8%		
Security Services	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	6.3%	-1.2%	-2.5%		
Cleaning Services	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	9.2%	0.1%	-1.8%		
Construction Work	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	4.0%	24.3%	-8.7%		
Materials and Supplies Sourcing	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.2%	36.8%	8.3%		
Vending Machine Services	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	9.6%	-18.1%	15.8%		
Support Services	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	-0.8%	49.4%	23.1%		
OPM	5.3%	6.2%	5.5%	6.8%	5.1%	6.2%	5.7%	6.7%	5.2%	6.1%	5.5%	5.7%	5.7%	5.6%		
Facilities Management	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	9.3%	8.9%	8.6%		
Security Services	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	8.2%	7.9%	7.1%		
Cleaning Services	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	14.0%	13.1%	11.3%		
Construction Work	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	6.7%	7.5%	6.7%		
Materials and Supplies Sourcing	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	3.9%	5.1%	5.3%		
Vending Machine Services	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	7.6%	6.5%	7.5%		
Support Services	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	8.6%	11.0%	12.0%		
OP composition																
Facilities Management	19.4%	18.5%	20.3%	16.0%	18.9%	17.2%	18.9%	15.1%	17.1%	18.0%	19.0%	18.3%	18.3%	18.0%		
Security Services	13.1%	12.1%	15.6%	13.6%	12.6%	11.4%	13.7%	12.8%	12.3%	10.9%	12.7%	12.8%	12.5%	11.9%		
Cleaning Services	27.7%	26.2%	30.1%	26.3%	26.8%	23.9%	27.9%	22.0%	25.2%	23.8%	26.3%	26.4%	26.1%	25.1%		
Construction Work	14.0%	12.7%	12.8%	10.0%	16.9%	16.5%	12.4%	8.0%	15.9%	13.3%	11.8%	12.4%	15.3%	13.7%		
Materials and Supplies Sourcing	8.8%	8.3%	8.2%	11.3%	10.3%	10.3%	11.7%	14.1%	12.0%	9.9%	12.4%	8.0%	10.8%	11.4%		
Vending Machine Services	10.4%	15.1%	9.6%	15.9%	8.1%	12.1%	6.5%	19.4%	7.7%	15.0%	7.5%	11.2%	9.0%	10.2%		
Support Services	6.6%	7.1%	3.4%	6.9%	6.4%	8.6%	8.9%	8.6%	9.8%	9.0%	10.3%	5.4%	8.0%	9.7%		

Source: Shared Research based on company data

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

Full-year performance

(JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	305,000
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	8.5%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%	7.4%	
SG&A-to-sales ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,500
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	4.7%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.7%
Recurring profit	8,186	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,500
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.9%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.7%
Net income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,000
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	3.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.3%

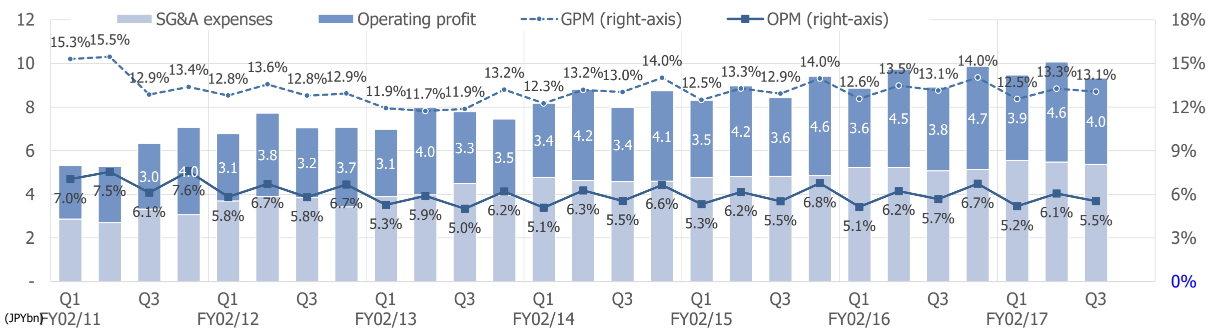
Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	305,000
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	50,516	
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	32,741	
Support Services	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639	
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	8.5%
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	6.1%	
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	-6.0%	
Support Services		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,500
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	4,206	
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	3,032	
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	6,031	
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	3,218	
Materials and Supplies Sourcing				627	1,234	1,462	2,333	2,111	2,806	
Vending Machine Services				1,480	2,330	2,396	3,068	2,965	2,846	
Support Services				590	312	741	1,160	1,297	1,972	
Elimination, other			-5,125	-5,698	-5,843	-6,180	-7,334	-6,929	-7,406	
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	4.7%
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	
Materials and Supplies Sourcing					96.8%	18.5%	59.6%	-9.5%	32.9%	
Vending Machine Services					57.4%	2.8%	28.0%	-3.4%	-4.0%	
Support Services					-47.1%	137.5%	56.5%	11.8%	52.0%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.7%
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	
Support Services				11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	
OP composition										
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.0%	18.5%	17.4%	
Security Services			18.1%	15.6%	14.4%	13.4%	12.8%	13.6%	12.6%	
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.5%	27.6%	25.0%	
Construction Work			8.8%	6.8%	9.9%	11.0%	11.5%	12.3%	13.3%	
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.4%	9.3%	11.6%	
Vending Machine Services				8.3%	11.9%	11.9%	13.7%	13.0%	11.8%	
Support Services				3.3%	1.6%	3.7%	5.2%	5.7%	8.2%	

Source: Shared Research based on company data

Q3 FY02/17 results (announced January 11, 2017)

- **Q3 (cumulative):** Received the first substantive integrated facility management (IFM) order in December; increase in orders from domestic and overseas clients other than commercial facilities resulted in higher sales and profits. Profits reached new record highs.
  - **Progress versus forecast:** Q3 profits landed more or less in line with forecast despite downward push from investment costs of multiple large-scale projects, e.g., IFM and revitalization of commercial facilities.
- **Priority issues**: IFM, labor reduction, and shifts to Asia; efforts to break into top 10 in the facility-management industry in China
  - **IFM**: Closed multiple-year contract with a domestic global enterprise and started provision of integrated services. Began drive to implement IFM in earnest by strengthening company organization.
  - **Labor reduction**: Improved cost structure for its Cleaning Services through better work efficiency, introduction of new floor coatings and robots, to strengthen its business foundation.
  - **Shifts to Asia**: Took a more proactive stance in M&A with an aim of achieving overseas sales of JPY50bn and OPM in line with its domestic results in FY02/21.
- **Next medium-term plan:** To be announced in April 2017. The company intends to focus on business growth based on the aforementioned initiatives.

Earnings trend (JPYmn)



Source: Shared Research based on company data

Earnings overview

Q3 (cumulative): More domestic and overseas clients (more orders from major facilities) boost higher sales and profits. Profits marked new record highs.

Sales:	JPY222.9bn (+5.8% YoY)
Operating profit:	JPY12.5bn (+4.1%)

Sales rose at all seven segments, led by a double-digit increase at Cleaning Services and Support Services. Operating profit, recurring profit, and net income all reached new record highs. The company left its full-year earnings forecast unchanged. From Q4 FY02/16, the company changed its method for distributing SG&A expenses between segments. The change pushes up operating profit at Materials and Supplies Sourcing Services and Vending Machines Services segments (Materials and Supplies Sourcing: about JPY60mn; Vending Machines: over JPY300mn), while pulls down operating profit for all other segments.

Q3 profits largely in line with forecast despite downward push from investment costs of multiple large-scale projects, e.g., IFM and revitalization of commercial facilities

While the company initially targeted growth in operating profit (+JPY3.5bn–4.5bn in gross profit and +JPY2.7bn–3.0bn in SG&A expenses), Q3 saw investment costs increase due to multiple large-scale projects. As a result gross profit only rose JPY1.4bn YoY, showing sluggish growth in comparison to the Q2 result (+JPY946mn YoY). That said, Shared Research believes that, as the company kept down SG&A expenses to offset the expected lower gross profit, operating profit landed more or less in line with the forecast. Growth initiatives (mostly in personnel expenditures) came to about JPY400mn out of the planned JPY1.0bn, which was not a significant change from Q2 (about JPY300mn), barring an increase in recurring expenses.

Broader customer base

Domestic businesses: Proposals on and order receipts for integrated facility management (IFM) progressing

The company expanded customers in Japan and overseas. In Japan, Aeon Delight started to provide services to large commercial facilities, medical facilities, hotels, universities, and multipurpose facilities, and the conversion of Hakuseisha to a wholly owned subsidiary in FY02/16 means it now also provides services to department stores. We will pay attention as the company continues to market proposals (and receive orders) for integrated facility management (IFM) for entire buildings or all facilities of corporate groups such as main offices and factories. Aeon Delight continues to steadily acquire customers. In Q3, the company started offering IFM to major pharmaceutical manufacturers from December. The company will also start providing services to domestic laboratories of foreign IT companies in Q4 from January.

Order receipt for the first substantive IFM project

IFM services to a major pharmaceutical manufacturer represent the company's first substantive IFM project (the first of its kind in Japan, according to the company's estimate). This project is based on a new form of a multi-year contract, which guarantees cost reduction and quality. While the investment costs slightly exceeded the forecast, the company is aiming to ride on this order receipt to acquire similar large IFM orders. Indeed, it established a headquarters for promotion of its IFM business in October 2016 to start winning orders, working closely with subsidiary GSI.

The IFM project launched in Q4 FY02/16 was developed into the IFM contract format starting from hygienic cleaning services. This underscores the business potential of cultivating existing projects.

Sales grew over 20% in overseas businesses barring the sale of a subsidiary, with operating profit growth of JPY200–300mn YoY

The company has also expanded its overseas customers:

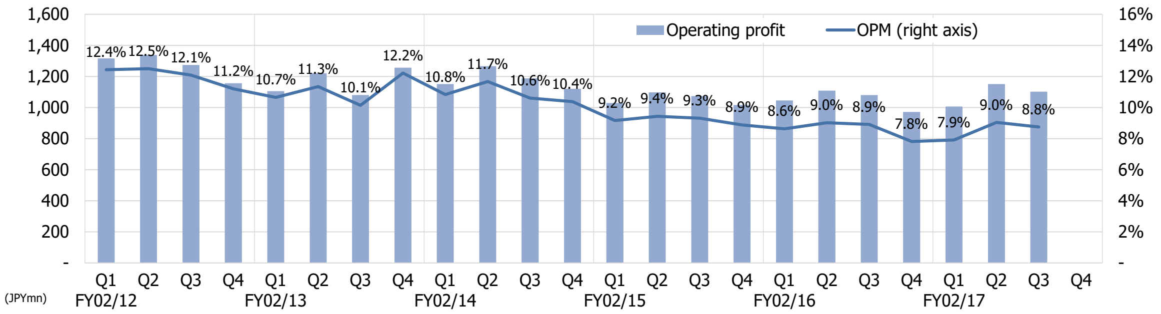
- China: expanded services to include embassies, Chinese commercial facilities and government facilities
- Malaysia: expanded services to include cleaning work for commercial facilities as well as initiatives to acquire facilities management contracts
- Vietnam: expanded customer base and services to various types of facilities, including local Japanese commercial facilities
- Other: started a survey examining possible expansion to new areas including Indonesia and Thailand

The increase in overseas customers resulted in a 17% rise in sales.

That said, sales declined by about JPY400mn owing to the sale of a subsidiary (elevator-related). Excluding this negative impact, Q3 results showed over 20% growth. In operating profit, both Vietnam and Malaysia made a turnaround from losses in the previous fiscal year (on a full-year basis, Malaysia had already turned to profitability in FY02/15 and Vietnam in FY02/16). Overall, profits at overseas businesses grew JPY200–300mn YoY.

In China, the company began to work on a plan to participate in a major urban development project being undertaken by the municipal government of Suzhou City in Jiangsu Province, and established a joint venture with a real estate investment development company led by the municipal government in the aim of facilitating its participation in the project. Aeon Delight intends to provide services for various facilities that are being constructed in this province. The company is targeting growth in China and the ASEAN region (growth markets) and is allocating management resources to these regions.

Facilities Management



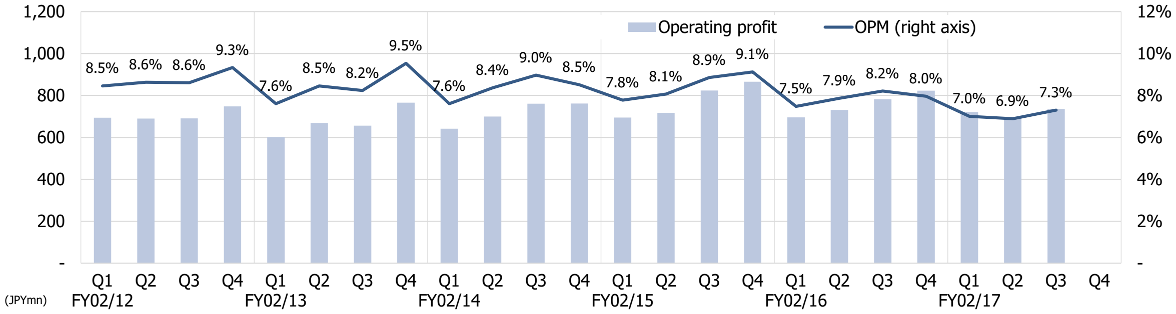
Facilities Management (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732	12,593	
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151	1,102	
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	

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

Source: Shared Research based on company data

In addition to receiving new orders for maintenance and inspection, it continued to build up its system for contract fluorocarbon management services, targeted toward facilities with equipment that uses fluorocarbon refrigerant, such as air conditioning equipment for heat, and refrigeration and freezing equipment. As a result, the company was receiving more orders for fluorocarbon management services. It is also developing a new facilities management model that takes advantage of IoT technologies, various sensors and cloud computing. The company helped clients prevent fluorocarbon leaks by conducting simple inspections and periodic inspections of equipment and offering to collect certain equipment using the resulting data obtained. In addition, by providing services aimed for efficient energy management, the company's operations and maintenance services for power plants that utilize renewable energy now service a total of roughly 400 properties with a generation capacity of 212,000 kW.

Security Services



Security Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116	10,080	
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	
Operating profit	695	717	824	866	696	731	782	823	721	697	736	
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	

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

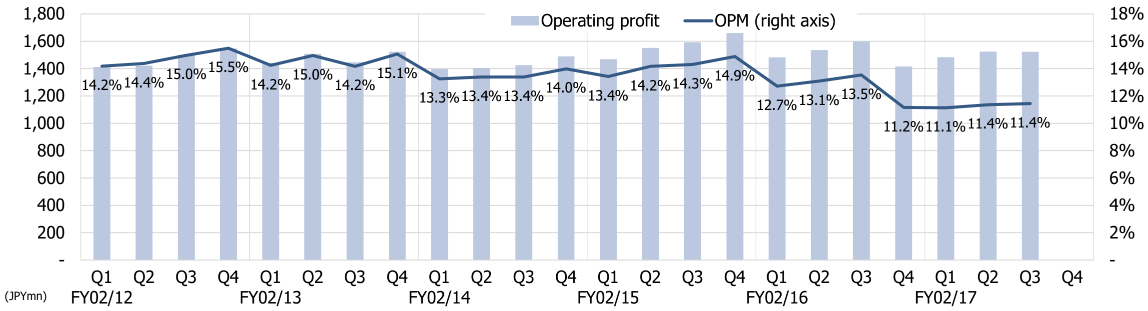
Source: Shared Research based on company data

Strengthens management to expand the customer base; starts building a labor-saving system that utilizes IoT to eliminate labor shortages and improve quality

In addition to on-site security guards at new facilities, Aeon Delight also provided more temporary security services as needed for the opening of new businesses. Shared Research believes that what appears to be an operating loss is attributable to the change in the distribution method for SG&A expenses.

The company has also started a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. The new system adds crisis management and is aimed at responding to the occurrence of violent crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety.

Cleaning Services



Source: Shared Research based on company data

Cleaning Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420	13,308	
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524	1,523	
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	

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

Source: Shared Research based on company data

Hygienic cleaning system: New orders though scale is small; developed hygienic cleaning services into an IFM project

In addition to new contracts, the company worked to actively increase the number of contracts in the hospital and nursing home market, and has started to create cleaning quality standards based on the needs of each facility. In Q1, the company received orders for specialized hygienic cleaning for medical institutions in the Tohoku and Hokkaido regions. As mentioned, the company has succeeded in developing hygienic cleaning services into an IFM project. This was the result of efforts by the company in FY02/16 to ensure that each business is able conduct hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, the cost structure of orders received in early FY02/16 has gradually improved.

Regular cleaning: Standardization models and small group activities; create criteria for cleaning quality based on each facility

In regular cleaning services, the company will continue standardization to attain a 20% GPM (Phase III), while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company has stepped up efforts on this front, such as establishing criteria for cleaning quality based on the requirements of each facility, with the aim of initiating a full-scale rollout in FY02/17.

Q3 sees expansion of eligibility for social insurance, offsetting improved CoGS

In Q3, higher personnel costs stemming from the expansion of eligibility for social insurance starting in October 2016 offset the positive effects of improved CoGS. Moreover, as it remains a challenge to improve profitability at outsourcing partners, the company will continue working on improving its income structure.

Hakuseisha: Improved earnings and synergies expected to emerge from FY02/18 onward

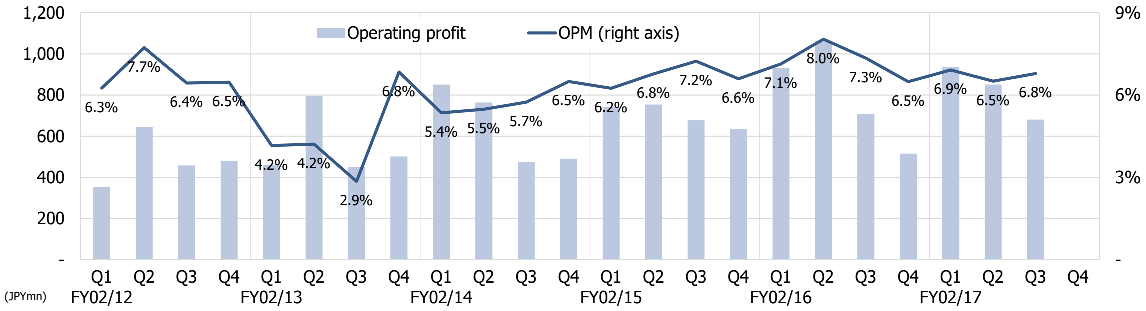
Consolidating Hakuseisha (from Q4 FY02/16) led to the Cleaning Services business posting a double-digit YoY sales increase. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is one of the expected synergies. However, Aeon Delight appears to be conducting reforms carefully so that it does not affect clients. Shared Research expected benefits from these reforms to gradually emerge toward the end of FY02/17. However, cumulative Q3 results showed that profitability had not improved as expected partly because the company had not yet fully reformed its income structure. Aeon Delight is aware of the issue regarding the delayed improvement and is set to actively improve its business structure and profitability in FY02/18.

Of Hakuseisha's sales (about JPY2.3bn in Q1, JPY4.6bn in 1H FY02/17, and JPY7.2bn in cumulative Q3), cleaning services accounted for about 50%, security services accounted for about 30%, and facilities management services accounted for about 20%.

Development on track as company readies simplified cleaning robot for commercial use in FY02/17

In order to maintain its long-term competitiveness, the company is continuing research to develop cleaning robots for commercialization, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. Testing in preparation of introduce the robot to multiple stores in FY02/18 was on track. It is likely to continue testing until the full-fledged introduction of the cleaning robot, but expects positive results. In addition to introducing the cleaning robot, the company seems to be exploring new business development opportunities using the robot as a launching pad.

Construction Work



Construction Work (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070	10,033	
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	
Operating profit	741	754	678	634	932	1,061	709	516	935	851	681	
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	

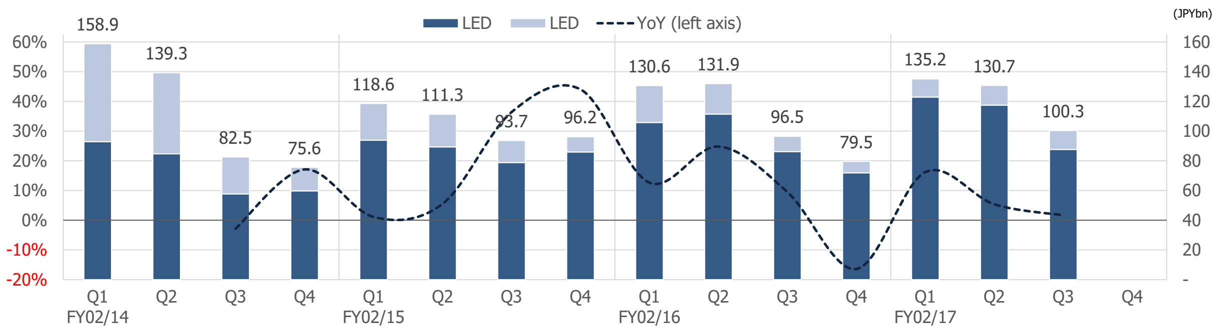
Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218
YoY	-	-8.1%	59.5%	14.1%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

Source: Shared Research based on company data

Orders for revitalizing commercial facilities increase

In addition to construction projects to improve safety, the company made efforts in 1H to strengthen its architecture and design framework, which should allow it to enhance the attractiveness of facilities. The company has developed all-in-one services, ranging from restoration work as part of repairs (primarily from commercial facilities) to temporary enclosures, construction, and interior management, and through its ongoing sales activities has continued to win various projects including for the repair, maintenance and revitalization of commercial facilities. It has also steadily acquired contracts for energy-saving repairs.

Sales from work other than LED lighting installations (JPYbn)



Source: Shared Research based on company data

Construction Work expected to be earnings driver again in FY02/18

For FY02/17, the company plans to offset the fall in LED lighting installations mainly with work for revitalizing facilities. The company won more orders for maintenance work due to its sales efforts in FY02/16. Orders appeared firm in Q3 (full-year order projection: about JPY7bn). The sudden growth partly stems from an increasing number of orders to renovate aging general merchandise stores nationwide. Another factor is that shopping malls renovate their stores whenever necessary and generally conduct a comprehensive renovation once every six years. Moreover, as LED lighting installations grew significantly in FY02/13 (by an estimated JPY25–30bn), these may create demand for renewal down the line.

Aiming to secure more renovation work at existing malls operated by Aeon Mall

As a general rule, Aeon Mall (8905) undertakes major renovation work at its existing malls once every six years. Shared Research will pay attention to this steady workflow, along with contracts for large-scale renovation projects undertaken by Aeon Retail going forward. Aeon Mall plans to revitalize 21 malls in FY02/17 (compared to 12 malls in FY02/16) and conducted renovations for 10 malls in 1H (all renovations took place during Q1) and seven malls in Q3.

The company estimates that Aeon Mall (which has a total of about 350 malls across Japan) generates demand amounting to JPY200bn yearly. In its promotional activities to all the malls during 1H, the company received favorable response, with comments expressing surprise at its wide range of services. As such, the company views it as a promising new market, holding high hopes for it moving toward FY02/18. Aeon Delight apparently aims high, anticipating sales related to Aeon Mall in FY02/18 to see an increase of 1.5x to 3x YoY.

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

Aeon Retail to boost spending on store renovation

Aeon Retail is renovating existing stores to bolster its supermarket operations, and sales at existing stores are increasing as a result.

> For reference: Sales at Aeon Retail's existing stores fell 1.7% YoY in Q1, but those at stores that underwent revitalization in 2H FY02/16 rose 0.2% in Q1.

Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 a total of 28 stores were part of large-scale renovation projects (spending of JPY30mn or more). There were 43 such stores in FY02/16 (1H: 24, 2H: 19) and the company conducted renovation work for 52 stores in cumulative Q3 FY02/17 (38 stores in 1H, 21 stores in Q1 FY02/17).

Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

Daiei boosts investments aimed at transforming to an urban-type super market chain

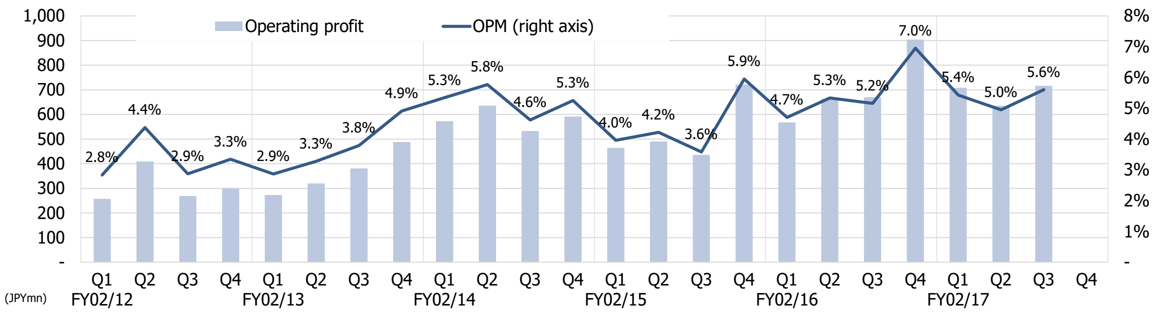
Subsidiary Daiei, Inc. has been transitioning from a general merchandise store chain to an urban-type supermarket chain.

Based on plans to change one-third of its stores (182 at the end of Q1) to urban-type supermarket stores by the end of FY02/17, the company renovated three stores into urban-type stores in Q1, bringing the total to 19. Sales at 16 comparable stores that were renovated increased 7% YoY while those at stores that have not been renovated declined 2%. The difference in sales between the two types of stores is large at around 10pp. In Q3, the company seems to have received large orders, such as a project to renovate the Himonya store into an Aeon Style store.

External factors behind double-digit drop in Construction Work revenues in Q4 FY02/16

The aggressive store renovation plans at the Aeon group level notwithstanding, at the individual store level, the work flow to Aeon Delight from small-scale projects is sometimes subject to delays, particularly when individual stores cut spending in order to meet their earnings targets. This was especially evident in Q4 FY02/16, and led to a 17.3% YoY decline in revenues and 18.6% decline in operating profit at the Construction Work business in the last quarter of the fiscal year. Shared Research will pay attention to this trend when looking at the company's Q4 FY02/17 earnings. The company emphasized that this was *not* due to a loss of orders to competitors. This tendency disappeared in Q1 FY02/17 and revenues from renovation work increased mainly from renovations for malls.

Materials and Supplies Sourcing Services



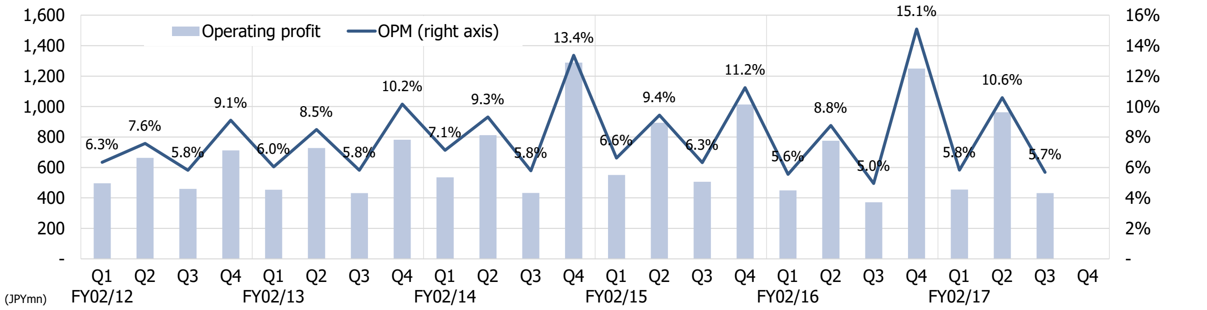
Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822	12,779	
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	
Operating profit	464	490	436	721	568	664	670	904	708	635	716	
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	

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

Source: Shared Research based on company data

In addition to new orders, the company capitalized on demand from existing clients with new stores. The company continued to focus on increasing its profitability by reducing storage costs by improving the accuracy of demand forecasts and cutting logistics costs.

