Aeon Delight / 9787

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

Executive summary

- Aeon Delight mainly operates facilities management services (FMS) for large commercial facilities. Segments are: Facilities Management, Security Services, Cleaning Services, Construction Work, Materials and Supplies Sourcing Services, Vending Machine Services, and Support Services. The company also provides integrated facilities management (IFM), which performs integrated facilities management and ancillary work that is non-core for the customer. This streamlines overall facility costs and generates rationalization benefits for the customer. Aeon Delight is the largest facilities management company in Japan. Roughly 65% of its sales are to companies in the Aeon group to which it belongs. Domestic sales comprise a high proportion of the total, about 95%.
- In FY02/19, the share of sales by segment was: Cleaning Services 19.2%, Facilities Management 18.6%, Materials and Supplies Sourcing Services 16.8%, Security Services 14.7%, Construction Work 13.7%, Vending Machine Services 10.5%, and Support Services and others 6.4%. Non-Aeon group customers include commercial facilities, office buildings and offices, hotels and accommodation facilities, medical and welfare facilities, educational facilities, factories and workshops, warehouses and distribution centers, public facilities, and events. The company operates a recurring revenue business model. Contracts typically last for one year and are usually renewed, maintaining low cancellation rates.
- Most of the company's overseas operations are in China and ASEAN. The key Chinese subsidiaries are Aeon Delight Jiangsu and Aeon Delight Hubei. The strategy is to provide quality facilities management in the Yangtze River Delta and surrounding regions to boost the Aeon Delight brand profile. In ASEAN, the company plans to use the acquisition of a major Indonesian cleaning company as a launch-pad to expand its business.
- In late March 2019, possible accounting irregularities emerged at subsidiary Kajitaku. Aeon Delight impaneled a special investigation committee of outside experts with no interest in the company, which confirmed accounting fraud. In response, the company restated prior years' earnings (a total of JPY16.3bn over FY02/14–FY0219) and took measures to prevent a recurrence.

Trends and outlook

- FY02/19 results: The company reported sales of JPY302.9bn (+3.6% YoY), operating profit of JPY13.0bn (+0.9% YoY), and net income of JPY6.4bn (+0.3% YoY). Excluding Kajitaku, estimated sales were JPY297.4bn (+3.4% YoY) and operating profit JPY17.0bn (JPY16.0bn in FY02/18). Facilities Management, Construction Work, and Cleaning Services were the key drivers. In December 2018, Aeon Delight bought back 2.7mn shares worth JPY9.9bn to boost shareholder returns.
- FY02/20 forecast: The company expects sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), net income of JPY10.8bn (+68.4% YoY), EPS of JPY216.35, and dividend per share of JPY65 (dividend payout ratio of 30.0%). Aeon Delight expects Kajitaku-related one-time expenses to drop out, and Construction Work, Facilities Management, and Cleaning Services to drive business performance.
- In October 2018, the company released its Aeon Delight Vision 2025 medium-term plan. This aims to make Aeon Delight a company that creates environmental value and contributes to solving social issues, with a three-pronged growth strategy in Asia: safety and security, the labor shortage, and the environment. It targets sales of JPY525.0bn and operating profit of JPY48.0bn in FY02/26.

Strengths and weaknesses

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

Key financial indicators

Income statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Est.
Sales	**170,905**	**219,797**	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**315,000**
YoY	21.8%	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	4.0%
Gross profit	23,989	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	
YoY	13.6%	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	
GPM	14.0%	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	
Operating profit	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	18,000
YoY	20.7%	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	38.1%
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.7%
Recurring profit	12,089	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	18,000
YoY	22.0%	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	34.7%
RPM	7.1%	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.7%
Net income	**6,495**	**6,912**	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**10,800**
YoY	18.8%	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	68.4%
Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.4%
Per share data										
Shares issued (year-end; '000)	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	-
EPS	142.6	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9	216.4
EPS (fully diluted)	142.3	131.5	142.7	133.8	151.3	137.6	134.6	121.3	122.6	-
Dividend per share	39	40	46	48	50	52	55	61	63	65
Book value per share	1,006	1,096	1,202	1,303	1,400	1,471	1,559	1,637	1,466	-
Balance sheet (JPYmn)										
Cash and cash equivalents	13,098	9,707	10,014	12,565	15,580	20,386	31,717	39,536	44,233	
Total current assets	**64,524**	**72,486**	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	
Tangible fixed assets	3,756	3,773	3,796	4,258	4,361	7,061	9,064	10,041	10,161	
Investments and other assets	4,766	4,276	5,257	5,829	6,268	8,176	8,904	8,512	7,578	
Intangible fixed assets	11,577	12,272	12,321	11,008	10,320	10,006	8,802	7,813	8,103	
Total assets	**84,624**	**92,809**	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	
Accounts payable	22,424	23,720	24,544	21,876	24,934	28,457	25,114	25,820	25,967	
Short-term debt	49	41	10	5	-	-	271	225	394	
Total current liabilities	**30,724**	**33,643**	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	
Long-term debt	6	15	5	-	-	-	293	-	15	
Total fixed liabilities	**1,012**	**983**	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	
Total liabilities	**31,737**	**34,626**	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	
Total net assets	**52,887**	**58,182**	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	
Cash flow statement (JPYmn)										
Cash flows from operating activities	6,808	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	
Cash flows from investing activities	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	
Cash flows from financing activities	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	
Financial ratios										
Total interest-bearing debt	55	56	15	5	-	-	564	225	409	
Net cash	31,963	36,971	28,019	44,980	56,906	57,748	62,866	71,311	59,824	
ROA (RP-based)	18.1%	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	
ROE	15.5%	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	
Equity ratio	62.3%	61.9%	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	

Source: Shared Research based on company data

Recent updates

Highlights

On **January 20, 2020**, Shared Research updated the report following interviews with Aeon Delight Co., Ltd.

On **January 10**, **2020,** the company announced earnings results for Q3 FY02/20; see the results section for details.

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

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

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

Trends and outlook

Quarterly trends and results

Cumulative	FY02/18				FY02/19				FY02/20			FY02/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	% of FY	FY Est.
Sales	75,064	150,738	222,160	292,396	76,370	152,611	226,744	302,915	79,048	157,482	232,643	73.9%	315,000
YoY	-0.9%	-0.0%	0.3%	-0.1%	1.7%	1.2%	2.1%	3.6%	3.5%	3.2%	2.6%		4.0%
Gross profit	9,003	18,585	27,220	34,871	9,342	17,462	25,840	35,452	9,632	19,763	29,014		
YoY	-1.7%	3.3%	0.2%	-2.4%	3.8%	-6.0%	-5.1%	1.7%	3.1%	13.2%	12.3%		
GPM	12.0%	12.3%	12.3%	11.9%	12.2%	11.4%	11.4%	11.7%	12.2%	12.5%	12.5%		
SG&A expenses	5,669	11,167	16,656	21,961	5,556	11,186	16,927	22,421	5,832	11,168	16,909		
YoY	3.0%	1.9%	2.1%	1.7%	-2.0%	0.2%	1.6%	2.1%	5.0%	-0.2%	-0.1%		
SG&A ratio	7.6%	7.4%	7.5%	7.5%	7.3%	7.3%	7.5%	7.4%	7.4%	7.1%	7.3%		
Operating profit	3,334	7,418	10,563	12,909	3,785	6,275	8,913	13,030	3,800	8,594	12,104	67.2%	18,000
YoY	-8.8%	5.4%	-2.7%	-8.7%	13.5%	-15.4%	-15.6%	0.9%	0.4%	37.0%	35.8%		38.1%
OPM	4.4%	4.9%	4.8%	4.4%	5.0%	4.1%	3.9%	4.3%	4.8%	5.5%	5.2%		5.7%
Recurring profit	3,367	7,490	10,965	13,381	3,816	6,349	9,307	13,362	3,822	8,655	12,189	67.7%	18,000
YoY	-7.8%	6.5%	0.8%	-6.2%	13.3%	-15.2%	-15.1%	-0.1%	0.2%	36.3%	31.0%		34.7%
RPM	4.5%	5.0%	4.9%	4.6%	5.0%	4.2%	4.1%	4.4%	4.8%	5.5%	5.2%		5.7%
Net income	2,040	4,189	5,558	6,397	2,067	2,838	3,893	6,415	2,070	5,181	7,369	68.2%	10,800
YoY	-16.2%	8.2%	-7.6%	-9.8%	1.3%	-32.3%	-30.0%	0.3%	0.1%	82.6%	89.3%		68.4%
Net margin	2.7%	2.8%	2.5%	2.2%	2.7%	1.9%	1.7%	2.1%	2.6%	3.3%	3.2%		3.4%

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

Source: Shared Research based on company data

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

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

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

Summary

- For the nine-month period through Q3 FY02/20, Aeon Delight reported consolidated sales of JPY232.6bn (+2.6% YoY), operating profit of JPY12.1bn (+35.8% YoY), and net income of JPY7.4bn (+89.3% YoY). Results were in line with the company's initial full-year forecast (announced on June 28, 2019); sales of JPY315.0bn and operating profit of JPY18.0bn. At subsidiary Kajitaku, which had previously engaged in improper accounting practices, estimates put sales at JPY3.7bn (+4.3% YoY) and operating losses at JPY940mn (versus loss of JPY3.8bn in cumulative Q3 FY02/19). Without Kajitaku, consolidated sales for the nine-month period were up 2.6% YoY and operating profit up 2.5% YoY. Results by segment were mixed, with the Security Services segment, Cleaning Services segment, and Vending Machine Services segment reporting higher earnings and the Materials and Supplies Sourcing Services segment, Facilities Management segment, and Construction Work segment reporting lower earnings. With results for the first nine months of FY02/20 leaving Aeon Delight with 73.9% of its full-year target for consolidated sales (versus 74.9% in cumulative Q3 FY02/19), 67.2% of its full-year target for operating profit (versus 68.4%), and 68.2% of its full-year for net income (versus 60.7%), the company made no changes to its initial forecast for the full year and continues to target consolidated sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY).
- The Facilities Management segment posted sales of JPY44.3bn (+4.0% YoY) and a segment profit of JPY4.0bn (-5.0% YoY). The top-line gains reflected the addition of new clients and the success of efforts to win orders for facilities maintenance and upgrades (such as the replacement of aging elevators and escalators) through proactive proposal marketing to facility owners in the name of improving the safety of facility users. The top-line gains notwithstanding, segment earnings for the nine-month period finished down as margins were squeezed by an even faster increase in purchasing costs. Also during the period, the company rolled out its self-developed integrated facilities management model, making its first installation of the new open systems-based model in the Aeon Fujiidera Shopping Center.
- The Security Services segment posted sales of JPY33.3bn (+0.1% YoY) and a segment profit of JPY2.2bn (+4.2% YoY). Even as tight labor market conditions continued to push up labor costs, the company managed to improve margins with the help of higher unit prices on contracts and ongoing efforts to automate systems to handle tasks such as facility entrance/exit management and store closings.
- The Cleaning Services segment posted sales of JPY46.5bn (+8.0% YoY) and a segment profit of JPY5.3bn (+5.8% YoY). The top-line gains reflected contributions from new customers and PT Sinar Jernih Sarana (SJS), the Indonesian cleaning services company acquired in December 2018. Also during the period, the company continued its roll out self-guided floor cleaning robots at the facilities it cleans and also continued selling the labor-saving robots to others.
- The Construction Work segment posted sales of JPY32.0bn (+3.4% YoY) and a segment profit of JPY2.8bn (-1.3% YoY). The top-line gains reflected the move to an operating structure capable of providing more localized services and a rising order flow in response to growing demand for renovation work in all regions. The drop in segment earnings was attributed to lagging efforts on the part of consolidated subsidiaries to address demand for construction work and lower margins on repair projects undertaken in the wake of the natural disasters that hit Japan in FY02/19.
- Materials and Supplies Sourcing Services segment posted sales of JPY38.6bn (-0.6% YoY) and a segment profit of JPY1.9bn (-8.9% YoY). Efforts to expand orders for Aeon's private brand packaging materials (*TOPVALU*) notwithstanding, overall sales at the segment finished the nine-month period down. Segment earnings also finished short of year-ago levels, this despite cuts in logistics and other expenses as part of an overall effort to improve profitability.
- The Vending Machine Services segment posted sales of JPY23.8bn (-1.0% YoY) and a segment profit of JPY948mn (+24.1% YoY). After declining in Q1, segment sales and earnings have risen in both Q2 and Q3 as the company moved to install more of

its own multi-brand vending machines (which offer products from a number of different brands) and continued reassessing locations and relocating vending machines as needed to areas conducive to higher sales. The jump in segment profit reflects a JPY232mn boost from changes in accounting assumptions for the useful life of vending machines following a comprehensive review of past records for replacement periods and physical longevity.

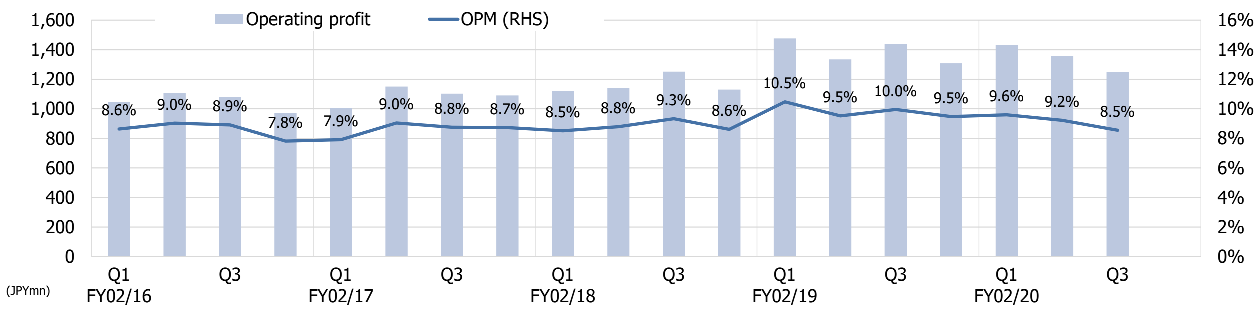
▷ The Support Services segment posted sales of JPY14.2bn (+1.2% YoY) and a segment profit of JPY441mn (versus loss of JPY2.3bn) in cumulative Q3 FY02/19. Outside of Kajitaku, the company worked to expand its offering of B2B outsourcing services to meet the needs of client companies in peripheral areas such as business travel management and operations management for meetings, incentive tours, conventions/conferences, exhibitions.

▷ Overseas subsidiaries reported combined sales of approximately JP13.9bn (versus JPY10.9bn during the same nine-month period the previous year) and operating profit of roughly JPY1.1bn (versus JPY700mn). In China, the company switched the focus of its facilities management business from the number of facilities under management to floor space under management, and set its sights, geographically speaking, on servicing the areas of China where Aeon group stores are located. In Indonesia, the company began providing its comprehensive facilities management service (includes both facilities management and security services) to the Aeon group's number one and number two mall in October 2019.

▷ With regard to Kajitaku, the company reported that it would be spinning off the housework support business of this wholly owned subsidiary but would continue to operate the business under a newly established entity. The company has suspended all new sales and installations of equipment in order to focus on improving fulfillment of existing contracts. Because the market for housework support services still holds promise, the company intends to continue pursuing business in this field; plans call for moving to the next growth stage by better focusing management resources and firmly establishing core competencies.

