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 for large commercial facilities and is the largest facilities management company in Japan. The company also provides services for integrated facilities management and ancillary work that is non-core for the customer. This streamlines overall facility costs and generates rationalization benefits for the customer. Its reporting segments are Facilities Management, Security Services, Cleaning Services, Construction Work, Materials and Supplies Sourcing Services, Vending Machine Services, and Support Services. Aeon Delight, owned more than 50% by the Aeon group, is a major group company, deriving 64% of its sales in FY02/21 from transactions within the group.
- Breaking down FY02/21 sales and operating profit by segment, Cleaning Services accounted for 20.8% and 32.2% respectively, Facilities Management 19.4% and 22.8%, Materials and Supplies Sourcing Services 17.7% and 10.9%, Security Services 14.8% and 14.5%, Construction Work 13.5% and 17.1%, Vending Machine Services 8.5% and 2.9%, and Support Services/other 5.3% and operating loss. Customers from outside the Aeon group include commercial facilities, office buildings and offices, hotels and accommodation facilities, medical and welfare facilities, education 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, and all overseas operations together accounted for 6.7% of sales in FY02/21. In recent years, the company has been using a three-pronged growth strategy that addresses safety and security, manpower shortage, and the environment, and aims to expand its contracted facilities management services throughout the Asian region. In China, the strategy is to provide quality facilities management centered on Central and South China to boost the Aeon Delight brand profile.
- In late March 2019, signs of accounting irregularities emerged at subsidiary Kajitaku. Aeon Delight established a special investigation committee comprised of independent outside experts, which subsequently confirmed the findings of fraudulent accounting. In response, the company restated prior year earnings (a total of JPY16.3bn over FY02/14–FY0219) and put in place measures to prevent a recurrence in the future.

Trends and outlook

- In FY02/21, sales were JPY300.1bn (-2.8% YoY), operating profit was JPY15.2bn (-4.8% YoY), and net income was JPY11.7bn (+24.9% YoY). The partial closure or temporary shutdown of facilities, cancelations of events and people refraining from going out because of the pandemic all severely affected performance especially in 1H, and full-year sales and operating profit failed to match the record highs of the previous year. However, net income was at record levels due to a reduction in tax. The infrastructure for the next stage of growth has been put in place with the introduction of "new standard cleaning" based on cleaning standards for the with-COVID era, area management to aid labor-saving and unmanned management of facilities, and organizational restructuring to improve management efficiency (such as streamlining and integration of subsidiaries). The annual dividend was JPY82.0 per share (dividend payout ratio 35.1%).
- The company's forecast for FY02/22 is sales of JPY325.0bn (+8.3% YoY), operating profit of JPY16.5bn (+8.3% YoY) and net income of JPY10.5bn (-10.1% YoY). The EPS forecast is JPY210.0 and the annual dividend forecast is JPY84.0 per share (including commemoration dividend of JPY10 per share). Sales and operating profit are expected to reach record highs: the negative impact of COVID-19 on operating profit is expected to fall to JPY500mn from JPY1.5bn in the previous year, and sales are expected to benefit from initiatives to secure new customers, as well as boost revenue from existing customers, and measures to improve profitability.
- The company released its Aeon Delight Vision 2025 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 that addresses safety and security, manpower shortage, and the environment. The company targets sales of JPY471.0bn, operating profit of JPY37.0bn, and ROE of 15% in FY02/26. It aims to raise the dividend payout ratio to the 40% level by FY02/24.
- In April 2021, the company formulated a medium-term plan covering the next three years (FY02/22–FY02/24) as it moves toward achieving the goals of Aeon Delight Vision 2025. The medium-term plan targets FY02/24 sales of JPY361.0bn (CAGR of 6.4%), operating profit of JPY22.0bn (CAGR of 13.0%), and net income of JPY14.0bn. By FY02/24, the company aims to

increase sales within the Aeon group by JPY25.0bn versus FY02/21 to approximately JPY220.0bn (60% of total sales, -5pp versus FY02/21), while growing sales outside the Aeon group by JPY35.0bn to about JPY140.0bn (40% of total sales, +5pp versus FY02/21) and raising OPM to 6.0% (+0.9pp versus FY02/21). As detailed hereinafter, it aims to achieve this sales growth and OPM improvement by putting customer-oriented group management into practice and promoting digital transformation (DX).

Strengths and weaknesses

Shared Research believes the company's strengths are 1) strong ties with the Aeon group, 2) industry leader in facilities management, and 3) the ability to generate stable cash flows. Weaknesses include its 1) limited organic growth, 2) heavy dependence on the Aeon group, and 3) mature property management market (see Strengths and weaknesses section for details).