Vending Machine Services



Vending Machine Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101	7,599	
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	
Operating profit	551	894	506	1,014	450	775	372	1,249	455	963	432	
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	

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

Source: Shared Research based on company data

FY02/16 saw a 6.0% decrease in sales, compared to FY02/15, when sales increased with new vending machine installations. The reactionary fall in sales continued in 1H FY02/17 as there were still many new vending machine installations in Q1 FY02/16. Even though sales fell 3.7% YoY in Q1, sales bounced back since Q2.

As the company has a sense of crisis about the future of the Vending machine services business, it has implemented the following measures: 1) The company has been working to install more vending machines, particularly those that stock a variety of popular products from different manufacturers; 2) In a bid to reform the income structure, it has expanded installations of value-added vending machines, such as those with digital signage displays, at large-scale commercial facilities; and 3) It has also worked on providing more space for video advertisements and options for users to select a language from among multiple languages. At the beginning of FY02/17 (in March 2016), the company established a special sales team to develop new customers and aggressively push vending machine location proposals at client facilities, a step that was deemed necessary to help counter the ongoing decline in vending machines sales across the industry. Development targeting private brand drinks has been steady for 2H.

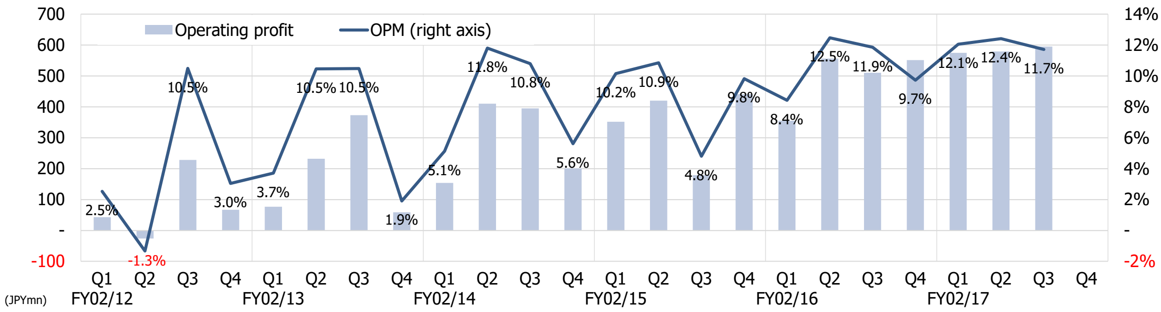
Focus on developing advertising business for vending machines with digital signage displays

For vending machines with digital signage displays, the company has developed a new business model, including offering video advertisements in addition to existing drinks. This may become a new revenue source but the full-scale contribution is likely to begin in FY02/18. According to the company, it expects high profitability from this business model even taking into account fees paid to advertising firms and an increase in depreciation due to installing vending machines with digital signage displays.

In 1H, the company focused on installing vending machines with digital displays. The company had installed around 700 machines as of the end of FY02/16 and nearly 800 as of the end of Q1. As of Q1, the company was behind its target of installing 1,700 units by the end of FY02/17, but its total installation amount of just under 1,200 units in Q2 brought it back on target. However, in Q3, the company fell behind the target again with a total installation amount of just over

1,200 units. There is no change in its plan to keep up the expansion momentum in FY02/18. The delays in installation have caused advertising revenue to miss its target.

Support Services



Support Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666	5,080	
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	
Operating profit	352	420	179	441	355	556	510	551	575	579	595	
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,540	18,639
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
Operating profit	748	590	312	741	1,160	1,297	1,972
YoY	-	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%
OPM	13.8%	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%

Source: Shared Research based on company data

Subsidiary Aeon Compass Co., Ltd. (travel agency) expands earnings, Kajitaku makes a sudden recovery in Q3, contributing to rise in consolidated profits

Growth at consolidated subsidiaries made a significant contribution to earnings and profitability. Support Services accounted for JPY328mn of the consolidated operating profit growth of JPY486mn. Both Aeon Compass and Kajitaku earnings grew at a clip.

Kajitaku, a subsidiary which provides professional household services of Kaji Cloud had boosted segment growth, saw a slight fall in sales in reaction to large demand backed by campaigns in 1H FY02/16. However, a surge in renewal demand in its copy machine business in Q3 helped sales bounce back to a rise of about 10% for cumulative Q3. As of 1H, Kajitaku planned to conduct similar campaigns in 2H and was likely to contribute to a rise in full-year sales, in line with plans. Indeed, the company expects Q3 sales to land in line with forecast, with a contribution from its copy machine business. Still, the B2B business field appeared to make only a small contribution to sales in 1H. At Aeon Compass, the corporate business, such as Business Travel Management (domestic business trips, support for overseas assignments) continued to see strong sales.

Business alliance with VOYAGE GROUP

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

Operational tie-up

According to a presentation by the Ministry of Economy, Trade and Industry, the market size for home support services will be roughly JPY600bn. In the midst of a growing market, Kajitaku bundled and sold its housework support services primarily to retailers, boosting its earnings.

Through the operational tie-up, Kajitaku will focus on developing housework support services and managing those services. Voyage Nexus will be responsible for features on Kajitaku.com and the Members Personal Page, features that Kajitaku used to run. Voyage Nexus will also improve customer relations and online sales by redesigning the website, making it smartphone compatible, and creating an app for the site. The company will assist in the development of a housework support services system for the staff. The tie-up plans to leverage Voyage Group's user base of roughly 8.4mn to promote and market its housework support services. Voyage Group's user base is primarily women in their 30s and 40s on the Group's websites such as EC Navi, a point navigation site, and PeX, a point exchange platform.

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

Full-year company forecasts

Forecasts (JPYmn)	FY02/15 1H	2H	FY	FY02/16 1H	2H	FY	FY02/17 1H Act.	2H Est.	FY Est.	FY02/17 Initial est. 1H Est.	2H Est.	FY Est.
Sales	**134,049**	**132,656**	**266,705**	**142,783**	**138,258**	**281,041**	**151,400**	**153,600**	**305,000**	**150,000**	**155,000**	**305,000**
YoY	0.4%	7.2%	3.7%	6.5%	4.2%	5.4%	6.0%	11.1%	8.5%	5.1%	12.1%	8.5%
CoGS	116,771	114,817	231,588	124,185	119,466	243,651	131,856					
Gross profit	**17,278**	**17,839**	**35,117**	**18,598**	**18,792**	**37,390**	**19,544**					
YoY	1.7%	6.6%	4.2%	7.6%	5.3%	6.5%	5.1%					
GPM	12.9%	13.4%	13.2%	13.0%	13.6%	13.3%	12.9%					
SG&A expenses	9,575	9,681	19,256	10,476	10,206	20,682	11,039					
SG&A-to-sales ratio	7.1%	7.3%	7.2%	7.3%	7.4%	7.4%	7.3%					
Operating profit	**7,702**	**8,159**	**15,861**	**8,121**	**8,586**	**16,707**	**8,505**	**8,995**	**17,500**	**8,500**	**9,000**	**17,500**
YoY	1.7%	8.2%	4.9%	5.4%	5.2%	5.3%	4.7%	4.8%	4.7%	4.7%	4.8%	4.7%
OPM	5.7%	6.2%	5.9%	5.7%	6.2%	5.9%	5.6%	5.9%	5.7%	5.7%	5.8%	5.7%
Recurring profit	**7,725**	**8,218**	**15,943**	**8,139**	**8,545**	**16,684**	**8,506**	**8,994**	**17,500**	**8,500**	**9,000**	**17,500**
YoY	2.0%	9.3%	5.6%	5.4%	4.0%	4.6%	4.5%	5.3%	4.9%	4.4%	5.3%	4.9%
RPM	5.8%	6.2%	6.0%	5.7%	6.2%	5.9%	5.6%	5.9%	5.7%	5.7%	5.8%	5.7%
Net income	**4,380**	**4,345**	**8,725**	**4,682**	**4,976**	**9,658**	**5,342**	**4,658**	**10,000**	**4,800**	**5,200**	**10,000**
YoY	5.6%	8.2%	6.9%	6.9%	14.5%	10.7%	14.1%	-6.4%	3.5%	2.5%	4.5%	3.5%

Source: Shared Research based on company data

Outlook for FY02/17

The company has positioned FY02/17 as a year for accelerating reforms. It revised down its medium-term targets to JPY305.0bn in sales and JPY17.5bn in operating profit (previous targets: over JPY330.0bn in sales and over JPY21.0bn in operating profit). To accelerate reforms, the company plans to focus resources on high potential growth markets overseas, and invest in transforming its business model.

Raising operating profit

In FY02/17, the company forecasts operating profit of JPY17.5bn, up JPY793mn YoY. Factors contributing to this increase are in the following table. The company expects a JPY793mn increase in operating profit, despite roughly JPY1.0bn in large-scale investments.

Measures to raise operating profit

	year-on-year changes
Total growth in gross profit	**JPY3.5bn-4.5bn**
1) Growth in Aeon Delight parent	JPY1.8bn-2.2bn
2) Growth in domestic subsidiaries	JPY1.5bn-2.0bn
3) Growth in overseas subsidiaries	PY200mn-300mn
Impact from higher SG&A expenses	− JPY2.7bn-3.0bn
Growth in operating profit	**JPY800mn-JPY1.5bn**

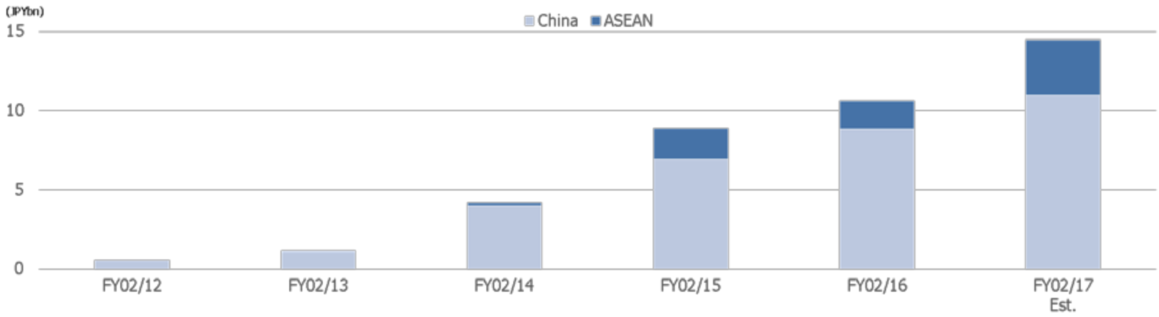
Source: Shared Research based on company data

At Shared Research, we would like to focus in particular on the following measures the company is taking to grow operating profit (some of which have been discussed above): 1) expansion of overseas businesses (grow overseas subsidiaries; 2) Support Services, full-scale launch of B2B partnership for Kaji Cloud cleaning services (grow domestic subsidiaries); 3) buildup of advertising business to support Vending Machine Services business; 4) at the Construction Work segment, expansion of business areas and increase in project work done for Aeon group companies; 5) at the Cleaning Services segment, the introduction of cleaning robots and standardization of cleaning procedures used by partner companies; and 6) aggressive investment in growth areas. Below is an overview of these growth strategies.

Expansion of overseas businesses

Aeon Delight is targeting JPY50bn in total sales from overseas businesses in FY02/21. Of this, the company is looking for roughly JPY30bn from China (representing an average annual growth rate of 30%) and JPY20bn from ASEAN countries (where sales are expected to double in FY02/17 and grow at an average rate of 50% per annum thereafter). This compares with estimated sales of JPY10.5bn-11.0bn in FY02/16 (representing year-on-year growth of roughly 20% versus FY02/15). The company is looking for JPY14.0-15.0bn in overseas sales in FY02/17 (year-on-year growth of roughly 30% versus FY02/16). Of this, the company is looking for about JPY11.0bn in sales in China and sees sales in ASEAN countries doubling.

Overseas sales trends



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

Business in China

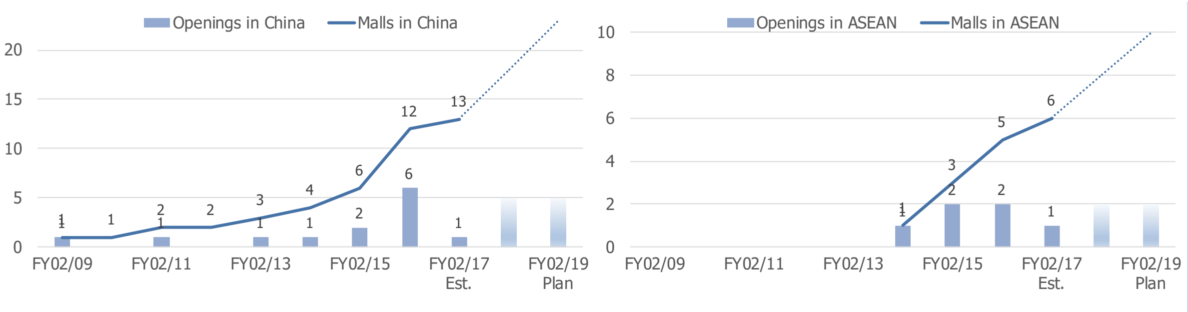
In China, the company is targeting JPY30.0bn in sales in FY02/21. This represents an average growth rate of roughly 30% per annum. Aeon Group companies currently account for about 25% of Aeon Delight's sales and operating profit in China versus 60%-70% in Japan and ASEAN countries. This means Aeon Delight's business in China derives a much higher proportion of sales and earnings from outside the Aeon Group and has a much more balanced client portfolio. The company plans to maintain this balance as its build up its business in China going forward.

In China, property owners are more sensitive to the value of the building than they are in Japan and Aeon Delight sees facilities management becoming an essential business infrastructure service, much like electric power or water. Since China is a growth market, the company plans to continue aggressively allocating management resources to China in FY02/17. Aeon Delight aims to expand its facilities management service network throughout the entire country, extending its geographical reach with the possible help of acquisitions while strengthening its internal control systems for effective nationwide management.

With regard to business in China with Aeon Group companies, we note that Aeon Mall will open only one new mall in FY02/17 versus six in FY02/16. The impact of this on overall results should be relatively small, though, since the Aeon Group accounts for only about 25% of Aeon Delight's sales and operating profit in China and Aeon Mall had a total of 12 malls in operation in China at the end of FY02/16. Going forward, then, Aeon Delight plans to focus its efforts on improving in the profitability of facilities management operations at existing Aeon Malls.

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

Aeon Malls in China and ASEAN countries



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

ASEAN business

In ASEAN countries, Aeon Delight aims to double sales in FY02/17 then grow sales by 50% per year thereafter. Unlike China, about 70% of the company's sales in ASEAN countries comes from Aeon Group companies (roughly the proportion as in Japan). The company plans to focus on expanding its business with Aeon Group members in FY02/17 and then start looking at M&A and expanding into new geographical areas starting in FY02/18.

In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015 to put it on the fast track to get business from Aeon Group stores, and acquired a license to start a security service business. In Vietnam, Aeon Delight is looking to expand its share of the cleaning service market for commercial and other facilities. Growth like that seen in China is unlikely, though, as the regulations governing facilities differs significantly from country to country. Aeon Delight also intends to expand geographically through acquisitions and establish a foundation to become the largest industry player in the ASEAN region. Among new areas, at this time the company appears to be gearing up to move into Indonesia.

Overseas businesses of the Aeon Group

Aeon Mall		Name	Location	Lot area	Leased space	Total floor space	Open date
FY02/2015	China	AEON MALL Suzhou Yuenqu Hudong	Suzhou, Jiangsu	99,300m^2	75,000m^2	218,000m^2	May 2015
		AEON MALL Beijing Fengtai	Fengtai, Beijing	63,800m^2	58,000m^2	150,000m^2	June 2015
		AEON MALL Hanzhou Liangzhu Xincheng	Hanzhou, Zhejiang	98,000m^2	66,000m^2	175,000m^2	November 2015
		AEON MALL Wuhan Jingkai	Wuhan, Hubei	130,000m^2	105,000m^2	274,000m^2	December 2015
		AEON MALL Guangzhou Hanyu Guangchang	Guangzhou, Guangdong	51,400m^2	64,500m^2	173,000m^2	December 2015
		AEON MALL Suzhou Xinqu	Suzhou, Jiangsu	139,000m^2	74,000m^2	approx.162,000m^2	January 2016
	ASEAN	AEON MALL BSD CITY	Jakarta, Indonesia	100,000m^2	77,000m^2	approx.177,000m^2	May 2015
		AEON MALL Long Bien	Hanoi, Vietnam	96,000m^2	72,000m^2	approx.120,000m^2	October 2015
FY02/2016	China	AEON MALL Hebei Yangjiso (tentative)	Sanhe, Hebei	approx. 84,000m^2	-	approx.175,000m^2	Scheduled
	ASEAN	AEON MALL Binh Tan	Ho Chi Minh, Vietnam	approx. 46,800m^2	approx. 59,000m^2	approx.114,000m^2	Scheduled Summer of 2016
FY02/2017	China	AEON MALL Wuhan Shiqiao (tentative)	Wuhan, Hubei	approx. 46,200m^2	-	approx.120,900m^2	Scheduled
		AEON MALL Foshan Dali	Foshan, Guangdong	approx. 83,200m^2	-	approx. 181,600m^2	Scheduled
		AEON MALL Tianjin Jinnan	Jinnan, Tianjin	approx. 91,000m^2	approx. 77,000m^2	approx. 145,000m^2	Scheduled
	ASEAN	AEON MALL Jakarta Garden City	Jakarta, Indonesia	approx. 85,000m^2	approx. 60,000m^2	approx.210,000m^2	Scheduled
FY02/2018	China	AEON MALL Guangzhou Jinshasu (tentative)	Guangzhou, Guangdong	approx. 84,500m^2	-	approx.187,700m^2	Scheduled
	ASEAN	AEON MALL Deltamas	Jakarta, Indonesia	approx.200,000m^2	-	-	Scheduled summer of 2017
	ASEAN	AEON MALL Cambodia	Cambodia, Phnom Penh	approx.100,000m^2	approx. 70,500m^2	-	Scheduled summer of 2018
	ASEAN	AEON MALL Sentul City	Indonesia	approx. 78,000m^2	approx. 71,000m^2	-	Scheduled summer of 2018

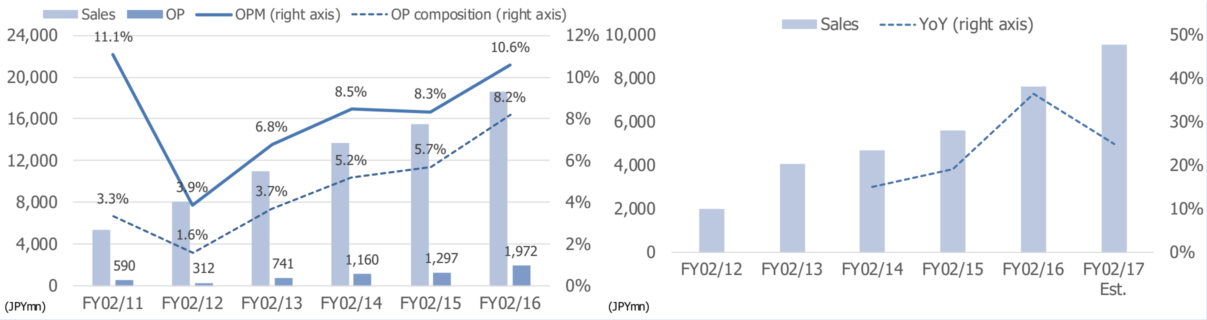
AEON group (exc. malls)		Name	Location	Category	Directly operated floor	Open date
FY02/15 1H	ASEAN	MVTJ Sukhumvit 64 Elio	Thailand	SM	254m^2	May 2015
		MV Watcharapol Venice	Thailand	SM	1,632m^2	July 2015
		AEON Citi Mart GO VAP	Vietnam	SM	4,729m^2	January 2015
		AEON Citi Mart Lancaster	Vietnam	SM	137m^2	April 2015
		AEON Citi Mart Tropic Garden	Vietnam	SM	500m^2	June 2015
		AEON Fivi Mart Nguyen Trai	Vietnam	SM	1,200m^2	March 2015
FY02/15 2H	China	AEON ZhongShan ShiDai	Zhongshan, Guangdong	GMS	22,543m^2	May 2015
	ASEAN	AEON Ipoh Klebang	Malaysia	GMS	20,475m^2	October 2015
		MV Ladplakao the JAS	Thailand	SM	1,364m^2	September 2015
		MV AEON Sriracha Shopping Center	Thailand	SM	2,409m^2	October 2015
		MVTJ Sathorn-Thapara Ideo	Thailand	SM	296m^2	December 2015
		MV Ladkrabang V Market	Thailand	SM	1,200m^2	December 2015
		AEON BIG Ipoh Falim	Malaysia	DS	9,372m^2	December 2015
		AEON Citi Mart CAO THANG	Vietnam	SM	1,000m^2	August 2015
		AEON Fivi Mart Cau Giay	Vietnam	SM	1,810m^2	September 2015
	China	AEON PanYu Plaza		GMS	22,554m^2	February 2016
		Aeon GuangZhou Central One		GMS	22,506m^2	TBA
		Aeon Dongguan Dalang		GMS	37,715m^2	TBA
		Aeon Yanjiao		GMS	14,000m^2	TBA
		Aeon Suzhou Xinqu		GMS	19,268m^2	January 2016
		MV Haizhu-Qianjinlu		SM	1,804m^2	TBA
		MV Hesheng-Guangchang		SM	1,178m^2	TBA
	ASEAN	Aeon Shah Alam	Malaysia	GMS	27,000m^2	March 2016
		Aeon Kota Bharu	Malaysia	GMS	17,900m^2	TBA
		Aeon Binh Tan	Vietnam	GMS	-	TBA
		AEON Fivi Mart Ha Dong	Vietnam	SM	1,910m^2	TBA

Overseas stores of AEON Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
ASEAN	Malaysia	AEON Malaysia	28	30	31	33	75
		AEON BIG Malaysia	-	27	28	28	26
	Thailand	AEON Thailand	29	58	69	75	76
	Vietnam	AEON Vietnam	-	-	-	2	3
		AEON Citymart	-	-	-	-	30
		AEON Fivimart	-	-	-	-	23
	Cambodia	AEON Cambodia	-	-	-	1	1
	Indonesia	AEON Indonesia	-	-	-	-	1
	ASEAN total		57	115	128	139	235
China		AEON Stores Hong Kong	38	42	43	43	49
		Guangdong AEON	12	15	17	17	18
		Quingdao AEON	7	8	9	10	9
		AEON South China	8	9	11	10	10
		Beijing AEON	3	4	4	5	6
		AEON Suzhou	-	-	-	1	3
		AEON Hubei	-	-	-	1	2
	China total		68	79	84	87	97

Source: Shared Research, based on company data

Support Services business: Full-scale launch of B2B Kaji Cloud services

Trends in Support Services sales and earnings (left figure) and Kajitaku sales (right figure)



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

As shown in the accompanying figure, earnings at Support Services have been rising steadily, increasing the proportion of consolidated operating profit accounted for by this segment. Subsidiaries Kajitaku and Aeon Compass have been the main drivers of growth thus far, and Kajitaku, which operates Kaji Cloud services, is expected to drive earnings growth at the Support Services segment again in FY02/17.

Kajitaku provides cleaning, laundry, and other household cleaning services, as well as small business support services (such as copy machine sales), and seen double-digit growth in both these areas, as shown in the figure above. Its popular Kaji Cloud cleaning service package has been a key growth driver and is expected to see rapid growth continue in FY02/17 with revenues roughly tripling versus last fiscal year.

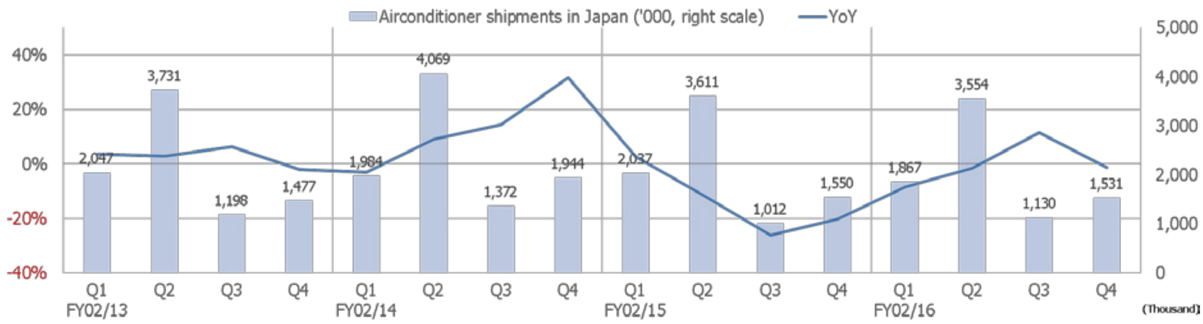
Support Service business to shift to new business model, expand B2B services

Going forward, Shared Research will be focusing especially on the company's new B2B maintenance/cleaning service offerings that were developed in conjunction with manufacturers of major household appliances and equipment. The plan is for these services to be contracted for at the time of the original product purchase. For example, the purchaser of an air conditioner with this service package would be able to contact Kajitaku one year after the original purchases and have the air conditioner cleaned at no additional cost. (Because the service package would be offered by the manufacturer, it would not matter where the product was actually purchased. Kajitaku would only receive payment after it had performed the service and billed the manufacturer.) In the case of household equipment such as system kitchens and system baths, the cleaning service package offered by the manufacturer would probably be good for multiple cleanings.

The company has been working together with major manufacturers to offer such a service package since the latter half of last fiscal year and will be working to extend its reach into new appliance and equipment areas this fiscal year. Going forward, Shared Research will pay close attention to 1) whether the promotion of this service package leads to higher air conditioner sales and, if it does, whether the service package starts being offered in conjunction with more air conditioner models and by more manufacturers; and 2) whether the household kitchen and bath cleaning service package already being offered by Kajitaku starts being offered as part of the purchase package by manufacturers of household equipment and replacement units for kitchens or baths.

The Kajitaku "Sleep-Easy" Mold Removal Service Pack is currently being offered online at a price of JPY12,000. Given the price and the large size of the domestic household air conditioner market (8.08mn units sold in FY02/16), we see expectations running high for this new B2B business.

Trends in domestic air conditioner shipments



Source: Shared Research, based on Japan Refrigeration and Air Conditioning Industry Association statistics

Vending Machine Services: Developing advertising businesses

The company sees both sales and earnings at its Vending Machine Services business declining in FY02/17 as beverage sales drop. In the past, the growth prospects of this business were threatened by the rise in personnel and other costs. Now, however, the company aims to change the business model of its vending machine business by developing an advertising business to create a new earnings stream.

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

As of the end of FY02/16, Aeon Delight owned more than 40,000 vending machines. Up until last year, the company has been busy expanding the selection of private brand goods offered in its vending machines and has also began installing new vending machines with digital signage (hereafter referred to as DS vending machines). As of the end of FY02/16, Aeon Delight had roughly 800 DS vending machine, more than any other domestic competitor. By the end of FY02/17 the company aims to increase this number to 1,700 and, to take full advantage of these new machines, is also planning to use their digital signboards to run motion picture ads.

The DS vending machines Aeon Delight is using are already equipped for motion pictures and, since they are mainly located in shopping malls, their value as an advertising medium is quite high. It takes about nine seconds from the time the customer selects a drink and the drink is delivered, enough time to run an effective ad. The company plans to run trials this fiscal year and, if it appears that the ads are effective, will install more DS vending machines in subsequent years.

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

Construction Work: Increase projects done for Aeon Group companies, expand into new business areas

Increase projects done for Aeon Group companies

The company sees its Construction Work business benefiting from ongoing growth in the number projects done for Aeon Group companies, but it also plans to move into related fields such as architecture and design. Among the work done for group companies, we would especially note the work Aeon Delight is doing for Aeon Mall and Aeon Retail. Aeon Mall is pushing ahead with large-scale renovation projects at its existing malls. Because there is a close correlation between the proportion of shopping malls that have been renovated and YoY growth at specialty store sales, Aeon Mall expects the renovation work to ultimately improve the profitability of its shopping malls. Thinking along the same lines, Aeon Retail plans to increase spending on store renovation by 35% this year.