Results by segment

Facilities Management



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

Source: Shared Research based on company data

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

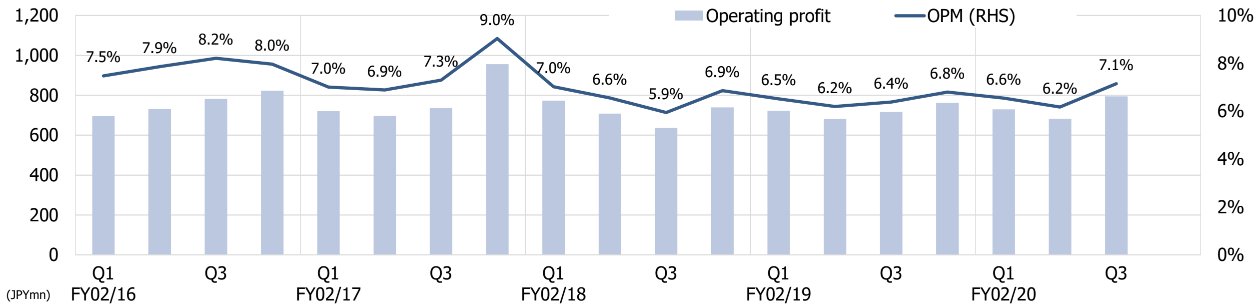
Aeon Delight is working to improve productivity at facilities where it has outsourced management. Up until now, many of these have been dispersed over a wide area for some reasons in the past. The company is working toward geographic consolidation of outsourced facilities (such as bulk orders for those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

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

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

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

Security Services

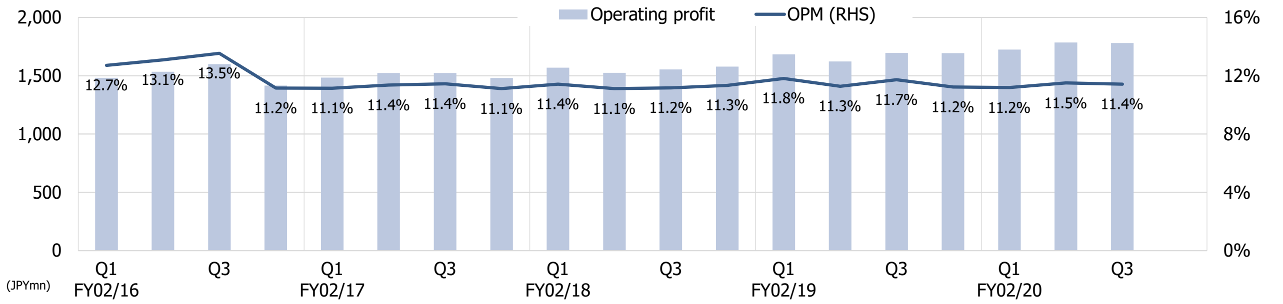


Security Services Quarterly (JPYmn)	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3
Sales	11,001	10,798	10,712	10,779	11,074	10,991	11,220	11,207	11,143	11,040	11,121
YoY	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%	4.0%	0.6%	0.4%	-0.9%
Operating profit	773	708	637	739	722	681	716	762	730	682	795
YoY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

Source: Shared Research based on company data

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

Cleaning Services



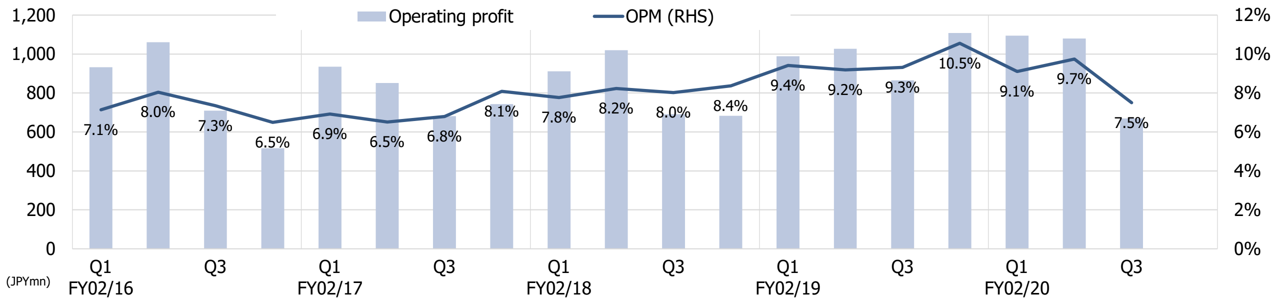
Cleaning Services	FY02/18				FY02/19				FY02/20		
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	13,743	13,708	13,920	13,926	14,247	14,390	14,456	15,092	15,401	15,527	15,599
YoY	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%	8.4%	8.1%	7.9%	7.9%
Operating profit	1,570	1,525	1,554	1,579	1,683	1,622	1,695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

Source: Shared Research based on company data

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

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

Construction Work



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

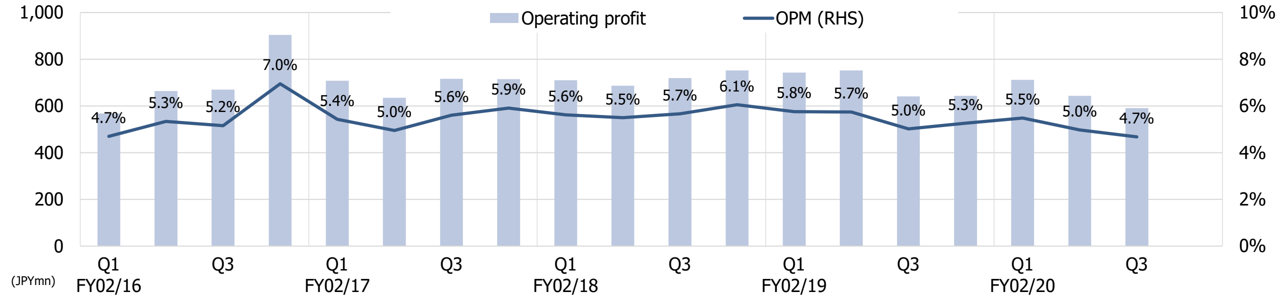
Source: Shared Research based on company data

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

In Aeon group related work, Aeon Mall is aggressively renovating its existing shopping centers so the company appears to have its eye on winning renovation orders for properties where it cannot participate during new construction. Outside the group, the company said that changing the organization to become closer to local communities has sped up management decision-making and it is winning an increasing number of regional orders. Although Q3 sales fell at A to Z Service, a company subsidiary since

2011, it said this was due to issues with the timing of customer orders and that project volume had not decreased. Despite falls in sales and profit in Q3, the segment has a high likelihood of growth in both going into FY02/21.

Materials and Supplies Sourcing Services

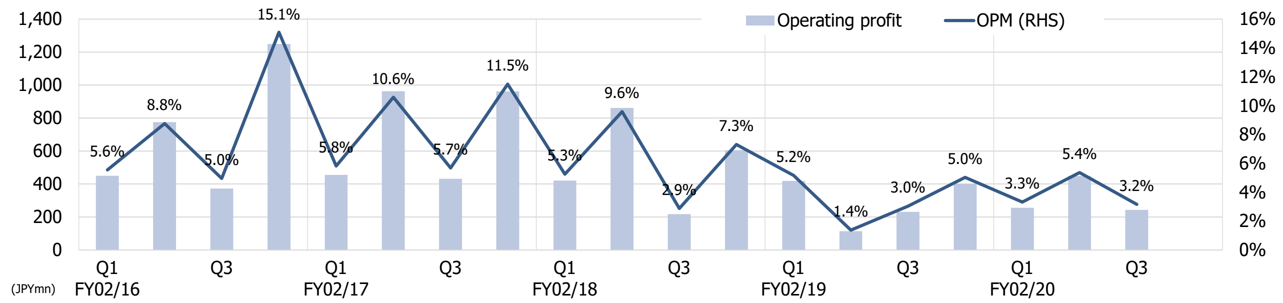


Materials and Supplies Sourcing	FY02/18				FY02/19				FY02/20		
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	12,638	12,502	12,696	12,429	12,906	13,106	12,771	12,224	12,987	12,926	12,641
YoY	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%	-1.6%	0.6%	-1.4%	-1.0%
Operating profit	710	687	719	752	743	752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

Source: Shared Research based on company data

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

Vending Machine Services

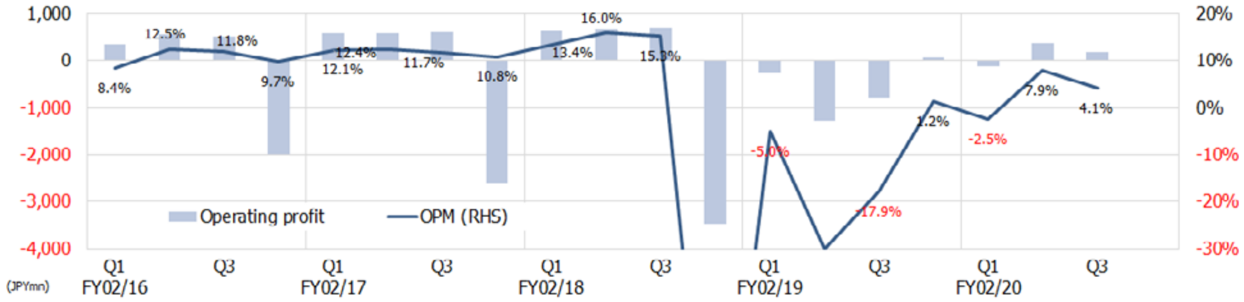


Vending Machine Services	FY02/18				FY02/19				FY02/20		
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Sales	8,017	8,993	7,544	8,280	8,106	8,286	7,614	7,949	7,699	8,376	7,685
YoY	2.7%	-1.2%	-0.7%	-1.1%	1.1%	-7.9%	0.9%	-4.0%	-5.0%	1.1%	0.9%
Operating profit	421	862	217	605	419	114	231	400	256	449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

Source: Shared Research based on company data

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

Support Services



Support Services Quarterly (JPYmn)	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3
Sales	4,773	4,283	4,519	3,566	5,429	4,276	4,341	5,393	4,872	4,775	4,564
YoY	-5.7%	13.2%	5.5%	-29.5%	13.7%	-0.2%	-3.9%	51.2%	-10.3%	11.7%	5.1%
Kajitaku	-	-	-	-	2,056	712	777	1,993	1,452	1,307	941
YoY	-	-	-	-	-	-	-	-	-29.4%	83.5%	21.1%
Excluding Kajitaku	-	-	-	-	3,373	3,564	3,564	3,400	3,420	3,468	3,623
YoY	-	-	-	-	-	-	-	-	1.4%	-2.7%	1.7%
Operating profit	639	685	692	-3,482	-274	-1,283	-778	65	-124	378	187
YoY	11.1%	18.3%	16.3%	-	-	-	-	-	-	-	-
OPM	13.4%	16.0%	15.3%	-97.6%	-5.0%	-30.0%	-17.9%	1.2%	-2.5%	7.9%	4.1%
Kajitaku	-	-	-	-	-661	-1,817	-1,335	844	-510	-105	-325
YoY	-	-	-	-	-	-	-	-	-	-	-
OPM	-	-	-	-	-32.2%	-255.2%	-171.8%	42.3%	-35.1%	-8.0%	-34.5%
Excluding Kajitaku	-	-	-	-	387	534	557	-779	386	483	512
YoY	-	-	-	-	-	-	-	-	-0.3%	-9.6%	-8.1%
OPM	-	-	-	-	11.5%	15.0%	15.6%	-22.9%	11.3%	13.9%	14.1%

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

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

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

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

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

FY02/20 company forecasts (initial forecast)

For FY02/20, Aeon Delight forecasts sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY). Forecast for EPS is JPY216.4 and annual DPS is JPY65 (dividend payout ratio 30.0%, JPY63 in FY02/19).

Full-year company forecasts

	FY02/18			FY02/19			FY02/20		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H Act.	2H Est.	FY Est.
Sales	**150,738**	**141,658**	**292,396**	**152,611**	**150,304**	**302,915**	**157,482**	**157,518**	**315,000**
YoY	-0.0%	-0.1%	-0.1%	1.2%	6.1%	3.6%	3.2%	4.8%	4.0%
Cost of sales	132,153	125,371	257,524	135,149	132,314	267,463	137,719		
Gross profit	**18,585**	**16,286**	**34,871**	**17,462**	**17,990**	**35,452**	**19,763**		
YoY	3.3%	-8.2%	-2.4%	-6.0%	10.5%	1.7%	13.2%		
GPM	12.3%	11.5%	11.9%	11.4%	12.0%	11.7%	12.5%		
SG&A expenses	11,167	10,794	21,961	11,186	11,235	22,421	11,168		
SG&A ratio	1.9%	1.4%	1.7%	0.2%	4.1%	2.1%	-0.2%		
Operating profit	**7,418**	**5,491**	**12,909**	**6,275**	**6,755**	**13,030**	**8,594**	**9,406**	**18,000**
YoY	5.4%	-22.7%	-8.7%	-15.4%	23.0%	0.9%	37.0%	39.2%	38.1%
OPM	4.9%	3.9%	4.4%	4.1%	4.5%	4.3%	5.5%	6.0%	5.7%
Recurring profit	**7,490**	**5,891**	**13,381**	**6,349**	**7,013**	**13,362**	**8,655**	**9,345**	**18,000**
YoY	6.5%	-18.5%	-6.2%	-15.2%	19.0%	-0.1%	36.3%	33.3%	34.7%
RPM	5.0%	4.2%	4.6%	4.2%	4.7%	4.4%	5.5%	5.9%	5.7%
Net income	**4,189**	**2,208**	**6,397**	**2,838**	**3,577**	**6,415**	**5,181**	**5,619**	**10,800**
YoY	8.2%	-31.5%	-9.8%	-32.3%	62.0%	0.3%	82.6%	57.1%	68.4%

Source: Shared Research based on company data

The company expects Kajitaku's operating losses to narrow by JPY3.5bn from around JPY4.0bn in FY02/19 to JPY500mn in FY02/20. Excluding Kajitaku, Aeon Delight expects an operating profit increase of around JPY1.5bn for FY02/20 from about JPY17.0bn in FY02/19 to about JPY18.5bn. While the company does not disclose operating profit forecasts by segment, it expects the Construction Work, Cleaning Services, and Facilities Management businesses to drive business growth.

FY02/20 priorities

The key FY02/20 priorities are: 1) implementing action plan aimed at preventing a recurrence of the Kajitaku incident; 2) growing orders to make use of the organization rebuilt to be closer to the community; 3) promoting initiatives to solve personnel shortages in collaboration with SECOM; 4) improving energy management activities in line with the Aeon group's environmental vision; 5) winning more orders in China; and 6) making use of Indonesian cleaning business PT Sinar Jernih Sarana (95% owned, subsidiary since December 2018).

Implementing action plan aimed at preventing a recurrence of the Kajitaku incident

On July 22, 2019 the company announced an action plan to prevent a recurrence of the Kajitaku incident. The plan is based on recommendations on how to prevent a recurrence from the special investigation committee. The company will undertake the following to strengthen its group governance arrangements: 1) Affiliated Companies Administration Department to check on budget performance management and growth strategies at domestic subsidiaries and International Department to carry out the same role for overseas subsidiaries; 2) new Group Compliance Division to be established; 3) domestic Group Management Committee and overseas Group Management Committee to be in charge of monitoring.

To prevent a recurrence of the Kajitaku incident: 1) changes to management structure at Kajitaku (already done) and new president to communicate importance of compliance inside and outside the company; 2) renewing work procedures and manuals to align with actual work details and ensuring thorough adherence to them; 3) move to shared finance and accounting activities across group companies; and 4) shift to arrangements where compliance procedures function appropriately.

Changes to subsidiary management arrangements include: 1) raising awareness of executives; 2) shared financial and accounting operations and appointment of accounting auditors or advisers, and other measures to review the financial and accounting management arrangements, such as enhancing systems at overseas subsidiaries; 3) installing compliance arrangements at each subsidiary; and 4) dispatching full-time officers and staff to subsidiaries and exchanging personnel.

Growing orders by making use of organization rebuilt to be closer to the community

On March 1, 2019, the company shifted its domestic structural organization from one formed around functions and businesses to a region-based one. Domestic sales account for 95% of company sales. By strengthening its regional focus, the company aims to get closer to customers, administrative authorities, financial circles, and organizations to tap into demand at the regional level, allowing it to put forward integrated facilities management projects and raise the Aeon Delight profile. Already the company said its branch in Kyushu is generating favorable feedback from customers and improving employee motivation due to its closeness to the community.

The company established construction departments at its branches in Kanto and Kansai, which should facilitate winning renovation orders from the local community. The enhancement of its planning and design system in FY02/19 also helped. The company has improved its order efficiency by making upstream proposals. This boosted the number of major contracts it received in 2H and helped improve margins. In FY02/20, the company plans to use the newly established construction departments at its branches in Kanto and Kansai to strengthen relationships with local partner companies and win more renovation contracts.

Further rollout of initiatives to solve personnel shortages in collaboration with SECOM

The company announced a business alliance with SECOM in April 2018. To date it has: 1) worked on managing and operating large commercial facilities with few or no people; 2) developed one-stop services for small and medium-sized facilities; 3) worked to create new markets using each company's sales force; and 4) collaborated in China and other overseas markets. In FY02/20, the company wants to use SECOM's strengths in security and its own in facilities management to strengthen periodic visit-based management and expand the services it offers to small and medium-sized offices. The two companies have different customer bases, and plan to refer and introduce clients to each other.

Improving energy management activities in line with the Aeon group's environmental vision

Aeon Delight aims to establish energy management services that span the supply of energy to local communities through energy-saving facilities management operations. It also participates in the group's Aeon Decarbonization Vision 2050 (released in March 2018) as the company in charge of group facilities management operations, including energy use control. While there are unlikely to be any major short-term earnings contributions, the company is conducting a number of trials in renewable energy management and retail power sales with a view to commercialization.