Key financial indicators

Income statement (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.	FY02/22 Est.
Sales	**219,797**	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**	**300,085**	**325,000**
YoY	28.6%	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	-2.8%	8.3%
Gross profit	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	37,175	
YoY	19.4%	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	-3.6%	
Gross profit margin	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%	
Operating profit	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230	16,500
YoY	14.4%	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	-4.8%	8.3%
Operating profit margin	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%	5.1%
Recurring profit	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949	15,268	16,500
YoY	14.0%	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	-4.3%	8.1%
Recurring profit margin	6.3%	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.1%	5.1%
Net income	**6,912**	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**	**11,680**	**10,500**
YoY	6.4%	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	24.9%	-10.1%
Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%	3.2%
Per-share data (JPY)											
Shares issued (year-end; '000)	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	
EPS	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2	233.7	210.0
EPS (fully diluted)	131.5	142.7	133.8	151.3	137.6	134.6	121.3	122.6	186.9	233.5	
Dividend per share	40	46	48	50	52	55	61	63	65	82	84
Book value per share	1,096	1,202	1,303	1,400	1,471	1,559	1,637	1,466	1,579	1,747	
Balance sheet (JPYmn)											
Cash and cash equivalents	9,707	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355	59,773	
Total current assets	**72,486**	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**	**110,008**	
Tangible fixed assets	3,773	3,796	4,258	4,361	7,061	9,064	10,041	10,161	9,671	9,481	
Investments and other assets	4,276	5,257	5,829	6,268	8,176	8,904	8,512	7,578	7,698	11,557	
Intangible fixed assets	12,272	12,321	11,008	10,320	10,006	8,802	7,813	8,103	7,185	5,518	
Total assets	**92,809**	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**	**136,565**	
Accounts payable	23,720	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388	22,170	
Short-term debt	41	10	5	-	-	271	225	394	252	299	
Total current liabilities	**33,643**	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**	**44,123**	
Long-term debt	15	5	-	-	-	293	-	15	11	-	
Total fixed liabilities	**983**	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**	**4,160**	
Total liabilities	**34,626**	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**	**48,283**	
Total net assets	**58,182**	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**	**88,281**	
Cash flow statement (JPYmn)											
Cash flows from operating activities	9,639	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	7,371	10,403	
Cash flows from investing activities	-10,051	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838	-7,325	
Cash flows from financing activities	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392	-5,324	
Financial ratios											
Total interest-bearing debt	56	15	5	-	-	564	225	409	263	299	
Net cash	36,971	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092	59,474	
ROA (RP-based)	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%	11.2%	
ROE	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%	14.1%	
Equity ratio	61.9%	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%	64.0%	