Aeon Mall says retail sales at its shopping malls tend to peak the third year after a mall is opened and growth then slows in years four and five. This requires Aeon Mall to undertake renovation work in year six, when special store and fixed-term leases come up for renewal. The entire mall is renovated, with new specialty stores coming in and some existing specialty stores either renovating their current location or moving. The cost of this type of mall renovation work, which does not involve any increase in actual floor space, runs between JPY3mn and JPY5mn.

Expansion into new business areas

In addition to secure a steady flow of renovation projects from Aeon Group companies, Aeon Delight is also looking at expanding into new business areas in order to maximize its business opportunities. For example, when malls are being renovated, there is restorative construction work on to be done when a tenant moves out, remodeling work to be done to accommodate the new tenant moving in, and there is of course renovation work on the mall itself. By acquiring experience and expertise in all these different types of construction work, Aeon Delight has put itself in a position to not only do the actual work but also supervise the entire construction process. Going forward, Aeon Delight plans to capture even more of the value-added in the store renovation process by moving into other areas such as architecture and store design. Toward this end, Aeon Delight has been beefing up its workforce since the beginning of this fiscal year, making itself more competitive versus major interior design companies and general contractors.

Cleaning Services: Expand sanitary cleaning business, roll out cleaning robots

At its Cleaning Services segment, Aeon Delight is looking to 1) create a more standardized cleaning process and work with its partner companies to follow those procedures, 2) expand its sanitary cleaning business, 3) begin using cleaning robots, and 4) realize synergies from its recent acquisition of Hakuseisha. Aeon Delight has been working to standardize cleaning procedures for some time and through these efforts has successfully improved its gross margin on cleaning services. Shared Research plans to monitor Aeon Delight's efforts to partner with companies that have not yet adopted its standardized practices.

Sanitary cleaning business

The business model of the Cleaning Services business will evolve as the company moves to expand its sanitary cleaning services and begins using cleaning robots. Aeon Delight began offering sanitary cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. These two major hospitals boosted the number of hospital beds for which the company was providing sanitary cleaning services by 7,000 to 14,000. As of the end of April 2016, the company is providing sanitary cleaning services for approximately 16,000 beds.

Because many of the large national hospital chains are keen on implementing management reforms, Aeon Delight believes that its integrated facilities management service can match these hospital chains' needs for improved sanitation, environmental conditions, safety, peace of mind, service standardization, and cost reductions.

Contract renewal for sanitary cleaning services typically happens every year. That said, few companies replace the cleaning services provided by major groups servicing many medical facilities nationwide. Aeon Delight presents proposals capitalizing on 1) its roughly 500 bases nationwide; 2) its name recognition as a publicly traded company and as a member of the Aeon Group; 3) its track record with major medical institutions; and 4) the visible quality of its cleaning services.

Because hospitals and other medical centers must take steps to prevent patients from becoming infected or transmitting their disease to others while they are in the hospital, Aeon Delight actually offers clients a numerical scale that gives them a visual measure of cleaning quality. During FY02/15, most of the marketing for its sanitary cleaning services was done by a special sales team. However, after receiving training and all the related sales tools, local offices have also been doing their own marketing since FY02/16. If this marketing effort remains on track, the number of sickbeds for which Aeon Delight is providing sanitary cleaning services is expected to increase further.

The profitability of sanitary cleaning services was still relatively low in FY02/16, in part because it was the first fiscal year that the company serviced a major hospital. However, the company expects profitability to improve from FY02/17 as its cleaning staff becomes increasingly proficient at their duties.

Japanese hospitals and clinics

as of October 1, 2013	Hospitals	Hospital beds ('000)	Clinics
Total	**8,540**	**1,574**	**100,528**
National	273	115	573
Public medical institutions	1,242	325	3,591
Social insurance-related organizati	115	34	545
NGOs	312	74	747
Medical corporations	5,722	855	38,544
Private schools	109	55	177
Social welfare services	193	34	8,423
Individuals	320	31	45,006
Other	254	51	2,922

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

Introduction of cleaning robots

Aeon Delight has been working together with cleaning equipment makers and system integrators for some time to develop a self-propelled cleaning robot, and expects to finally put a cleaning robot out in the field in FY02/17. By eliminating some of the features of the self-propelled AI-controlled cleaning robot that is still under development, the company expects to finish development of a simplified cleaning robot sometime this fiscal year.

At the company's results presentation in April, management said that if simple cleaning robots were used to handle all of the cleaning and vacuuming at 500 shopping malls, personnel costs could be reduced by roughly JPY400mn per annum. At this time the company is uncertain about just how much it will invest in cleaning robots or even whether it would be better off to lease robots rather than buy and then depreciate them over time. In any case, the company does not plan to spend so much on robots that its current profitability will deteriorate. Based on the expectation that the biggest boost to efficiency will come from using cleaning robots at large malls, the company sees a phased rollout starting with shopping malls, then proceeding to large general merchandise stores and finally to smaller stores.

Synergies from acquisition of Hakuseisha

Hakuseisha: Trends in sales and earnings

(JPYmn)	FY03/13		FY03/14		FY03/15		FY03/16 Est.	
Sales	9,723	100.0%	10,037	100.0%	9,839	100.0%	9,343	100.0%
Kanto area	4,893	50.3%	4,980	49.6%	4,610	46.9%		
Kansai area	4,216	43.4%	4,286	42.7%	4,392	44.6%		
Chubu area	613	6.3%	771	7.7%	837	8.5%		
Building maintenance	6,983	71.8%						
Securities management	2,588	26.6%						
Other	242	2.5%						
Daimaru Matsuzakaya department stores	2,254	23.2%	2,339	23.3%	2,546	25.9%		
JFR Service	NA		NA		NA			
YoY	1.1%		3.2%		-2.0%		-5.0%	
Gross profit	1,178	12.1%	1,121	11.2%	1,010	10.3%		
SG&A	823	8.5%	856	8.5%	835	8.5%		
Operating profit	354	3.6%	265	2.6%	175	1.8%	140	1.5%
Recurring profit	455	4.7%	449	4.5%	276	2.8%	232	2.5%
Net income	296	3.0%	290	2.9%	172	1.8%	142	1.5%
Net assets	6,169		6,501		6,637			
Total assets	8,024		8,604		8,821			
Net cash	3,123		3,661		3,035			

Note: The J-Front Retailing group accounted for approximately one-third of sales in FY03/15.
Source: Shared Research based on company data

Acquisition aimed at increasing market share, but Aeon Delight also looking to improve earnings structure at Hakuseisha

In FY03/15, Hakuseisha recorded JPY9.8bn in sales and JPY175mn in operating profit (representing a gross margin of 10.3% and operating profit margin of 1.8%), but was expecting sales and earnings to be down in FY03/16. Going forward, Aeon Delight is looking to realize synergies from its acquisition of Hakuseisha and improve profitability at Hakuseisha through a number of measures including 1) expanding Hakuseisha's customer base, starting with the department stores, 2) scouring Hakuseisha's customer base for opportunities to provide additional services, and 3) combining the expertise of both Aeon Delight and Hakuseisha in cleaning and other areas.

Large difference in gross margin between Aeon Delight's Cleaning Services business and Hakuseisha

The company believes further top-line growth at Hakuseisha is possible with the help of 1) and 2), and sees plenty of room to improve profitability with the help of 3). Aeon Delight reported an overall gross margin of 13.3% for FY02/16, with its Facilities Management and Security Service business reporting gross margins close to the average and its Cleaning Services business reporting a gross margin about 5ppts higher. Cleaning and related services account for nearly half of overall sales at Hakuseisha, and the gross margin of its cleaning business is only about half that of Hakuseisha as a whole. If Aeon Delight is able to bring Hakuseisha's gross margin in line with its own, it would make a substantial contribution to earnings.

Aeon Delight is already taking steps to realize the potential synergies from its acquisition of Hakuseisha and intends to aggressively pursue these initiatives going forward. Aeon Delight expects to complete its takeover of Hakuseisha (making it a wholly owned subsidiary) by the end of January 2016, so the acquisition will have only a small impact on consolidated results for FY02/16.

In FY02/17, the company sees Hakuseisha generating sales of JPY10bn and, with SG&A expenses running around JPY930mn, expects operating profit of JPY200-300mn. As more of the synergies outlined above start coming to the fore, Shared Research would expect to see further additions to both the top and bottom line. That said, the still-low level of the gross margin at Hakuseisha will bring down the gross margin of Aeon Delight's Cleaning Services business as well as the gross margin at the consolidated level.

Aggressive investment in growing markets

Aeon Delight plans to change the business models that are being used by its various businesses. In FY02/16, most of the investments in future growth initiatives were in new personnel. The company plans to invest another JPY1.0bn in growth initiatives in FY02/17, all of which has already been included in its current earnings forecast.

Under its medium-term business plan, Aeon Delight is looking to establish itself as an integrated facilities management service provider (giving it a competitive advantage) and, from there, extend its reach as an integrated facilities management service provider around the world. Although the company had to lower the performance targets in its medium-term business plan, one of the reasons for this was the shortfall at its overseas businesses. After establishing a platform for its facilities management service, Aeon Delight plans to use it to expand its share of the domestic market and expand its presence in China. To accomplish this Aeon Delight will consider investing in new systems, business partnerships and/or acquisitions of companies outside Japan, and also investments in new management personnel. The company has hinted that, in some cases this might increase expenses.

That said, the company's initial earnings forecast for FY02/17 incorporates all of the expected increase in spending this year. Going forward, Shared Research plans to keep a close eye on how close earnings match the company's projections and also how closely investments in future growth initiatives track the company's current plans.

Medium/long-term Outlook

In April 2014, Aeon Delight announced a new medium term plan, with FY02/17 as the final year. Targets for FY02/17 include sales of JPY330.0bn or more, operating profit of JPY21.0bn or more, and an operating profit margin of 6.4% or greater. The forecast for FY02/17 announced in April 2016 calls for sales of JPY305.0bn and operating profit of JPY17.5bn (representing an operating profit margin of 5.7%), leaving the company short of the original targets in its medium-term business plan for both sales and earnings. The discussion below reflects the company's thinking behind its medium-term plan.

Under the medium-term business plan, the company aims to reduce its reliance on the Aeon Group and expand its overseas reach, setting sales composition targets of 35% and 10% for the two respective categories. In light of recent employment trends, personnel expenses are expected to rise 2% per year.

The framework for the medium-term plan involves:

1) Establishing itself as an integrated facility management service provider (FMS) (creating competitive advantages);
2) Creating inroads into the Asian market;
3) Establishing a foundation for organizational structure

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

In what follows, we will look at the company's view of its next medium-term plan (FY02/18–FY02/20) as of October 2016. Its view of the medium-term plan as of April 2014 will be discussed later.

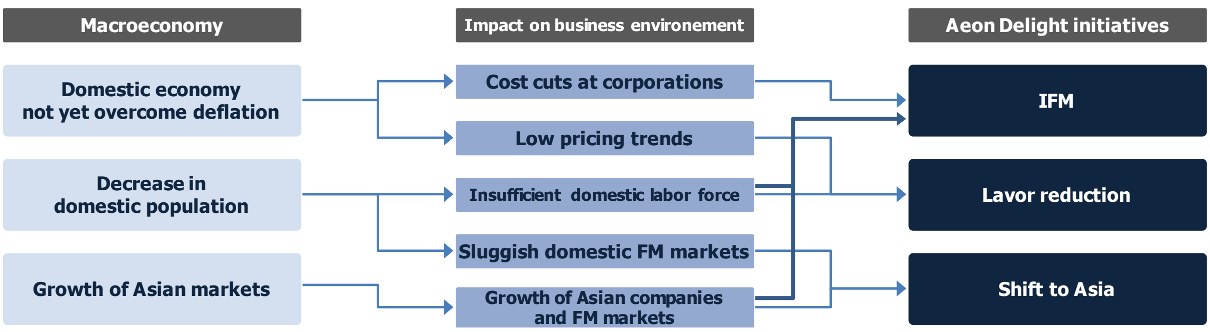
Toward the next medium-term plan (FY02/18–FY02/20) (as of October 2016)

Toward the next medium-term plan

Plans from Q2: Aiming to establish business models that accelerate reforms

The company has positioned FY02/17 as a year for accelerating reforms, and is creating new business models and investing in overseas management resources to generate growth. In Japan, given the business environment of corporate cost reductions, consumer price consciousness, labor shortage, and a lackluster facility management market, Aeon Delight is pursuing integrated facility management (IFM) and labor saving. Overseas, it is shifting its focus to Asia as a management priority. Please see the following for a summary of these topics.

Initiatives taken toward management priority topics



Source: Shared Research based on company data

IFM: Closed multiple-year contract with a domestic global enterprise and started provision of integrated services. Began drive to implement IFM in earnest by strengthening company organization

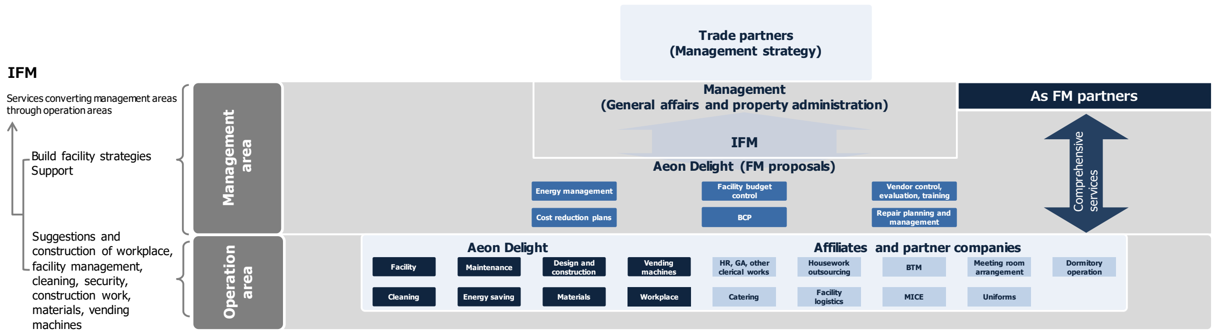
Aeon Delight has been pursuing the establishment of integrated FMS as one of the main aspects of its current medium-tern plan, with the aim of securing a competitive advantage. It has begun to refer to this as IFM (integrated facility management), for the following reasons: a) strong demand for full-scale facility management has paved the way for its introduction, b) the closing of large-scale, multiple-year contracts with a major domestic global enterprise, c) it is globally referred to as IFM. Shared Research believes that the latter is an expression of the company's commitment to global expansion.

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

In September 2016, the company closed a multiple-year IFM contract with a major domestic global enterprise, as the client values the efforts Aeon Delight has made thus far and its BCP readiness. The company is establishing a headquarters for promotion of its IFM business in October 2016 to quickly prepare itself to capture multiple large-scale orders and manage them. Working closely with GSI, the company aims to receive orders by spring 2017.

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

IFM



Source: Shared Research based on company data

Labor reduction: Improved cost structure for its Cleaning Services through better work efficiency, introduction of new floor coatings and robots, to strengthen its business foundation

To evolve its business model and strengthen its business foundations through labor reduction, the company plans to implement the following initiatives:

- **Cleaning Services:** Expand its sanitary cleaning services to more medical institutions, create new cleaning quality standards based on the needs of the particular facility, and conduct research geared toward the development of commercial cleaning robots.

- **Facilities Management:** Develop a new facilities management model that reduces personnel and conserves energy by taking advantage of IoT technologies, various types of sensors and cloud computing.
- **Construction Work:** By strengthening its architecture and design framework, expand its all-in-one outsourcing services to meet the need for renovation work, which is mainly coming from commercial facilities.
- **Vending Machine Services:** Increase digital signage vending machines to run more motion picture aids, expand the type of content, and develop and install more cutting-edge augmented reality vending machines.

Cleaning Services segment

The company intends for the Cleaning Services segment to reach GPM of 20%. To achieve this, it has been pressing forward with the standardization in the division for directly managed services by introducing its second model for standardized cleaning procedures (Phase II) in FY02/15, after reviewing its previous model. Phase I was introduced in FY02/10, but little progress had been made. And in FY02/16, it began Phase III, which takes into account the particular traits of each facility through small-group activities. Having seen a rise of about 30% in labor productivity, it currently aims for a further productivity improvement of about 10%. For Phase IV, it is planning to further improve productivity while preserving work quality, now in its outsourced services in addition to directly managed services.

Along with labor reduction through those operational and business efficiency improvement measures, the company has also continued efforts toward labor reduction and power saving through technological advancements. It has already introduced a water-based floor coating that is both environmentally friendly and lessens the requirement for frequent waxing through improving floor coating durability. This water-based floor coating is expected to be fully introduced at some point in FY02/17, as well as to provide a potential source of profit. The company has also begun experiments concerning IoT usage in its facility inspection business, and has introduced cleaning robots. Usage of cleaning robots is already being tested at Aeon Mall Makuhari Shintoshin, with plans to test new cleaning robots at the same location from October 2016. The company ultimately plans to introduce fully automated robots, following further advances in automation. The company estimates that introduction of 400 cleaning robots means cost cuts of JPY150mn a year (including depreciation costs on the robots), with the company hoping to see results as early as in FY02/19.

Shifts to Asia: Took a more proactive stance in M&A with an aim of achieving overseas sales of JPY50bn and OPM in line with its domestic results in FY02/21

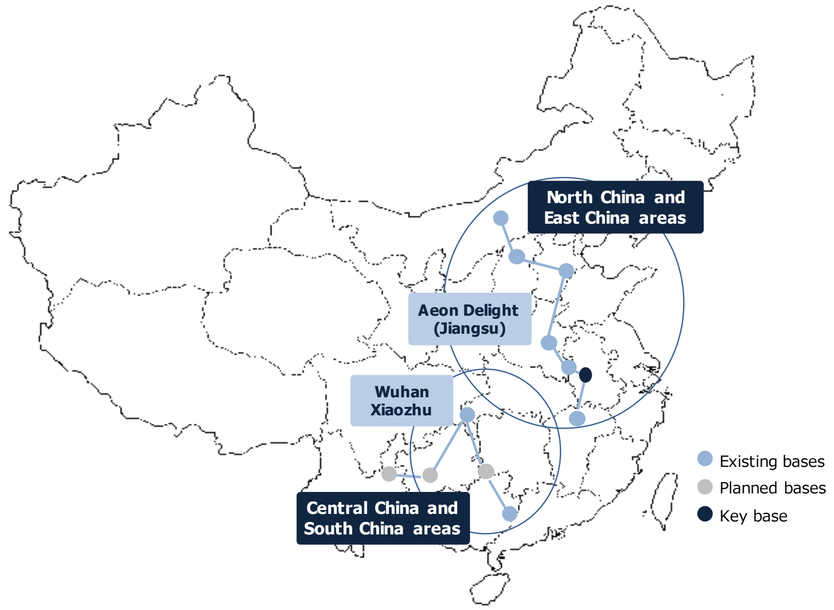
Following its establishment in Beijing, China in 2007, Aeon Delight has grown business by collaborating with leading, major local companies in numerous cities and regions (including M&A activities), and achieved an operating profit in 2014. The facility management industry in China is said to be composed of over 200,000 companies (including small-scale operators), with the company ranking in at about 30 on the business scale. The company aims to be in the top 10 of the business scale by FY02/19, and to achieve sales of JPY30bn in FY02/21.

In order to accomplish this, the company cites the necessity to set up a network of locations in each region of China; it is currently working to establish bases in areas it has not yet done so. Its efforts to establish bases in North China and East China– both key areas– are proceeding smoothly, and it plans to further expand into Central China and South China, with an eye to establishing a network in Northeast China including Dalian.

As part of its strategy to win new clients, the company is focusing on medium- to high-end facilities that require quality services and redevelopment areas where much facility management demand can be expected. The former includes five primary markets: medium- to high-end residential projects, shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities. Focusing on redevelopment areas with high demand entails the company's participation in large-scale urban development projects to win orders.

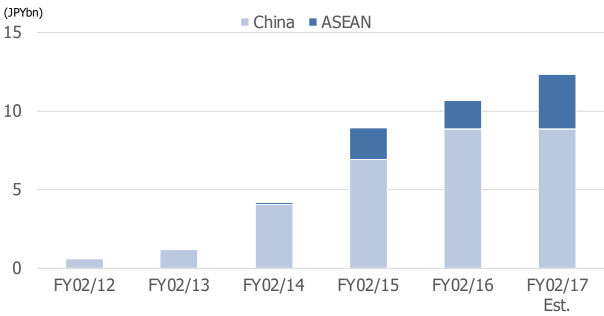
The company aims to garner sales of JPY20bn in FY02/21 in its ASEAN business which is currently growing mainly with Aeon group companies. In 1H, results were generally strong against its full-year forecast (on a local currency basis). Business in Malaysia saw a return to operating profit in 1H (versus operating loss in 1H of FY02/16; it saw an operating profit in full-year FY02/16).

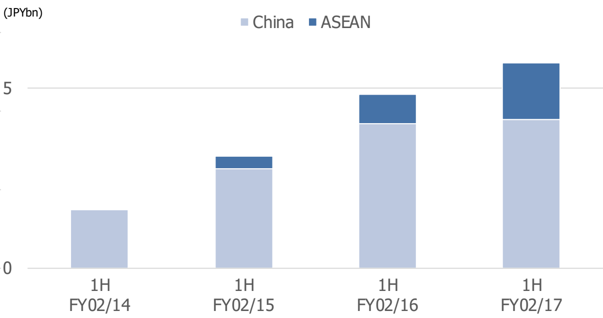
Shifts to Asia



Source: Shared Research based on company data

Overseas sales





Source: Shared Research based on company data

Medium-term plan (released April 2014)

The company's views on increasing sales by JPY73.0bn in FY02/14

M&A not included

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

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

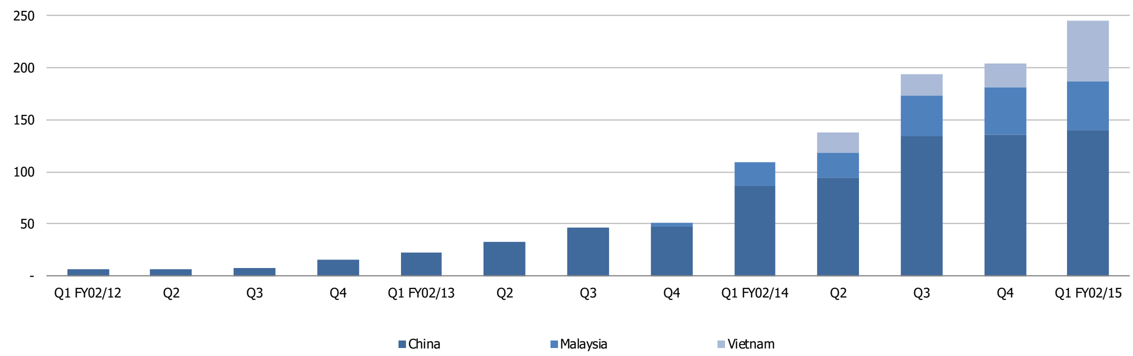
Although specific figures have not been disclosed, Aeon Delight expects approximately 1/3 of the increase in sales to come from sales toward the domestic Aeon Group, 1/3 to come from overseas (including overseas Aeon Group companies), and the remaining 1/3 to come from domestic sales, excluding Aeon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

Sales toward domestic Aeon Group companies

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

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

Number of overseas facilities contracts acquired



Source: Shared Research based on company data

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

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

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

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

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

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

Under the medium term plan, Aeon Delight will continue to press forward with its strategy of acquiring promising local firms. In addition to current acquisitions in Beijing, Tianjin, Jiangsu, Hubei, and Guangdong, preparations are underway to expand into Shandong. Since the 2007 establishment of a local office in Beijing, the company has expanded its business through M&A and partnerships with major players in local markets, and the company is moving to further solidify this strategy.

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

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

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

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

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

Establishing integrated FMS (Creating competitive advantages)

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

Strengthening the cleaning services business

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

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

Expanding into new areas: taking on major nationwide hospital groups

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

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

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

Improving gross profit margin by establishing a standardized cleaning model

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

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

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

Strengthening the energy solutions business

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

ESCO business

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

Energy management for the Aeon Group

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

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

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

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

Building an organizational base

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

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

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

Business

Business description

Aeon Delight provides maintenance services for retail facilities and office buildings. The company, formerly known as Japan Maintenance (a subsidiary of MyCal Corp.), was established mainly to undertake maintenance at Mycal stores in November 1972. Mycal filed for bankruptcy in September 2001 (delisted on September 17, 2001), and became a subsidiary of Aeon in 2003. Japan Maintenance merged with Aeon Techno Service and the name was changed to Aeon Delight in September 2006. As of FY02/13, the company derives 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 JPY5bn 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 JPY500mn to JPY600mn 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.

In January 2016, the company made Hakuseisha a wholly owned subsidiary. Hakuseisha derives about one-third of its sales from the J. Front Retailing Group.

Business overview

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

Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	280,000
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	
Support Services	3,591	5,846	5,412	5,271	7,980	10,823	13,551	15,522	
Others				56	57	119	167	17	
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.0%
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	
Support Services		62.8%	-7.4%	-2.6%	51.4%	35.6%	25.2%	14.5%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	17,000
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	
Materials and Supplies Sourcing				627	1,234	1,462	2,333	2,111	
Vending Machine Services				1,480	2,330	2,396	3,068	2,965	
Support Services				590	312	741	1,160	1,297	
Others			748	215	156	237	331	189	
Elimination, other			-5,125	-5,698	-5,843	-6,180	-7,334	-6,929	
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	7.2%
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	
Materials and Supplies Sourcing					96.8%	18.5%	59.6%	-9.5%	
Vending Machine Services					57.4%	2.8%	28.0%	-3.4%	
Support Services					-58.4%	223.1%	64.5%	33.7%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	6.1%
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	
Support Services				7.1%	2.0%	4.7%	6.1%	7.1%	
OP composition									
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.0%	18.5%	
Security Services			18.1%	15.6%	14.4%	13.4%	12.8%	13.6%	
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.5%	27.6%	
Construction Work			8.8%	6.8%	9.9%	11.0%	11.5%	12.3%	
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.4%	9.3%	
Vending Machine Services				8.3%	11.9%	11.9%	13.7%	13.0%	
Support Services				2.1%	0.8%	2.5%	3.7%	4.9%	

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

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

Facilities Management

Facilities Management (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	40,019	42,147	42,050	43,458	45,839	48,962
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%
Operating profit	5,115	5,084	4,661	4,725	4,217	4,206
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%

Source: Shared Research based on company data

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

Security Services

Security Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	32,088	32,235	31,805	34,242	36,622	38,456
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%
Operating profit	2,764	2,823	2,692	2,865	3,102	3,032
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%

Source: Shared Research based on company data

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

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

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

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

Cleaning Services

Cleaning Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	41,142	39,852	40,519	42,320	44,287	47,870
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%
Operating profit	5,937	5,882	5,918	5,716	6,289	6,031
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%

Source: Shared Research based on company data

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

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

Construction Work

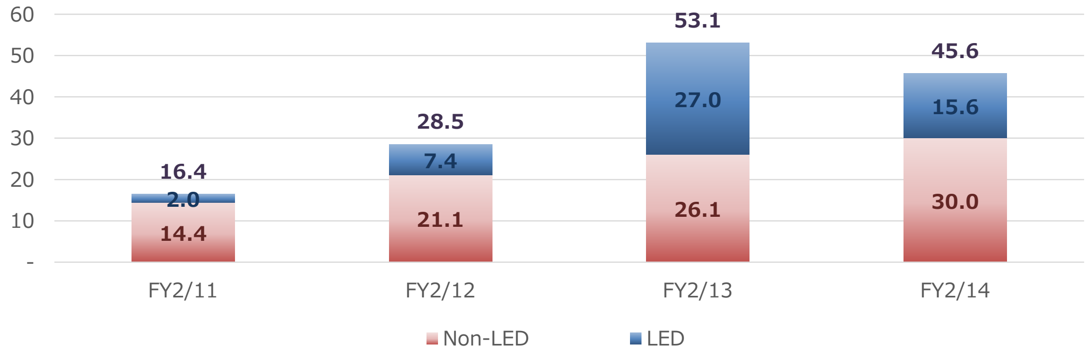
Construction Work (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	16,420	28,513	53,071	45,630	41,972	43,855
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Operating profit	1,214	1,936	2,209	2,580	2,807	3,218
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%

Source: Shared Research based on company data

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

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

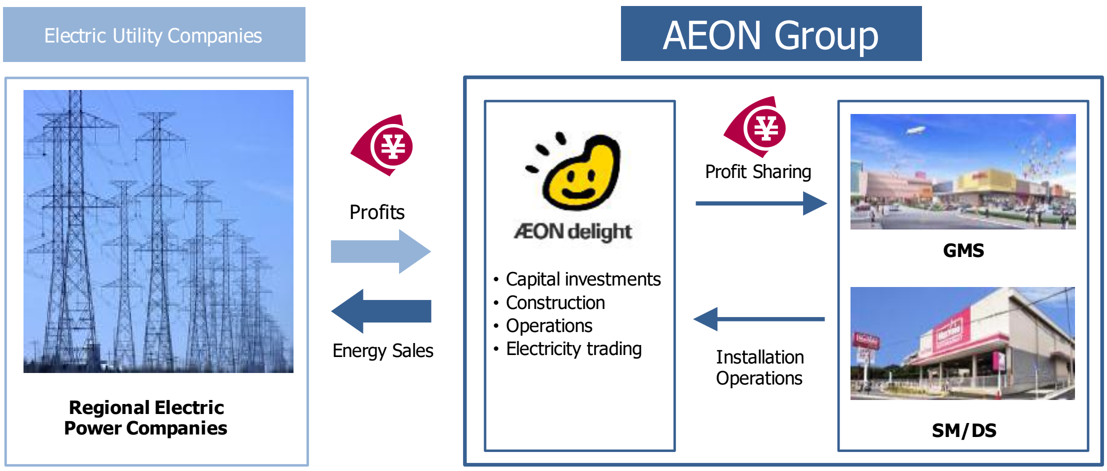
LED-related sales (JPYbn)



Source: Shared Research based on company data

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

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



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

The company's vending machines stock a variety of products from different manufacturers. Aeon Delight operates approximately 40,000 vending machines (as of the end of FY02/16). About 80% of vending machine sales come from machine in supermarkets belonging to the Aeon group. The remaining 20% of sales came from machines in shopping malls operated by Aeon group and non-Aeon companies. Aeon Delight acquired Certo Corp. (delisted from JASDAQ after being acquired) in September 2010, a vending machine operator 66.4% owned by Aeon.