Growing orders in China

In November 2018, the company made its two core Chinese subsidiaries, Aeon Delight Jiangsu and Wuhan Xiaozhu, wholly owned (previous stake: 51%). It also changed the name of Wuhan Xiaozhu to Aeon Delight Hubei in April 2019. This speeds up decision-making, and both companies have the infrastructure to carry out facilities management, security, cleaning, and building construction under the Aeon Delight brand. The company is devoted to heightening the profile of the Aeon Delight brand and developing the facilities management market in China. In the short term, its key targets are midrange and high-end shopping centers, hospitals and nursing homes, infrastructure, and redevelopment areas in the Yangtze River Delta and surrounding regions. In the medium term, it plans to expand its business to northern and southern China.

Expanding business in Indonesia

The company plans to leverage PT Sinar Jernih Sarana (SJS, 95% owned), a company it purchased in December 2018. SJS is the second-largest cleaning business in the growing Indonesian market. In December 2018, SJS acquired a comprehensive real estate support license applicable to foreign companies. In addition to its current strength of cleaning, it is now able to offer facilities management and security services. The company plans to support SJS's growth strategy while providing the expertise in facilities management and security services it has built up in Japan to grow the Indonesian business.

Full-year performance

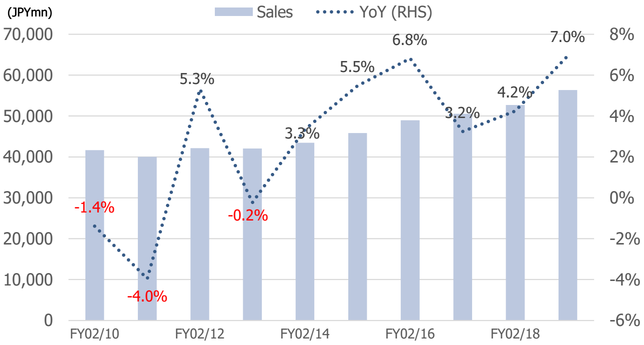
(JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Est.
Sales	170,905	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	315,000
YoY	21.8%	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	4.0%
Gross profit	23,989	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	
YoY	13.6%	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	
GPM	14.0%	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	
SG&A expenses	11,957	14,868	16,326	18,622	18,900	20,280	21,596	21,961	22,421	
YoY	7.3%	24.3%	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%	
SG&A ratio	7.0%	6.8%	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%	
Operating profit	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	18,000
YoY	20.7%	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	38.1%
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.7%
Recurring profit	12,089	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	18,000
YoY	22.0%	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	34.7%
RPM	7.1%	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.7%
Net income	6,495	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	10,800
YoY	18.8%	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	68.4%
Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.4%

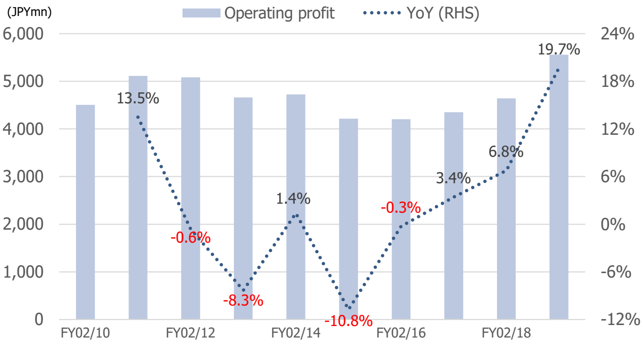
Segment performance (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Est.
Sales	170,905	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	315,000
YoY	21.8%	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	4.0%
Facilities Management	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364	
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	
Security Services	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492	
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	
Cleaning Services	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185	
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	
Construction Work	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470	
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	
Materials and Supplies Sourcing	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007	
YoY		96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	
Vending Machine Services	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955	
YoY		87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	
Support Services	5,327	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439	
YoY	-1.6%	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	
Operating profit	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	18,000
YoY	20.7%	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	38.1%
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.7%
Facilities Management	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558	
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	
Security Services	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881	
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	
Cleaning Services	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694	
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	
Construction Work	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989	
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	
Materials and Supplies Sourcing	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779	
YoY	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	
OPM	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	
Vending Machine Services	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164	
YoY	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	
OPM	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	
Support Services	590	312	741	336	281	-580	-850	-1,466	-2,270	
YoY	-21.1%	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-	
OPM	11.1%	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	
Elimination, other	-	-	-6,180	-7,334	-6,574	-7,003	-7,279	-7,632	-7,765	

Source: Shared Research based on company data

Facilities Management

Facilities Management (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364
YoY	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%
Operating profit	4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558
YoY	-	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%
OPM	10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%





Source: Shared Research based on company data

The company appears to be factoring in sales growth at moderate speed of just over 3% YoY for the Facilities Management business in FY02/20. Recently it has been winning an increasing amount of orders for facilities support services in disaster mitigation (installation of disaster prevention equipment, regular inspections, and load tests of emergency generators), and this trend looks likely to continue.

A key focus in FY02/20 will be the rollout of open system facilities management that utilizes building automation that will be the cornerstone of the Aeon Delight Platform. Currently, information from separate closed systems for surveillance cameras and plumbing, heating, lighting, and air-conditioning equipment is collected in a central control room for manual monitoring. Going forward, wireless data will be collected using IoT technology for all equipment for management in a centralized open system. Shared Research thinks that practical implementation has the potential to transform the business model of the Facilities Management business.

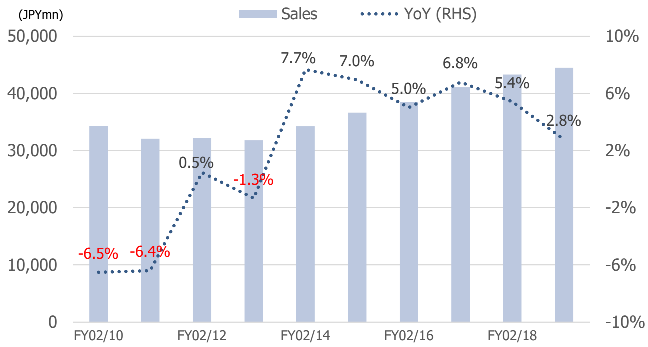
Until now, the number of persons employed in management played a role in setting service prices. However, use of this system will enable major advances in labor saving. While the company and its customers will share the benefits of reduced labor, Aeon Delight is likely to see an improvement in margins, so this bears watching. It will also be easier to increase the number of devices, and data that was hitherto not needed in management (brightness inside a store during operating hours, foot traffic flows, images) can be included for potential extra value added.

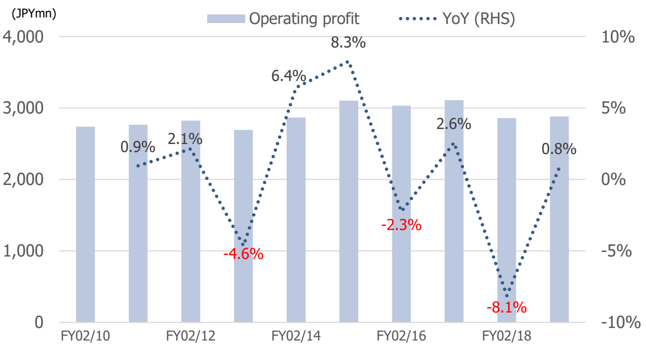
Another area of focus is growth in orders for facilities management using periodic visits under the business alliance with SECOM and orders for small and medium-sized offices (project has already started in Kanto).

Security Services

Security Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492
YoY	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%
Operating profit	2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881
YoY	-	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%
OPM	8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%

Source: Shared Research based on company data



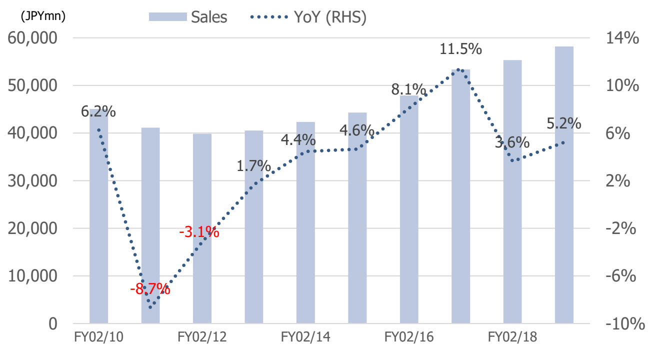


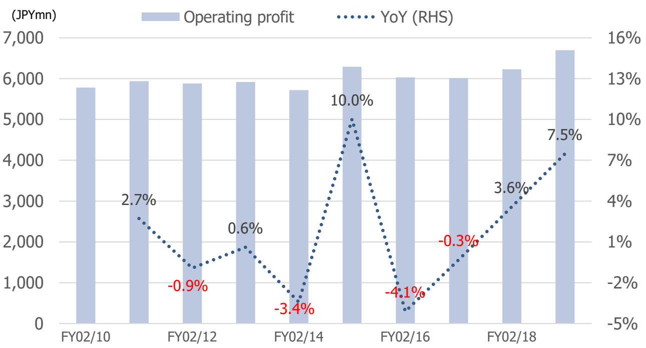
Source: Shared Research based on company data

It appears that it will remain difficult to grow the number of new orders in the Security Services segment. Under current manned security, recruiting security personnel is a bottleneck to new order acquisition. A key point for margins is if it will be possible to pass on increasing security costs through to prices. The OPM in the segment was above 8% until FY02/15, but recently margins have declined due to rising personnel expenses. Aeon Delight has listed moving prices to appropriate levels and improving margins as key priorities, so the focus will be on progress here.

Cleaning Services

Cleaning Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185
YoY	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%
Operating profit	5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694
YoY	-	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%
OPM	12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%





Source: Shared Research based on company data

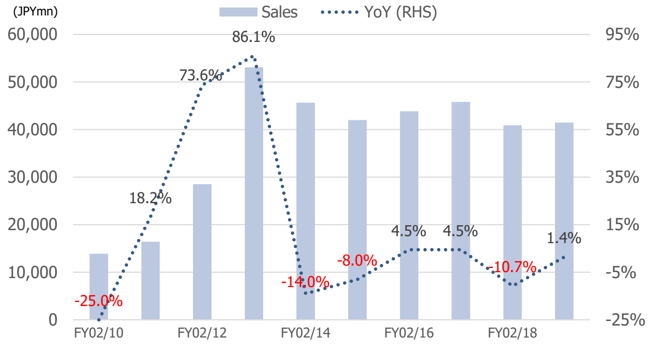
The company forecasts over 10% YoY growth in sales for the Cleaning Services segment in FY02/20. In addition to a full-year contribution from SJS, the Indonesian cleaning business, the company said new orders would also contribute. Annual sales for SJS are about JPY3.0bn and operating profit JPY100mn. The business contributed for one quarter in FY02/19, so there will be a full three quarter net impact in FY02/20.

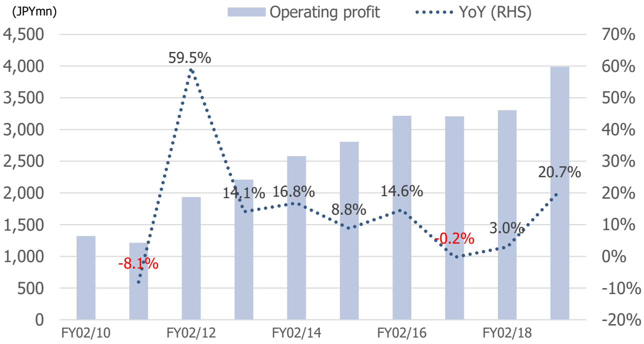
One point to watch in Cleaning Services is the sustainability of margin improvement. Aeon Delight said that its cleaning business featured a high degree of difficulty due to its focus on large commercial facilities with frequent layout changes and large variable numbers of users. The company has worked to standardize processes and has used mainly small teams of Clean Crews (its internal designation for cleaning staff) and produced in-house manuals reflecting the characteristics of individual facilities to boost quality and improve productivity. Personnel are hard to obtain in the cleaning business, but the company is motivating its employees by presentations on initiatives such as activities to improve the workplace environment.

Aeon Delight started introducing automatic floor cleaning robots in November 2018, so the cost–benefit outcomes are worth watching.

Construction Work

Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989
YoY	-	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%
OPM	9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%



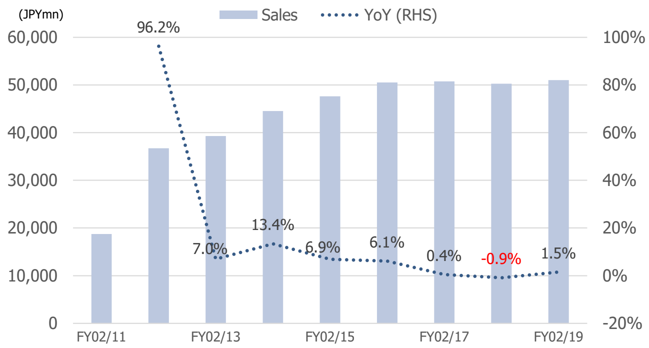


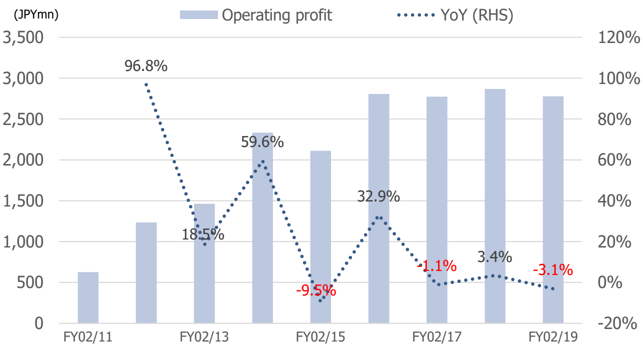
Source: Shared Research based on company data

Aeon Delight forecasts over 10% YoY growth in sales for the Construction Work segment in FY02/20. Following its May 2018 acquisition of U-COM, the company is able to approach customers from upstream areas such as planning and design. This good boosted order efficiency, with an increasing number of orders and higher margins. The restructuring the company performed in March 2019 (shift to regional-based organization) appears likely to work in the favor of the Construction Work segment.

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779
YoY	-	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%
OPM	-	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%



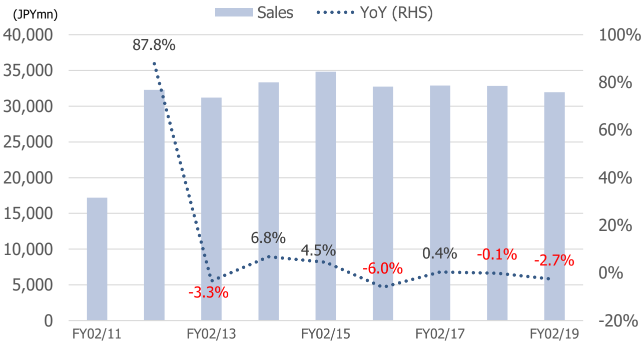


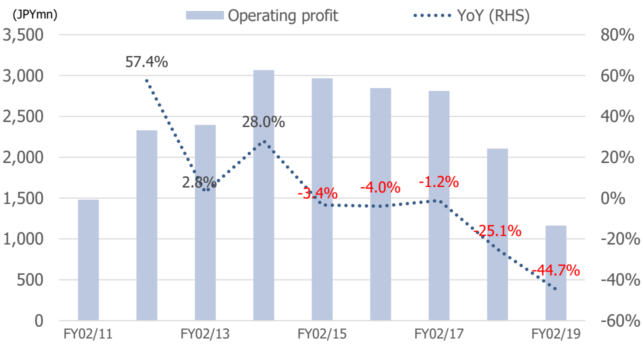
Source: Shared Research based on company data

Aeon Delight appears to be forecasting marginal growth in sales for the Materials and Supplies Sourcing Services segment in FY02/20. There will be contributions from expanding sales to companies outside the Aeon group and provision of new products within the group, but its main customer, Aeon Retail, is likely to move to some procurement in-house, so significant sales growth looks unlikely. The company appears to be looking for flattish operating profit.