Source: Shared Research based on company data

Recent updates

Highlights

On April 26, 2021, Shared Research updated the report following interviews with Aeon Delight Co., Ltd.

On April 9, 2021, the company announced earnings results for full-year FY02/21; see the results section for details.

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

Trends and outlook

Quarterly trends and results

Cumulative	FY02/19				FY02/20				FY02/21				FY02/22
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	FY Est.
Sales	76,370	152,611	226,744	302,915	79,048	157,482	232,643	308,582	73,532	149,734	224,398	300,085	325,000
YoY	1.7%	1.2%	2.1%	3.6%	3.5%	3.2%	2.6%	1.9%	-7.0%	-4.9%	-3.5%	-2.8%	8.3%
Gross profit	9,342	17,462	25,840	35,452	9,632	19,763	29,014	38,570	8,963	18,239	27,561	37,175	
YoY	3.8%	-6.0%	-5.1%	1.7%	3.1%	13.2%	12.3%	8.8%	-6.9%	-7.7%	-5.0%	-3.6%	
Gross profit margin	12.2%	11.4%	11.4%	11.7%	12.2%	12.5%	12.5%	12.5%	12.2%	12.2%	12.3%	12.4%	
SG&A expenses	5,556	11,186	16,927	22,421	5,832	11,168	16,909	22,569	5,507	10,738	16,347	21,945	
YoY	-2.0%	0.2%	1.6%	2.1%	5.0%	-0.2%	-0.1%	0.7%	-5.6%	-3.9%	-3.3%	-2.8%	
SG&A ratio	7.3%	7.3%	7.5%	7.4%	7.4%	7.1%	7.3%	7.3%	7.5%	7.2%	7.3%	7.3%	
Operating profit	3,785	6,275	8,913	13,030	3,800	8,594	12,104	16,001	3,455	7,500	11,214	15,230	16,500
YoY	13.5%	-15.4%	-15.6%	0.9%	0.4%	37.0%	35.8%	22.8%	-9.1%	-12.7%	-7.4%	-4.8%	8.3%
Operating profit margin	5.0%	4.1%	3.9%	4.3%	4.8%	5.5%	5.2%	5.2%	4.7%	5.0%	5.0%	5.1%	5.1%
Recurring profit	3,816	6,349	9,307	13,362	3,822	8,655	12,189	15,949	3,459	7,496	11,245	15,268	16,500
YoY	13.3%	-15.2%	-15.1%	-0.1%	0.2%	36.3%	31.0%	19.4%	-9.5%	-13.4%	-7.7%	-4.3%	8.1%
Recurring profit margin	5.0%	4.2%	4.1%	4.4%	4.8%	5.5%	5.2%	5.2%	4.7%	5.0%	5.0%	5.1%	5.1%
Net income	2,067	2,838	3,893	6,415	2,070	5,181	7,369	9,348	2,991	3,943	6,326	11,680	10,500
YoY	1.3%	-32.3%	-30.0%	0.3%	0.1%	82.6%	89.3%	45.7%	44.5%	-23.9%	-14.2%	24.9%	-10.1%
Net margin	2.7%	1.9%	1.7%	2.1%	2.6%	3.3%	3.2%	3.0%	4.1%	2.6%	2.8%	3.9%	3.2%
Quarterly	**FY02/19**				**FY02/20**				**FY02/21**				
(JPYmn)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	
Sales	76,370	76,241	74,133	76,171	79,048	78,434	75,161	75,939	73,532	76,202	74,664	75,687	
YoY	1.7%	0.7%	3.8%	8.5%	3.5%	2.9%	1.4%	-0.3%	-7.0%	-2.8%	-0.7%	-0.3%	
Gross profit	9,342	8,120	8,378	9,612	9,632	10,131	9,251	9,556	8,963	9,276	9,322	9,614	
YoY	3.8%	-15.3%	-3.0%	25.6%	3.1%	24.8%	10.4%	-0.6%	-6.9%	-8.4%	0.8%	0.6%	
Gross profit margin	12.2%	10.7%	11.3%	12.6%	12.2%	12.9%	12.3%	12.6%	12.2%	12.2%	12.5%	12.7%	
SG&A expenses	5,556	5,630	5,741	5,494	5,832	5,336	5,741	5,660	5,507	5,231	5,609	5,598	
YoY	-2.0%	2.4%	4.6%	3.6%	5.0%	-5.2%	-	3.0%	-5.6%	-2.0%	-2.3%	-1.1%	
SG&A ratio	7.3%	7.4%	7.7%	7.2%	7.4%	6.8%	7.6%	7.5%	7.5%	6.9%	7.5%	7.4%	
Operating profit	3,785	2,490	2,638	4,117	3,800	4,794	3,510	3,897	3,455	4,045	3,714	4,016	
YoY	13.5%	-39.0%	-16.1%	75.5%	0.4%	92.5%	33.1%	-5.3%	-9.1%	-15.6%	5.8%	3.1%	
Operating profit margin	5.0%	3.3%	3.6%	5.4%	4.8%	6.1%	4.7%	5.1%	4.7%	5.3%	5.0%	5.3%	
Recurring profit	3,816	2,533	2,958	4,055	3,822	4,833	3,534	3,760	3,459	4,037	3,749	4,023	
YoY	13.3%	-38.6%	-14.9%	67.8%	0.2%	90.8%	19.5%	-7.3%	-9.5%	-16.5%	6.1%	7.0%	
Recurring profit margin	5.0%	3.3%	4.0%	5.3%	4.8%	6.2%	4.7%	5.0%	4.7%	5.3%	5.0%	5.3%	
Net income	2,067	771	1,055	2,522	2,070	3,111	2,188	1,979	2,991	952	2,383	5,354	
YoY	1.3%	-64.1%	-22.9%	200.6%	0.1%	303.5%	107.4%	-21.5%	44.5%	-69.4%	8.9%	170.5%	
Net margin	2.7%	1.0%	1.4%	3.3%	2.6%	4.0%	2.9%	2.6%	4.1%	1.2%	3.2%	7.1%	