Support Services

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	5,327	8,037	10,942	13,718	15,540	18,639
YoY	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
Operating profit	590	312	741	1,160	1,297	1,972
YoY	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%
OPM	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%

Source: Shared Research based on company data

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

Kajitaku Co., Ltd., a housework services provider, is the main growth driver of the Support Services segment. Sales for

"Kaji Cloud," a housework services package, are contributing to strong growth. A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was acquired in 2011. A to Z Service operates a 24 hour, 365 days a year call center to provide comprehensive support services for retail chains in small-scale shopping centers.

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

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

Overseas business

Aeon Delight is looking to expand into China and Asia in the medium term. In China, expansion is looked at on a per-province basis, and the company is able to expand rapidly through cooperation with the largest regional firms. In China, the company plans to further its relationships with local firms and differentiate itself via its ESCO and elevator businesses. For the ASEAN region, the company will establish a list of integrated FMS services.

Overseas companies

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

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

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

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

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

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

Business model

Aeon Delight became a leading integrated facilities management operator through its relationship with the Aeon group.

It has also grown through acquisitions. The company derives its earnings by providing an integrated, all-in-one package of facilities management services to large-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, Shared Research believes that Aeon Delight's position within the commercial facilities industry is likely to improve, as the company has know-how and expertise.

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

Profit margins (JPYmn)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY2/16
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%
EBITDA	9,711	11,441	11,563	13,818	16,107	16,138	17,547	18,327	19,568
EBITDA margin	7.1%	7.9%	8.2%	8.1%	7.3%	6.5%	6.8%	6.9%	7.0%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%
Financial ratios									
ROA	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%
Total asset turnover	2.9	3.0	2.9	2.6	2.5	2.6	2.4	2.2	2.2
Working capital	7,394	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952
Current ratio	127.7%	149.8%	184.4%	210.0%	215.5%	226.9%	229.9%	224.0%	235.8%
Quick ratio	123.6%	135.8%	166.6%	195.4%	201.0%	207.6%	208.9%	207.5%	216.2%
OCF / Current liabilities	29.4%	31.3%	38.6%	29.0%	30.0%	-12.7%	57.5%	40.1%	22.5%
Net debt / Equity	40.8%	27.6%	34.6%	60.4%	63.5%	43.4%	63.1%	73.4%	68.7%
OCF / Total liabilities	26.0%	31.8%	40.6%	21.5%	27.8%	-12.1%	52.3%	35.5%	21.8%
Cash cycle (days)	14.0	14.3	14.8	10.4	8.2	18.5	20.3	11.7	11.3
Changes in working capital	968	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181

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

Aeon Delight's overall operating profit margin has been generally stable at 6% to 7%.

SG&A breakdown (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256
Provision for doubtful accounts	29	101		77	31	80	80	
Salaries	3,314	3,484	3,650	4,175	5,300	5,897	5,897	
Employee bonuses	615	584						
Provision for bonuses	244	206	120	92	251	323	323	
Provision for director bonuses	114	103	101	121	120	90	90	
Retirement benefits expenses	153	188	195	216	268	295	295	
Provision for director retirement benefits	26	21	24	19	15	18	18	
Other	6,001	6,321	7,058	7,257	8,883	9,623	11,896	
YoY		4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%
Provision for doubtful accounts		248.3%			-59.7%	158.1%		
Salaries		5.1%	4.8%	14.4%	26.9%	11.3%		
Employee bonuses		-5.0%						
Provision for bonuses		-15.6%	-41.7%	-23.3%	172.8%	28.7%		
Provision for director bonuses		-9.6%	-1.9%	19.8%	-0.8%	-25.0%		
Retirement benefits expenses		22.9%	3.7%	10.8%	24.1%	10.1%		
Provision for director retirement benefits		-19.2%	14.3%	-20.8%	-21.1%	20.0%		
Other		5.3%	11.7%	2.8%	22.4%	8.3%	23.6%	
% of sales	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%
Provision for doubtful accounts	0.0%	0.1%		0.0%	0.0%	0.0%	0.0%	
Salaries	2.4%	2.4%	2.6%	2.4%	2.4%	2.4%	2.3%	
Employee bonuses	0.4%	0.4%						
Provision for bonuses	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Provision for director bonuses	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	
Retirement benefits expenses	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	
Provision for director retirement benefits	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other	4.4%	4.3%	5.0%	4.2%	4.0%	3.9%	4.6%	

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

The main driver of SG&A expenses is labor, which accounted for 40% as of FY02/13. The company outsources most of its facilities management work, such as security and cleaning jobs. Outsourcing expenses accounted for 58.5% of total cost of sales as of FY02/13. Its cost of sales increased 29% 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.

Strengths and weaknesses

Strengths

Strong ties with the Aeon Group: Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated form the Aeon Group. This provides for stable sales, and the Aeon Group's expansion into Asia is also proving to be a positive factor for Aeon Delight's growth. The company is able to leverage economies of scale from the Aeon group, and has accumulated expertise in integrated FMS from its transactions with Aeon. This provides for a stable recurring-revenue model.

Industry leader in comprehensive commercial maintenance services: Aeon Delight is the industry leader capable of providing integrated all-in-one building maintenance services such as facilities management, security, cleaning, and renovations. Its competitors can only provide one to two of these services (i.e., security or cleaning). Owners of large-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 integrated service is a competitive advantage over its competitors.

Financial strength to buy growth: Aeon Delight has a very strong balance sheet. Shared Research believes that this balance sheet could be used aggressively to buy growth. According to the Japan Building Maintenance Association, there are currently over 5,000 property maintenance service providers throughout Japan. This market is relatively mature, and a realignment of the industry is possible. Aeon Delight, with its financial strength and industry prowess, would be able to acquire smaller firms with specialized services in local areas. This could lead to further growth and expansion. The company is able to benefit from economies of scale. It can leverage its balance to buy growth since it has a recurring stable source of revenue from the Aeon group. The company could take on debt to expand its business since it has an under leveraged balance sheet.

Weaknesses

Organic growth challenging: Aeon Delight has grown through acquisitions. Therefore, organic growth may be a challenge because the market is relatively mature. There is limited domestic growth and overseas offers one avenue of expansion. M&A activities could dry up, and this could have an impact on earnings. The company has been able to buy growth using its strong financial position.

Overly dependent on the Aeon group: Aeon Delight is a consolidated subsidiary of Aeon, and derives almost 70% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.

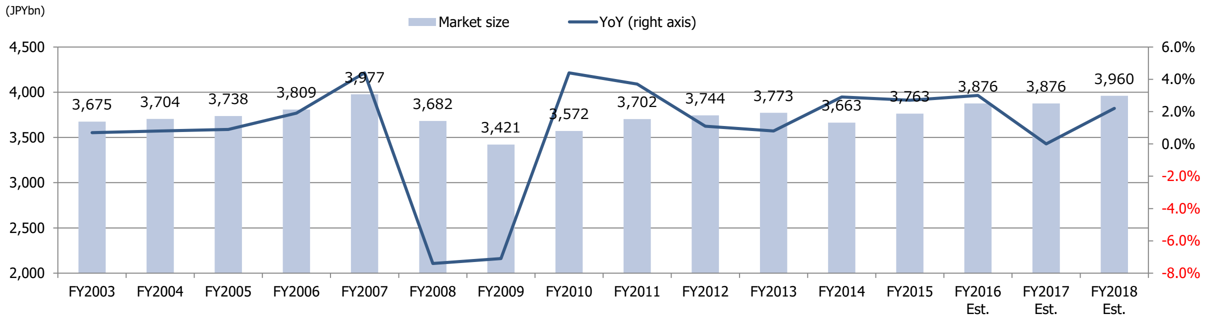
Mature property management market: The property management market is relatively mature. However, small-scale retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small-scale retailers are renovating their stores and upgrading facilities. Aeon Delight's 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

Japan's building maintenance market was worth JPY3.8tn in FY03/15 (April 1, 2015 to March 31, 2016), up 2.7% YoY, according to Yano Research Institute Ltd.

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



Source: Shared Research based on Yano Research Institute Ltd., (October 13, 2016)

According to Aeon Delight, it had 4% of the domestic market for cleaning services at retail stores, hospitals, schools, hotels, and other facilities that totaled JPY960bn in FY02/12. Retail stores accounted for 17% of its cleaning business sales, while hotels made up a mere 2%.

Analysis of potential market

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

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

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

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

The ministry data also show that total floor space of non-residential buildings owned by corporations was about 1.7bn sqm. Such buildings include offices, stores, factories, warehouses, welfare facilities, hotels/lodging facilities, schools, and buildings used for automobile parking. If these corporations outsourced all of their cleaning work for that floor space, the potential market would be JPY6.2tn (JPY355,000/sqm x 1.7bn sqm).

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

AEON Group stores by format (domestic and overseas)

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

Source: Shared Research based on company data

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

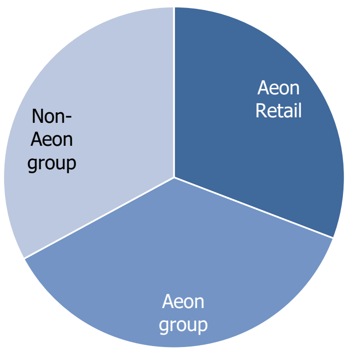
	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
GMS	42	46	52	54	61	69	77	84
Supermarket	18	19	25	44	81	95	101	115
Discount store	-	-	-	-	22	23	24	24
Convenience store	-	-	-	2,033	2,294	2,370	2,532	2,840
Specialty store	-	-	-	37	55	61	42	44
Other retail formats	18	21	24	27	29	29	30	77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

Source: Shared Research based on company data

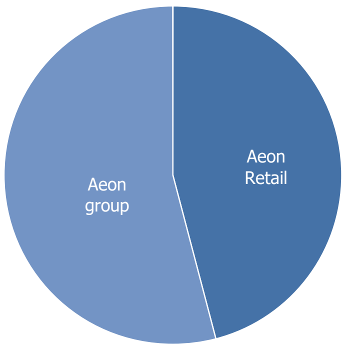
Customers

Aeon Delight generates almost 70% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall, and MaxValu companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, public facilities, and event operators. Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%.

Sales composition by customer



Aeon Retail versus Aeon group



Source: Shared Research based on company data

Competition

Aeon Delight derives some 65% of its sales from Aeon group. Within the group, Aeon Delight's share in Aeon Retail is about 80%. The company's share in Aeon Mall is about 60%, while its share in MaxValu companies is between 60% and 70%.

Aeon Delight's competitors include Secom Co., Ltd. (TSE1: 9735) and Sohgo Security Services Co., Ltd. (TSE1: 2331) in security services. It competes with Azbil Corporation (TSE1: 6845), Nippon Kanzai Co. Ltd. (TSE1: 9728), and Tokyu Community Corporation (TSE1: 4711) in property management services. There are no major competitors that offer cleaning services; Aeon Delight competes with smaller, regional cleaning operators. In construction-related work, Aeon Delight competes with Azbil in the environmental solutions business, while in the energy-saving business, major rivals are NTT Facilities, Inc. and Hitachi, Ltd. (TSE1: 6501).

Barriers to entry

Property management for residential and small office buildings has relatively low barriers to entry. However, the barriers are high for large-scale facilities given the comprehensive services required.

Smaller residential or office building owners are less concerned about having total package of services and usually focus on cleaning or security. However, large-scale facilities require comprehensive services such as maintenance, cleaning, and security, all-in-one. Instead of hiring a contractor for each service, large-scale building owners prefer to contract out these services to one company that is able to provide all of these services in package. Consequently, this enables Aeon Delight to enjoy a relatively high barrier of entry in its market niche, namely servicing large-scale retail stores and office buildings, due to its expertise in providing an all-in-one package of services.

The company knows the market, and has a foothold with the Aeon group. It is able to enjoy economies of scale, and offers comprehensive services (maintenance, cleaning, security, and repairs and renovations), while its competitors are specialized in one or two areas (i.e., security or cleaning). The company enjoys a high rate of retention (i.e., customers are reluctant to switch companies), with most of its contracts renewed.

Strategy

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

Aeon Delight 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.

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

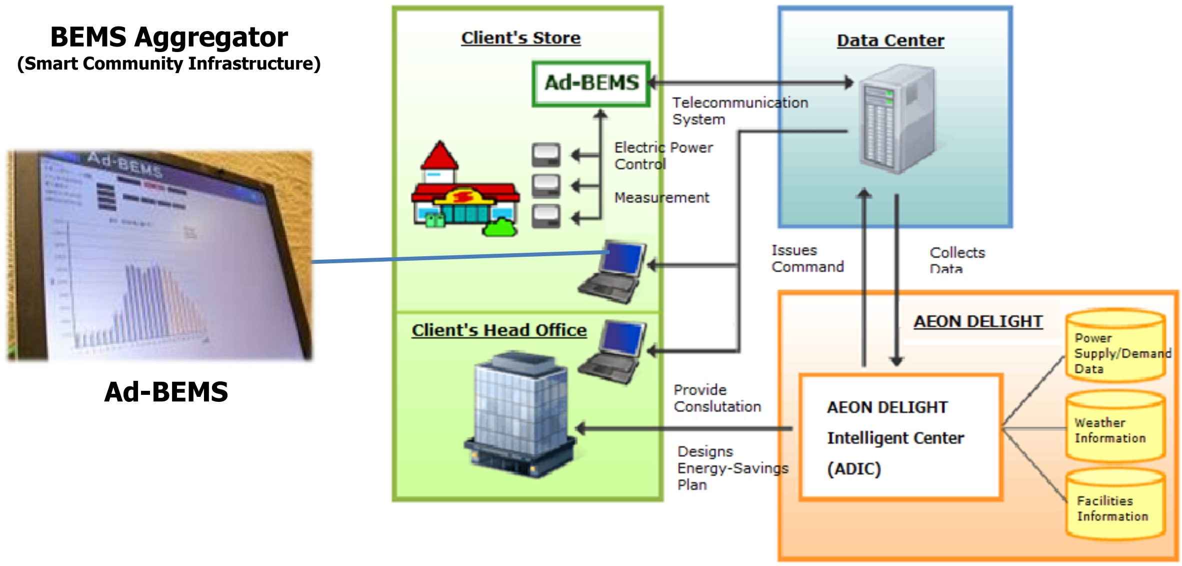
In addition, the company is aiming to strengthen its integrated facilities maintenance services. Aeon Delight has targeted three markets: major urban area market, ecology and environmentally friendly market, and the Asian market.

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: Shared Research based on company data

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

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

Source: Company data

Win more non-group clients

Shared Research believes that the company will seek to win facility-management contracts from operators of large-scale facilities and win cleaning contracts from medical institutions.

Facility-management contracts for large facilities nationwide

The company will seek to manage not only commercial facilities but also universities, factories, hotels, and public institutions. Aeon Delight will rely on its name recognition as the largest facility-management company, its network of partner companies, its cost-competitiveness, and its technological prowess.

Aeon Delight also approaches companies that already have building-maintenance subsidiaries. The company wants to form partnerships with such subsidiaries.

Aeon Delight has a business-process outsourcing subsidiary called General Services Inc. Aeon Delight will utilize the consulting services of General Services to win new clients. General Services, meanwhile, is increasing mid-career hiring to expand workforce. Shared Research will closely observe the effects of these and other measures as it to achieve its medium-term goal.

Gaining competitive edge

To gain a competitive edge

Measures	Details
Labor force and partner companies	･Gain trust and and brand recognition as one of Japan's major FM companies ･Acquire a network of partner companies throughout Japan
Creation and innovation with added value	･Further improved competitive edge (e.g., improved ability to respond to natural disasters) ･On-site improvements (e.g., standardized cleaning in FY02/15) ･R&D for cleaning equipment and next-generation business models such as eco-friendly and remote-controlled monitoring management ･Nationwide network, global management network including ASEAN countries and China

Source: Shared Research based on company data

The company wants to become an integrated facility-management company, rather than focusing on cleaning operations alone. The company, which already serves major medical institutions, can appeal this track record to win more contracts. The company could also expect referrals from existing customers. It won a contract to manage 17 facilities for JA Hokkaido during FY02/15. As of March 2014, JA-related organizations had 111 hospitals and 61 clinics. JA also operates nursing homes and elderly care facilities.

These medical institutions already have cleaning services. The company, in order to compete with these rivals, must hire more workers and train them and purchase various kinds of equipment. Aeon Delight has financial resources to make such investments.

Hospital and clinics in Japan

From Oct. 1, 2013 to May 1, 2015	Hospitals	Hospital beds ('000)	Clinics
Total	**8,540**	**1,574**	**100,528**
National	273	115	573
Public medical institutions	1,242	325	3,591
Social insurance-related organizations	115	34	545
NGOs	312	74	747
Medical corporations	5,722	855	38,544
Private schools	109	55	177
Social welfare services	193	34	8,423
Individuals	320	31	45,006
Other	254	51	2,922

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

Growth of subsidiary businesses

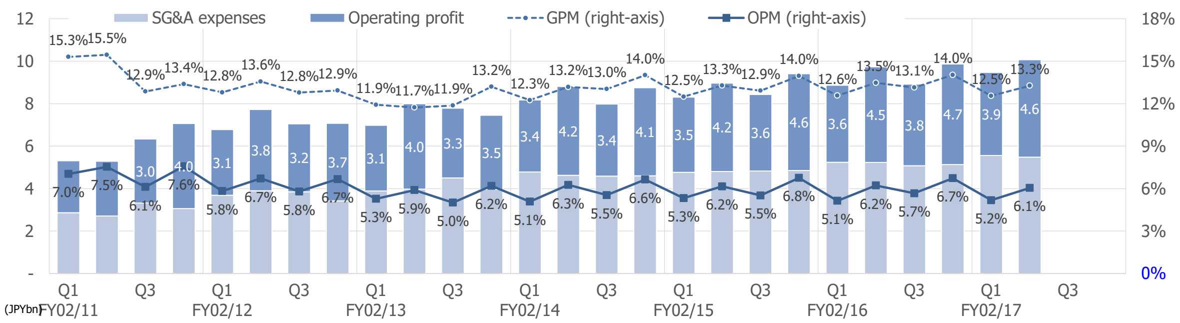
Shared Research is paying particular attention to Aeon Compass and Kajitaku in the support services segment. We estimate that Aeon Compass and Kajitaku generated more than two-third of the JPY1.1bn operating profit for this segment during FY02/15. Sales of Kajitaku's Kaji Cloud housework services have remained firm, and from FY02/16 the company plans to begin a B2B business in conjunction with manufacturers of major household appliances and equipment.

Historical financial statements

1H FY02/17 results (announced October 5, 2016)

- **1H:** Increase in domestic and overseas clients (more orders from major facilities) resulted in higher sales and profits. Profits reached new record highs, with performance in line with plans.
- **Priority issues**: Integrated facility management (IFM), labor reduction, and shifts to Asia; efforts to break into top 10 in the facility-management industry in China
  - **IFM**: Closed multiple-year contract with a domestic global enterprise and started provision of integrated services. Began drive to implement IFM in earnest by strengthening company organization.
  - **Labor reduction**: Improved cost structure for its Cleaning Services through better work efficiency, introduction of new floor coatings and robots, to strengthen its business foundation.
  - **Shifts to Asia**: Took a more proactive stance in M&A with an aim of achieving overseas sales of JPY50bn and OPM in line with its domestic results in FY02/21.
- **2H initiatives:** Win new contracts and capture demand arising from tenant changes at commercial facilities; strengthen efforts to expand bases in Asia
- **Next medium-term plan:** To be announced in April 2017. The company intends to focus on business growth based on the aforementioned initiatives.

Earnings trend (JPYmn)



Source: Shared Research based on company data

Earnings overview

1H: More domestic and overseas clients (more orders from major facilities) boost higher sales and profits. Profits marked new record highs; performance in line with plans.

Sales:	JPY151.4bn (+6.0% YoY)
Operating profit:	JPY8.5bn (+4.7%)

Sales rose at all segments other than Vending Machine Services. Cleaning Services had a double-digit sales increase in part because of the consolidation of sales by Hakuseisha. Operating profit, recurring profit, and net income all reached new record highs. The company left its full-year earnings forecast unchanged.

From Q4 FY02/16, the company changed its method for distributing SG&A expenses between segments. The change pushes up operating profit at Materials and Supplies Sourcing Services and Vending Machines Services segments, while pulls down operating profit for all other segments. Excluding this impact, there was a rise in operating profit across all segments in 1H FY02/17.

Broader customer base

Domestic businesses: Proposals on and order receipts for integrated facility management (IFM) progressing

The company expanded customers in Japan and overseas. In Japan, Aeon Delight started to provide services to large commercial facilities, medical facilities, hotels, universities, and multipurpose facilities, and the conversion of Hakuseisha to a wholly owned subsidiary in FY02/16 means it now also provides services to department stores. We will pay attention as the company continues to market proposals (and receive orders) for integrated facility management (IFM) for entire buildings or all facilities of corporate groups such as main offices and factories.

The company has also expanded its overseas customers:

- China: expanded services to include embassies, Chinese commercial facilities and government facilities
- Malaysia: expanded series to include cleaning work for commercial facilities
- Vietnam: expanded its services to various types of facilities, including local Japanese commercial facilities

The increase in overseas customers resulted in a jump in sales.

In China, the company began to work on a plan to participate in a major urban development project being undertaken by the municipal government of Suzhou City in Jiangsu Province. Aeon Delight intends to provide services for various facilities that are being constructed in this province. The company is targeting growth in China and the ASEAN region (growth markets) and is allocating management resources to these regions.

Preparations for 2H

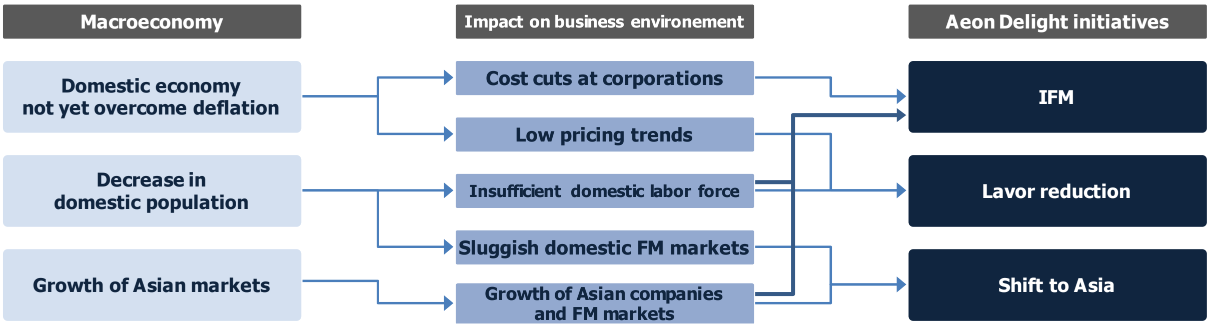
According to the company, progress in earnings has mostly been in line with its full-year company forecast. Despite concerns that cost reductions at Aeon Retail, one of the company's clients, would have a negative effect on the company, there have been no discernible effects thus far. In fact, Aeon Delight is preparing to propose to Aeon Retail cost reduction measures which will enable large-scale cost reductions. While such measures would decrease sales, Aeon Delight aims to contribute to its client's cost reductions without causing a fall in its own gross profit by taking measures for labor reduction and work efficiency improvements.

Toward the next medium-term plan

Plans from Q2: Aiming to establish business models that accelerate reforms

The company has positioned FY02/17 as a year for accelerating reforms, and is creating new business models and investing in overseas management resources to generate growth. In Japan, given the business environment of corporate cost reductions, consumer price consciousness, labor shortage, and a lackluster facility management market, Aeon Delight is pursuing integrated facility management (IFM) and labor saving. Overseas, it is shifting its focus to Asia as a management priority. Please see below for a summary of these topics.

Initiatives taken toward management priority topics



Source: Shared Research based on company data

IFM: Closed multiple-year contract with a domestic global enterprise and started provision of integrated services. Began drive to implement IFM in earnest by strengthening company organization

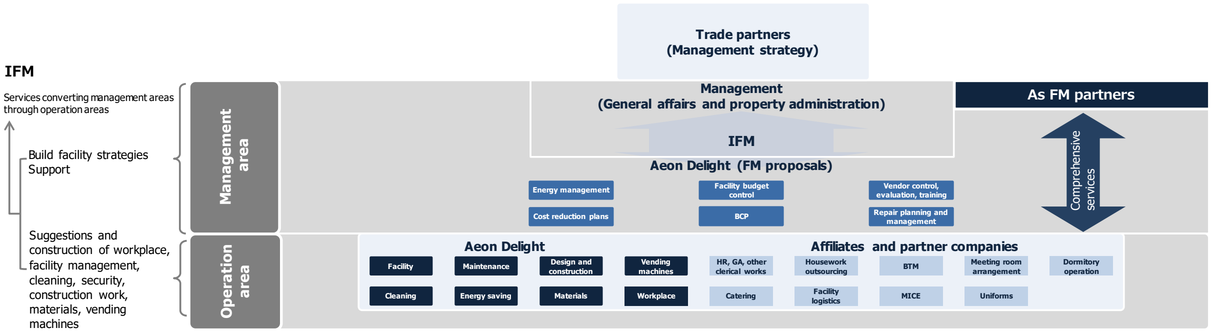
Aeon Delight has been pursuing the establishment of integrated FMS as one of the main aspects of its current medium-tern plan, with the aim of securing a competitive advantage. It has begun to refer to this as IFM (integrated facility management), for the following reasons: a) strong demand for full-scale facility management has paved the way for its introduction, b) the closing of large-scale, multiple-year contracts with a major domestic global enterprise, c) it is globally referred to as IFM. Shared Research believes that the latter is an expression of the company's commitment to global expansion.