Vending Machine Services

Vending Machine Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955
YoY	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%
Operating profit	-	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164
YoY	-	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%
OPM	-	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%



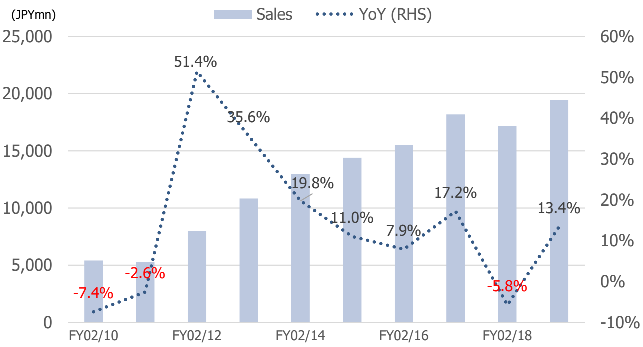


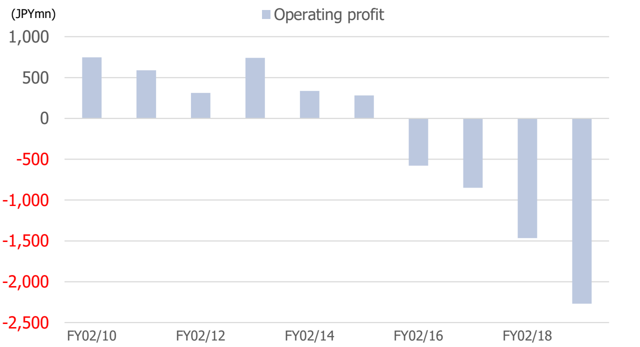
Source: Shared Research based on company data

In Vending Machine Services, it appears likely to take time to move out of the transition phase accompanying the business model shift, so operating profit looks likely to continue crawling along the bottom. Aeon Delight plans to increase the number of machines with digital signage, leveraging its prime locations in areas such as shopping centers, in an effort to capture advertising revenue. However, only 6–7% of the company's machines have had digital signage installed and their contribution to earnings is limited.

Support Services

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	5,327	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439
YoY	-1.6%	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%
Operating profit	590	312	741	336	281	-580	-850	-1,466	-2,270
YoY	-21.1%	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-
OPM	11.1%	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%





Source: Shared Research based on company data

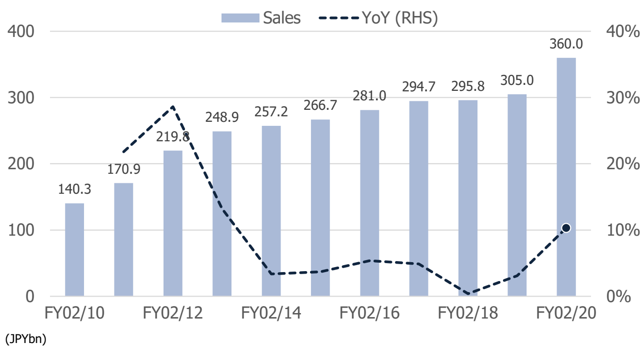
Aeon Delight expects operating losses from Kajitaku to narrow from about JPY4.0bn in FY02/19 to JPY500mn in FY02/20, which should be a major driver of improving profit in the Support Services segment. Despite the company suspending the sale and installation of new equipment in the storefront promotion business, losses are likely to be just about JPY500mn, and employees can apply for voluntary reassignment to the parent company, where there is a personnel shortage. In light of this, prospects are for losses to shrink further in FY02/21. Aeon Delight expects Kajitaku's household support services business to break even in FY02/20. The company said that in businesses other than Kajitaku, such as Aeon Compass, which arranges business travel, it is tapping into outsourcing demand and results are solid.

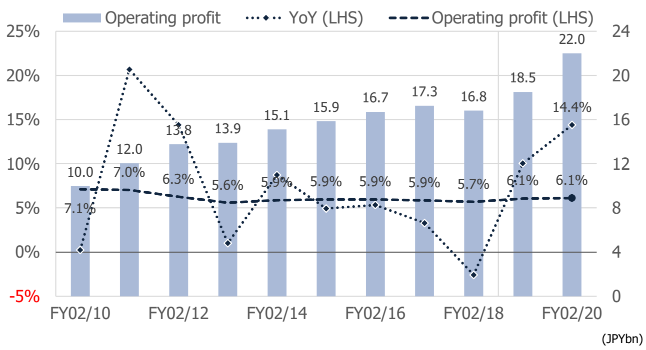
Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales (Initial Est.)	181,000	213,000	260,000	260,000	270,000	280,000	305,000	305,000	305,000
Sales (Results)	170,905	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915
Results vs. Initial Est.	**-5.6%**	**3.2%**	**-4.3%**	**-1.3%**	**-1.6%**	**-0.7%**	**-4.1%**	**-4.1%**	**-0.7%**
Operating profit (Initial Est.)	12,050	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500
Operating profit (Results)	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030
Results vs. Initial Est.	**-0.2%**	**-3.8%**	**-16.3%**	**-5.7%**	**-3.8%**	**-14.4%**	**-19.2%**	**-28.3%**	**-29.6%**
Recurring profit (Initial Est.)	12,105	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500
Recurring profit (Results)	12,089	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362
Results vs. Initial Est.	**-0.1%**	**-3.6%**	**-16.3%**	**-5.8%**	**-3.3%**	**-14.5%**	**-18.5%**	**-25.7%**	**-27.8%**
Net income (Initial Est.)	6,470	7,600	8,700	8,300	8,600	9,400	10,000	10,700	11,000
Net income (Results)	6,495	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415
Results vs. Initial Est.	**0.4%**	**-9.1%**	**-13.7%**	**-15.2%**	**-7.4%**	**-22.9%**	**-29.1%**	**-40.2%**	**-41.7%**

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

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





Source: Shared Research based on company data

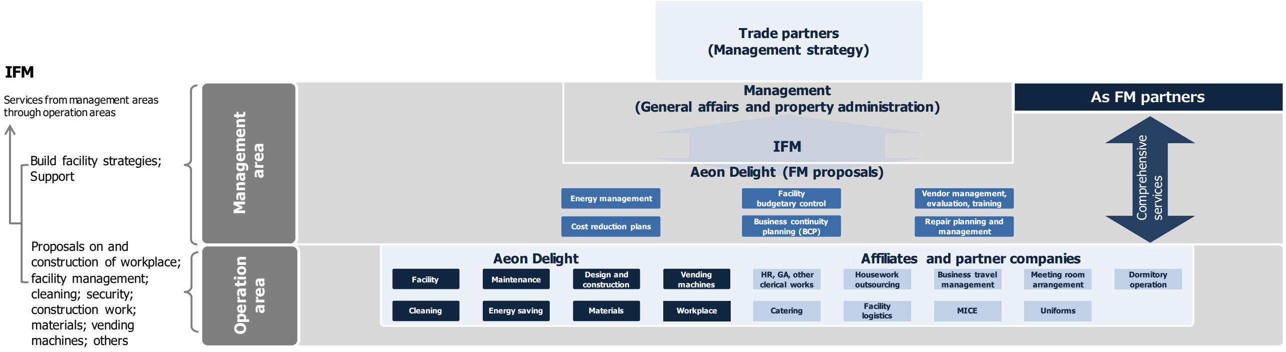
In April 2017, the company announced a new medium-term business plan which will be in effect from FY02/18 through FY02/20. The plan targets sales of JPY360.0bn (6.9% average annual growth rate, JPY65.3bn increase over three years), operating profit of JPY22.0bn (8.4%, JPY4.7bn increase), and net income of JPY12.8bn (7.7%, JPY2.6bn increase). In addition to organic growth from existing businesses, the company says growth drivers include 1) increased orders, mainly IFM, from clients outside the domestic Aeon group, 2) increased orders from growing revitalization work for Aeon group companies and remodeling work for incoming tenants, and 3) acquisition of IFM contracts overseas, especially in Asia. The medium-term plan's priority issues are 1) IFM, 2) Asia, and 3) technology, among which it is aiming for significant increases in IFM and Asia.

The company's FY02/20 forecasts released in June 2019 call for sales of JPY315.0bn, operating profit of JPY18.0bn, and net income of JPY10.8bn, below the medium-term plan targets. There are four main reasons for the shortfall: 1) due to a labor shortage, the company has been unable to obtain sufficient personnel, hindering its ability to accept new orders in the Security Services and Cleaning Services segments (the company rejected some orders); 2) under workstyle reforms, the company itself needed to improve and make arrangements for the working environment in areas such as the Security Services business; 3) while there were promising prospects for IFM, order growth was lacking; and 4) Aeon Delight discovered accounting fraud at its Kajitaku subsidiary.

Still, the company achieved results from unrolling strategies. The main achievements were: 1) as the labor shortage became a major issue for the company, it was able to come up with competitive strategies that involve few or no workers it could offer to its customers (such as automatic floor cleaning robots and business alliance with SECOM); 2) in Indonesia, the largest ASEAN market, Aeon Delight made the second-largest cleaning company, PT Sinar Jernih Sarana, a subsidiary, building a foothold in Indonesia as part of its Asian growth strategy; and 3) despite its inability to grow the number of IFM customers, sales per project increased, and the company acquired templates for future IFM development.

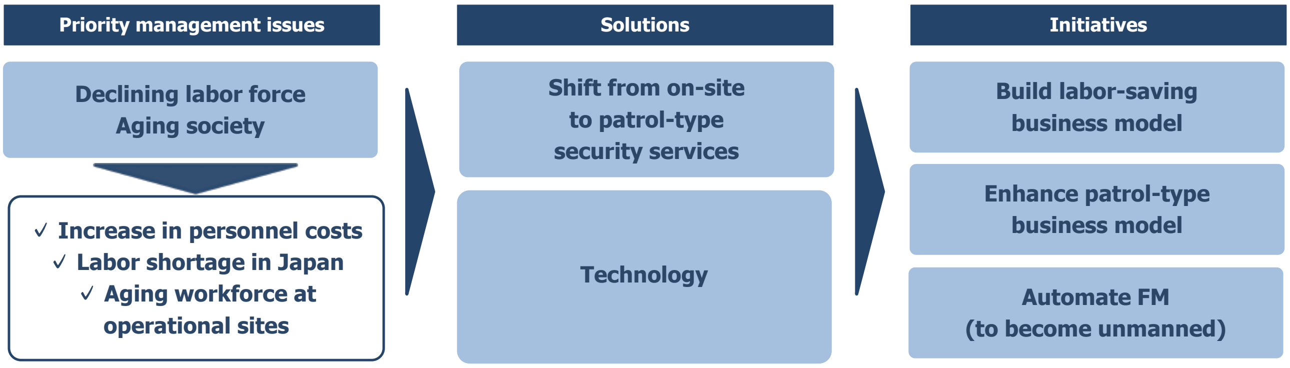
The company's Aeon Delight Vision 2025 medium-term plan released in October 2018 is a new growth strategy that addresses challenges and changes to the business environment.

IFM



Source: Shared Research based on company data

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

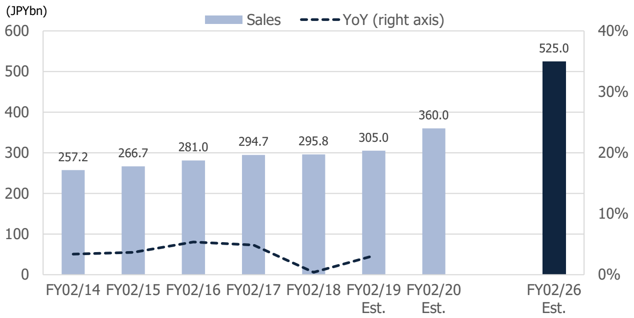


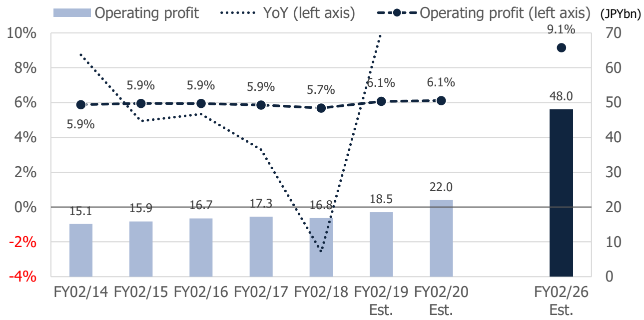
Source: Shared Research based on company data

Aeon Delight Vision 2025

In October 2018, the company announced Aeon Delight Vision 2025 ("Vision 2025") medium-term plan. Aeon Delight's management principle calls for the creation of "environmental value" for clients and regional communities. In accordance with this principle, Vision 2025 aims to transform Aeon Delight into a company that creates environmental value and contributes to solving social issues, with "safety and security," "labor shortage," and "environment" as three pillars of its growth strategy. Its FY02/26 targets are JPY525.0bn in sales (+JPY230.0bn vs. FY02/18, CAGR of 7.4%), JPY48.0bn in operating profit (+JPY31.2bn vs. FY02/18, CAGR of 14.0%), and a 9.1% OPM (+3.5pp vs. FY02/18, CAGR of 0.4pp). The company is also aiming for top ten sales and top-level OPM globally and number one sales in Asia in the facility management industry. To become one of the top ten companies in the world, the company is aiming to expand its market share in Japan by constructing Aeon Delight (AD) economic zone and concentrating management resources in China for its overseas operation.

Vision 2025





Source: Shared Research based on company data

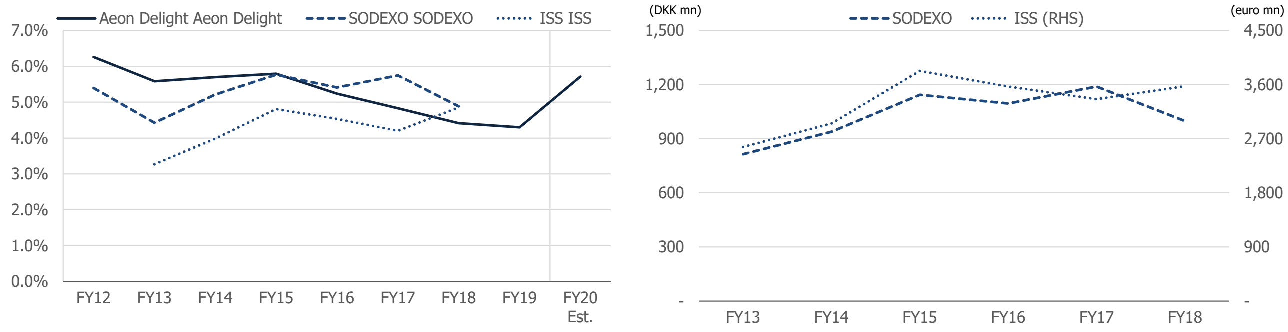
Domestic businesses

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

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

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

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



Source: Shared Research based on company data

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

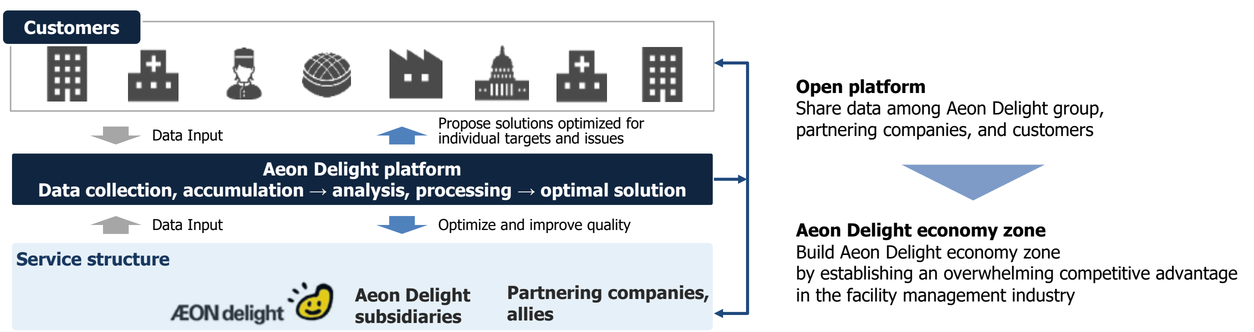
Market share: Aeon Delight estimates the domestic market is worth JPY3.7tn (based on FY02/18 sales in the Facilities Management, Security Services, and Cleaning Services businesses).

AD platform

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

The AD platform caters to a wide range of facilities from office buildings, commercial facilities, hotels, hospitals, and public facilities and proposes optimal, quality, and effective solutions that address specific challenges for each type of facility. The company notes that (1) it expects the platform to be deployed at all Aeon stores (low initial costs means quick returns), (2) customers will find it difficult to cancel the service once they get used to its convenience and efficiency, and (3) a partial deployment in the early stages will also generate opportunities to secure various types of additional FM services. By taking charge of areas ranging from power supply to facilities management, security and cleaning, interior design and construction work accompanying tenant store openings and closures, and operation of other facility infrastructure such as vending machines, the company aims to gain a stronger competitive advantage by building an AD economic zone.