Source: Shared Research based on company data

Segments	FY02/19				FY02/20				FY02/21			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	76,370	76,241	74,133	76,171	79,048	78,434	75,161	75,939	73,532	76,202	74,664	75,687
YoY	1.7%	0.7%	3.8%	8.5%	3.5%	2.9%	1.4%	-0.3%	-7.0%	-2.8%	-0.7%	-0.3%
Facilities Management	14,102	14,014	14,447	13,801	14,928	14,700	14,631	14,030	14,511	14,575	14,745	14,392
YoY	7.1%	7.8%	7.7%	5.1%	5.9%	4.9%	1.3%	1.7%	-2.8%	-0.9%	0.8%	2.6%
Security Services	11,074	10,991	11,220	11,207	11,143	11,040	11,121	11,343	10,843	10,852	11,271	11,427
YoY	0.7%	1.8%	4.7%	4.0%	0.6%	0.4%	-0.9%	1.2%	-2.7%	-1.7%	1.3%	0.7%
Cleaning Services	14,247	14,390	14,456	15,092	15,401	15,527	15,599	15,835	15,008	15,419	15,658	16,374
YoY	3.7%	5.0%	3.9%	8.4%	8.1%	7.9%	7.9%	4.9%	-2.6%	-0.7%	0.4%	3.4%
Construction Work	10,503	11,178	9,285	10,504	12,014	11,089	8,921	9,820	11,523	10,597	8,906	9,631
YoY	-10.4%	-9.8%	7.8%	28.7%	14.4%	-0.8%	-3.9%	-6.5%	-4.1%	-4.4%	-0.2%	-1.9%
Materials and Supplies Sourcing	12,906	13,106	12,771	12,224	12,987	12,926	12,641	12,571	12,957	13,652	13,037	13,414
YoY	2.1%	4.8%	0.6%	-1.6%	0.6%	-1.4%	-1.0%	2.8%	-0.2%	5.6%	3.1%	6.7%
Vending Machine Services	8,106	8,286	7,614	7,949	7,699	8,376	7,685	7,784	4,725	7,329	7,003	6,396
YoY	1.1%	-7.9%	0.9%	-4.0%	-5.0%	1.1%	0.9%	-2.1%	-38.6%	-12.5%	-8.9%	-17.8%
Support Services	5,429	4,276	4,341	5,393	4,872	4,775	4,564	4,557	3,963	3,776	4,045	4,053
YoY	13.7%	-0.2%	-3.9%	51.2%	-10.3%	11.7%	5.1%	-15.5%	-18.7%	-20.9%	-11.4%	-11.1%
Other	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit	3,785	2,490	2,638	4,117	3,800	4,794	3,510	3,897	3,455	4,045	3,714	4,016
YoY	13.5%	-39.0%	-16.1%	75.5%	0.4%	92.5%	33.1%	-5.3%	-9.1%	-15.6%	5.8%	3.1%
Operating profit margin	5.0%	3.3%	3.6%	5.4%	4.8%	6.1%	4.7%	5.1%	4.7%	5.3%	5.0%	5.3%
Facilities Management	1,477	1,335	1,438	1,308	1,433	1,356	1,250	1,254	1,256	1,293	1,367	1,259
YoY	31.8%	16.9%	14.9%	15.8%	-3.0%	1.6%	-13.1%	-4.1%	-12.4%	-4.6%	9.4%	0.4%
Operating profit margin	10.5%	9.5%	10.0%	9.5%	9.6%	9.2%	8.5%	8.9%	8.7%	8.9%	9.3%	8.7%
Security Services	722	681	716	762	730	682	795	831	763	831	793	920
YoY	-6.6%	-3.8%	12.4%	3.1%	1.1%	0.1%	11.0%	9.1%	4.5%	21.8%	-0.3%	10.7%
Operating profit margin	6.5%	6.2%	6.4%	6.8%	6.6%	6.2%	7.1%	7.3%	7.0%	7.7%	7.0%	8.1%
Cleaning Services	1,683	1,622	1,695	1,694	1,724	1,786	1,781	1,676	1,646	1,784	1,910	1,984
YoY	7.2%	6.4%	9.1%	7.3%	2.4%	10.1%	5.1%	-1.1%	-4.5%	-0.1%	7.2%	18.4%
Operating profit margin	11.8%	11.3%	11.7%	11.2%	11.2%	11.5%	11.4%	10.6%	11.0%	11.6%	12.2%	12.1%
Construction Work	989	1,027	865	1,108	1,094	1,080	669	973	1,139	942	798	1,001
YoY	8.6%	0.7%	25.2%	62.2%	10.6%	5.2%	-22.7%	-12.2%	4.1%	-12.8%	19.3%	2.9%
Operating profit margin	9.4%	9.2%	9.3%	10.5%	9.1%	9.7%	7.5%	9.9%	9.9%	8.9%	9.0%	10.4%
Materials and Supplies Sourcing	743	752	641	643	712	643	591	543	612	672	567	616
YoY	4.6%	9.5%	-10.8%	-14.5%	-4.2%	-14.5%	-7.8%	-15.6%	-14.0%	4.5%	-4.1%	13.4%
Operating profit margin	5.8%	5.7%	5.0%	5.3%	5.5%	5.0%	4.7%	4.3%	4.7%	4.9%	4.3%	4.6%
Vending Machine Services	419	114	231	400	256	449	243	448	-10	367	206	90
YoY	-0.5%	-86.8%	6.5%	-33.9%	-38.9%	293.9%	5.2%	12.0%	-	-18.3%	-15.2%	-79.9%
Operating profit margin	5.2%	1.4%	3.0%	5.0%	3.3%	5.4%	3.2%	5.8%	-0.2%	5.0%	2.9%	1.4%
Support Services	-274	-1,283	-778	65	-124	378	187	-25	8	-108	-71	96
YoY	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-5.0%	-30.0%	-17.9%	1.2%	-2.5%	7.9%	4.1%	-0.5%	0.2%	-2.9%	-1.8%	2.4%
Eliminations, other	-1,974	-1,758	-2,170	-1,863	-2,025	-1,580	-2,006	-1,803	-1,959	-1,736	-1,856	-1,951

Source: Shared Research based on company data

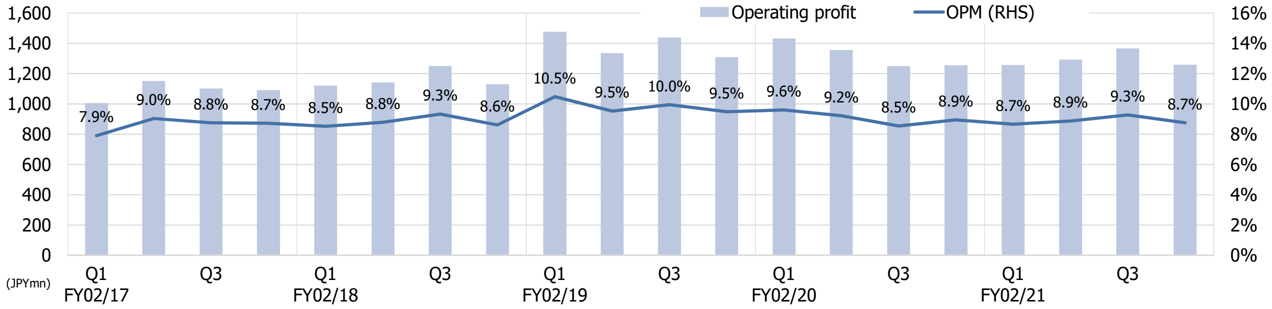
Full-year FY02/21 results (out April 9, 2021)