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

In September 2016, the company closed a multiple-year IFM contract with a major domestic global enterprise, as the client values the efforts Aeon Delight has made thus far and its BCP readiness. The company is establishing a headquarters for promotion of its IFM business in October 2016 to quickly prepare itself to capture multiple large-scale orders and manage them. Working closely with GSI, the company aims to receive orders by spring 2017.

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

IFM



Source: Shared Research based on company data

Labor reduction: Improved cost structure for its Cleaning Services through better work efficiency, introduction of new floor coatings and robots, to strengthen its business foundation

To evolve its business model and strengthen its business foundations through labor reduction, the company plans to implement the following initiatives:

- **Cleaning Services segment:** Expand its sanitary cleaning services to more medical institutions, create new cleaning quality standards based on the needs of the particular facility, and conduct research geared toward the development of commercial cleaning robots.
- **Facilities Management segment:** Develop a new facilities management model that reduces personnel and conserves energy by taking advantage of IoT technologies, various types of sensors and cloud computing.
- **Construction Work:** By strengthening its architecture and design framework, expand its all-in-one outsourcing services to meet the need for renovation work, which is mainly coming from commercial facilities.
- **Vending Machine Services:** Increase digital signage vending machines to run more motion picture aids, expand the type of content, and develop and install more cutting-edge augmented reality vending machines.

Cleaning Services segment

The company intends for the Cleaning Services segment to reach GPM of 20%. To achieve this, it has been pressing forward with the standardization in the division for directly managed services by introducing its second model for standardized cleaning procedures (Phase II) in FY02/15, after reviewing its previous model. Phase I was introduced in FY02/10, but little progress had been made. And in FY02/16, it began Phase III, which takes into account the particular traits of each facility through small-group activities. Having seen a rise of about 30% in labor productivity, it currently aims for a further productivity improvement of about 10%. For Phase IV, it is planning to further improve productivity while preserving work quality, now in its outsourced services in addition to directly managed services.

Along with labor reduction through those operational and business efficiency improvement measures, the company has also continued efforts toward labor reduction and power saving through technological advancements. It has already introduced a water-based floor coating that is both environmentally friendly and lessens the requirement for frequent waxing through improving floor coating durability. This water-based floor coating is expected to be fully introduced at some point in FY02/17, as well as to provide a potential source of profit. The company has also begun experiments concerning IoT usage in its facility inspection business, and has introduced cleaning robots. Usage of cleaning robots is already being tested at Aeon Mall Makuhari Shintoshin, with plans to test new cleaning robots at the same location from October 2016. The company ultimately plans to introduce fully automated robots, following further advances in automation. The company estimates that introduction of 400 cleaning robots means cost cuts of JPY150mn a year (including depreciation costs on the robots), with the company hoping to see results as early as in FY02/19.

Shifts to Asia: Took a more proactive stance in M&A with an aim of achieving overseas sales of JPY50bn and OPM in line with its domestic results in FY02/21

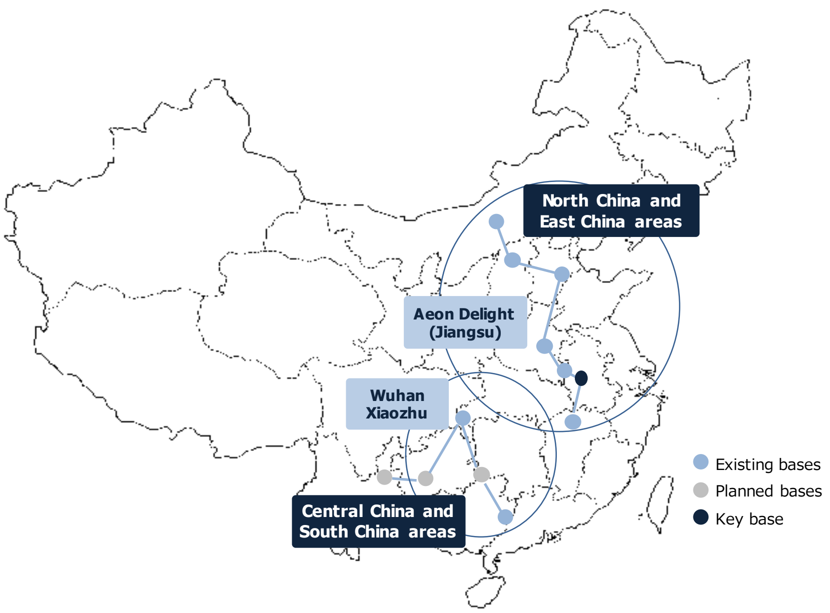
Following its establishment in Beijing, China in 2007, Aeon Delight has grown business by collaborating with leading, major local companies in numerous cities and regions (including M&A activities), and achieved an operating profit in 2014. The facility management industry in China is said to be composed of over 200,000 companies (including small-scale operators), with the company ranking in at about 30 on the business scale. The company aims to be in the top 10 of the business scale by FY02/19, and to achieve sales of JPY30bn in FY02/21.

In order to accomplish this, the company cites the necessity to set up a network of locations in each region of China; it is currently working to establish bases in areas it has not yet done so. Its efforts to establish bases in North China and East China– both key areas– are proceeding smoothly, and it plans to further expand into Central China and South China, with an eye to establishing a network in Northeast China including Dalian.

As part of its strategy to win new clients, the company is focusing on medium- to high-end facilities that require quality services and redevelopment areas where much facility management demand can be expected. The former includes five primary markets: medium- to high-end residential projects, shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities. Focusing on redevelopment areas with high demand entails the company’s participation in large-scale urban development projects to win orders.

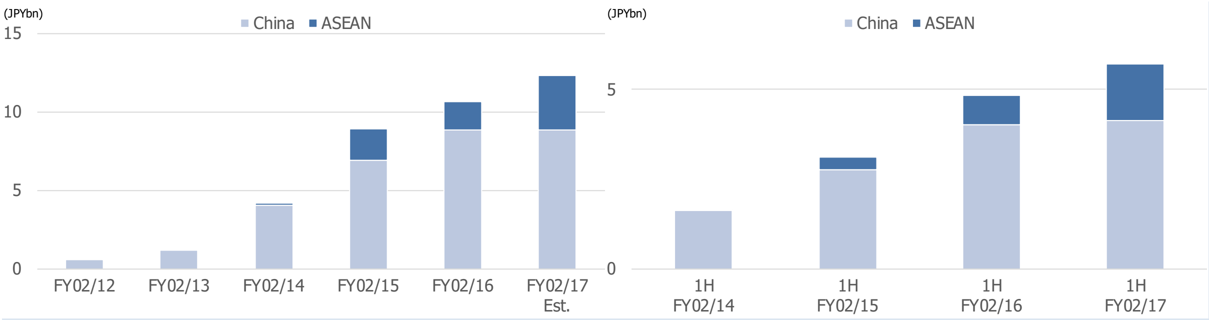
The company aims to garner sales of JPY20bn in FY02/21 in its ASEAN business which is currently growing mainly with Aeon group companies. In 1H, results were generally strong against its full-year forecast (on a local currency basis). Business in Malaysia saw a return to operating profit in 1H (versus operating loss in 1H of FY02/16; it saw an operating profit in full-year FY02/16).

Shifts to Asia



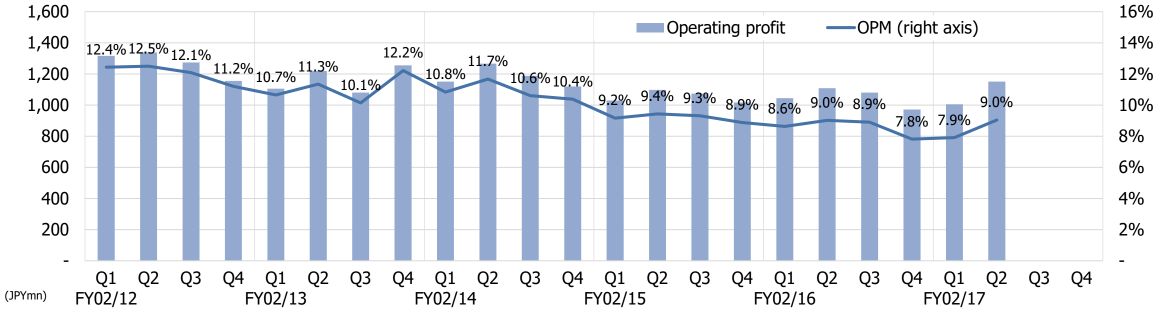
Source: Shared Research based on company data

Overseas sales



Source: Shared Research based on company data

Facilities Management



Source: Shared Research based on company data

Facilities Management (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732		
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%		
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151		
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%		
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%		

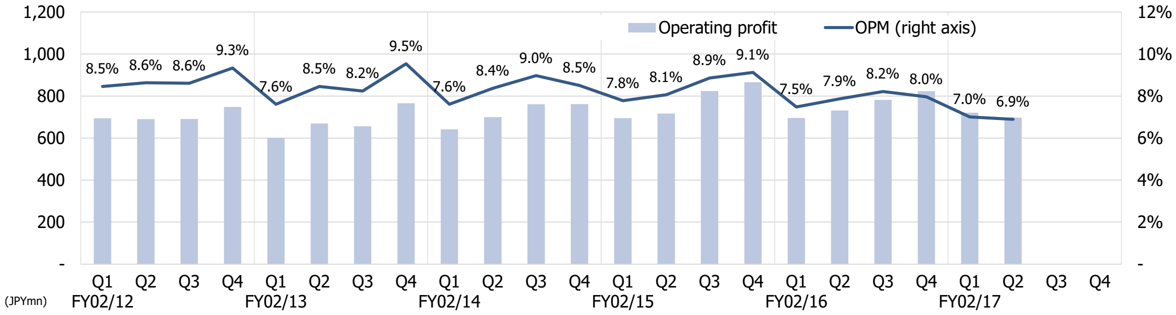
Source: Shared Research based on company data

Facilities Management (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	40,019	42,147	42,050	43,458	45,839	48,962
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%
Operating profit	5,115	5,084	4,661	4,725	4,217	4,206
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%

Source: Shared Research based on company data

In addition to receiving new orders for maintenance and inspection, it continued to build up its system for contract fluorocarbon management services, targeted toward facilities with equipment that uses fluorocarbon refrigerant, such air conditioning equipment for heat, and refrigeration and freezing equipment. As a result, the company was receiving more orders for fluorocarbon management services. It is also developing a new facilities management model that takes advantage of IoT technologies, various sensors and cloud computing. The company helped clients prevent fluorocarbon leaks by conducting simple inspections and periodic inspections of equipment (1,900 inspections) and offering to collect certain equipment using the resulting data obtained.

Security Services



Source: Shared Research based on company data

Security Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116		
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%		
Operating profit	695	717	824	866	696	731	782	823	721	697		
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%		
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%		

Source: Shared Research based on company data

Security Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	32,088	32,235	31,805	34,242	36,622	38,456
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%
Operating profit	2,764	2,823	2,692	2,865	3,102	3,032
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%

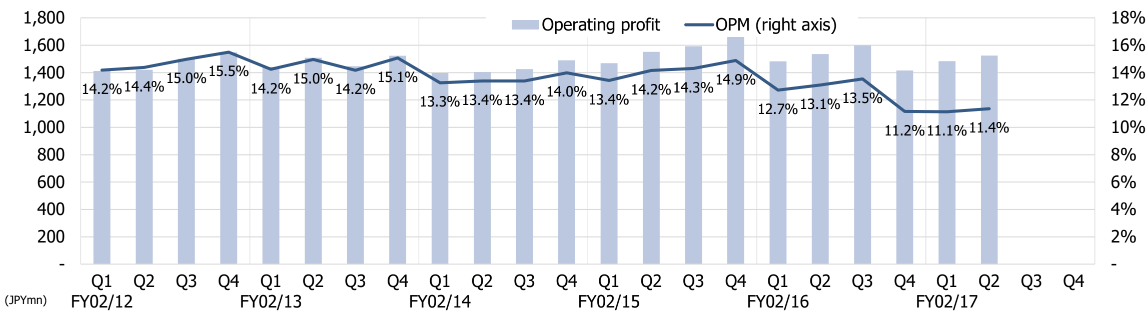
Source: Shared Research based on company data

Sales and profits up even without benefits from Hakuseisha consolidation; starts building security system, combining labor saving and forecasts for crisis management

In addition to on-site security guards at new facilities, Aeon Delight also provided more temporary security services as needed for the opening of new businesses. The segment would have booked increases in both sales and profits even without benefits from the consolidation of Hakuseisha.

The company has also started a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. The new system adds crisis management and is aimed at responding to the occurrence of violent crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety.

Cleaning Services



Source: Shared Research based on company data

Cleaning Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420		
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%		
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524		
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%		
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%		

Cleaning Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	41,142	39,852	40,519	42,320	44,287	47,870
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%
Operating profit	5,937	5,882	5,918	5,716	6,289	6,031
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%

Source: Shared Research based on company data

Hygienic cleaning system: New orders though scale is small

In addition to new contracts, the company worked to actively increase the number of contracts in the hospital and nursing home market, and has started to create cleaning quality standards based on the needs of each facility. In Q1, the company received orders for specialized hygienic cleaning for medical institutions in the Tohoku and Hokkaido regions. This was the result of efforts by the company in FY02/16 to ensure that each business is able conduct hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, the cost structure of orders received in early FY02/16 has gradually improved.

Regular cleaning: Standardization models and small group activities; create criteria for cleaning quality based on each facility

In regular cleaning services, the company will continue standardization to attain a 20% GPM (Phase III), while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company has stepped up efforts on this front, such as establishing criteria for cleaning quality based on the requirements of each facility, with the aim of initiating a full-scale rollout in FY02/17.

Hakuseisha: Synergies expected to emerge gradually toward year-end

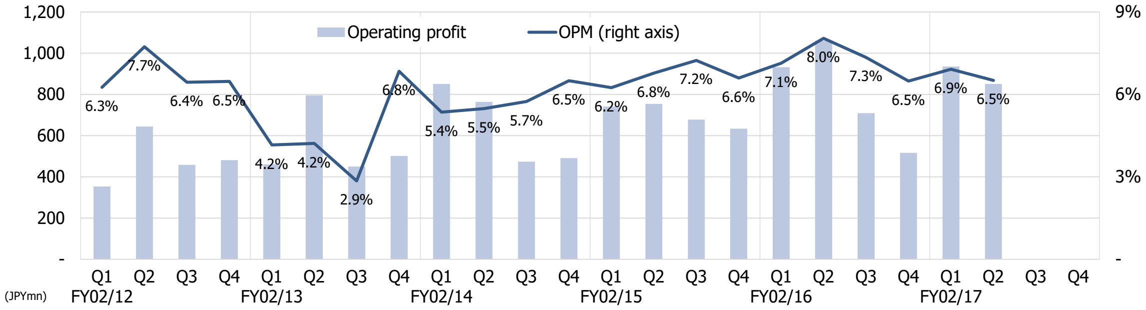
Consolidating Hakuseisha (from Q4 FY02/16) led to the Cleaning Services business posting a double-digit YoY sales increase. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is one of the expected synergies. However, Aeon Delight appears to be conducting reforms carefully so that it does not affect clients. Shared Research expects benefits from these reforms to gradually emerge toward the end of FY02/17.

Hakuseisha's sales totaled about JPY2.3bn in Q1 FY02/17. Of its 1H sales (JPY4.6bn), cleaning services accounted for about 50%, revenues from security services accounted for about 30%, and facilities management services accounted for about 20%.

Development on track as company readies simplified cleaning robot for commercial use in FY02/17

In order to maintain its long-term competitiveness, the company is continuing research to develop commercial robots for commercialization, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company planned to introduce several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. It is likely to continue testing until the full-fledged introduction of the cleaning robot, although it expects results to be in line with the above.

Construction Work



Construction Work (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070		
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%		
Operating profit	741	754	678	634	932	1,061	709	516	935	851		
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%		
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%		

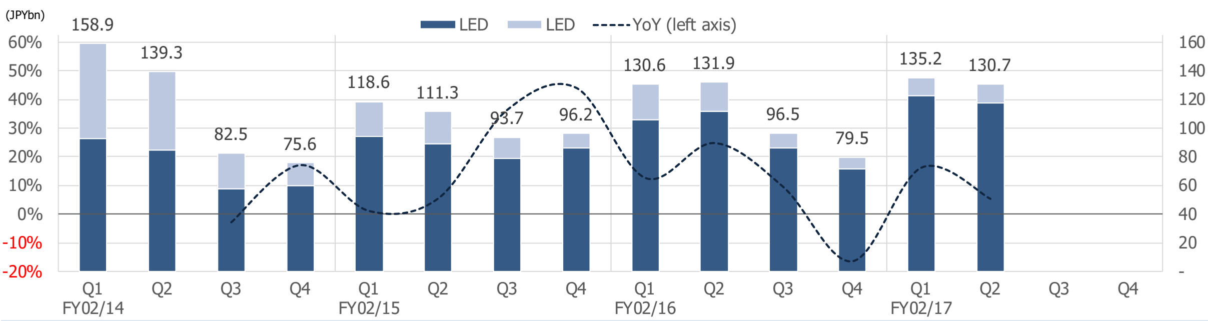
Construction Work (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	16,420	28,513	53,071	45,630	41,972	43,855
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Operating profit	1,214	1,936	2,209	2,580	2,807	3,218
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%

Source: Shared Research based on company data

Orders for revitalizing commercial facilities increase; income structure improves partly due to fall in LED lighting installations with low profitability

In addition to construction projects to improve safety, the company made efforts in 1H to strengthen its architecture and design framework, which should allow it to enhance the attractiveness of facilities. The company has developed all-in-one services, ranging from restoration work as part of repairs (primarily from commercial facilities) to temporary enclosures, construction, and interior management, and through its ongoing sales activities has continued to win various projects, including for the repair, maintenance and revitalization of commercial facilities. Shared Research estimates that sales from LED lighting installations declined YoY. Even so, this was offset by segment sales increasing 1.3% YoY.

Sales from work other than LED lighting installations (JPYbn)



Construction Work expected to be earnings driver again in FY02/18

For FY02/17, the company plans to offset the fall in LED lighting installations mainly with work for revitalizing facilities. The company won more orders for maintenance work due to its sales efforts in FY02/16. Orders appeared firm in 1H (full-year order projection: about JPY7bn). The sudden growth partly stems from an increasing number of orders to renovate aging general merchandise stores nationwide. Another factor is that shopping malls renovate their stores whenever necessary and generally conduct a comprehensive renovation once every six years.

Aiming to secure more renovation work at existing malls operated by Aeon Mall

As a general rule, Aeon Mall (8905) undertakes major renovation work at its existing malls once every six years. Shared Research will pay attention to this steady workflow, along with contracts for large-scale renovation projects undertaken by Aeon Retail going forward. Aeon Mall plans to revitalize 21 malls in FY02/17 (compared to 12 malls in FY02/16) and conducted renovations for 10 malls in 1H (all renovations took place during Q1).

The company estimates that Aeon Mall (which has a total of about 350 malls across Japan) generates demand amounting to JPY200bn yearly. In its promotional activities to all the malls during 1H, the company received favorable response, with comments expressing surprise at its wide range of services. As such, the company views it as a promising new market, holding high hopes for it moving toward FY02/18. Aeon Delight apparently aims high, anticipating sales related to Aeon Mall in FY02/18 to see an increase of 1.5x to 3x YoY.

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

Aeon Retail to boost spending on store renovation by 35% YoY in FY02/17 (initial plan)

Aeon Retail is renovating existing stores to bolster its supermarket operations, and sales at existing stores are increasing as a result.

For reference: Sales at Aeon Retail's existing stores fell 1.7% YoY in Q1, but those at stores that underwent revitalization in 2H FY02/16 rose 0.2% in Q1.

Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 a total of 28 stores were part of large-scale renovation projects (spending of JPY30mn or more). There were 43 such stores in FY02/16 (1H: 24, 2H: 19) and the company conducted renovation work for 38 stores in 1H FY02/17 (21 stores in Q1 FY02/17). The company plans to spend heavily on store renovation in FY02/17, boosting investment spending in this area by 35% versus FY02/16 (according to its initial plan), with plans to renovate 13 stores in 2H and 51 stores in the full-year.

Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

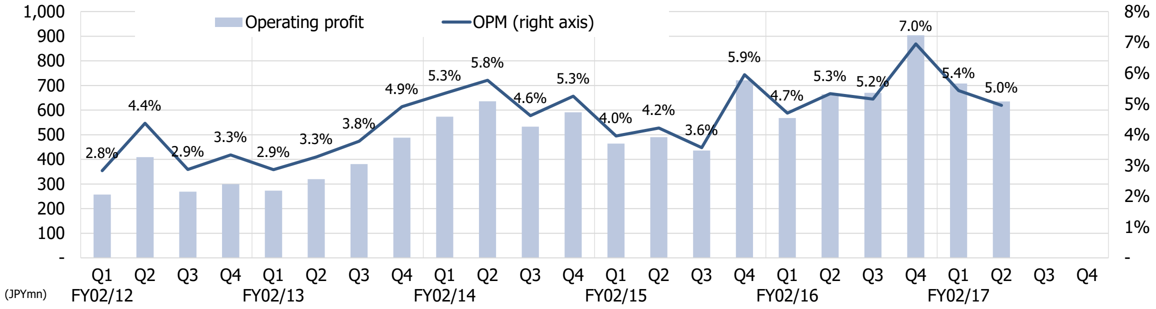
Daiei boosts investments aimed at transforming to an urban-type super market chain

Subsidiary Daiei, Inc. has been transitioning from a general merchandise store chain to an urban-type supermarket chain. Based on plans to change one-third of its stores (182 at the end of Q1) to urban-type supermarket stores by the end of FY02/17, the company renovated three stores into urban-type stores in Q1, bringing the total to 19. Sales at 16 comparable stores that were renovated increased 7% YoY while those at stores that have not been renovated declined 2%. The difference in sales between the two types of stores is large at around 10pp.

External factors behind double-digit drop in Construction Work revenues in Q4 FY02/16

The aggressive store renovation plans at the Aeon group level notwithstanding, at the individual store level, the work flow to Aeon Delight from small-scale projects is sometimes subject to delays, particularly when individual stores cut spending in order to meet their earnings targets. This was especially evident in Q4 FY02/16, and led to a 17.3% YoY decline in revenues and 18.6% decline in operating profit at the Construction Work business in the last quarter of the fiscal year. The company emphasized that this was *not* due to a loss of orders to competitors. This tendency disappeared in Q1 FY02/17 and revenues from renovation work increased mainly from renovations for malls.

Materials and Supplies Sourcing Services



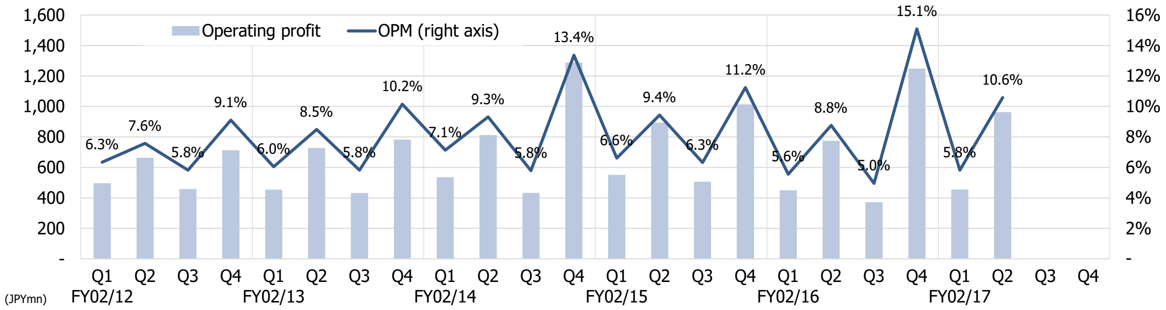
Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822		
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%		
Operating profit	464	490	436	721	568	664	670	904	708	635		
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%		
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%		

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

Source: Shared Research based on company data

In addition to new orders, the company capitalized on demand from existing clients with new stores. The company continued to focus on increasing its profitability by reducing storage costs through inventory control, revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools.

Vending Machine Services



Vending Machine Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101		
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%		
Operating profit	551	894	506	1,014	450	775	372	1,249	455	963		
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%		
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%		

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

Source: Shared Research based on company data

FY02/16 saw a 6.0% decrease in sales, compared to FY02/15, when sales increased with new vending machine installations. The reactionary fall in sales continued in 1H FY02/17 as there were still many new vending machine installations in Q1 FY02/16. Even though sales fell 3.7% YoY in Q1, Q2 saw sales bounce back to growth.

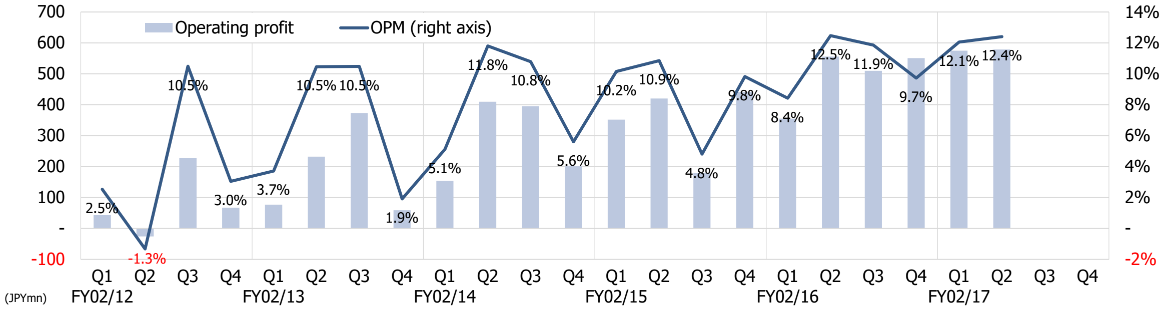
As the company has a sense of crisis about the future of the Vending machine services business, it has implemented the following measures: 1) The company has been working to install more vending machines, particularly those that stock a variety of popular products from different manufacturers; 2) In a bid to reform the income structure, it has expanded installations of value-added vending machines, such as those with digital signage displays, at large-scale commercial facilities; and 3) It has been developing private brand drinks specifically for vending machines. In March, the company established a special sales team to develop new customers and aggressively push vending machine location proposals at client facilities, a step that was deemed necessary to help counter the ongoing decline in vending machines sales across the industry. Development targeting private brand drinks has been steady for 2H.

Focus on developing advertising business for vending machines with digital signage displays

For vending machines with digital signage displays, the company has developed a new business model, including offering video advertisements in addition to existing drinks. This may become a new revenue source but the full-scale contribution is likely to begin in FY02/18. According to the company, it expects high profitability from this business model even taking into account fees paid to advertising firms and an increase in depreciation due to installing vending machines with digital signage displays.

In 1H, the company focused on installing vending machines with digital displays. The company had installed around 700 machines as of the end of FY02/16 and nearly 800 as of the end of Q1. As of Q1, the company was behind its target of installing 1,700 units by the end of FY02/17, but its total installation amount of just under 1,200 units in Q2 brought it back on target. The delays in installation unit have caused advertising revenue to miss its target. The company also launched initiatives other than vending machines with digital signage displays to gain new revenue sources in Q1, which we will keep an eye on.

Support Services



Support Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666		
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%		
Operating profit	352	420	179	441	355	556	510	551	575	579		
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%		
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%		

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	5,327	8,037	10,942	13,718	15,540	18,639
YoY	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
Operating profit	590	312	741	1,160	1,297	1,972
YoY	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%
OPM	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%

Source: Shared Research based on company data

Subsidiary Kajitaku sales dip on tough comparison to campaign driven demand in 1H FY02/16; other subsidiaries grow, contributing to rise in consolidated operating profit

Growth at consolidated subsidiaries made a significant contribution to sales and profits. Kajitaku, a subsidiary which provides professional household services of Kaji Cloud had boosted segment growth, saw a slight fall in sales in reaction to large demand backed by campaigns in 1H FY02/16. However, travel agency subsidiary Aeon Compass and other subsidiaries generated business growth, resulting in both higher sales and profits.