AD platform



Source: Shared Research based on company data

New environmental business: Energy management business

In the new environmental business, Aeon Delight will offer renewable-energy management and retail services based on the Aeon Decarbonization Vision 2050 pursued by Aeon (TSE1: 8267). Aeon group's annual energy consumption volume in FY02/18 is 7.4bn kWh (about 1% of the 2018 overall energy consumption in Japan of 850.5bn kWh), and exceeds over JPY100.0bn. Aeon Delight will 1) pursue economies of scale in power procurement, 2) secure a position that allows it to reduce peak time demand for the group's total energy consumption volume (1% of overall energy consumption in Japan), and 3) utilize projections obtained from big data. The company aims to redirect savings gained from these efforts into added value. Further in the future, it aims to develop the environmental service in regions surrounding Aeon group stores, and establish a growing energy management business that includes all aspects from supplying necessary energy to regional communities to reducing energy consumption for commercial facilities. The company's Vision 2050 sales forecasts for the business do not factor in expansion to surrounding regions and targets for sales to group stores are on the conservative side.

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

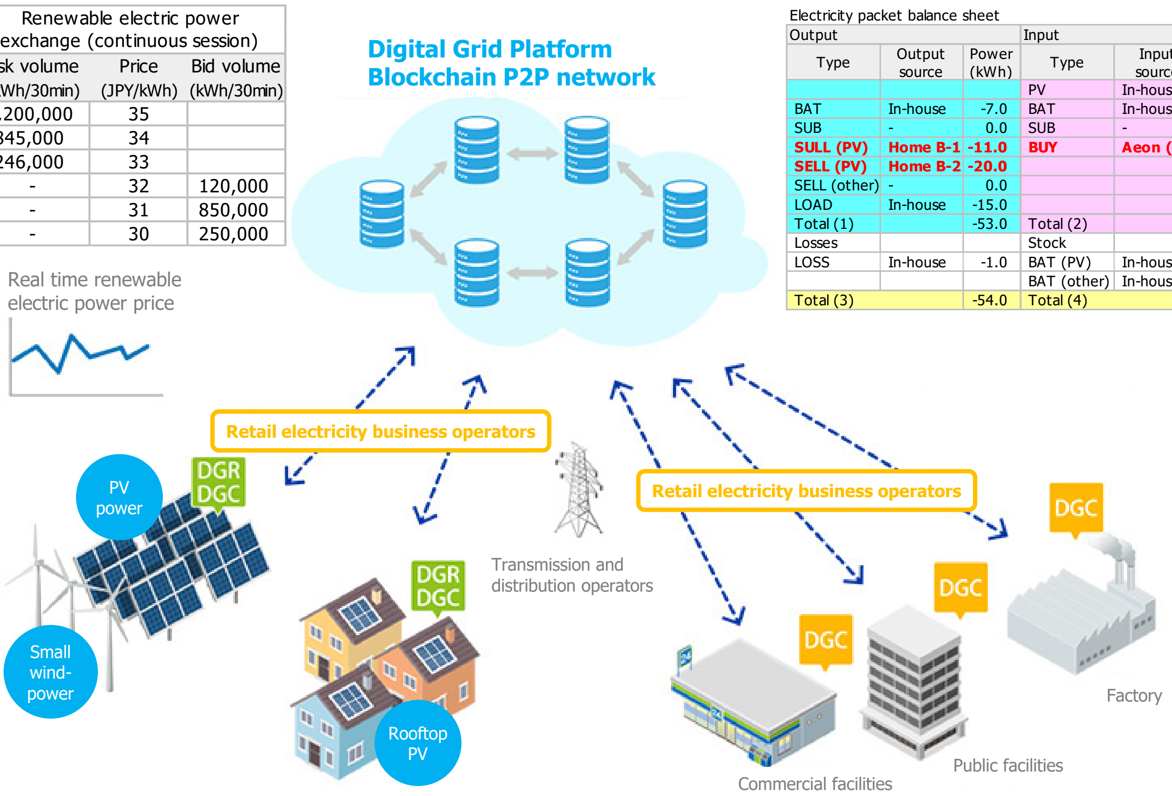
The bulk of the Aeon group's power supply goes to air conditioning, refrigerated display cases for cold and frozen foods, and lighting. Using highly precise, real-time management, the company plans to use its AD platform to optimize the Aeon group's energy consumption, using demand projections through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

DIGITAL GRID market

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

Electricity packet balance sheet

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



Source: DIGITAL GRID Corporation

Overseas FM business

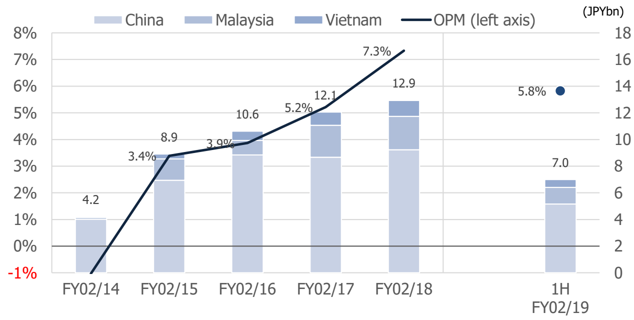
In the overseas business, Vision 2025 looks for sales in the ASEAN region to remain flat, and targets a rise of JPY40.0bn in China. This apparently reflects the company's belief that (1) management resources need to be concentrated in China to rapidly establish a foothold in the massive Chinese market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

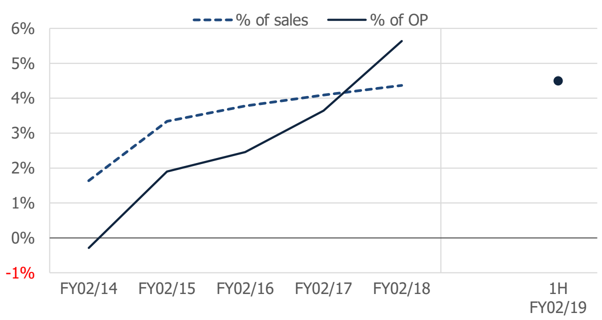
China business

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

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

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





Source: Shared Research based on company data

China's SmartFM (including operations of DeepBlue Technology)

Source: Shared Research based on company data

Profit margins

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

By market, Aeon Delight looks for the following:

▷ Existing FM market in Japan: Improve profit margins through cost reductions for Aeon Delight and its customers through deployment of the AD platform, which is premised on a labor-saving FM model

▷ Chinese market: Overseas OPM already reached over 8% in 1H FY02/19, exceeding consolidated OPM of 5.9%, but the company will leverage its labor-saving model to achieve a further increase in China, a market that is facing worker shortages like Japan

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

Vision 2025 does not include any references to IFM. This does not mean the company has abandoned IFM altogether, but rather that IFM is just one proposal underpinning sales. Because of its transparent cost structure, IFM makes it difficult to secure high margins. While the medium-term plan released in April 2017 calls for IFM-driven sales growth, Shared Research believes Vision 2025 places greater emphasis on high profit margins achieved through the AD platform and AD economic zone in Japan and through reaping benefits of growth momentum in China.

Business

Business description

Aeon Delight provides maintenance services for retail facilities and office buildings. The company, formerly known as Japan Maintenance (a subsidiary of MyCal Corp.), was established mainly to undertake maintenance at Mycal stores in November 1972. Mycal filed for bankruptcy in September 2001 (delisted on September 17, 2001), and became a subsidiary of Aeon in 2003. Japan Maintenance merged with Aeon Techno Service and the name was changed to Aeon Delight in September 2006. As of FY02/13, the company derives 60–70% of sales from Aeon Retail Co., Ltd. and other Aeon group companies.

Aeon Delight handles between 80% and 90% of the facilities management work required by Aeon Retail, and about 65% of such work required by Aeon Mall Co., Ltd. (TSE1: 8905). Facilities management work at Aeon Mall was previously done by a subsidiary of Diamond City, a Mitsubishi Corp. (TSE1: 8058) affiliate absorbed by Aeon Mall in 2007. The company is aiming to increase the share of work handled for Aeon Mall by following its overseas expansion in recent years and keeping a close relationship. Aeon Delight also handles between 60% and 70% of the facilities management work at MaxValu retail stores owned by the Aeon group.

M&A activities

Aeon Delight is active in M&A. It has purchased companies in cleaning, building management, and store interior construction. It has also purchased companies in businesses ancillary to facilities management, and been proactive in seeking out alliances in other formats. In 2018 it announced collaboration with SECOM to create a new business model for small and medium-sized facilities.

Business model

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

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

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

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

Business overview

Aeon Delight operates seven main business segments: facilities management, security services, cleaning services, construction work, materials and supplies sourcing services, vending machines, support services and other. When the company takes on integrated facilities management work, sales and profits will be booked across segments. With the expansion of IFM, sales of catering services (included in Support Services) are expected to increase, for example, and, as a result, segment analysis is becoming less effective.

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

Facilities Management

Facilities Management (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	40,019	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364
YoY	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%
Operating profit	5,115	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558
YoY	13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%
OPM	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%

Source: Shared Research based on company data

This segment is involved in inspection, protection, and maintenance of facilities, providing monitoring support 24 hours a day, 365 days a year. Specific services are tailored to meet the needs of individual clients. This is a staple business for Aeon Delight with few contract cancellations. Licensed technicians (such as electricians) are on standby at all times in large shopping centers. Specifically, the company manages utilities such as electricity, water, and gas, HVAC (operations, repairs, construction, and required inspections), exit and entrance management, anti-theft measures, and automobile parking. After falling temporarily below 9%, operating profit margin has recovered to about 10%. Required facilities are purchased by the client (property owner), and primarily costs incurred by the company are personnel costs and facilities management costs (water and utilities costs and depreciation). The company puts personnel on-site at large retail facilities, while smaller facilities are visited periodically and monitored remotely.

Utilization of technology: Next-generation facilities management model

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

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

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

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

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

Source: Shared Research based on company data

Security Services

Security Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	32,088	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492
YoY	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%
Operating profit	2,764	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881
YoY	0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%
OPM	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%

Source: Shared Research based on company data

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

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

The company also offers an attendant security service, which is similar in nature to a concierge service. Attendants are female security guards that also provide information services to patrons. This service was started in an effort to shed the old "security guard" image and provide a more hospitable environment. Although costs will arise from staff training, this business provides high added value.

Cleaning Services

Cleaning Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	41,142	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185
YoY	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%
Operating profit	5,937	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694
YoY	2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%
OPM	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%

Source: Shared Research based on company data

The company provides cleaning services, mainly in large shopping centers for the Aeon group. Because large commercial facilities tend to have a wide variety of people passing through and frequent layout changes, it is a relatively difficult area of the cleaning industry. Although it is a labor-intensive business, the company has implemented measures to increase efficiency of large machinery such as floor cleaners. These and other initiatives serve to standardize and increase the efficiency of work performed. This is a recurring revenue business and the company has built long-term relationships with about 80% of its customers in this segment.

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

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

Hygienic cleaning business

The company believes the hygienic cleaning business will continue to steadily increase sales. There are more than 1.5mn hospital beds in medical facilities across Japan, out of which the number of hospital beds at medical facilities Aeon Delight has hygienic cleaning contracts with still make up only 1–2 %. Aeon Delight began offering hygienic cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. As of April 2015, the company was providing hygienic cleaning services for 14,000 beds. In 2018, that number has increased to over 25,000 beds. The company is in the middle of expanding sales to about 100 hospitals. For sales to hospitals, it takes about three years from general bidding to winning a project, as many large hospitals are under the jurisdiction of the government.

Japanese hospitals and clinics

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

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

Because many of the large domestic hospital chains are keen on implementing management reforms, Aeon Delight believes that its integrated facilities management service can match these hospital chains' needs for improved sanitation, environmental conditions, safety, peace of mind, service standardization, and cost reductions. Contract renewal for hygienic cleaning services typically happens every year, so it is difficult to turn it into a recurring revenue business. That said, a limited number of companies have the scale needed to provide bulk cleaning services for major groups with many medical facilities nationwide. Aeon Delight presents proposals capitalizing on 1) its roughly 600 bases nationwide; 2) its name recognition as a publicly traded company and as a member of the Aeon group; 3) its track record with major medical institutions; and 4) the visible quality of its cleaning services.

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

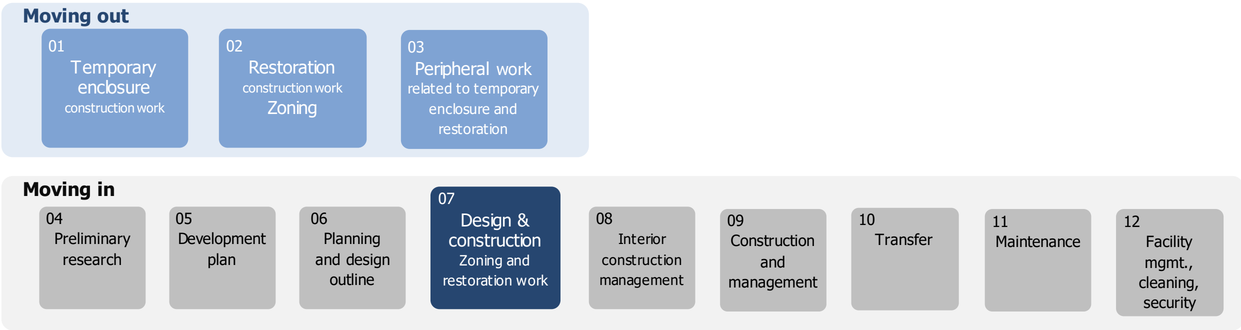
Construction Work

Construction Work (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470
YoY	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%
Operating profit	1,214	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989
YoY	-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%
OPM	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%

Source: Shared Research based on company data

This segment conducts large-scale renovation, interior design work, restoration, and installation of energy-saving devices (i.e., LED lighting) and solar power systems. This segment generates roughly 60% of its sales from Aeon group companies. Renovation is remodeling (not designing) of Aeon retail locations, such as replacing signage, or modifying retail floor space. In recent years, there has been an increasing amount of work related to changeover of tenants inside Aeon malls (restoration and new interiors). In April 2018, Aeon Delight made store design specialist U-COM a wholly owned subsidiary, and the upstream approach has enabled it to win an increasing number of contracts from outside the Aeon group.

Construction work process for commercial facility tenant replacement



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	18,718	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007
YoY	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%
Operating profit	627	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779
YoY	-	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%
OPM	3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%

Source: Shared Research based on company data

Through efficient logistics, this business reduces costs for intermediate materials used in offices and retail stores. The segment deals in items such as plastic bags, gift bags, clothing, and other consumables (employee stationery, cleaning materials, etc.). In this business, stock must be maintained at all times, and the company undertakes logistics functions on behalf of the customer as well. Aeon Delight aims to use efficient logistics to reduce costs for intermediate materials and increase process efficiency. It is difficult to add value in this area, but the operating profit margin is slightly above 5%.

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.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	17,188	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955
YoY	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%
Operating profit	1,480	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164
YoY	-	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%
OPM	8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%

Source: Shared Research based on company data

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

The company's vending machines stock a variety of products from different manufacturers. Aeon Delight operates approximately 40,000 vending machines (as of the end of FY02/19). About 80% of vending machine sales come from machine in supermarkets belonging to the Aeon group. The remaining 20% of sales came from machines in shopping malls operated by Aeon group and non-Aeon companies. In September 2010, Aeon Delight acquired vending machine operator Certo Corp., which spun off from the trading division of Aeon.

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

Support Services

Support Services (JPYmn)	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.
Sales	5,327	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439
YoY	-1.6%	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%
Operating profit	590	312	741	336	281	-580	-850	-1,466	-2,270
YoY	-21.1%	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-
OPM	11.1%	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%

Source: Shared Research based on company data

This segment provides business process outsourcing (BPO), housework support services, business travel services, training services, and staffing services. Much of these support services are conducted by companies acquired through M&A.

The company entered the BPO services market with the acquisition of General Services, Inc. Services that BPO undertake include cost management, salary calculations, administrative functions, social security and welfare, receipt of telephone calls, and system management.

The main subsidiaries in the segment are 1) Aeon Compass: mainly B2B services including Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), and 2) Kajitaku: mainly small business support services, such as sales of copy machines, and household support services.

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

Overseas business

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

Strengths and weaknesses

Strengths

- **Strong ties with the Aeon group:** Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated from the Aeon group. This provides for stable sales, and the Aeon group's expansion into Asia is also proving to be a positive factor for Aeon Delight's growth. The company is able to leverage economies of scale from the Aeon group, and has accumulated expertise in integrated FMS from its transactions with Aeon. This provides for a stable recurring-revenue model.
- **Industry leader in comprehensive commercial maintenance services:** Aeon Delight is the industry leader capable of providing integrated all-in-one building maintenance services such as facilities management, security, cleaning, and renovations that are non-core activities for many companies. Its competitors can only provide one to two of these services (i.e., security or cleaning). The number of companies that can provide one-stop services is limited.
- **Cashflow generating ability:** Over the past five years, average operating cashflow has been JPY13.0bn per annum, and the company has spent JPY2.7bn per year on the acquisition of tangible fixed assets, generating total cashflow of about JPY10.0bn. The company is using stable cash flow to invest strategically in acquisitions and technological development based on its longer-term vision. If there are no investment outlets that meet its growth strategy, the cash flow funds shareholder returns. Over the past five years, Aeon Delight has spent an average of JPY2.9bn in dividend payments (cash flow basis) yearly. In FY02/19 it spent JPY9.9bn on a share buyback.