Summary

- In FY02/21, Aeon Delight reported consolidated sales of JPY300.1bn (-2.8% YoY), operating profit of JPY15.2bn (-4.8% YoY), and net income of JPY11.7bn (+24.9% YoY). Sales and profit fell as some contracted facilities were partially closed or temporarily shut down, events were canceled, and people refrained from going out due to the impact of the COVID-19 pandemic. Sales and operating profit, which were severely affected in 1H in particular, failed to match the record highs of FY02/20. While assessing the pandemic's impact, the company implemented initiatives to capture demand for disease prevention measures, for example by introducing "new standard cleaning" based on standards for the with-COVID era. Looking at sales by quarter, we can see a steady recovery trend, since sales were -7.0% YoY in Q1, but then -2.8% YoY in Q2, -0.7% YoY in Q3, and -0.3% YoY in Q4. Operating profit was -9.1% YoY in Q1 and -15.6% YoY in Q2, but +5.8% YoY in Q3 and +3.1% YoY in Q4. Aeon Delight says that the pandemic's negative impact of JPY1.5bn on operating profit was in line with its initial estimate. Against this backdrop, the company worked to reduce SG&A expenses through productivity improvements, the introduction of area management to aid labor-saving and unmanned management of facilities, and organizational restructuring to improve management efficiency (such as streamlining and integration of subsidiaries). As a result, OPM improved from 4.9% in 2H FY02/20 to 5.1% in 2H FY02/21, and the infrastructure for the next stage of growth has been put in place. Net income hit a record high, due in part to a reduced tax burden, so the annual dividend was JPY82.0 per share (dividend payout ratio of 35.1%), up from an initial projection of JPY70.0 per share.
- In Q4, sales were JPY75.7bn (-0.3% YoY) and operating profit was JPY4.0bn (+3.1% YoY), marking another YoY increase at the operating level following Q3.
- The company's forecast for FY02/22 is sales of JPY325.0bn (+8.3% YoY), operating profit of JPY16.5bn (+8.3% YoY) and net income of JPY10.5bn (-10.1% YoY). The EPS forecast is JPY210.0 and the annual dividend forecast is JPY84.0 per share (including commemoration dividend of JPY10 per share). Sales and operating profit are expected to reach record highs: the negative impact of COVID-19 on operating profit is expected to fall to JPY500mn from JPY1.5bn in FY02/21, and sales are expected to benefit from initiatives to secure new customers, as well as boost revenue from existing customers, and measures to improve profitability.
- The company updated its Aeon Delight Vision 2025 plan published in October 2018 and announced new targets alongside the publication of FY02/21 results. There is no change to the fundamental strategy of being a company that creates environmental value and contributes to solving social issues, with a three-pronged growth strategy in Asia that addresses safety and security, manpower shortage, and the environment. The company aims to achieve sales of JPY471.0bn (CAGR of 9.4%), operating profit of JPY37.0bn (CAGR of 19.4%), and ROE of over 15% in FY02/26 (FY02/21 ROE was 14.1%). (The previous targets were sales of JPY525.0bn and operating profit of JPY48.0bn.) Growth drivers for the business are sales expansion outside the Aeon group, structural reforms, and M&A. The company plans to achieve sales of JPY361.0bn and operating profit of JPY22.0bn in FY02/24, and aims for a dividend payout ratio of 40%.

Results by segment

Facilities Management



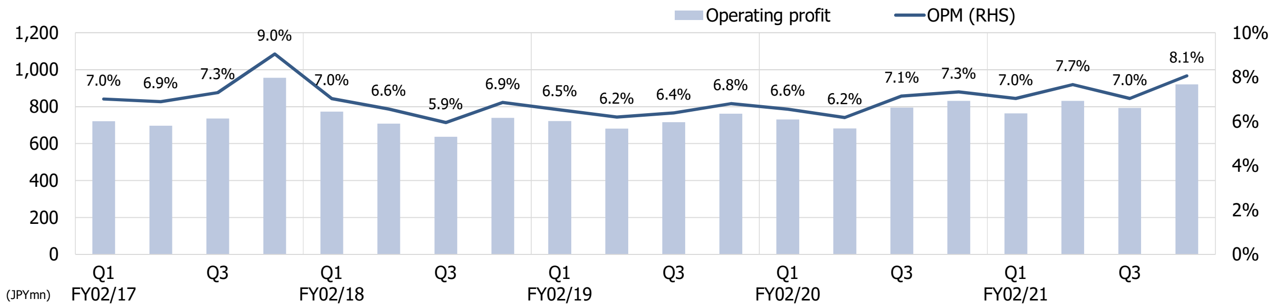
Facilities Management Quarterly (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3	Q4	FY02/21 Q1	Q2	Q3	Q4
Sales	14,102	14,014	14,447	13,801	14,928	14,700	14,631	14,030	14,511	14,575	14,745	14,392
YoY	7.1%	7.8%	7.7%	5.1%	5.9%	4.9%	1.3%	1.7%	-2.8%	-0.9%	0.8%	2.6%
Operating profit	1,477	1,335	1,438	1,308	1,433	1,356	1,250	1,254	1,256	1,293	1,367	1,259
YoY	31.8%	16.9%	14.9%	15.8%	-3.0%	1.6%	-13.1%	-4.1%	-12.4%	-4.6%	9.4%	0.4%
Operating profit margin	10.5%	9.5%	10.0%	9.5%	9.6%	9.2%	8.5%	8.9%	8.7%	8.9%	9.3%	8.7%

Source: Shared Research based on company data

In the Facilities Management segment, sales were JPY58.2bn (-0.1% YoY) with segment profit of JPY5.2bn (-2.2% YoY). Sales and profits declined as a result of the drop in sales in 1H due to COVID-19 (sales and profits increased in 2H).