Kajitaku plans to conduct similar campaigns in 2H and is likely to contribute to a rise in full-year sales, in line with plans. The B2B business field appeared to make only a small contribution to sales in 1H. At Aeon Compass, the event business (inbound tourist demand) and corporate business (overseas and domestic business trips and rental conference rooms) continued to see strong sales overall.

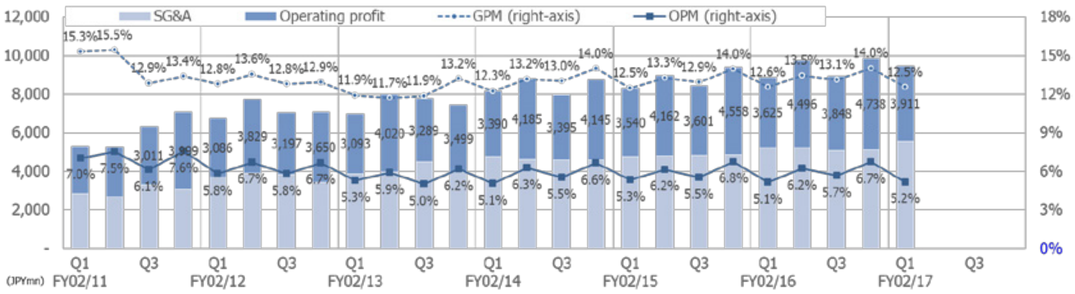
Q1 FY02/17 results (announced July 6, 2016)

- **Q1:** Increase in domestic and overseas clients (orders from more major facilities), resulted in higher sales and profits. Profits reached new record highs, with performance well in line with plans.
- **Initiatives for the current FY**: Initiatives launched this period and those launched prior to FY02/16 are steadily showing results. B2B Kaji Cloud cleaning services and motion picture ads run on vending machines expected to see further growth.

New initiatives: Launched projects that aim to maintain competitiveness (office buildings, next generation facilities management model, cleaning robots)

- **Overseas:** Sales up about 20% YoY; earnings continue to steadily expand in overseas countries where the company does business.
- **Support Services:** Subsidiary Kajitaku sales dip versus Q1 FY02/16; Aeon Compass and other subsidiaries significantly contribute to consolidated profit growth.

Earnings trend (JPYmn)



Source: Shared Research based on company data

Q1 Earnings overview

Q1: Increase in domestic and overseas clients (orders from more major facilities), resulted in higher sales and profits. Profits marked new record highs; performance well in line with plans.

Sales:	JPY75.5bn (+ 7.0% YoY)
Operating profit:	JPY3.9bn (+ 7.9%)

Revenues rose at all segments other than Vending Machine Services, with Cleaning Services, Security Management, and Support Services posting double digit growth. Sales have risen for two consecutive periods, with profit items (starting from the operating profit line down) seeing record sales. The company's earnings forecast is unchanged.

Support Services contribute to profit growth

Support Services and Materials and Supplies Sourcing Services boosted operating profit. Of the year-on-year rise in Support Services operating profit of JPY286mn (JPY356mn excluding adjustments), contributions from subsidiaries accounted for JPY220mn. The segment now accounts for as much as 9.8% of operating profits. Contributions came from steady earnings from subsidiaries at the Support Services segment and cost-cutting efforts at the Materials and Supplies Sourcing Services segment.

In the Construction work segment, operating profit rose on an improved income structure as the number of LED lighting installation projects (low profitability) decreased and (highly profitable) store renovation work increased. Both the Cleaning and Security services segments booked higher operating profits on a sales increase (excluding the contribution from Hakuseisha; note that the operating profit margin at the Cleaning and Security services segments appears to have declined following the consolidation of Hakuseisha).

The Facilities management services segment saw operating profit fall on an irregular factor (personnel costs). Exclude this factor, and the segment would have booked a year-on-year rise in profit. The personnel cost factor is not likely to have an effect on 1H results (becomes a positive profit factor in Q2). The overall consolidated performance appears to be in line with the company's 1H forecast. From Q2, strategic investments aimed at accelerating the pace of business reforms are likely to increase.

Broader customer base

Domestic businesses: Proposals on and order receipts for comprehensive facilities management progressing

In Japan, Aeon Delight started to provide services to large commercial facilities, medical facilities, hotels, universities, and multipurpose facilities, and the conversion of Hakuseisha to a wholly owned subsidiary in FY02/16 means it now also provides services to department stores. We will pay attention as the company continues to market proposals (and receives orders) for comprehensive facilities management for entire buildings or all facilities of corporate groups (such as main offices and factories).

The company has also expanded its overseas customers:

- China: expanded services to include embassies, Chinese commercial facilities and government facilities
- Malaysia: expanded series to include cleaning work for commercial facilities
- Vietnam: expanded its services to various types of facilities, including local Japanese commercial facilities

The increase in overseas customers resulted in a jump in sales. Going forward, the company is targeting growth in China and ASEAN (growth markets) and is allocating management resources to these regions. Overseas sales increased around 20% YoY to JPY5.4bn. In Malaysia, sales from entrusted cleaning work rose over 40%. However, there was a slight delay getting the company's cost improvement model for cleaning work adopted by local partner companies.

Plans for Q2: Aiming to establish business models that accelerate the pace of reforms

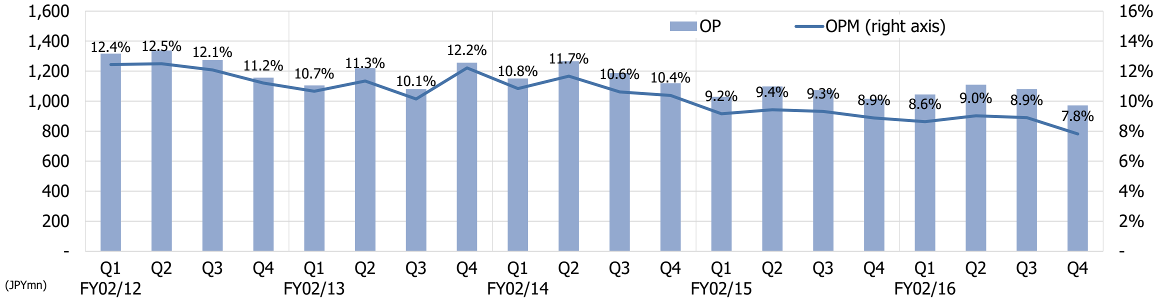
The company has positioned FY02/17 as a year for accelerating reforms, and is creating new business models and investing in overseas management resources to generate growth. The company launched several projects that are meant to help it maintain its competitiveness, including projects for office buildings, establishment of next-generation facilities management models, and cleaning robots. As these projects only started in Q1, there was little contribution to business results. The new business models are expected to become more complete from Q2 and include several initiatives:

- **Cleaning Services segment:** Expand its sanitary cleaning services to more medical institutions, create new cleaning quality standards based on the needs of the particular facility, and conduct research geared toward the development of commercial cleaning robots
- **Facilities management services segment:** Develop a new facilities management model that reduces personnel and conserves energy by taking advantage of IoT technologies, various types of sensors and cloud computing.
- **Construction work:** By strengthening its architecture and design framework, expand its all-in-one outsourcing services to meet the need for renovation work, which is mainly coming from commercial facilities
- **Vending machine services:** Increase digital signage vending machines to run more motion picture aids, expand the type of content, and develop and install more cutting-edge augmented reality vending machines.

Overseas, reorganize its business portfolio to strengthen its management structure in China, partner with major local companies in Malaysia to help expand outsourced cleaning services to commercial facilities, and expand services to various facilities in Vietnam.

As of the end of Q1, the company's performance was steadily in line with its plans for 1H.

Facilities Management



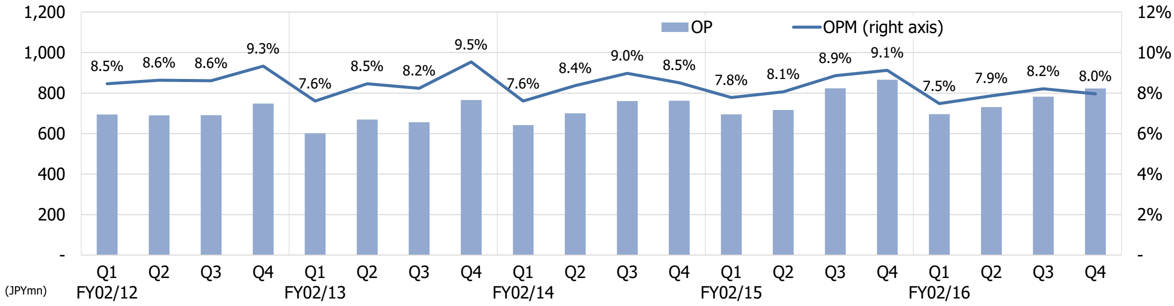
Facilities Management (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719			
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%			
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006			
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%			
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%			

Facilities Management (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	40,019	42,147	42,050	43,458	45,839	48,962
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%
Operating profit	5,115	5,084	4,661	4,725	4,217	4,206
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%

Source: Shared Research based on company data

In addition to receiving new orders for maintenance and inspection, it continued to build up its system for contract fluorocarbon management services, targeted toward facilities with equipment that uses fluorocarbon refrigerant, such air conditioning equipment for heat, and refrigeration and freezing equipment. As a result, the company was receiving more orders for fluorocarbon management services. It is also developing a new facilities management model that takes advantage of IoT technologies, various sensors and cloud computing.

Security Services



Source: Shared Research based on company data

Security Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292			
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%			
Operating profit	695	717	824	866	696	731	782	823	721			
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%			
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%			

Security Services (JPYmn)	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
	Act.	Act.	Act.	Act.	Act.	Act.
Sales	32,088	32,235	31,805	34,242	36,622	38,456
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%
Operating profit	2,764	2,823	2,692	2,865	3,102	3,032
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%

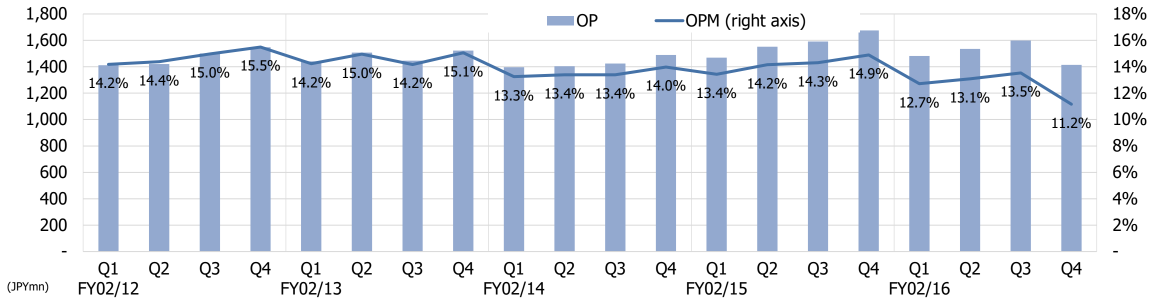
Source: Shared Research based on company data

Sales and profits up even without benefits from Hakuseisha consolidation; starts building security system, combining labor saving and forecasts for crisis management

Aeon Delight also provided more security guards at new facilities and temporary security services as needed for the opening of new businesses. The segment would have booked increases in both sales and profits even without benefits from the consolidation of Hakuseisha.

The company has also started a security system based on remote monitoring, which aims to reduce security personnel and further expand the client base. The new system adds crisis management and is aimed at responding to the occurrence of violent crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety.

Cleaning Services



Source: Shared Research based on company data

Cleaning Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323			
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%			
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484			
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%			
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%			

Cleaning Services (JPYmn)	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
	Act.	Act.	Act.	Act.	Act.	Act.
Sales	41,142	39,852	40,519	42,320	44,287	47,870
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%
Operating profit	5,937	5,882	5,918	5,716	6,289	6,031
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%

Source: Shared Research based on company data

Hygienic cleaning system: New orders though scale is small

In addition to new contracts, the company worked to actively increase the number of contracts in the hospital and nursing home market, and has started to create cleaning quality standards based on the needs of each facility. In Q1, the company received orders for specialized hygienic cleaning for medical institutions in the Tohoku and Hokkaido regions. This was the result of efforts by the company in FY02/16 to ensure that each business is able conduct hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, the cost structure of orders received in early FY02/16 has gradually improved.

Regular cleaning: Standardization models and small group activities; creating criteria for cleaning quality based on each facility

In regular cleaning services, the company will continue standardization to attain a 20% GPM, while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company has stepped up efforts on this front, such as establishing criteria for cleaning quality based on the requirements of each facility, with the aim of initiating a full-scale rollout in FY02/17.

Hakuseisha: Synergies expected to emerge gradually toward year-end

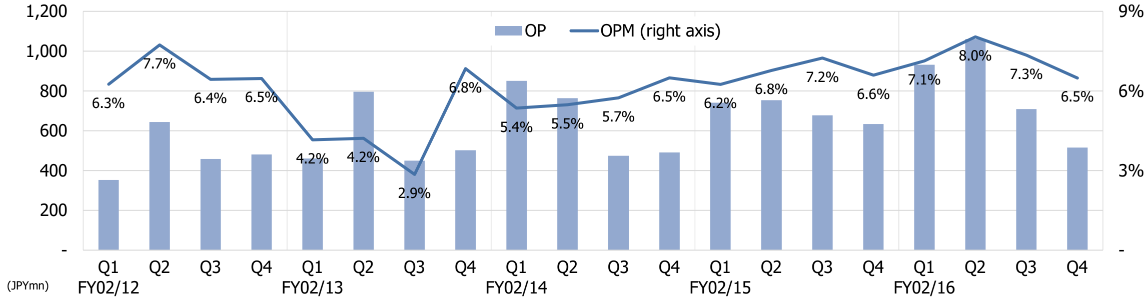
The effect of consolidating Hakuseisha (from Q4 FY02/16) had a major impact on the cleaning services business. Of the JPY1.6bn year-on-year rise in segment sales, the effect accounted for over JPY1bn. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is one of the expected synergies. However, Aeon Delight appears to be conducting reforms carefully so that it does not affect clients. Shared Research expects benefits from these reforms to gradually emerge toward the end of FY02/17.

> Cleaning services accounted for around half of Hakuseisha's sales in Q1 FY02/17 worth JPY2.3bn. Of the remaining half, revenues from security services and facilities management services accounted for two thirds and on third, respectively.

Development on track as company readies simplified cleaning robot for commercial use in FY02/17

In order to maintain its long-term competitiveness, the company is continuing research to develop commercial robots for commercialization, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. During 1H, the company plans to introduce several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. It is likely to continue testing until the full-fledged introduction of the cleaning robot.

Construction Work



Source: Shared Research based on company data

Construction Work (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518			
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%			
Operating profit	741	754	678	634	932	1,061	709	516	935			
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%			
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%			

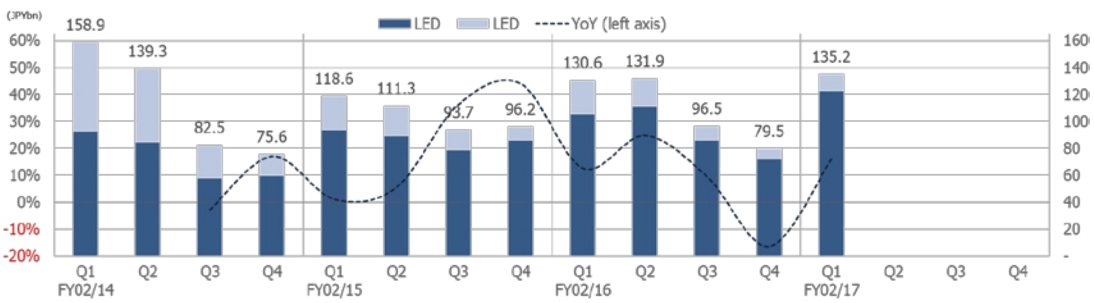
Construction Work (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	16,420	28,513	53,071	45,630	41,972	43,855
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Operating profit	1,214	1,936	2,209	2,580	2,807	3,218
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%

Source: Shared Research based on company data

Orders for revitalizing commercial facilities increase; income structure improves partly due to fall in LED lighting installations with low profitability

In addition to construction projects to improve safety, the company made efforts in Q1 to strengthen its architecture and design framework, which should allow it to enhance the attractiveness of facilities. The company has developed all-in-one services, ranging from restoration work as part of repairs (primarily from commercial facilities) to temporary enclosures, construction, and interior management, and through its ongoing sales activities has continued to win various projects, including for the repair, maintenance and revitalization of commercial facilities. Segment sales increased 3.5% from a year earlier, making up for a year-on-year fall of around JPY2bn in sales from LED lighting installations.

Sales from work other than LED lighting installations (JPYbn)



Construction Work expected to be earnings driver again in FY02/17

For FY02/17, the company plans to offset the fall in LED lighting installations mainly with work for revitalizing facilities. The company won more orders for maintenance work due to its sales efforts in FY02/16. Orders remained firm in Q1 (orders received already account for around 25% of the annual plan of JPY7bn). The sudden growth partly stems from an increasing number of orders to renovate aging general merchandise stores nationwide. Another factor is that shopping malls renovate their stores whenever necessary and generally conduct a comprehensive renovation once every six years.

For example, Aeon Retail is renovating existing stores to bolster its supermarket operations and sales at existing stores are increasing as a result.

For reference: Sales at Aeon Retail's existing stores fell 1.7% YoY in Q1, but those at stores that underwent revitalization in 2H FY02/16 rose 0.2% in Q1.

Aeon Retail to boost spending on store renovation by 35% in FY02/17

Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 a total of 28 stores were part of large-scale renovation projects (spending of JPY30mn or more). There were 44 such stores in FY02/16 and the company conducted renovation work for 21 stores in Q1 FY02/17. The company plans to spend heavily on store renovation in FY02/17, boosting investment spending in this area by 35% versus FY02/16 (according to its initial plan).

Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

Daiei boosts investments aimed at transforming to an urban-type super market chain

Subsidiary Daiei, Inc. has been transitioning from a general merchandise store chain to an urban-type supermarket chain. Based on plans to change one-third of its stores (182 at the end of Q1) to urban-type supermarket stores by the end of FY02/17, the company renovated three stores into urban-type stores in Q1, bringing the total to 19. Sales at 16 comparable stores that were renovated increased 7% YoY while those at stores that have not been renovated declined 2%. The difference in sales between the two types of stores is large at around 10ppt.

Aiming to secure more renovation work at existing malls operated by Aeon Mall

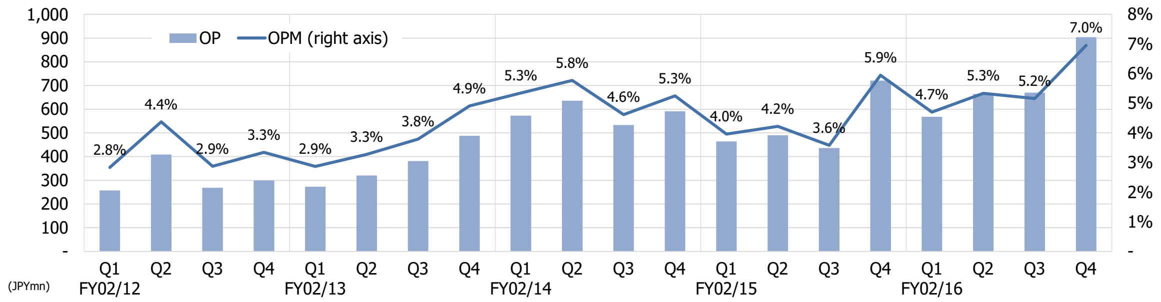
As a general rule, Aeon Mall (8905) undertakes major renovation work at its existing malls once every six years. Shared Research will pay attention to this steady workflow, along with contracts for large-scale renovation projects undertaken by Aeon Retail going forward. Aeon Mall plans to revitalize 21 malls in FY02/17 (compared to 12 malls in FY02/16) and conducted renovations for 10 malls in Q1. Work from these two sources within the Aeon Group is expected to continue driving growth at its Construction Work business in the year ahead.

Retail sales at malls tend to peak three years after the opening and slow in the fourth and fifth years. Therefore, Aeon Mall renovates its malls when six-year regular lease agreements with specialty store tenants expire. The company's planning takes into account changes in the commercial area, and introduces new specialty stores and renovates and removes existing specialty stores at malls. Changing almost all of the specialty stores helps to remake the entire mall. Spending is JPY300mn-500mn per mall.

External factors behind double-digit drop in Construction Work revenues in Q4 FY02/16

The aggressive store renovation plans at the Aeon group level notwithstanding, at the individual store level, the work flow to Aeon Delight from small-scale projects is sometimes subject to delays, particularly when individual stores cut spending in order to meet their earnings targets. This was especially evident in Q4 FY02/16, and led to a 17.3% YoY decline in revenues and 18.6% decline in operating profit at the Construction Work business in the last quarter of the fiscal year. The company emphasized that this was *not* due to a loss of orders to competitors. This tendency disappeared in Q1 FY02/17 and revenues from renovation work increased mainly from renovations for malls.

Materials and Supplies Sourcing Services



Source: Shared Research based on company data

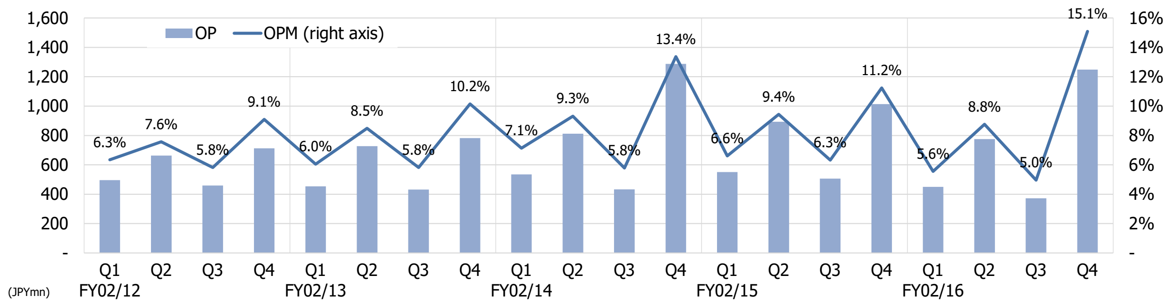
Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037			
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%			
Operating profit	464	490	436	721	568	664	670	904	708			
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%			
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%			

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

Source: Shared Research based on company data

In addition to new orders, the company capitalized on demand from existing clients with new stores. The company continued to focus on increasing margins by revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools. Shared Research believes that the improving operating profit margin is a result of those measures.

Vending Machine Services



Source: Shared Research based on company data

Vending Machine Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810			
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%			
Operating profit	551	894	506	1,014	450	775	372	1,249	455			
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%			
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%			

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

Source: Shared Research based on company data

FY02/16 saw a 6.0% decrease in sales, compared to FY02/15, when sales increased with new vending machine installations. The reactionary fall in sales continued in Q1 FY02/17 as there were still many new vending machine installations in Q1 FY02/16. As the company has a sense of crisis about the future of the Vending machine services business, it has implemented the following measures: 1) The company has been working to install more vending machines, particularly those that stock a variety of popular products from different manufacturers; 2) In a bid to reform the income structure, it has expanded installations of value-added vending machines, such as those with digital signage displays, at large-scale commercial facilities; and 3) It has been developing private brand drinks specifically for vending machines. In March, the company established a special sales team to develop new customers and aggressively push vending machine location proposals at client facilities, a step that was deemed necessary to help counter the ongoing decline in vending machines sales across the industry. Development targeting private brand drinks has been steady for 2H.

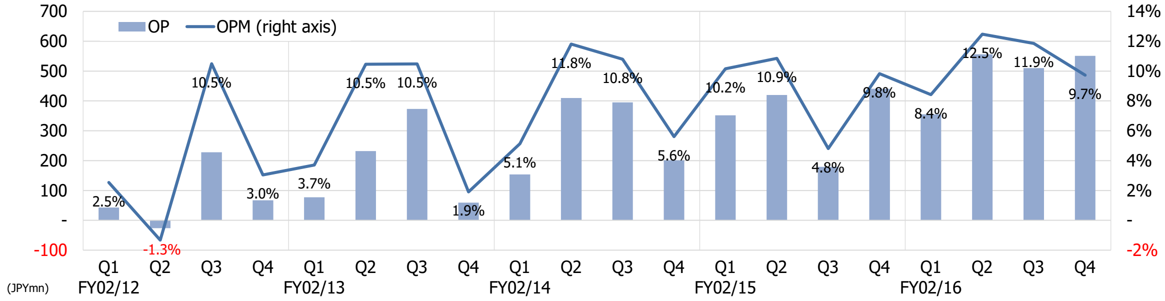
Focus on developing advertising business for vending machines with digital signage displays

For vending machines with digital displays, the company has developed a new business model, including offering video advertisements in addition to existing drinks. This may become a new revenue source but the full-scale contribution is likely to begin in FY02/18.

In Q1, the company focused on installing vending machines with digital displays. The company had installed around 700 machines as of the end of FY02/16 and nearly 800 as of the end of Q1, a slight lag versus the target of installing 1,700 units by the end of FY02/17. As a reason for the delay, the company said that it gives precedence to installations in new locations over replacement of existing machines.

The company also launched other initiatives that are meant to act as new revenue sources in Q1, and Shared Research will be looking forward to specifics from Q2 forward.

Support Services



Source: Shared Research based on company data

Support Services	FY02/15				FY02/16				FY02/17			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771			
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%			
Operating profit	352	420	179	441	355	556	510	551	575			
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%			
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%			

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	5,327	8,037	10,942	13,718	15,540	18,639
YoY	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
Operating profit	590	312	741	1,160	1,297	1,972
YoY	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%
OPM	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%

Source: Shared Research based on company data

Subsidiary Kajitaku sales dip on tough comparison to campaign driven demand in Q1 FY02/16; other subsidiaries grow, contributing to rise in consolidated operating profit

The segment has booked double digit growth for six consecutive quarters, with consolidated growth at subsidiaries making a significant contribution to sales and profits. Kajitaku, a subsidiary which provides professional household services like cleaning and laundry and had boosted segment growth, saw a slight fall in sales in reaction to large demand backed by campaigns in Q1 FY02/16. However, travel agency subsidiary Aeon Compass and other subsidiaries generated business growth, resulting in both higher sales and profits.

Kajitaku plans to conduct similar campaigns in 2H and is likely to contribute to a rise in full-year sales. The B2B business field appeared to make only a small contribution to sales in Q1. At Aeon Compass, the event business (inbound tourist demand) and corporate business (overseas and domestic business trips and rental conference rooms) continued to see strong sales.

FY02/16 full-year results (announced April 13, 2016)

Earnings

Sales: JPY281.0bn (up 5.4% YoY)

Operating profit: JPY16.7bn (up 5.3%)

▶ **FY02/17**：FY02/16: External factors depress revenues from Construction Work in Q4, but earnings still finish closely in line with initial estimates

- **FY02/17:** The company sees overseas businesses and Support Services business driving top-line growth and earnings growth across all segments; will continue to actively invest in future growth initiatives
- **Overseas:** The company sees 30% YoY growth in sales; in China, looking for continued strong growth outside of Aeon Group, enhancement in area strategies; in ASEAN, looking for more work from group companies
- **Support Services:** Kajitaku accounts for majority of gross profit from subsidiaries (JPY1.5-2.0bn); full-scale rollout of Kaji Cloud's B2B initiative
- **Other:** At Cleaning Services, focus on sanitary cleaning services and cleaning robots; at Vending Machine Services, focus on ad revenues; at Construction Work, focus on projects for Aeon Group, expansion into new business areas
- **Hakuseisha:** Becomes wholly owned subsidiary in January 2016; synergies not included in earnings estimates for FY02/17; improvements in earnings structure expected from FY02/18

Earnings set new record high; growth continues overseas

Sales were up year-on-year for the sixth year in a row, while operating profit, recurring profit, and net income rose year-on-year for the 12th consecutive year. Overseas, the company surpassed JPY10.0bn in sales, with the business growing rapidly in Asia.