Weaknesses

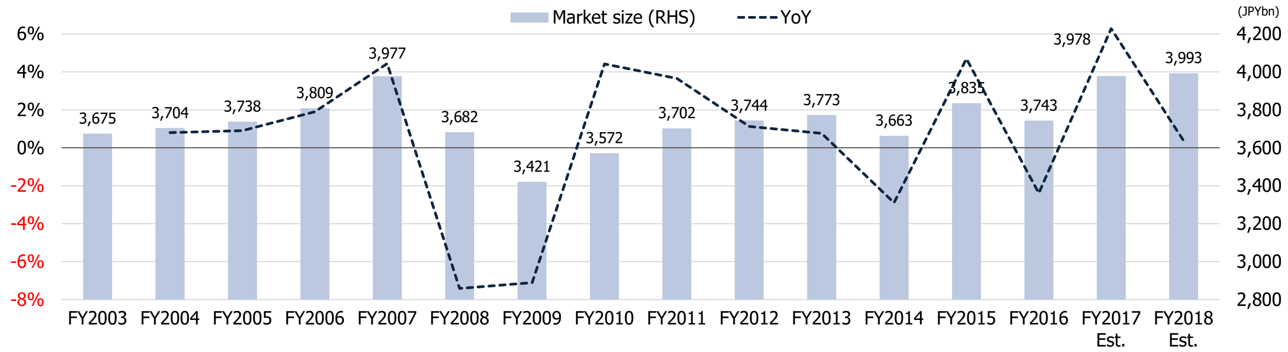
- **Organic growth challenging:** Aeon Delight depends mainly on the domestic market which generates about 95% of sales. The markets for its existing businesses in Japan are mature, which is a weakness in terms of the company's growth potential. It will be challenging to sustain growth, as Aeon Delight must rely on aggressive development overseas and winning contracts in ancillary businesses as an FMS company and growing market share.
- **Overly dependent on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives roughly 65% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.
- **Mature property management market:** The property management market is relatively mature. However, small retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large facilities, mainly supporting the Aeon group retail stores such as shopping centers and supermarkets. As smaller commercial facilities emerge in large urban areas, the question remains whether the company can successfully adapt its facilities maintenance know-how to this segment of the market. The company may need to look at this segment for growth.

Market and value chain

Market overview

Japan's building maintenance market was worth roughly JPY4.0tn in FY2017 (April 1, 2016 to March 31, 2017), up 6.3% YoY, according to a survey released in July 2019 by Yano Research Institute Ltd. This put the market size back around its FY2007 levels.

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

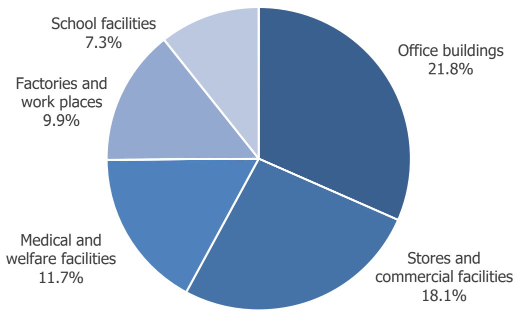


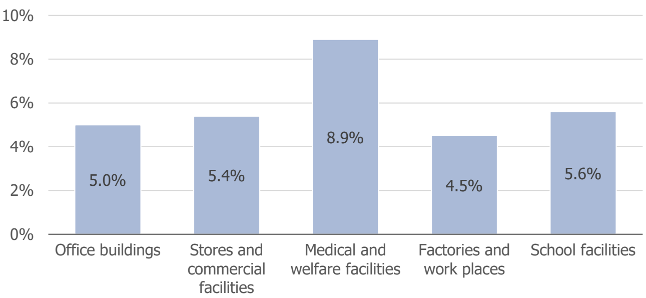
Source: Shared Research based on Yano Research Institute Ltd. materials (July 9, 2019)

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

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

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





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

Aeon group stores by format (domestic and overseas)

	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
GMS	590	590	598	617	618	625	626	584	583
Supermarket	1,307	1,537	1,708	1,977	2,038	2,121	2,130	2,159	2,166
Discount store	72	105	152	353	381	530	566	568	587
DIY store	127	122	123	122	121	120	119	122	122
Supercenter	32	29	26	26	29	28	28	28	27
Department store	1	1	1	1	1	1	1	1	1
Specialty store	3,811	4,121	4,462	4,581	4,683	5,061	4,348	4,332	4,039
Convenience store	3,305	3,424	3,664	3,853	3,932	4,331	5,261	5,436	5,449
Drugstore and pharmacy					3,347	3,765	3,980	4,376	4,817
Other retail formats	268	418	562	756	884	803	856	907	1,015
Financial service	401	460	527	641	698	701	705	690	640
Services	1,410	1,383	1,394	1,519	1,640	1,934	2,013	2,045	2,070
Total	11,324	12,190	13,217	14,440	18,382	20,020	20,633	21,248	21,516
Aeon Mall	56	59	62	137	148	161	166	174	180
Aeon Town	45	107	115	122	130	134	139	140	140
Total	101	166	177	259	278	295	305	314	320

Source: Shared Research based on company data

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

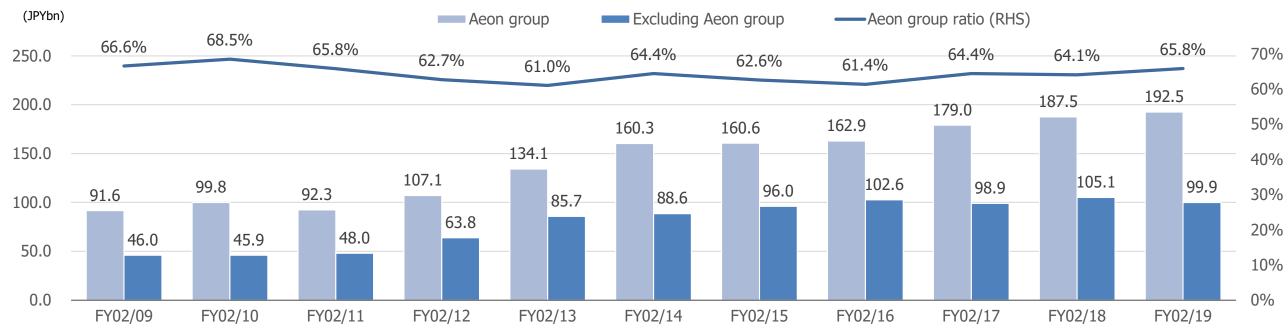
	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
GMS	52	54	61	69	77	84	87	94	96
Supermarket	25	44	81	95	101	115	173	150	150
Discount store	-	-	22	23	24	24	23	21	22
Specialty store	-	2,033	2,294	2,370	2,532	2,840	2,998	3,172	3,252
Convenience store	-	37	55	61	42	44	52	54	39
Other retail formats	24	27	29	29	30	79	97	115	124
Financial service	-	236	279	302	339	339	342	324	276
Services	-	25	41	95	180	282	335	390	426
Total	101	2,456	2,862	3,044	3,325	3,845	4,107	4,320	4,385

Source: Shared Research based on company data

Customers

Aeon Delight generates almost 65% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall, and MaxValu companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, public facilities, and event operators.

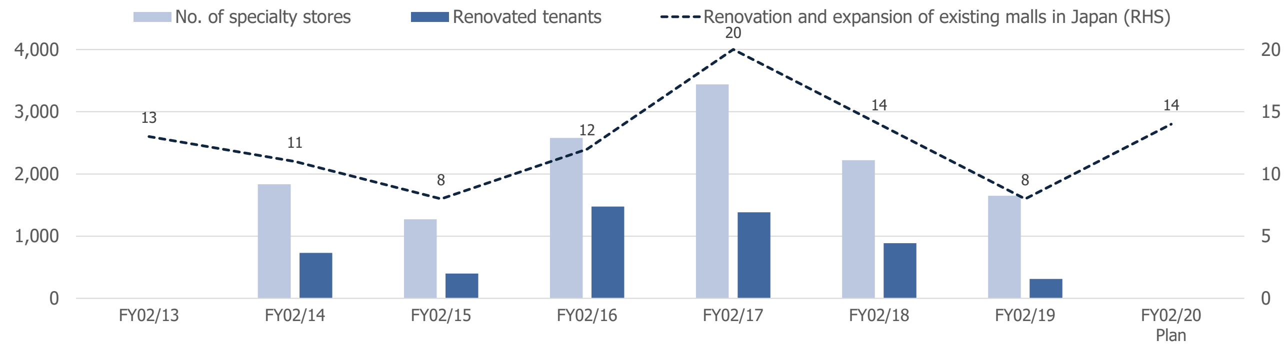
Sales composition by customer



Source: Shared Research based on company data

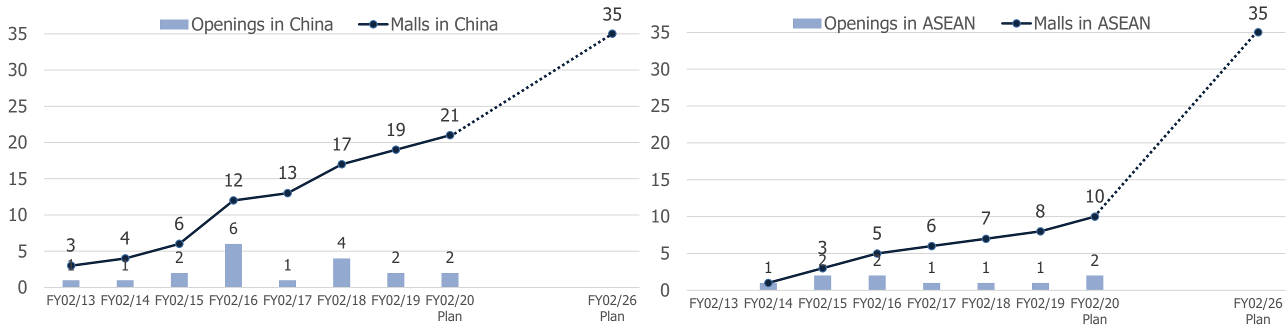
Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%.

Number of renovated Aeon Malls



Source: Shared Research based on company data

Aeon Malls in China and ASEAN countries



Source: Shared Research based on company data

Overseas businesses of the Aeon group

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

Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
ASEAN	Malaysia	Aeon Malaysia	28	30	31	33	73	84	88	100
		Aeon BiG Malaysia	-	27	28	28	26	25	21	22
	Thailand	Aeon Thailand	29	58	69	75	76	77	80	78
	Vietnam	Aeon Vietnam				2	3	4	5	6
		Aeon Citymart					30	30	30	26
		Aeon Fivimart					23	27	25	-
	Cambodia	Aeon Cambodia				1	1	1	4	7
	Indonesia	Aeon Indonesia					1	1	2	2
	Myanmar	Aeon Orange						14	14	15
	ASEAN total		57	115	128	139	233	263	269	256
China		Aeon Stores Hong Kong	38	42	43	43	49	55	65	64
		Guangdong Aeon	12	15	17	17	18	19	20	23
		Quingdao Aeon Dongtai	7	8	9	10	9	6	6	6
		Aeon South China	8	9	11	10	10	10	10	8
		Beijing Aeon	3	4	4	5	6	7	9	9
		Aeon East China				1	3	4	5	5
		Aeon (Hubei)				1	2	2	4	5
	China total		68	78	84	87	97	103	119	120

Source: Shared Research based on company data

Competition

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

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

Barriers to entry

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

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

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

Financial Statements

Income statement

Income statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales	**170,905**	**219,797**	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**
YoY	21.8%	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%
Cost of sales	146,916	191,166	218,648	223,409	231,281	243,089	256,871	257,524	267,463
Gross profit	**23,989**	**28,631**	**30,227**	**33,245**	**34,290**	**34,836**	**35,736**	**34,871**	**35,452**
YoY	13.6%	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%
GPM	14.0%	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%
SG&A expenses	11,957	14,868	16,326	18,622	18,900	20,280	21,596	21,961	22,421
YoY	7.3%	24.3%	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%
SG&A ratio	7.0%	6.8%	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%
Operating profit	**12,031**	**13,762**	**13,901**	**14,622**	**15,390**	**14,556**	**14,139**	**12,909**	**13,030**
YoY	20.7%	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%
Non-operating income (expenses)	58	22	-9	-22	82	-22	124	472	332
Non-operating income	208	281	213	163	228	253	434	608	590
Non-operating expenses	149	260	221	186	145	275	309	136	258
Recurring profit	**12,089**	**13,784**	**13,892**	**14,600**	**15,472**	**14,534**	**14,263**	**13,381**	**13,362**
YoY	22.0%	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%
RPM	7.1%	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%
Extraordinary gains (losses)	990	953	133	1,236	695	2,040	1,224	1,475	195
Implied tax rate	41.5%	45.7%	45.3%	46.1%	44.1%	46.0%	45.9%	42.9%	46.2%
Net income attrib. to non-controlling interests	-	132	104	188	310	386	533	598	664
Net income	**6,495**	**6,912**	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**
YoY	18.8%	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%
Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%

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

Balance sheet

(JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
ASSETS									
Cash and deposits	13,098	9,707	10,014	12,565	15,580	20,386	31,717	39,536	44,233
Accounts receivable	28,246	31,240	44,673	34,448	35,757	34,328	35,360	35,739	37,544
Allowance for doubtful accounts	-226	-657	-144	-290	-168	-360	-202	-130	-167
Inventories	1,476	1,527	2,237	2,575	2,663	2,840	3,218	2,623	2,211
Deposits for consumption to subsidiaries and affiliates	18,920	27,320	18,020	32,420	41,326	37,362	31,713	32,000	16,000
Other current assets	3,010	3,349	4,523	8,196	8,476	9,634	9,292	8,543	8,950
Total current assets	**64,524**	**72,486**	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**
Buildings	1,234	1,217	1,089	1,046	1,009	1,629	1,631	1,582	1,479
Facilities and equipment for area management	265	246	274	238	211	190	175	-	-
Tools, furniture, and fixtures	1,791	1,918	2,079	2,487	2,516	2,651	3,307	4,892	5,064
Land	284	284	282	278	278	1,978	1,975	1,975	2,032
Construction in progress	-	-	-	-	-	-	-	-	-
Other fixed assets	182	108	72	209	345	610	1,974	1,591	1,585
Total tangible fixed assets	**3,756**	**3,773**	**3,796**	**4,258**	**4,361**	**7,061**	**9,064**	**10,041**	**10,161**
Goodwill	10,546	11,249	10,801	9,399	8,452	7,654	6,813	6,113	6,865
Other	1,031	1,023	1,520	1,609	1,867	2,352	1,989	1,699	1,338
Total intangible fixed assets	**11,577**	**12,272**	**12,321**	**11,008**	**10,320**	**10,006**	**8,802**	**7,813**	**8,103**
Investment securities	2,983	2,577	2,973	3,897	3,768	4,463	4,546	5,334	4,256
Deferred tax assets	278	406	288	254	284	310	551	330	412
Other	1,701	1,517	2,196	1,877	2,750	3,896	4,342	3,458	3,264
Allowance for doubtful accounts	-196	-224	-200	-199	-535	-494	-536	-610	-355
Investments and other assets	**4,766**	**4,276**	**5,257**	**5,829**	**6,268**	**8,176**	**8,904**	**8,512**	**7,578**
Total fixed assets	**20,100**	**20,322**	**21,375**	**21,096**	**20,950**	**25,244**	**26,772**	**26,367**	**25,842**
Total assets	**84,624**	**92,809**	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**
LIABILITIES	-	-	-	-	-	-	-	-	-
Accounts payable	22,424	23,720	24,544	21,876	24,934	28,457	25,114	25,820	25,967
Short-term debt	49	41	10	5	-	-	271	225	394
Other	8,251	9,882	10,401	12,622	15,771	17,377	21,666	18,541	20,137
Total current liabilities	**30,724**	**33,643**	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**
Long-term debt	6	15	5	-	-	-	293	-	15
Other	1,006	968	1,190	1,556	2,387	3,925	5,921	6,474	7,652
Total fixed liabilities	**1,012**	**983**	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**
Total liabilities	**31,737**	**34,626**	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	18,741	18,753	18,770	18,818	18,850	18,862	18,949	19,019	13,888
Retained earnings	30,575	35,285	40,539	45,112	50,505	55,099	59,355	62,756	65,910
Treasury stock	-461	-460	-458	-449	-443	-441	-436	-430	-10,327
Other comprehensive income	645	647	992	1,711	1,373	525	799	1,484	466
Share subscription rights	149	173	205	165	166	221	263	303	299
Non-controlling interests	-	545	1,260	1,547	1,869	2,168	2,434	2,773	2,062
Total net assets	**52,887**	**58,182**	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**
Working capital	7,298	9,047	22,366	15,147	13,486	8,711	13,464	12,542	13,788
Total interest-bearing debt	55	56	15	5	-	-	564	225	409
Net cash	31,963	36,971	28,019	44,980	56,906	57,748	62,866	71,311	59,824
Shareholders's equity	52,738	57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178
Equity ratio	62.3%	61.9%	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%

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

Assets

In order of value, the company's assets are cash and deposits (JPY44.2bn, FY02/19), accounts receivable (JPY37.5bn), deposits for consumption from associates (JPY16.0bn, deposited with Aeon), tangible fixed assets (JPY10.2bn), and intangible fixed assets (JPY8.1bn). The aggregate of cash and deposits and deposits for consumption from associates is over JPY60.0bn, but interest-bearing debt is just JPY400mn, for a cash-rich balance sheet. Tangible fixed assets and intangible fixed assets are small as the company's business structure does not require a large balance sheet.