In Q4, the segment posted sales of JPY14.4bn (+2.6% YoY) and segment profit of JPY1.3bn (+0.4% YoY). Sales declined YoY in Q1 and Q2 with the impact of the pandemic, but rose YoY from Q3 onward with a reduced pandemic impact and contributions from new contracts. The increase in new customers and capture of ventilation and air conditioning demand led to higher sales, while a focus on area management to improve profitability led to progress on business model reform.

Security Services



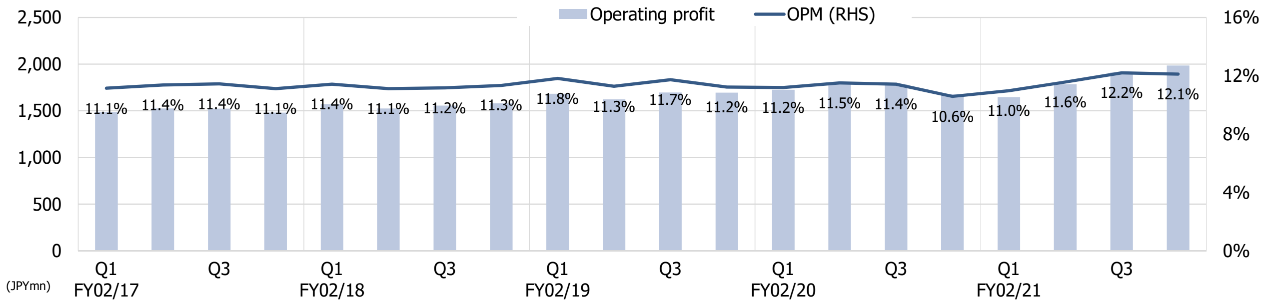
Security Services Quarterly (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3	Q4	FY02/21 Q1	Q2	Q3	Q4
Sales	11,074	10,991	11,220	11,207	11,143	11,040	11,121	11,343	10,843	10,852	11,271	11,427
YoY	0.7%	1.8%	4.7%	4.0%	0.6%	0.4%	-0.9%	1.2%	-2.7%	-1.7%	1.3%	0.7%
Operating profit	722	681	716	762	730	682	795	831	763	831	793	920
YoY	-6.6%	-3.8%	12.4%	3.1%	1.1%	0.1%	11.0%	9.1%	4.5%	21.8%	-0.3%	10.7%
Operating profit margin	6.5%	6.2%	6.4%	6.8%	6.6%	6.2%	7.1%	7.3%	7.0%	7.7%	7.0%	8.1%

Source: Shared Research based on company data

The Security Services segment reported sales of JPY44.4bn (-0.6% YoY) and segment profit of JPY3.3bn (+8.9% YoY). Amid a worker shortage in recent years, the company continued to streamline its business by automating systems to handle routine tasks such as facility entry/exit management and store closings. Profitability improved as a result of initiatives to optimize unit prices through price negotiations.

Q4 sales were JPY11.4bn (+0.7% YoY) and segment profit was JPY920mn (+10.7% YoY). The profit margin increased due to automation of store closings and other efforts to improve efficiency, reduce manpower, and mechanize operations.

Cleaning Services



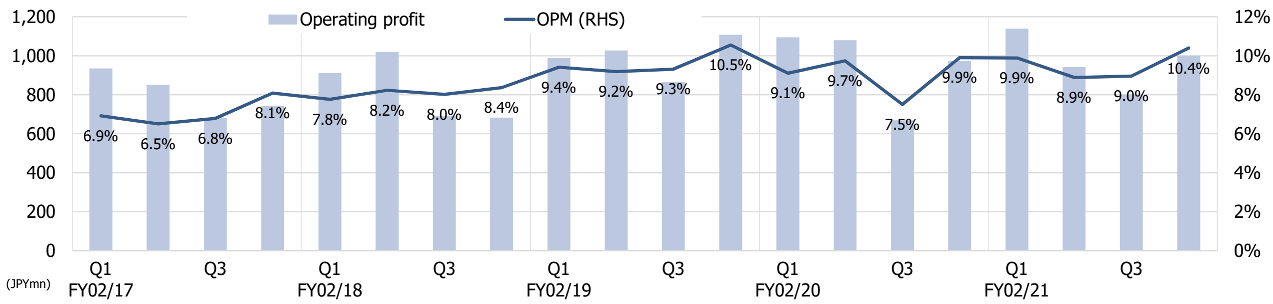
Cleaning Services Quarterly (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3	Q4	FY02/21 Q1	Q2	Q3	Q4
Sales	14,247	14,390	14,456	15,092	15,401	15,527	15,599	15,835	15,008	15,419	15,658	16,374
YoY	3.7%	5.0%	3.9%	8.4%	8.1%	7.9%	7.9%	4.9%	-2.6%	-0.7%	0.4%	3.4%
Operating profit	1,683	1,622	1,695	1,694	1,724	1,786	1,781	1,676	1,646	1,784	1,910	1,984
YoY	7.2%	6.4%	9.1%	7.3%	2.4%	10.1%	5.1%	-1.1%	-4.5%	-0.1%	7.2%	18.4%
Operating profit margin	11.8%	11.3%	11.7%	11.2%	11.2%	11.5%	11.4%	10.6%	11.0%	11.6%	12.2%	12.1%

Source: Shared Research based on company data

The Cleaning Services segment reported sales of JPY62.5bn (+0.2% YoY) and segment profit of JPY7.3bn (+5.1% YoY). The company stepped up proposals to expand the rollout of "new standard cleaning" in the with-COVID era and focused on training specialists in cleaning for epidemic prevention. Profitability improved as a result of efforts to improve profitability of poorly performing properties and share successful workplace case studies.