Construction Work (Aeon Group store renovation) and Support Services (subsidiary Kajitaku) drive growth

Operating profit rose by JPY846mn, with Construction Work (+14.6% YoY, up by JPY411mn), Support Services (+52.0%, up by JPY675mn) and Materials & Supplies Sourcing (+32.9%, an increase of JPY695mn) all seeing double digit growth, which pushed up overall earnings. Contributors to earnings included winning non-Aeon clients, brisk demand for new Aeon Group store openings and renovation of existing stores, improved profitability, as well as growth at subsidiary Kajitaku.

SG&A expenses increased faster than sales, growing 7.4% YoY. Shared Research believes the increase in SG&A is due to higher investment costs, driven up by an increase in new deals and higher personnel costs.

Outlook for FY02/17

The company has positioned FY02/17 as a year for accelerating reforms. For the year, it revised down its medium-term targets to JPY305.0bn in sales and JPY17.5bn in operating profit (previous targets: JPY330.0bn or higher in sales and JPY21.0bn or higher in operating profit). To accelerate reforms further, the company plans to focus resources on high potential growth markets overseas, and invest in changing its business model.

Raising operating profit

In FY02/17, the company forecasts operating profit of JPY17.5bn, up JPY793mn YoY. Factors contributing to this increase are in the following table. The company expects a JPY793mn increase in operating profit, despite roughly JPY1.0bn in investments for growth.

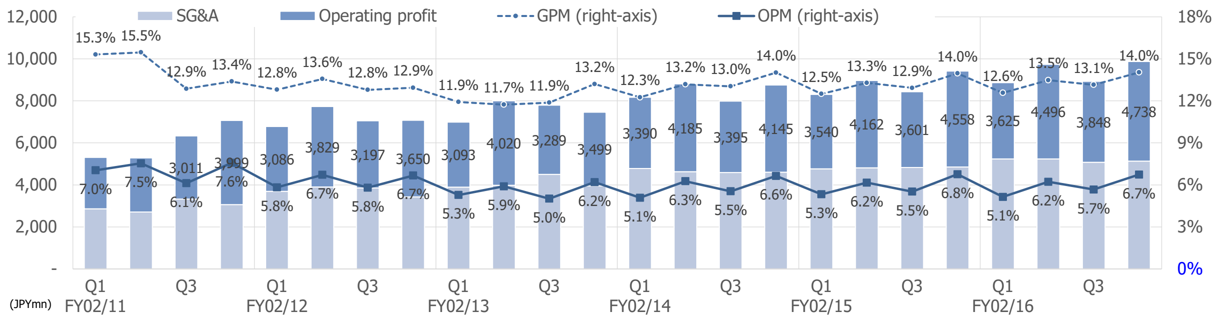
Measures to raise operating profit

	year-on-year changes
Total growth in gross profit	**JPY3.5bn-4.5bn**
1) Growth in Aeon Delight parent	JPY1.8bn-2.2bn
2) Growth in domestic subsidiaries	JPY1.5bn-2.0bn
3) Growth in overseas subsidiaries	PY200mn-300mn
Impact from higher SG&A expenses	JPY2.7-3.0bn
Growth in operating profit	**JPY800mn-JPY1.5bn**

Source: Shared Research based on company data

At Shared Research, we would like to focus in particular on the following measures the company is taking to grow operating profit (some of which have been discussed above): 1) expansion of overseas businesses (grow overseas subsidiaries; 2) at Support Services, full-scale launch of B2B partnership for Kaji Cloud cleaning services (grow domestic subsidiaries); 3) buildup of advertising business to support Vending machine services business; 4) at Construction work segment, expansion into new business areas and increase in project work done for Aeon Group companies; 5) at Cleaning services segment, the introduction of cleaning robots and standardization of cleaning procedures used by partner companies; and 6) aggressive investment in growth areas. For a more detailed discussion of these strategies, see discussion under "Outlook for FY02/17."

Quarterly performance



Source: Shared Research based on company data

Looking back at FY02/16 initiatives

The company views the key achievements of FY02/16 as expanding the domestic business, expanding the business in Asia, and increasing competitiveness.

Expanded the domestic business:

- Increased orders from hospitals
- Made Hakuseisha (JASDAQ: 9736) a consolidated subsidiary
- Growth at Kajitaku

Expanded the business in Asia:

- Overseas sales exceeded JPY10.0bn

Increased competitiveness:

- Strengthened Cleaning business
- Built up its fluorocarbon management services

- Restructured business portfolio

Making Hakuseisha a consolidated subsidiary

Hakuseisha results

(JPYmn)	FY03/13		FY03/14		FY03/15		FY03/16 Est.	
Sales	9,723	100.0%	10,037	100.0%	9,839	100.0%	9,343	100.0%
Kanto area	4,893	50.3%	4,980	49.6%	4,610	46.9%		
Kansai area	4,216	43.4%	4,286	42.7%	4,392	44.6%		
Chubu area	613	6.3%	771	7.7%	837	8.5%		
Building maintenance	6,983	71.8%						
Securities management	2,588	26.6%						
Other	242	2.5%						
Daimaru Matsuzakaya Department Stores	2,254	23.2%	2,339	23.3%	2,546	25.9%		
JFR Service	NA		NA		NA			
YoY	1.1%		3.2%		-2.0%		-5.0%	
Gross profit	1,178	12.1%	1,121	11.2%	1,010	10.3%		
SG&A	823	8.5%	856	8.5%	835	8.5%		
Operating profit	354	3.6%	265	2.6%	175	1.8%	140	1.5%
Recurring profit	455	4.7%	449	4.5%	276	2.8%	232	2.5%
Net income	296	3.0%	290	2.9%	172	1.8%	142	1.5%
Net assets	6,169		6,501		6,637			
Total assets	8,024		8,604		8,821			
Net cash	3,123		3,661		3,035			

Source: Shared Research based on company data
Note: The J-Front Retailing group accounted for approximately one-third of sales in FY03/15.

Acquisition aimed at increasing market share, but Aeon Delight also looking to improve earnings structure at Hakuseisha

In FY03/15, Hakuseisha recorded JPY9.8bn in sales and JPY175mn in operating profit due to expanding its market shares (representing a gross margin of 10.3% and operating profit margin of 1.8%), but expected sales and earnings to be down in FY03/16. Going forward, Aeon Delight is looking to realize synergies from its acquisition of Hakuseisha and improve profitability at Hakuseisha through a number of measures including 1) expanding its customer base, starting with the department stores owned by Hakuseisha, 2) scouring Hakuseisha's customer base for opportunities to provide additional services, and 3) combining the expertise of both Aeon Delight and Hakuseisha in cleaning and other areas.

Large difference in gross margin between Aeon Delight's Cleaning Services business and Hakuseisha

The company believes further top-line growth at Hakuseisha is possible with the help of 1) and 2), and sees plenty of room to improve profitability with the help of 3). Aeon Delight reported an overall gross margin of 13.3% for FY02/16, with its Facilities Management and Security Service business reporting gross margins close to the average and its Cleaning Services business reporting a gross margin about 5ppts higher. Cleaning and related services account for nearly half of overall sales at Hakuseisha, and the gross margin of its cleaning business is only about half that of Hakuseisha as a whole. If Aeon Delight is able to bring Hakuseisha's gross margin in line with its own, it would make a large contribution to earnings.

Aeon Delight is already taking steps to realize the potential synergies from its acquisition of Hakuseisha and intends to aggressively pursue these initiatives going forward. Aeon Delight completed its takeover of Hakuseisha (making it a wholly owned subsidiary) in January 2016, so the acquisition contributed only two months of earnings to consolidated results in FY02/16.

Progress on winning non-Aeon Group clients, structuring Support Services and Overseas businesses

Rise in orders for large-scale facilities from non-Aeon clients drove sales higher; 1H momentum sustained in 2H

The company saw revenues increase from both Aeon Group and non-group companies in FY02/16. In 2H, the company also launched a new sanitary cleaning services for hospitals and other medical facilities and won its first contract with a major hospital.

Focus in 2H was new projects to start in FY02/17; orders for additional services from existing projects

Many contracts for projects, such as orders for large facilities, begin in early spring (though some contracts begin in October), so 2H is when the company pushes sales negotiations to win these contracts from other companies. The company has many negotiations ongoing and expects to receive orders for additional services from existing projects. Leveraging its past experience as a subcontractor for sanitary cleaning services, Aeon Delight appears to be enjoying success marketing itself as a primary contractor, and expects to start a number of new contracts for sanitary cleaning services in FY02/17.

As Kajitaku continues to grow, Support Services to account for rising share of profits

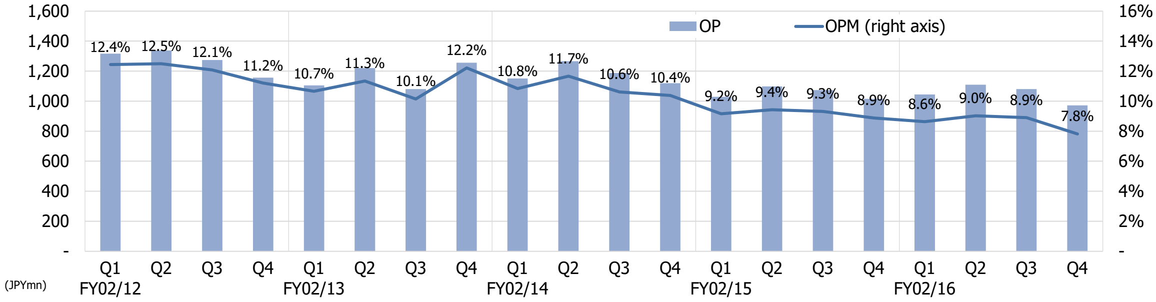
Sales at the Support Services segment rose JPY3.1bn YoY (+19.9%) and operating profit rose JPY675mn YoY (+52.0%). Not only did the proportion of sales derived from outside the group increase, it accounted for 8.2% of operating profit versus only 5.7% in FY02/15. Subsidiary Kajitaku brought a large contribution to the segment growth. In addition to increases in sales at its copy machine business and other existing businesses, the company also appears to have experienced higher sales from its Kaji Cloud housework services for individual households, with most of the growth coming in urban areas.

Cleaning partnership with major local company in Malaysia; anticipates growth from Aeon Group orders

Business continued to expand overseas as well, with sales surpassing the JPY10.0bn mark. In China, improvement in local management helped earnings maintain solid growth, driven by government contracts (not easily affected by real estate market conditions) and contracts with new Aeon Mall stores. Thanks to the consolidation of its local management organization in Suzhou and Wuhan and more aggressive marketing, the company also appears to have had some success in winning additional contracts from non-Japanese companies. The company anticipates further contributions to growth in FY02/17 now that it has begun to service the new Aeon Malls being opened in China (most of which were opened in 2H).

In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015, and acquired the ability to take on orders for Aeon Group's stores, which is growing to be one of the largest retailers in Malaysia: the Aeon Group in Malaysia had 101 stores as of the end of FY02/16, 44 more stores than at end FY02/15 (AEON CO.(M) BHD. plus AEON BIG (M) SDN. BHD.). Shared Research believes the company appears to be making progress in getting clients to switch from competitors.

Facilities Management



Facilities Management (JPYmn)	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4
Sales	10,622	10,848	11,198	10,790	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442
YoY	2.4%	0.9%	5.2%	5.0%	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%
Operating profit	1,151	1,266	1,188	1,120	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972
YoY	4.2%	3.8%	10.0%	-10.8%	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%
OPM	10.8%	11.7%	10.6%	10.4%	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%

Facilities Management (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	40,019	42,147	42,050	43,458	45,839	48,962
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%
Operating profit	5,115	5,084	4,661	4,725	4,217	4,206
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%

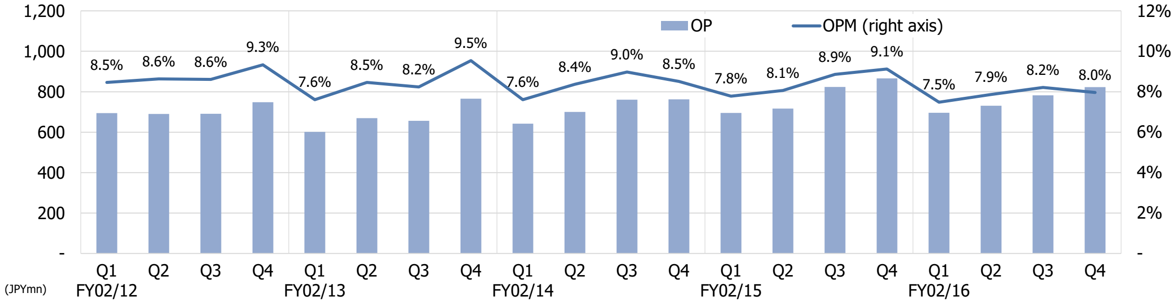
Source: Shared Research based on company data

In addition to receiving new orders for maintenance and inspection, the company continued to train employees as authorized handlers of Type I fluorocarbon refrigerant with the aim of further expanding contracts. With 500 certified employees, it continued to build up its system for contract fluorocarbon management services, targeted toward facilities with equipment that uses fluorocarbon refrigerant, such air conditioning equipment for heat, and refrigeration and freezing equipment. As a result, the company was receiving more orders for fluorocarbon management services, in addition to maintenance and inspection services.

Contract fluorocarbon management services adding value to existing FM services

In Q3, the company saw the net increase in gross profit it had been anticipating from its move to have existing employees take on contract fluorocarbon management services. Having largely finished signing new contracts with the Aeon Group in this area, the company is aiming to expand outside the group using its track record. Elsewhere in the energy management system, the company is angling to beat its competitors by sharpening its energy solutions technology. The company received over 1,300 orders in 1H.

Security Services



Security Services (JPYmn)	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4
Sales	8,438	8,367	8,481	8,956	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334
YoY	6.8%	5.8%	6.5%	11.5%	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%
Operating profit	642	700	761	762	695	717	824	866	696	731	782	823
YoY	6.8%	4.6%	16.0%	-0.5%	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%
OPM	7.6%	8.4%	9.0%	8.5%	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%

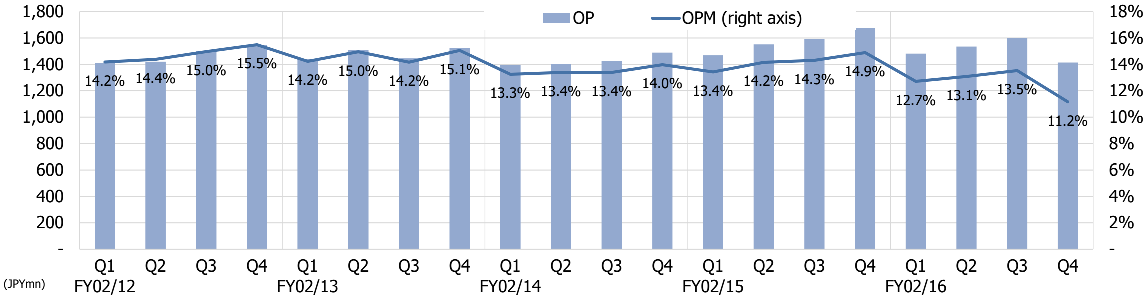
Security Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	32,088	32,235	31,805	34,242	36,622	38,456
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%
Operating profit	2,764	2,823	2,692	2,865	3,102	3,032
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%

Source: Shared Research based on company data

The company won new contracts for its “Attender” services, which combine security with customer information services, from multiple existing clients as well as for five new commercial facilities, bringing the total number of locations using its Attender services to 38. Attender services in multiple languages were adopted by the resort-style shopping mall AEON MALL Okinawa Rycom, which opened in April 2015. The company will keep promoting Attender-based improvement in security to its new and existing clients. It could also improve margins if the new Attender services help it establish a dominant market position in those areas where it is introduced.

With diversifying security needs, the company was working to develop security systems that utilize sensors and communications technologies, as well as predictive systems based on incident and accident analysis.

Cleaning Services



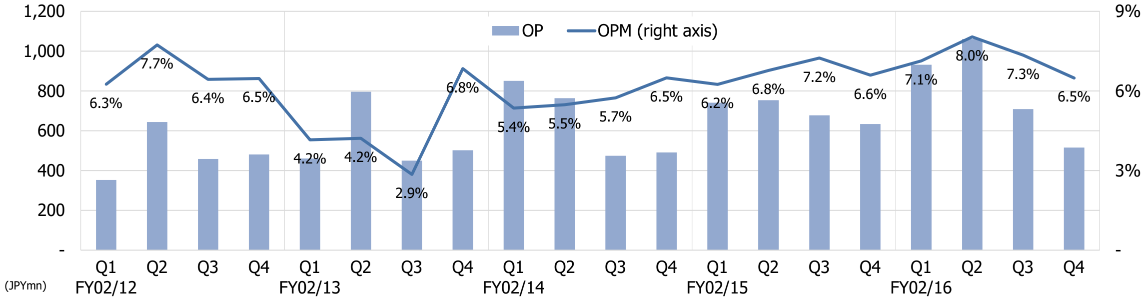
Cleaning Services (JPYmn)	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4
Sales	10,539	10,485	10,642	10,654	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680
YoY	4.1%	4.0%	4.3%	5.4%	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%
Operating profit	1,397	1,404	1,425	1,490	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415
YoY	-3.1%	-6.9%	-1.5%	-2.2%	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%
OPM	13.3%	13.4%	13.4%	14.0%	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%

Cleaning Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	41,142	39,852	40,519	42,320	44,287	47,870
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%
Operating profit	5,937	5,882	5,918	5,716	6,289	6,031
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%

Source: Shared Research based on company data

In addition to new contracts, the company increased the number of contracts in the hospital and nursing home market with the help of its new sanitary cleaning services devised especially for medical facilities. In regular cleaning services, the company will continue standardization to attain a 20% GPM, while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company stepped up efforts on this front in Q4 with the aim of initiating a full-scale rollout in FY02/17. The company also made Hakuseisha a consolidated subsidiary in December 2015, to leverage its experience cleaning department stores to strengthen the segment's business foundations.

Construction Work



Construction Work	FY02/14				FY02/15				FY02/16			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	15,888	13,929	8,254	7,559	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953
YoY	43.4%	-26.2%	-47.7%	3.0%	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%
Operating profit	851	764	474	491	741	754	678	634	932	1,061	709	516
YoY	84.6%	-4.0%	5.3%	-2.2%	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%
OPM	5.4%	5.5%	5.7%	6.5%	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%

Construction Work	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.
Sales	16,420	28,513	53,071	45,630	41,972	43,855
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Operating profit	1,214	1,936	2,209	2,580	2,807	3,218
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%

Source: Shared Research based on company data

Construction Work expected to be earnings driver again in FY02/17

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. The sudden growth stems from the company receiving an increasing number of orders to renovate aging general merchandise stores nationwide. Aeon Retail is renovating its existing stores to bolster its supermarket operations; sales are increasing as a result. (One specific example, the newly renovated Ontakesan store of Aeon Style, logged a 15% YoY increase in sales between December 11, 2015 and January 3, 2016.)

Aeon Retail to boost spending on store renovation by 35% in FY02/17

Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 a total of 28 stores were part of large-scale renovation projects. There were already 19 such stores in 1H FY02/16 and the company had targeted a total of 54 stores in FY02/16. The company plans spend heavily on store renovation again in FY02/17, boosting investment spending in this area by 35% versus FY02/16.

Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

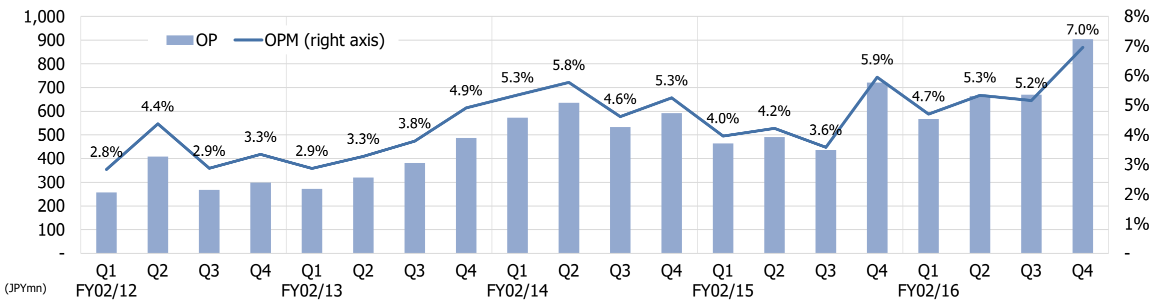
Aiming to secure more renovation work at existing malls operated by Aeon Mall

As a general rule, Aeon Mall (8905) undertakes major renovation work at its existing malls once every six years. Along with this steady workflow, Aeon Delight also intends to focus on winning contracts for large-scale renovation projects undertaken by Aeon Retail going forward, and work from these two sources within the Aeon Group are expected to continue driving growth at its Construction Work business in the year ahead.

External factors behind double-digit drop in Construction Work revenues in Q4 FY02/16

The aggressive store renovation plans at the Aeon group level notwithstanding, at the individual store level, the work flow to Aeon Delight from small-scale projects is sometimes subject to delays, particularly when individual stores cut spending in order to meet their earnings targets. This was especially evident in Q4 FY02/16, and led to a 17.3% YoY decline in revenues and 18.6% decline in operating profit at the Construction Work business in the last quarter of the fiscal year. The company emphasized that this was *not* due to a loss of orders to competitors.

Materials and Supplies Sourcing Services



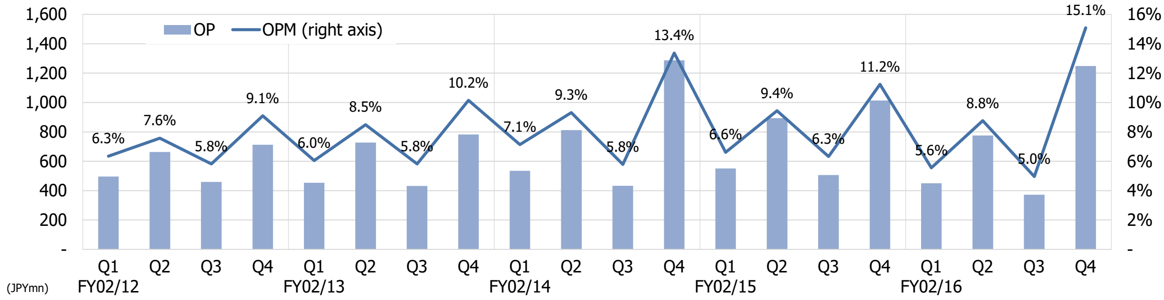
Materials and Supplies Sourcing (JPYmn)	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4
Sales	10,721	11,023	11,542	11,257	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001
YoY	12.6%	12.8%	14.8%	13.3%	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%
Operating profit	573	636	533	591	464	490	436	721	568	664	670	904
YoY	109.9%	98.8%	39.9%	21.1%	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%
OPM	5.3%	5.8%	4.6%	5.3%	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%

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

Source: Shared Research based on company data

In addition to new orders, the company capitalized on demand from existing clients with new stores. The company also supplied more packaging materials for Aeon's private brand, Top Valu. The company continued to focus on increasing margins by revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools. As a result, FY02/16 sales increased 6.1% YoY, and with profitability improvements pushing up OPM by 1.1pp to 5.6%.

Vending Machine Services



Vending Machine Services	FY02/14				FY02/15				FY02/16			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	7,498	8,716	7,479	9,636	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279
YoY	-0.1%	1.7%	0.8%	25.1%	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%
Operating profit	535	812	433	1,288	551	894	506	1,014	450	775	372	1,249
YoY	17.8%	11.5%	0.2%	64.7%	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%
OPM	7.1%	9.3%	5.8%	13.4%	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%

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

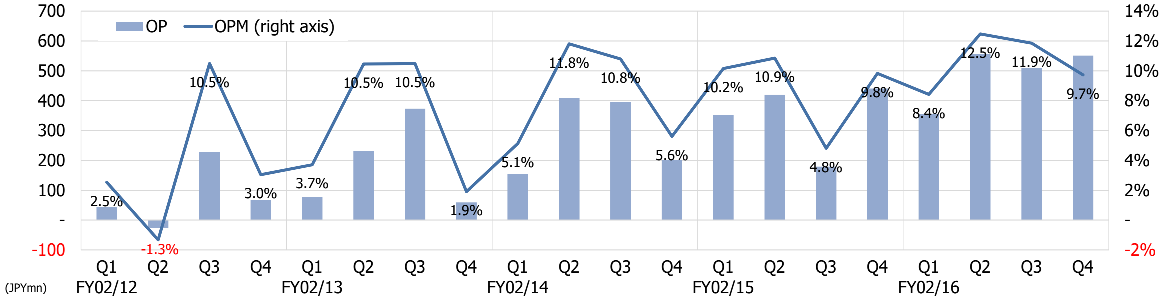
Source: Shared Research based on company data

FY02/16 saw a 6.0% decrease in sales, compared to FY02/15, when sales increased with new vending machine installations. In March, the company established a special sales team to develop new customers and aggressively push vending machine location proposals at client facilities, a step that was deemed necessary to help counter the ongoing decline in vending machines sales across the industry. The company also installed value-added vending machines—such as those with digital displays—at major new commercial facilities, and developed private brand drinks specifically for vending machines. These private brand drinks were being developed for 2H.

Focus on developing advertising business for vending machines with digital signage displays

For vending machines with digital displays, the company has developed a new business model, including offering video advertisements in addition to existing drinks. This may become a new revenue source beginning in FY02/17. For further details see discussion under "Outlook for FY02/17."

Support Services



Support Services (JPYmn)	FY02/14 Q1	Q2	Q3	Q4	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4
Sales	3,002	3,473	3,660	3,583	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664
YoY	44.7%	56.6%	2.8%	16.0%	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%
Operating profit	154	410	395	201	352	420	179	441	355	556	510	551
YoY	100.0%	76.7%	5.9%	240.7%	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%
OPM	5.1%	11.8%	10.8%	5.6%	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.
Sales	5,327	8,037	10,942	13,718	15,540	18,639
YoY	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
Operating profit	590	312	741	1,160	1,297	1,972
YoY	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%
OPM	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%

Source: Shared Research based on company data

Subsidiaries continued to make significant contributions to growth in profits. Sales of Kajitaku's Kaji Cloud housework services, including online store sales, continued to be favorable, with the result that Kaji Cloud sales rose over 1.4x YoY. Kajitaku made a significant contribution to the rise in both sales and earnings in the Support Services segment, generating sales of roughly JPY2.0bn (+30-40% YoY) and also realizing a higher operating profit margin

Partnership with large company opening new channel for expansion of B2B housework services business

Kajitaku is planning on cooperating with major household appliance and equipment manufacturers in order to open up a new B2B channel for expanding its housework services business, and this together with continued strong growth at its copy machine business, is expected to drive growth at Kajitaku in FY02/17. Aeon Compass appears to be enjoying solid growth as well. The company sees earnings at Kajitaku, Aeon Compass, and the Support Services business as a whole continuing to grow.

FY02/15 results (out April 9, 2015)

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

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

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

Earnings overview

Sales/profits up for the fifth consecutive year with record profits; targets mostly met

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

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

FY02/15 highlights

For FY02/15, the company 1) improved the profitability of the Cleaning Service segment; 2) increased businesses with companies outside the Aeon Group and won large-scale contracts; 3) expanded in other Asian nations; and 4) strengthened the Support Services segment.