Majority of its investment securities are with Aeon Mall, Aeon Kyushu, Aeon Fantasy, and MaxValu companies.

Shareholders' equity

In FY02/19, the equity ratio was 54.4%. Although it declined following the restatement of prior-year earnings accompanying the Kajitaku accounting fraud, it is still at an adequate level.

Profitability and financial ratios

Profit margins (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Gross profit	23,989	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452
GPM	14.0%	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%
Operating profit	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%
EBITDA	13,818	16,107	16,138	17,054	17,856	17,014	16,928	16,038	16,391
EBITDA margin	8.1%	7.3%	6.5%	6.6%	6.7%	6.1%	5.8%	5.5%	5.4%
Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%
Financial ratios									
ROA (RP-based)	18.1%	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%
ROE	15.5%	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%
Total asset turnover	2.6	2.5	2.6	2.4	2.3	2.2	2.2	2.1	2.2
Working capital	7,298	9,047	22,366	15,147	13,486	8,711	13,464	12,542	13,788
Current ratio	210.0%	215.5%	226.9%	228.7%	222.2%	227.3%	236.1%	241.2%	211.6%
Quick ratio	195.4%	201.0%	207.6%	201.3%	198.3%	200.1%	209.5%	218.4%	189.9%
OCF / Current liabilities	29.0%	30.0%	-12.7%	57.5%	40.1%	22.3%	25.2%	28.2%	24.6%
OCF / Total liabilities	21.5%	27.8%	-12.1%	52.3%	35.2%	20.7%	22.0%	24.4%	20.9%
Cash conversion cycle (days)	10.4	8.2	18.5	22.3	15.4	10.1	9.7	12.4	12.1
Change in working capital	-32	1,749	13,319	-7,219	-1,661	-4,775	4,753	-922	1,246

Source: Shared Research based on company data

Statement of cash flows

Cash flow statement (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Cash flows from operating activities (1)	6,808	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	12,373
Pre-tax profit	11,109	12,977	13,920	13,420	14,807	16,526	14,089	12,247	13,166
Depreciation	999	1,265	1,130	1,294	1,341	1,699	2,069	2,414	2,602
Impairment losses	-	-	-	678	578	250	122	39	123
Amortization of goodwill	788	1,080	1,107	1,138	770	759	720	715	759
Change in working capital	-692	-1,187	-13,728	10,386	2,008	-552	449	1,035	-53
Income taxes	-4,681	-5,404	-6,578	-6,114	-6,615	-6,336	-6,602	-6,115	-5,188
Other	-715	908	-209	557	4,345	-2,043	856	3,233	964
Cash flows from investing activities (2)	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256
Purchase of tangible and intangible fixed assets	-792	-1,184	-1,607	-1,999	-1,903	-2,414	-4,113	-3,228	-2,059
Proceeds from sale of tangible and intangible fixed assets	114	27	147	41	18	116	24	14	15
Acquisition of shares in subsidiaries affecting the scope of consolidation	-	-1,266	-694	-388	-	-4,771	-	-	-1,516
Payments for deposit for consumption of subsidiaries	-135,840	-150,420	-170,520	-212,400	-220,511	-218,798	-229,151	-250,400	-284,000
Proceeds from refunds of deposit for consumption of subsidiaries	132,820	142,020	180,020	198,000	211,605	222,762	234,800	250,113	300,000
Other	698	772	-260	114	-574	-150	673	835	-184
Free cash flow (1+2)	**3,808**	**-412**	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**	**10,902**	**24,629**
Cash flows from financing activities	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686
Net change in short-term borrowings	-27	-2	-25	-	-	-	219	-28	179
Net change in long-term borrowings	-25	-475	-6	-	-	-	324	90	-2
Payment of dividends	-1,262	-2,205	-2,256	-2,464	-2,573	-2,676	-2,842	-2,996	-3,259
Acquisition of treasury stock	-1	13	2	57	37	14	28	41	-9,906
Acquisition of shares in subsidiaries not affecting the scope of consolidation	-	-	-	-	-	-	-57	-21	-6,458
Other	-6	-53	28	-68	-58	-159	-72	-350	-240
Other	-13	-3	26	99	172	-229	-6	80	-228
Change in cash and cash equivalent	2,472	-3,137	497	2,351	3,447	3,997	11,530	7,718	4,715
Cash and cash equivalent (year-end)	12,317	9,179	9,676	12,028	15,476	19,473	31,004	38,722	43,437

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash conversion cycle (days)	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Accounts receivable turnover	7.7	7.4	6.6	6.5	7.6	7.9	8.4	8.2	8.3
Days in accounts receivable	**47.6**	**49.4**	**55.7**	**56.3**	**48.2**	**46.0**	**43.5**	**44.4**	**44.2**
Inventory turnover	196.4	127.3	116.2	92.9	88.3	88.3	84.8	88.2	110.7
Days in inventory	**1.9**	**2.9**	**3.1**	**3.9**	**4.1**	**4.1**	**4.3**	**4.1**	**3.3**
Accounts payable turnover	9.4	8.3	9.1	9.6	9.9	9.1	9.6	10.1	10.3
Days in accounts payable	**39.0**	**44.1**	**40.3**	**37.9**	**36.9**	**40.1**	**38.1**	**36.1**	**35.3**
Cash conversion cycle (days)	**10.4**	**8.2**	**18.5**	**22.3**	**15.4**	**10.1**	**9.7**	**12.4**	**12.1**

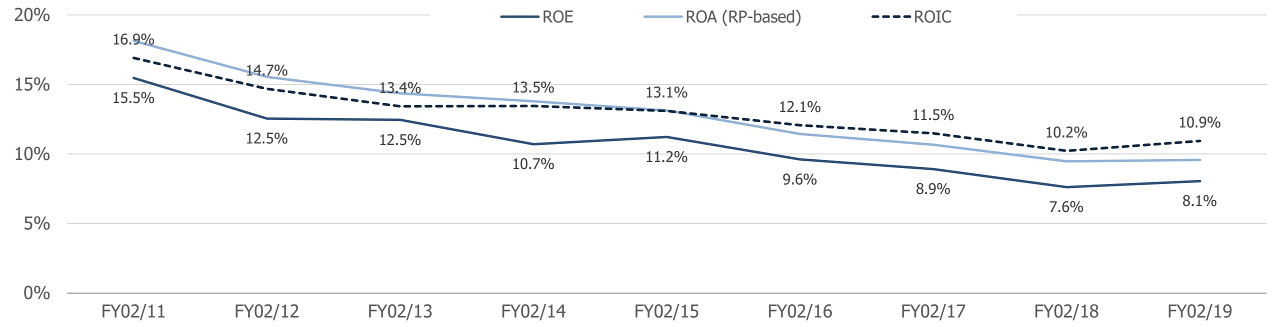
Source: Shared Research based on company data

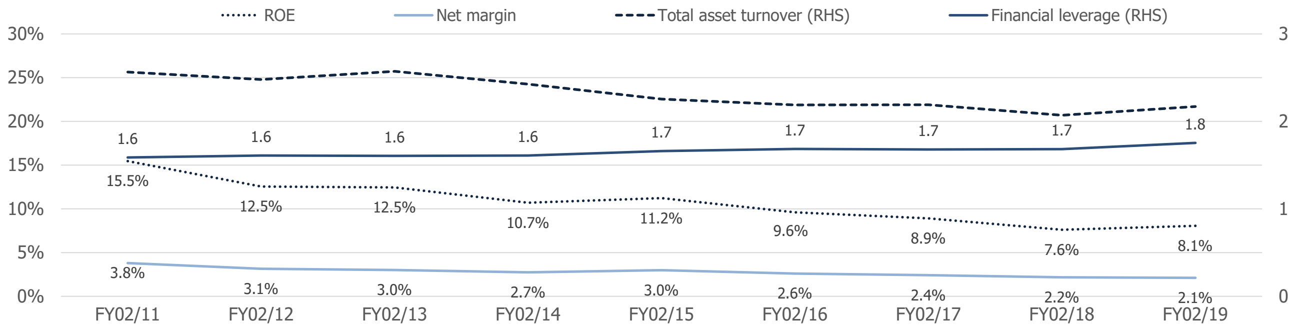
Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers.

ROE and dividends

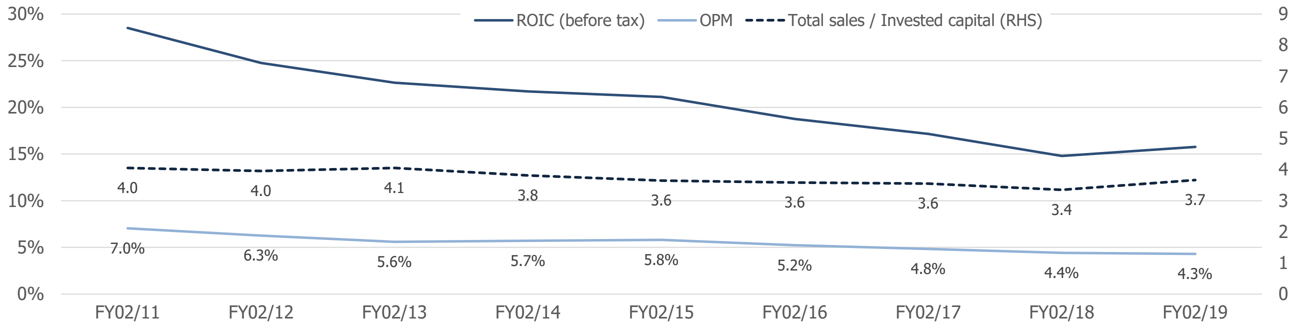
(JPYmn)		FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
ROE		**15.5%**	**12.5%**	**12.5%**	**10.7%**	**11.2%**	**9.6%**	**8.9%**	**7.6%**	**8.1%**
	Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%
	Total asset turnover	2.56	2.48	2.57	2.42	2.25	2.19	2.19	2.07	2.17
	Financial leverage	1.59	1.61	1.61	1.61	1.66	1.68	1.68	1.68	1.75
ROA (RP-based)		**18.1%**	**15.5%**	**14.4%**	**13.8%**	**13.1%**	**11.4%**	**10.7%**	**9.5%**	**9.6%**
ROIC		**16.9%**	**14.7%**	**13.4%**	**13.5%**	**13.1%**	**12.1%**	**11.5%**	**10.2%**	**10.9%**
	NOPAT	7,136	8,162	8,245	9,064	9,540	9,368	9,464	8,925	9,040
	Interest-bearing debt＋Net assets	42,209	55,590	61,400	67,356	72,854	77,616	82,421	87,268	82,658
ROIC (before tax)		28.5%	24.8%	22.6%	21.7%	21.1%	18.8%	17.2%	14.8%	15.8%
	OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%
	Total sales / Invested capital	4.05	3.95	4.05	3.81	3.65	3.58	3.55	3.35	3.66

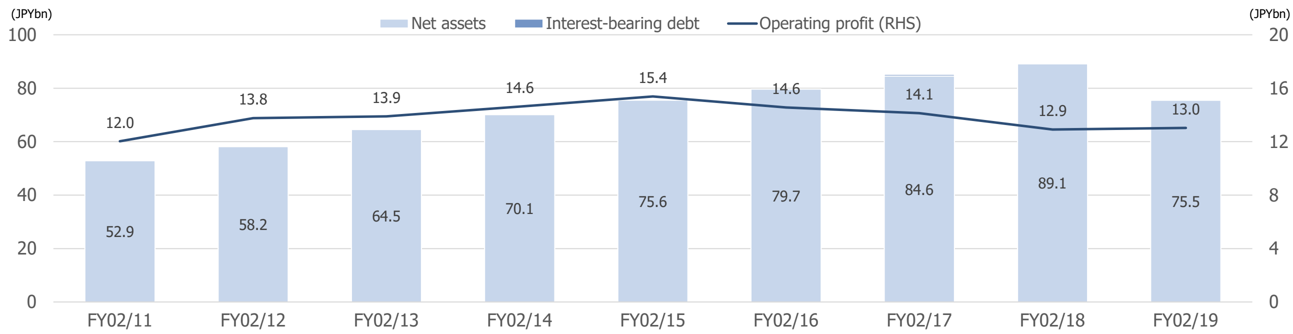
ROE





ROIC

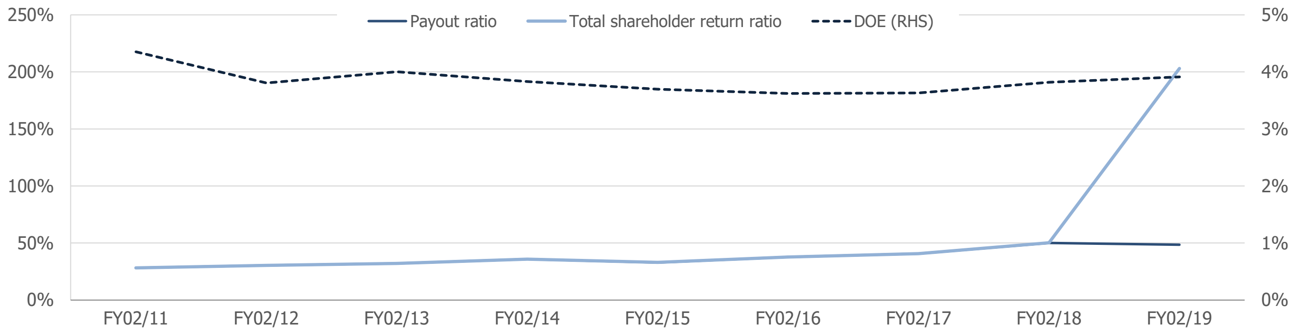




Source: Shared Research based on company data

Dividends

(JPYmn)		FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Total dividends	a)	1,828	2,097	2,413	2,519	2,625	2,731	2,890	3,207	3,114
Total treasury stock acquired	b)	1	6	1	1	1	-	-	1	9,906
Total returns to shareholders	c) = a) + b)	1,829	2,103	2,414	2,520	2,626	2,731	2,890	3,208	13,020
Net income attributable to parent company shareholders	d)	6,495	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415
Dividend payout ratio	a) / d)	28.1%	30.3%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	48.5%
Total shareholder return ratio	c) / d)	28.2%	30.4%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	203.0%
Net assets available to common shareholders		52,738	57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178
Average of beginning and end of year	f)	41,996	55,101	60,273	65,758	70,978	75,404	79,596	83,987	79,623
Before deducting assets available to holders of Class A preferred shares		52,738	57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178
EPS	(JPY)	142.6	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9
Dividend per share	(JPY)	39.0	40.0	46.0	48.0	50.0	52.0	55.0	61.0	63.0
Dividend on equity ratio	a) / f)	4.4%	3.8%	4.0%	3.8%	3.7%	3.6%	3.6%	3.8%	3.9%



Source: Shared Research based on company data

Shareholder returns

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

Aeon Delight's stance on capital policy

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

Other information

History

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

Source: Shared Research based on company data

Major shareholders

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

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

Aeon group companies own about 60% of the company.