Q4 sales were JPY16.4bn (+3.4% YoY) and segment profit was JPY2.0bn (+18.4% YoY). Growth in new contracts, emergency disinfection work prompted by the pandemic, and the rollout of "new standard cleaning" all contributed to higher sales YoY from Q3 onward. OPM improved due to an increase in highly profitable cleaning for disease prevention, rising 0.8pp YoY in Q3 and 1.5pp YoY in Q4.

Construction Work



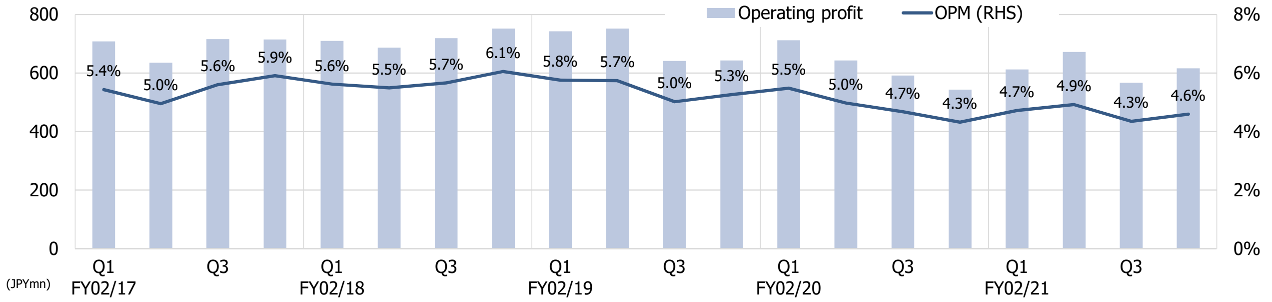
Construction Work Quarterly (JPYmn)	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1	Q2	Q3	Q4	FY02/21 Q1	Q2	Q3	Q4
Sales	10,503	11,178	9,285	10,504	12,014	11,089	8,921	9,820	11,523	10,597	8,906	9,631
YoY	-10.4%	-9.8%	7.8%	28.7%	14.4%	-0.8%	-3.9%	-6.5%	-4.1%	-4.4%	-0.2%	-1.9%
Operating profit	989	1,027	865	1,108	1,094	1,080	669	973	1,139	942	798	1,001
YoY	8.6%	0.7%	25.2%	62.2%	10.6%	5.2%	-22.7%	-12.2%	4.1%	-12.8%	19.3%	2.9%
Operating profit margin	9.4%	9.2%	9.3%	10.5%	9.1%	9.7%	7.5%	9.9%	9.9%	8.9%	9.0%	10.4%

Source: Shared Research based on company data

The Construction Work segment reported sales of JPY40.7bn (-2.8% YoY) and segment profit of JPY3.9bn (+1.7% YoY). Although there was an increase in contracts for various construction work, sales declined due to delayed starts for some projects due to the COVID-19 pandemic. Profit grew YoY, however, as profitability improved thanks to cost reductions, with improved accuracy for work estimates and a more standardized approach to procurement.

Q4 sales were JPY9.6bn (-1.9% YoY), and segment profit was JPY1.0bn (+2.9% YoY). The company could not compensate for a reactionary decline from the large orders received in Q4 FY02/20 and sales fell YoY, but OPM has improved due to continued improvement in the accuracy of estimates calculated when receiving orders.

Materials and Supplies Sourcing Services



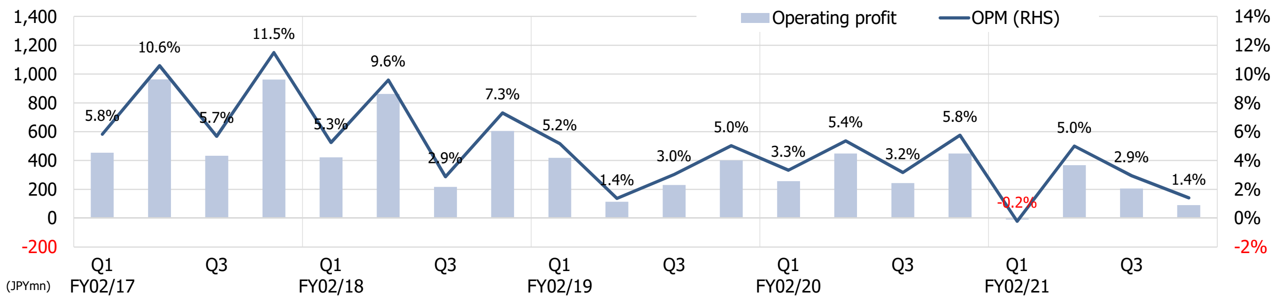
Materials and Supplies Sourcing	FY02/19				FY02/20				FY02/21			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	12,906	13,106	12,771	12,224	12,987	12,926	12,641	12,571	12,957	13,652	13,037	13,414
YoY	2.1%	4.8%	0.6%	-1.6%	0.6%	-1.4%	-1.0%	2.8%	-0.2%	5.6%	3.1%	6.7%
Operating profit	743	752	641	643	712	643	591	543	612	672	567	616
YoY	4.6%	9.5%	-10.8%	-14.5%	-4.2%	-14.5%	-7.8%	-15.6%	-14.0%	4.5%	-4.1%	13.4%
Operating profit margin	5.8%	5.7%	5.0%	5.3%	5.5%	5.0%	4.7%	4.3%	4.7%	4.9%	4.3%	4.6%