Expansion outside the group

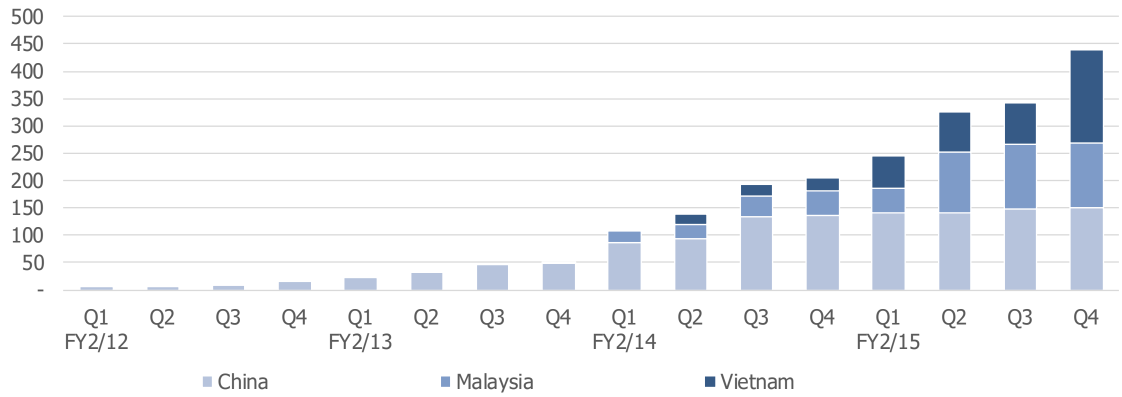
Aeon Delight, the largest facility-management company in Japan, has been expanding by leveraging its marketing clout. During 2H, the company won a large-scale order from a major corporation with nationwide operations. For FY02/16, the company will also seek to increase businesses focusing on large-scale facilities. For this purpose, the company will further strengthen its cooperation with General Services Inc., a subsidiary that provides business-process outsourcing services.

Expansion in Asia: more orders for facility management services overseas

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

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

Number of projects overseas

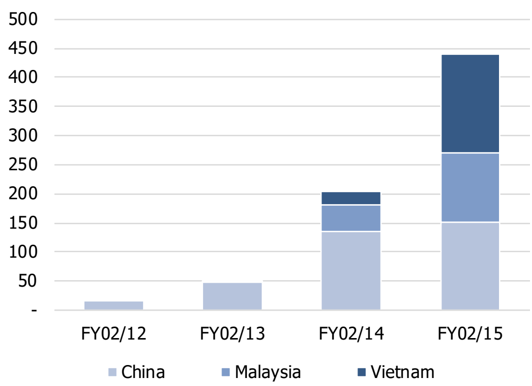


Source: Shared Research based on company data

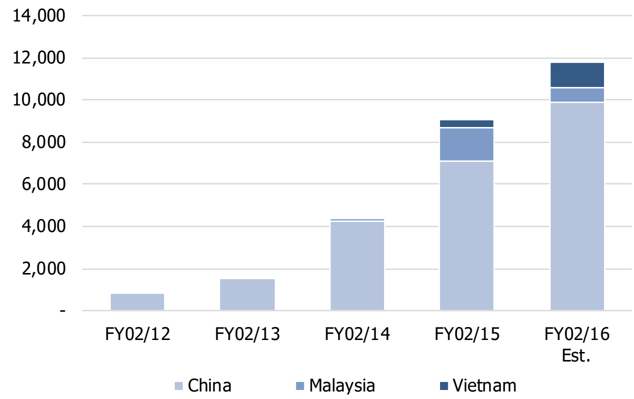
Double-digit sales growth may continue into FY02/16; focus is on China

Aeon Delight has been increasing sales (including through acquisitions). For the past two years, sales have increased by billions of yen (including a sales increase due to corporate acquisitions) in Asia. For FY02/15, sales reached JPY9bn, a twofold increase from a year earlier. China is the biggest market for Aeon Delight, which, according to the company, ranked 30th in market share among the 59,000 building maintenance companies operating in China. The company's success in China may be due to its alliance with a major company there.

Overseas orders



Overseas sales (JPY mn)



Source: Shared Research based on company data

Facilities Management

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

Source: Shared Research based on company data

Focusing on energy-saving services and preparing new businesses

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

Adding more value to CFC operations starting in FY02/16

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

Sales continue to grow, as OPM continues to decline

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

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

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

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

Security Services

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

Source: Shared Research based on company data

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

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

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

For FY02/15, this decrease in employee turnover led to improved profitability. However, in 1H an increase in store count meant higher expenses involving store openings. (It usually takes between one and two months to prepare for the opening of a new store.) These expenses may have pushed down the company's operating profit margin. Profitability began to improve during 2H because the company shut down unprofitable businesses, and because employee turnover declined. The company expects that the profitability will continue to improve in FY02/16.

Adding value with multilingual store attendants

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

Cleaning Services

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

Source: Shared Research based on company data

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

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

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

The company improved the work efficiency of its directly managed cleaning centers by about 17% during FY02/15. However, these cleaning centers comprise less than 20% of the company's overall cleaning business. At the same time, extra time generated may be used for other duties. Therefore, improved efficiency does not necessarily translate into reduced costs. It appears that progress has been made in FY02/15 to provide training to partner companies.

Winning orders from hospitals

The company promoted its cleaning services among hospitals during FY02/15 and won orders in Hokkaido (for 17 facilities managed by JA Hokkaido) and in Kansai (16 facilities managed by private medical institutions). The company in January 2014 launched a project to win hospital orders, and in July started experiments at a city-run hospital in Nara Prefecture. These efforts are beginning to bear fruit.

Aeon Delight won these orders because the company was able to centralize facility management, created a transparent disinfecting mechanism to prevent infection at hospitals, and reduced costs. The actual work will not begin until at least April 2015. Thus, the contracts will not contribute to earnings until FY02/16. Costs will rise in the initial year. However, the profitability will increase during the following fiscal year. The company will make the operations even more efficient and further improve earnings.

Aeon Delight executives told Shared Research that winning contracts from a major chain operator requires investments in the form of hiring and training. Aeon has resources to make such investments. The company's existing clients may also introduce it to other potential customers.

Construction Work

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

Source: Shared Research based on company data

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

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

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings. Sales from renovation projects may have reached JPY4.5bn, far exceeding the company's full-year target of JPY1.5bn.

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

Aeon Retail may continue to open more large-scale stores

Sales at Aeon Retail's 13 large-scale renovated stores rose 3.3% YoY during the first three quarters of FY02/15. In contrast, average comparable store sales fell 3.8% YoY. The company, which wants to make store-renovation projects a regular part of its operations while expanding new outlets, has announced that it would increase investments in renovation projects by 20% in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Materials and Supplies Sourcing Services

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

Support Services

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

Source: Shared Research based on company data

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

Aeon Compass and Kajitaku both posted an increase in sales and profits. Kajitaku made investments in computer systems to promote growth in FY02/15. Operating profit rose thanks to a sales increase.

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

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

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

Overall

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

An overview of each segment is as follows:

Facilities Management

- Sales: JPY43.5bn (+3.3 YoY)

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

Security Service

- Sales: JPY34.2bn (+7.4% YoY)

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

Cleaning Services

- Sales: JPY42.3bn (+4.4% YoY)

The company's original coating agent, which replaces floor wax, was implemented in 121 properties. Other initiatives included progress in standardization and productivity improvement in product quality by uniformly sharing the company's cleaning expertise with a consolidated pool of consigned firms.

Construction Work

- Sales: JPY45.6bn (-14.0% YoY)

LED construction work was down YoY due to a lack of orders from the Aeon group, which had been concentrated in the previous year. Sales for LED construction work to the Aeon group were JPY15.6bn (JPY26.6bn in the previous year). However, orders received for maintenance for existing stores and scheduled upkeep construction work were healthy, centered on the Aeon group.

Materials and Supplies Sourcing Services

- Sales: JPY44.5bn (+13.4% YoY)

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

Vending Machine Services

- Sales: JPY33.3bn (+6.8% YoY)

The company continued to develop low-cost vending machines, and machines capable of accepting electronic money. Furthermore, the company's management of soft-drink vending managements saw a net increase of 4,800 units, due to the installation of new units in Sanyo Marunaka shops and new Aeon Malls.

Support Services

- Sales: JPY13.6bn (+25.2% YoY)

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

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

- Establish a dominant position in comprehensive FMS and competitiveness (strengthen the cleaning services segment and the energy solutions segment)
- Develop the Asian market

- Build an organizational base (organizational restructuring, human resource development, IT investment)

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

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

FY02/13 Results

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

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

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

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

Income statement

Income statement (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855
Materials and Supplies Sourcing		-	-	18,718	36,730	39,284	44,543	47,618	50,516
Vending Machine Services		-	-	17,188	32,280	31,200	33,329	34,825	32,741
Support Services, and Other	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639
YoY	**23.7%**	**5.9%**	**-3.7%**	**21.8%**	**28.6%**	**13.2%**	**3.4%**	**3.7%**	**5.4%**
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%
Materials and Supplies Sourcing		-	-	-	96.2%	7.0%	13.4%	6.9%	6.1%
Vending Machine Services		-	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%
Support Services, and Other		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%
CoGS	118,692	124,735	119,180	146,916	191,166	218,648	223,528	231,588	243,651
Gross profit	**18,827**	**20,955**	**21,118**	**23,989**	**28,631**	**30,227**	**33,714**	**35,117**	**37,390**
YoY	**18.1%**	**11.3%**	**0.8%**	**13.6%**	**19.4%**	**5.6%**	**11.5%**	**4.2%**	**6.5%**
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682
SG&A-to-sales ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%
Operating profit	**8,330**	**9,946**	**9,970**	**12,031**	**13,762**	**13,901**	**15,115**	**15,861**	**16,707**
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%
Non-operating income (expenses)		-134	-58	58	22	-9	-23	82	-23
Non-operating income	128	108	88	208	281	213	163	228	253
Non-operating expenses	272	241	147	149	260	221	186	145	-275
Recurring profit	**8,186**	**9,812**	**9,912**	**12,089**	**13,784**	**13,892**	**15,092**	**15,943**	**16,684**
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%
Extraordinary gains (losses)		-830	223	-980	-807	27	-501	-342	-158
Extraordinary gains	57	110	457	5	73	80	28	15	816
Extraordinary losses	162	940	234	985	880	53	529	357	974
Income taxes	3,702	4,026	4,618	4,613	5,932	6,306	6,192	6,530	6,469
Implied tax rate	45.8%	44.8%	45.6%	41.5%	45.7%	45.3%	42.4%	41.9%	39.1%
Minority interests	-	80	50	-	132	104	237	344	398.0%
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%

Source: Shared Research based on company data

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

Engineering-training operations, staffing operations, and document-management operations were part of the "Other" section until FY 02/10. These businesses were designated as Support Services from FY 02/11 after the company merged with Certo Corp. in September 2010. Materials and Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Historical forecast accuracy

Initial CE vs. Results (JPYmn)	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.
Sales (Initial CE)	120,000	145,000	150,000	181,000	213,000	260,000	260,000	270,000	280,000
Sales (Results)	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041
Initial CE vs. Results	**14.6%**	**0.5%**	**-6.5%**	**-5.6%**	**3.2%**	**-4.3%**	**-1.1%**	**-1.2%**	**0.4%**
Operating profit (Initial CE)	-	9,100	10,100	12,050	14,300	16,600	15,500	16,000	17,000
Operating profit (Results)	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707
Initial CE vs. Results	**-**	**9.3%**	**-1.3%**	**-0.2%**	**-3.8%**	**-16.3%**	**-2.5%**	**-0.9%**	**-1.7%**
Recurring profit (Initial CE)	6,800	9,000	9,900	12,105	14,300	16,600	15,500	16,000	17,000
Recurring profit (Results)	8,186	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684
Initial CE vs. Results	**20.4%**	**9.0%**	**0.1%**	**-0.1%**	**-3.6%**	**-16.3%**	**-2.6%**	**-0.4%**	**-1.9%**
Net income (Initial CE)	3,600	4,600	5,200	6,470	7,600	8,700	8,300	8,600	9,400
Net income (Results)	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658
Initial CE vs. Results	**21.6%**	**6.0%**	**5.1%**	**0.4%**	**-9.1%**	**-13.7%**	**-1.7%**	**1.5%**	**2.7%**

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

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

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

Balance sheet

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
ASSETS								
Cash and deposits	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386
Marketable securities								
Accounts receivable	18,025	16,284	28,246	31,240	44,673	37,420	40,055	39,512
Allowance for doubtful accounts	-188	-122	-226	-657	-144	-290	-168	-360
Inventories	28	20	1,476	1,527	2,237	2,504	2,618	2,897
Deposits for consumption from associates	2,500	3,000	18,920	27,320	18,020	32,420	41,326	37,362
Other current assets	2,794	2,880	3,010	3,349	4,523	5,728	5,066	5,877
Total current assets	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**
Buildings	762	1,185	1,234	1,217	1,089	1,046	1,009	1,642
Facilities and equipment for area management	343	305	265	246	274	238	211	190
Tools, furniture, and fixtures	-	-	1,791	1,918	2,079	2,487	2,516	2,663
Land	475	284	284	284	282	278	278	1,978
Construction in progress	13	15	-	-	-	-	-	
Other fixed assets	1,009	952	182	108	72	209	345	610
Total tangible fixed assets	**2,602**	**2,741**	**3,756**	**3,773**	**3,796**	**4,258**	**4,361**	**7,086**
Goodwill	11,974	11,295	10,546	11,249	10,801	10,078	9,069	7,989
Other	649	629	1,031	1,023	1,520	1,609	1,867	2,408
Total intangible fixed assets	**12,623**	**11,924**	**11,577**	**12,272**	**12,321**	**11,687**	**10,937**	**10,397**
Investment securities	1,730	2,050	2,983	2,577	2,973	3,897	3,768	4,463
Deferred tax assets	534	289	278	406	288	254	284	310
Other	1,566	1,779	1,701	1,517	2,196	1,877	2,750	3,911
Allowance for doubtful accounts	-172	-141	-196	-224	-200	-199	-535	-494
Investment and total other fixed assets	**3,658**	**3,977**	**4,766**	**4,276**	**5,257**	**5,829**	**6,268**	**8,190**
Total fixed assets	**18,885**	**18,644**	**20,100**	**20,322**	**21,375**	**21,775**	**21,567**	**25,674**
Total assets	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**
LIABILITIES								
Accounts payable	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457
Short-term debt	1,688	80	49	41	10	5		
Other current liabilities	7,892	7,227	8,251	9,882	10,401	12,600	15,738	16,364
Total current liabilities	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**
Long-term debt	56	31	6	15	5	-		
Other fixed liabilities	768	993	1,006	968	1,190	1,500	1,908	2,527
Total fixed liabilities	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**
Total liabilities	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	2,963	2,964	18,741	18,753	18,770	18,818	18,850	18,862
Retained earnings	20,852	25,366	30,575	35,285	40,539	46,235	52,388	59,393
Treasury stock	-461	-461	-461	-460	-458	-449	-443	-441
Other comprehensive income	-42	145	645	647	992	1,711	1,373	525
Share subscription rights	72	110	149	173	205	165	166	221
Minority interests	1,456	-	-	545	1,260	1,597	1,922	2,200
Total shareholder equity (net assets)	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**
Working capital	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952
Total interest-bearing debt	1,744	111	55	56	15	5	-	-
Net debt (net cash)	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748
Equity ratio	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%

Source: Shared Research based on company data
JPY1.5bn raised from securitization of future receivables in FY02/09 is booked as short-term interest bearing debt.

Assets

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

Aeon Delight's assets and liabilities swelled in FY02/11 due to its merger with Certo Corp. It took on assets of JPY31.5bn and liabilities of JPY15.3bn.

Liabilities

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

Shareholder equity

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

Shareholder Rewards

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

Statement of cash flows

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY2/16
Cash flows from operating activities (1)	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303
Cash flows from investing activities (2)	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255
Free cash flow (1+2)	**4,581**	**5,065**	**3,808**	**-412**	**2,728**	**4,727**	**5,869**	**7,048**
Cash flows from financing activities	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821
Depreciation and amortization (A)	1,495	1,593	1,787	2,345	2,237	2,432	2,466	2,861
Capital expenditures (B)	-707	-912	-792	-1,184	-1,607	-1,999	-1,903	-2,414
Working capital changes (C)	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181
Simple FCF (NI + A + B - C)	**5,556**	**6,319**	**7,522**	**6,324**	**-5,180**	**17,737**	**10,740**	**7,924**

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

In FY02/13, net cashed used in financing activities were dividend payments of JPY2.3bn. Prior to FY02/09, the company used cash for repayment of funds raised from liquidation of future receivables.

Simple free cash flow

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

Cash conversion cycle (days)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY2/16
Accounts receivable turnover	8.0	8.2	8.2	7.7	7.4	6.6	6.3	6.9	7.1
Accounts receivable days	**45.7**	**44.7**	**44.6**	**47.6**	**49.4**	**55.7**	**58.2**	**53.0**	**51.7**
Inventory turnover	6,246.9	6,565.0	4,965.8	196.4	127.3	116.2	94.3	90.4	88.4
Days in inventory	**0.1**	**0.1**	**0.1**	**1.9**	**2.9**	**3.1**	**3.9**	**4.0**	**4.1**
Payables turnover	11.5	12.0	12.2	9.4	8.3	9.1	8.7	8.0	8.2
Accounts payable days	**31.7**	**30.5**	**29.9**	**39.0**	**44.1**	**40.3**	**41.8**	**45.4**	**44.5**
Cash conversion cycle (days)	**14.0**	**14.3**	**14.8**	**10.4**	**8.2**	**18.5**	**20.3**	**11.7**	**11.3**

Source: Shared Research based on company data
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

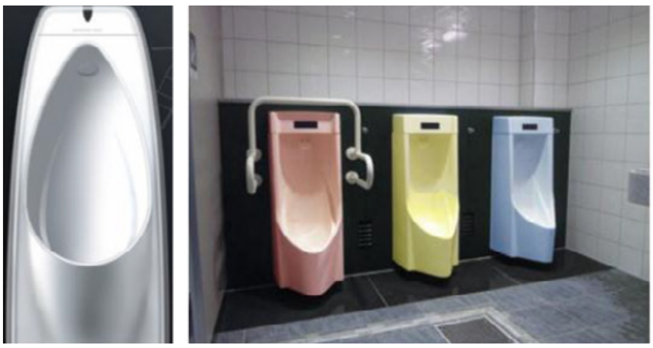
Mycal, falling under hardship and filed for bankruptcy in 2001, became a wholly owned subsidiary of Aeon in 2003. As a result, Japan Maintenance merged with Aeon Techno Service, and changed its name to Aeon Delight Co., Ltd. in 2006. In 2006,

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.

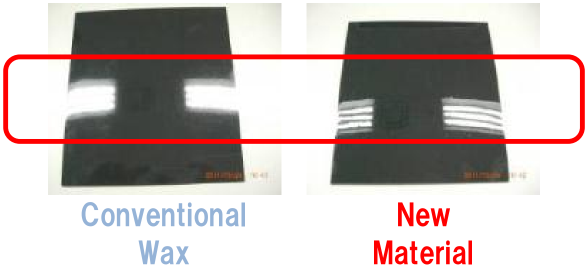
News & topics

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 JPY160,000 a year with one urinal (500 people x 1.8 liters x 365 x JPY0.55 x 90%). This calculation is based on the assumption that water and sewage cost JPY550 per 1,000L, and that conventional urinals require 1.8L of water per use. Aeon Delight plans to sell these urinals for JPY120,000 per unit. However, after testing in stores, there was room for improvement, and although experiments continue, it is still not at a stage where it can be implemented en masse.



Source: Shared Research based on company data

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: Shared Research based on company data

On **January 26, 2016**, the company announced an agreement to spinoff a business unit to Anabuki Housing Service, Inc (Anabuki Housing) by way of a simplified absorption-type split. The spinoff will only have a minor impact on consolidated earnings.

AEON DELIGHT has decided that is best going forward to transfer its domestic apartment management business (139 co-ops, 6105 apartment units) to Anabuki Housing, a major real-estate company. The business that will be spun off generated sales of JPY684mn in FY02/15. Assets worth JPY1mn will be spun off, effective March 31, 2016 (planned).

On **December 11, 2015**, the company announced the results of the tender offer for Hakuseisha Co., Ltd., (JASDAQ 9736) and that it would be making Hakuseisha a consolidated subsidiary as of December 17.

The company acquired 7,248,971 shares out of the planned 7,619,207 shares (transfer date: December 17), giving it 89.83% of voting rights. It does not expect the tender offer to have a significant impact on its results for FY02/16.

On **October 27, 2015,** the company announced a tender offer for Hakuseisha Co., Ltd.

Summary of tender offer

AEON DELIGHT is the third largest shareholder of Hakuseisha, owning 450,000 shares (5.58% ownership) through wholly owned subsidiary Kankyo Seibi Co., Ltd. On October 27, 2015, AEON DELIGHT reached an agreement with J. FRONT RETAILING Co., Ltd., (the parent of wholly owned subsidiary Daimaru Matsuzakaya Department Stores Co., Ltd., Hakuseisha's leading shareholder with 2,046,170 shares [25.36% ownership]). The agreement was on the outsourcing of Hakuseisha's operations and the transfer of personnel on loan, as well as the acquisition of all Hakuseisha's common stock (excluding shares held by Kankyo Seibi) and the execution of a tender offer with the intent of making Hakuseisha a wholly owned subsidiary of AEON DELIGHT.

Hakuseisha announces acceptance of tender offer and recommendation

At meeting of the board of directors held on October 27, 2015, Hakuseisha decided to support the tender and recommend acceptance by shareholders.

Tender offer price: JPY800 per share, JPY6.1bn total.

The planned pricing of the tender offer is JPY800 per share (October 27 closing price: JPY335), for a total purchase price of JPY6,095,365,600 based on the planned acquisition of 7,619,207 shares. The minimum number of shares to be acquired via the tender offer is 3,593,000 (44.53%), so that Hakuseisha can be made a wholly owned subsidiary of AEON DELIGHT to strengthen the capital partnership and achieve synergies.

Scheduled to become wholly owned subsidiary

If AEON DELIGHT is unable to acquire all of Hakuseisha's common stock, it intends make it a wholly owned subsidiary, with AEON DELIGHT and Kankyo Seibi as the only shareholders of Hakuseisha. This is under the condition that the total number of tendered and other shares is greater than the minimum (4,933,000 shares, equivalent to 66.7%) and an agreement is reached with the majority of shareholders other than those with a conflict of interest.

Background on tender offer

About Hakuseisha

Established in 1954, Hakuseisha is a comprehensive building maintenance company engaged primarily in cleaning, security, and facilities management. Now an equity-method affiliate of J. Front Retailing, Hakuseisha provides building maintenance services mainly for large retail facilities, such as the department stores operated by J. Front Retailing.

AEON DELIGHT thinks that Hakuseisha can offer skills gained from over 20 years in clean-room cleaning at facilities manufacturing precision equipment for industrial applications and at facilities making pharmaceuticals, and from over 13 years' experience in sanitation management systems at food-processing facilities.

Industry environment

AEON DELIGHT expects securing earnings to become more difficult given the limited growth expected in the number of commercial facilities and office buildings in Japan, and also given the continual pressure to reduce costs from existing customers, which will be exacerbated by anticipated increases in labor and materials costs.

Moreover, the company sees the need to shift from a labor-intensive to a knowledge-intensive business structures, as customer needs continue to grow more diverse and sophisticated. This is necessary to increase visibility of operations and ensure standardized methods; to develop IT technologies, equipment and materials while acquiring more advanced technology and knowledge; and to improve operation productivity and quality, including through consulting sales and quality-assurance contracts. To achieve this shift, the company requires a network that provides sophisticated and wide-ranging technology, expertise, and staff, as well as major investments to acquire relevant assets.

Events leading to the tender offer

AEON DELIGHT began considering working with Hakuseisha when Aeon, Co., Ltd. acquired all shares of Peacock Stores Inc. from J. Front Retailing in April 2013. Hakuseisha handled cleaning services and security for Peacock Stores. AEON Delight and Hakuseisha entered a subcontracting agreement in January 2014. The two companies began pursuing further cooperation through a capital relationship. Through synergies, the two companies recognized the potential to raise their corporate values. AEON DELIGHT approached J. Front Retailing in October 2014 about selling all its shares of Hakuseisha's common stock. In June 2015 AEON DELIGHT proposed strengthening the capital alliance and the two companies began specific talks.

AEON DELIGHT and Hakuseisha concluded that the corporate value and business foundations of each would benefit from the tender offer. They also decided that making Hakuseisha a non-listed company would eliminate the expenses associated with maintaining stock exchange listings.

Expected synergy

- Stronger sales capabilities
- Reinforced service quality and cost competitiveness
- Stronger business development
- Improved back-office efficiency

The impact on FY2/2016 consolidated earnings is expected to be limited.

Hakuseisha results summary

(JPYmn)	FY03/13		FY03/14		FY03/15		FY03/16 Est.	
Sales	9,723	100.0%	10,037	100.0%	9,839	100.0%	9,343	100.0%
Kanto area	4,893	50.3%	4,980	49.6%	4,610	46.9%		
Kansai area	4,216	43.4%	4,286	42.7%	4,392	44.6%		
Chubu area	613	6.3%	771	7.7%	837	8.5%		
Building maintenance	6,983	71.8%						
Securities management	2,588	26.6%						
Other	242	2.5%						
Daimaru Matsuzakaya Department Stores	2,254	23.2%	2,339	23.3%	2,546	25.9%		
JFR Service	NA		NA		NA			
YoY	1.1%		3.2%		-2.0%		-5.0%	
Gross profit	1,178	12.1%	1,121	11.2%	1,010	10.3%		
SG&A	823	8.5%	856	8.5%	835	8.5%		
Operating profit	354	3.6%	265	2.6%	175	1.8%	140	1.5%
Recurring profit	455	4.7%	449	4.5%	276	2.8%	232	2.5%
Net income	296	3.0%	290	2.9%	172	1.8%	142	1.5%
Net assets	6,169		6,501		6,637			
Total assets	8,024		8,604		8,821			
Net cash	3,123		3,661		3,035			

Source: Shared Research based on company data

Major shareholders

Aeon group companies own about 60% of the company.

Top Shareholders	Amount Held
Aeon Retail Co., Ltd.	30.57%
Aeon Co., Ltd.	11.27%
Reform Studio Co., Ltd.	7.37%
ORIGIN TOSHU Co.,Ltd.	3.42%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.24%
Goldman Sachs & Co Regular Account	2.04%
Aeon Delight Business Partners	1.67%
BNP Paribas Sec Services Luxembourg/Jasdec/Aberdeen Global Client Assets	1.61%
AEON RYUKYU Co., Ltd.	1.58%
Japan Trustee Services Bank, Ltd. (Trust Account)	1.14%

Source: Shared Research based on company data
(As of February 28, 2016)

Top management

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

Employees

Aeon Delight had 12,240 employees and an average of 6,858 temporary employees on a consolidated basis as of FY02/16. At the parent level, there were 3,973 employees and 2,462 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 3 months
- Average length of employment: 10.4 years
- Average annual salary: JPY4.7mn

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

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

Tree planting through Aeon Environmental Foundation

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

"Clean Day" on the 11th Day of Each Month

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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

Company profile

Company Name	Head Office
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Phone	**Listed On**
+81-6-6260-5621	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
November 16, 1972	September 29, 1995
Website	**Fiscal Year-End**
http://www.aeondelight.co.jp/english/	February
IR Contact	**IR Web**
	http://www.aeondelight.co.jp/english/ir/
IR Mail	**IR Phone**

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Japan Best Rescue System Co., Ltd.
JIN CO., LTD.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
LAC Co., Ltd.
Lasertec Corporation
MAC HOUSE CO., LTD.
MATSUI SECURITIES CO., LTD.
MEDINET Co., Ltd.
MEGANESUPER CO., LTD.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
MONEY SQUARE HOLDINGS, INC.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
NTT URBAN DEVELOPMENT CORPORATION
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
PARIS MIKI HOLDINGS Inc.
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SanBio Company Limited
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Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
SHIP HEALTHCARE HOLDINGS, INC.
SMS Co., Ltd.
SOURCENEXT Corporation
Star Mica Co., Ltd.
SymBio Pharmaceuticals Limited
Takashimaya Company, Limited
Takihyo Co., Ltd.
TAMAGAWA HOLDINGS CO., LTD.
TEAR Corporation
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
V-cube, Inc.
VISION INC.
VOYAGE GROUP, INC.
WirelessGate, Inc.
YELLOW HAT LTD.
YUMESHIN HOLDINGS CO., LTD.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

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