Corporate governance

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

Source: Shared Research based on company data

Top management

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

Employees

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

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

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

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

Tree planting through Aeon Environmental Foundation

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

“Clean Day” on the 11th Day of Each Month

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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

Historical financial statements and news

Historical financial statements

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

Summary

- For 1H FY02/20, the company reported consolidated sales of JPY157.5bn (+3.2% YoY), operating profit of JPY8.6bn (+37.0% YoY), and net income of JPY5.2bn (+82.6% YoY). Sales and operating profit were in line with the company's initial forecast (made on June 28) for sales of JPY158.0bn and operating profit of JPY8.5bn. At subsidiary Kajitaku, which had previously engaged in improper accounting practices, estimates put 1H sales at JPY2.8bn (-0.4% YoY) and operating loss at JPY616mn (versus operating loss of JPY2.5bn in 1H FY02/19). Excluding Kajitaku, 1H sales were up 3.3% YoY and operating profit up 5.2% YoY. The Cleaning Services, Construction Work, Vending Machine Services, and Security Services segments all reported higher operating profits while the Materials and Supplies Sourcing Services segment and Facilities Management segment reported lower operating profits versus 1H FY02/19. Having made no changes to its initial full-year forecast for FY02/20, the company is still targeting full-year sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY).
- Facilities Management: 1H segment sales of JPY29.6bn were up 5.4% YoY; segment profit of JPY2.8bn was down 0.8% YoY. The top-line gains reflected successful customer development efforts in facilities management plus added sales from the expansion of ancillary contract work for client companies, including the installation of new automatic fire extinguisher systems for kitchens and ducts, periodic inspection of fire prevention systems and equipment, and emergency generator load-testing. The top-line gains notwithstanding, segment profit finished the period down slightly, due in part to R&D spending on the creation of a model integrated facilities management system using an open systems approach.
- Security Services: 1H segment sales of JPY22.2bn were up 0.5% YoY; segment profit of JPY1.4bn was up 0.6% YoY. Tight labor market conditions continued to push up wages, but the company was able to price security service contracts so as to absorb the labor cost increases.
- Cleaning Services: 1H segment sales of JPY30.9bn were up 8.0% YoY; segment profit of JPY3.5bn was up 6.2% YoY. Top-line growth reflected a combination of an increase in new customers and contributions from PT Sinar Jernih Sarana (SJS), the cleaning services business in Indonesia that became a consolidated subsidiary in December 2018. The Cleaning Services business also reported progress in rollout and sales of self-guided floor cleaning robots (designed to reduce labor costs).
- Construction Work: 1H segment sales of JPY23.1bn were up 6.6% YoY; segment profit of JPY2.2bn was up 7.8% YoY. The gains reflect the construction business' successful move to an operating structure capable of providing more localized services. Orders grew in response to demand for renovation work in all regions.
- Materials and Supplies Sourcing Services: 1H sales of JPY25.9bn were down 0.4% YoY; segment profit of JPY1.4bn was down 9.4% YoY. Overall sales at the segment finished down despite efforts to expand orders for packaging materials for TOPVALU, Aeon's private brand. Segment profit also finished down YoY despite cuts in logistics and other expenses as part of an overall effort to improve profitability.
- Vending Machine Services: 1H segment sales of JPY16.1bn were down 1.9% YoY; segment profit of JPY705mn was up 32.3% YoY. After declining in Q1, both segment sales and profit were up in Q2, bolstered by the installation of more of the company's own multibrand vending machines (which feature products from various brands) and the ongoing relocation of vending

machines. The jump in segment profit reflects a JPY154mn boost from changes in accounting assumptions for the useful life of vending machines after a comprehensive review of past track records for replacement periods and physical life.

▷ Support Services: 1H segment sales of JPY9.6bn were down 0.6% YoY; the segment profit was JP254mn (versus a loss of JPY1.6bn in 1H FY02/19). Kajitaku sales were down due to the suspension of new equipment sales and installation in the storefront promotion business, but the operating loss at Kajitaku narrowed sharply. Outside of Kajitaku, the Support Services segment saw solid gains from its B2B outsourcing services business that provides operations and management services for client companies in peripheral areas such as business travel management (BTM) and MICE events (i.e., meetings, incentive tours, conventions/conferences, exhibitions).

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

▷ 2H initiatives: Initiatives planned for 2H to help the company meet its full-year forecast include aggressive measures to improve profitability at its Facilities Management business and Cleaning Services business, and measures aimed at winning more orders at its Construction Work business. At Facilities Management, the company is looking to improve its cost ratio by speeding up its push to reduce costs with the help of operating efficiency gains and moves to labor-saving open systems. At Cleaning Services, all of branch offices will be carefully reviewing the profitable of their cleaning contracts on a building-by-building basis and weeding out low-margin contracts. At its Construction Work business, the company is looking to create more flexible construction project teams to better serve the needs of large markets in the Kanto and Kansai regions and prevent opportunity losses.

Results by segment

Facilities Management

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

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

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

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

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

Security Services

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

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

Cleaning Services

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

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

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

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

Construction Work

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

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

Materials and Supplies Sourcing Services

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

Vending Machine Services

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

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

Support Services

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

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

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

Overseas

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

Intention to deliver on medium-term plan

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

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

Summary

- In Q1 FY02/20, sales were JPY79.0bn (+3.5% YoY), operating profit was JPY3.8bn (+0.4% YoY), and net income attributable to owners of parent was JPY2.1bn (+0.2% YoY). Kajitaku, the group subsidiary found to have engaged in improper accounting practices, reported sales of JPY1.5bn (-29.4% YoY) and an operating loss of JPY510mn (versus an operating loss of JPY662mn in Q1 FY02/19). Excluding Kajitaku, sales were JPY77.6bn (+4.4% YoY) and operating profit was JPY4.3bn (-3.1% YoY). The accounting treatment of provisions and reversals in Q1 had a different impact than normal years. Shared Research understands that underlying operating profit was on the order of JPY4.5–4.6bn (+1–3% YoY). (We expect these differences to normalize in 1H results.)
- Facilities Management: Sales were JPY14.9bn (+5.9% YoY) and segment profit was JPY1.4bn (-3.0% YoY). In addition to the increase in new customer development, the expansion of contract orders in related business, such as the rollout of automatic fire extinguisher systems for kitchens and ducts, the periodic inspection of fire protection equipment, and the execution of emergency generator load tests, contributed to the increase in sales. However, although sales rose, the large increase in expenses meant that profit declined.
- Security Services: Sales were JPY11.1bn (+0.6% YoY) and segment profit was JPY730mn (+1.1% YoY). With personnel expenses rising due to tight labor supply–demand balance, the company was successful in optimizing contract unit prices. The operating profit margin improved to 6.6% from 6.5% in Q1 FY02/19.
- Cleaning Services: Sales were JPY15.4bn (+8.1% YoY) and segment profit was JPY1.7bn (+2.4% YoY). Sales growth reflected an increase in new customers and results from SJS, the cleaning services business in Indonesia, which became a consolidated subsidiary in December 2018. The company also made progress in introducing and selling automatic floor cleaning robots, which should lead to labor saving.
- Construction Work: Sales were JPY12.0bn (+14.4% YoY) and segment profit was JPY1.1bn (+10.6% YoY). The company implemented an improved planning and design system in FY02/19, resulting in a higher order efficiency. Strengthened relationships with partner companies through community-based systems also contributed to an increase in contract orders for renovation work. The company carried out a restructuring at the start of FY02/20 and established new construction departments in its Kanto and Kansai branches, developing a system that is closely aligned to demand for renovation work in each area. Expanding the number of orders received is a key focus of attention going forward.
- Materials and Supplies Sourcing Services: Sales were JPY13.0bn (+0.6% YoY) and segment profit was JPY712mn (-4.2% YoY). Efforts to expand contract orders for packaging materials for TOPVALU, Aeon’s private brand, contributed to increased sales. On the other hand, although the company worked to improve profitability through initiatives such as reduced distribution expenses, overall expenses increased and segment profit declined.
- Vending Machine Services: Sales were JPY7.7bn (-5.0% YoY) and segment profit was JPY256m (-38.9% YoY). In order to generate profits from favorable locations (such as large commercial facilities with large sales per unit), the company is switching to installation of the machines that contain an assortment of products from different beverage makers. Therefore results are currently in a transition period. Profit was boosted by JPY77mn after a change in accounting policy, with an amendment in the useful life of vending machines implemented following a comprehensive review of replacement period and physical life.

- Support Services: Sales were JPY4.9bn (-10.3% YoY) and the segment loss was JPY124mn (versus a JPY274mn loss in Q1 FY02/19). Kajitaku sales fell sharply due to the suspension of new equipment sales and installation in the storefront promotion business. Sales in the Support Services business excluding Kajitaku increased 1.4% YoY, and segment profit decreased 0.3% YoY. The company is working to expand its provision of services to meet outsourcing needs for business travel, conference and exhibition management, as well as management of customer facilities and the surrounding environment.
- Overseas businesses: Based on a simple sum of local subsidiaries' results, sales were roughly JPY4.4bn (JPY3.4bn in Q1 FY02/19), and operating profit about JPY300mn (JPY200mn). In addition to growth in the Chinese business, the consolidation of SJS in Indonesia contributed to growth.

Results by segment

Facilities Management

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

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

Security Services

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

Cleaning Services

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

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

Construction Work

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

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

Materials and Supplies Sourcing Services

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

Vending Machine Services

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

Support Services

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

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

Summary

- ▷ On June 28, 2019, Aeon Delight announced earnings results for full-year FY02/19, the special investigation committee's investigation report regarding improper accounting at subsidiary Kajitaku Co., Ltd., and corrections to its historical financial statements.
- ▷ Kajitaku: The investigation report revealed that Kajitaku's improper accounting inflated company profits by JPY16.3bn on a cumulative basis between FY02/14 and FY02/19. The company also announced corrections to its historical financial statements. As of end-FY02/19, the company reported BPS of JPY1,466 (JPY1,853 in FY02/18 prior to corrections) and an equity ratio of 54.4% (66.4%). Aeon Delight dismissed involved parties and held management responsible through dismissals and compensation reductions. In response to the special investigation committee's recommendations, the company will work to strengthen the group's governance system and formulate effective measures to prevent reoccurrence.
- ▷ FY02/19 results: The company reported sales of JPY302.9bn (+3.6% YoY), operating profit of JPY13.0bn (+0.9% YoY), and net income of JPY6.4bn (+0.3% YoY). If excluding Kajitaku's performance, Aeon Delight booked approximately JPY17.0bn in operating profit (+6.1% YoY). Considering Kajitaku's operating profit forecast for FY02/19 was JPY1.2bn before the

investigation, the company's performance net of Kajitaku was in line with the original operating profit forecast of JPY18.5bn. Aeon Delight repurchased 2.7mn shares for a total of JPY9.9bn through a tender offer between December 5, 2018 and January 8, 2019.

▷ FY02/20 forecast: The company expects sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), net income of JPY10.8bn (+68.4% YoY), EPS of JPY216.35, and dividend per share of JPY65 (dividend payout ratio of 30.0%). Aeon Delight expects Kajitaku-related one-time expenses to drop out, and Construction Work, Facilities Management, and Cleaning Services to drive business performance.

Improper Accounting at Kajitaku

Impact of improper accounting

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

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

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

Source: Shared Research based on company data

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

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

Clarifying management responsibility

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

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

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

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

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

Source: Shared Research based on company data

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

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

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

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

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

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

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

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

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

- Vending Machine Services: Operating profit down JPY740mn (-49% YoY). In addition to being midway through transitioning to a new revenue model, earnings were affected by disruption in the distribution network due to a series of typhoons and product shortfall in some areas.

Earnings overview

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

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

Business environment and company initiatives

Environment

Decarbonization

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

Renewable energy

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

Electricity

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

Safety and security

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

Labor shortage

Aeon Delight Platform (AD Platform)

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

Floor cleaning robot

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

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

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

Toilet IoT services

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

Accelerating global development

Asian expansion intentions

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

China business: Making two core companies wholly owned subsidiaries

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

ASEAN business: Purchase of shares in Indonesian cleaning company

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

First ISO 41001 certification in Japan

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

Initiatives to improve employee engagement

- The company has unrolled small group activities at the individual workplace level. These foster a workplace culture where members of its Clean Crew (its internal designation for cleaning staff) volunteer information on things they notice day-to-day and ideas on creating a pleasant working environment.

- These are reflected in work processes. In November 2018, the company held a conference at the Tokyo Big Sight to share the results from Japan and abroad and further promote the program. This was the fourth such conference highlighting initiatives in pursuit of a pleasant working environment.

Segment overview

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

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

Segment conditions

- **Facilities Management** (operating profit JPY4.3bn, +JPY740mn YoY): In addition to gaining new contracts, the company focused on helping customers develop disaster prevention and mitigation systems. It won increased orders for scheduled fire safety equipment testing (under revised regulations) and emergency generator load testing, as well as associated fault repairs. Growth was stronger than normal.
- **Security Services** (JPY2.1bn, unchanged YoY): Aeon Delight conducted ongoing initiatives to reform workstyles starting with improving the workplace environment to facilitate recruitment, and made progress on systematizing services such as building access control and security patrols, but profit was impacted by higher outsourcing costs.
    - The availability of manpower is the main limiting factor on sales growth, and for security services in particular. Amid a spike in Olympics related construction demand, the company is competing with the construction industry for security personnel.
    - The company said that earnings have deteriorated due to the personnel shortage, and some contracts are in the red. It is responding by changing specifications or entering price negotiations. In some cases it is considering ending contracts

that have no prospects for improvement. The company intends to deal with the personnel shortage by increasing the proportion of collaborations with Secom it can operate using equipment.

- **Cleaning Services** (JPY5.0bn, +JPY350mn YoY): In addition to new contracts, the company grew sales of materials developed in-house, made progress on labor saving in toilet cleaning, and introduced/launched sales of floor cleaning robots.

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

- Most sales are to the Aeon group.

Segment conditions

- **Construction Work** (JPY2.9bn, +JPY260mn YoY): The company preformed restoration work in disaster struck areas, and increased comprehensive construction contracts as it focused on proposals covering remodeling projects from the planning stage at commercial facilities.
  - This is a one-time revenue type business. It is hard to control sales because orders depend on renovation work at customers.
  - Clients tend to outsource renovation work to companies which handled the original design of their facilities. Having a design capability would help drive construction work sales growth in the future. To this end, the company made U-COM Co., Ltd. a wholly owned subsidiary in April 2018.
- **Materials and Supplies Sourcing Services** (JPY2.1bn, +JPY20mn YoY): Won more contracts to provide Aeon private brand packaging materials, focused on reducing logistics costs to improve margins.
- **Vending Machine Services** (JPY760mn, -JPY740mn YoY): In addition to growth in own vending machines that stock products from different manufacturers, the company attempted to create added value by using vending machines with digital signage, but profit fell as business was midway through transition to new revenue model, and natural disasters disrupted distribution network and caused product shortages.

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

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

News & topics

September 2019

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

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

May 2019

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

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

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

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

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

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

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

1) Change part of its articles of incorporation at the annual general meeting of shareholders

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

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

April 2019

On **April 5, 2019**, the company announced that the release of full-year FY02/19 results scheduled to be out on April 10 will be delayed due to the possibility that consolidated subsidiary Kajitaku Co., Ltd. may have engaged in improper accounting. The new announcement date remains undecided.

The possibility that Kajitaku may have engaged in improper accounting came to light in late March 2019. According to Aeon Delight, research following this discovery exposed the likelihood of a cumulative loss of roughly JPY1.8bn, primarily due to errors found in accounting procedures for inventory disposals in the used copy machine resale business of Kajitaku's storefront promotions segment. The company is still in the process of calculating the final impact on earnings. Aeon Delight says it will announce the results of further internal investigations and the impact on earnings as soon as more facts are uncovered. Aeon Delight made Kajitaku, which mainly operates housekeeping services, a consolidated subsidiary in April 2011 after acquiring 90% of its outstanding shares. As of the end of February 2018, it owned 97.8% of Kajitaku's outstanding shares.

January 2019

On **January 9**, **2019,** the company announced the results and the conclusion of a tender offer for share repurchase.

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

Details of purchase

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

Company profile

Company Name	Head Office
AEON DELIGHT CO., LTD.	Minamisemba Heart Bldg. 2-3-2 Minamisemba Chuo-ku, Osaka City Osaka, Japan 542-0081
Phone	**Exchange Listing**
+81-6-6260-5621	Tokyo Stock Exchange 1st Section
Established	**Listed On**
November 16, 1972	September 29, 1995
Website	**Fiscal Year-End**
https://www.aeondelight.co.jp/english/	February
IR Contact	**IR Web**
-	https://www.aeondelight.co.jp/english/ir/

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Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
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Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
istyle Inc.
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JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kanamic Network Co.,LTD
Kawanishi Holdings, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net Marketing Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
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SANIX INCORPORATED
Sanrio Company, Ltd.
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TOKAI Holdings Corporation
TOYOBO CO., LTD.
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Toyo Tanso Co., Ltd.
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
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YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

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