Source: Shared Research based on company data

The Materials and Supplies Sourcing Services segment reported sales of JPY53.1bn (+3.8% YoY) and segment profit of JPY2.5bn (-0.9% YoY). Sales grew on orders for products to prevent the spread of COVID-19 (such as commercial-grade masks, gloves, alcohol, and acrylic screens to prevent droplet spread), as well as orders for Aeon's TOPVALU private brand packaging materials. Despite lower purchasing costs achieved through economies of scale and improved distribution efficiency, profit declined, hurt by factors such as the new charge for checkout bags starting in July 2020.

Q4 sales were JPY13.4bn (+6.7% YoY), and segment profit was JPY616mn (+13.4% YoY).

Vending Machine Services



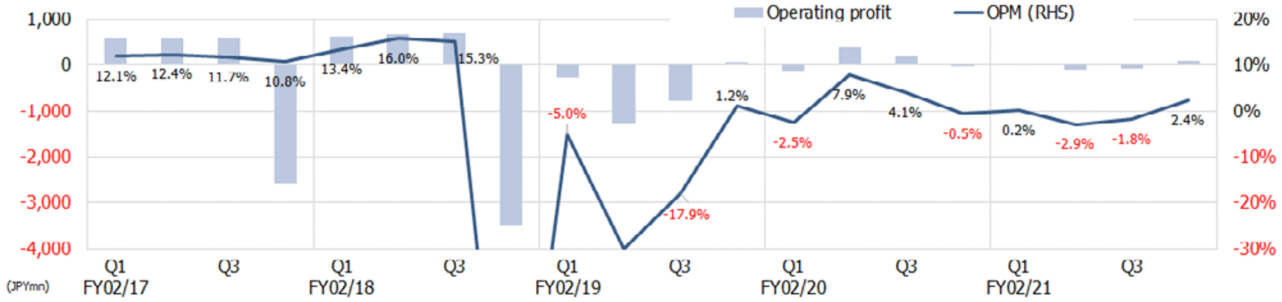
Vending Machine Services	FY02/19				FY02/20				FY02/21			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,106	8,286	7,614	7,949	7,699	8,376	7,685	7,784	4,725	7,329	7,003	6,396
YoY	1.1%	-7.9%	0.9%	-4.0%	-5.0%	1.1%	0.9%	-2.1%	-38.6%	-12.5%	-8.9%	-17.8%
Operating profit	419	114	231	400	256	449	243	448	-10	367	206	90
YoY	-0.5%	-86.8%	6.5%	-33.9%	-38.9%	293.9%	5.2%	12.0%	-	-18.3%	-15.2%	-79.9%
Operating profit margin	5.2%	1.4%	3.0%	5.0%	3.3%	5.4%	3.2%	5.8%	-0.2%	5.0%	2.9%	1.4%

Source: Shared Research based on company data

The Vending Machine Services segment reported sales of JPY25.5bn (-19.3% YoY) and segment profit of JPY653mn (-53.2% YoY). Beverage sales fell sharply due to temporary closure of commercial facilities where vending machines are installed. Although the company installed more of its own multibrand vending machines (which offer products from a number of different brands) to improve profitability per unit, this was not sufficient to compensate for lower sales.

Q4 sales were JPY6.4bn (-17.8% YoY), and segment profit was JPY90mn (-79.9% YoY). In addition to a decrease in sales, expenses increased. As part of anti-COVID measures, the company strengthened support for settlement using QR codes. This improved convenience and safety. The company also enhanced safety by applying antimicrobial film to buttons, pickup ports, and other places users may touch. Such efforts to ensure vending machine users have peace of mind caused expenses to increase.

Support Services



Support Services	FY02/19				FY02/20				FY02/21			
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	5,429	4,276	4,341	5,393	4,872	4,775	4,564	4,557	3,963	3,776	4,045	4,053
YoY	13.7%	-0.2%	-3.9%	51.2%	-10.3%	11.7%	5.1%	-15.5%	-18.7%	-20.9%	-11.4%	-11.1%
Aqutia-KJS (former Kajitaku)	2,056	712	777	1,905	1,452	1,307	941	730	911	770	847	595
YoY	-	-	-	-	-29.4%	83.5%	21.1%	-61.7%	-37.3%	-41.1%	-10.0%	-18.5%
Excluding Aqutia-KJS	3,373	3,564	3,564	3,488	3,420	3,468	3,623	3,827	3,052	3,006	3,198	3,458
YoY	-	-	-	-	1.4%	-2.7%	1.7%	9.7%	-10.8%	-13.3%	-11.7%	-9.6%
Operating profit	-274	-1,283	-778	65	-124	378	187	-25	8	-108	-71	96
YoY	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-5.0%	-30.0%	-17.9%	1.2%	-2.5%	7.9%	4.1%	-0.5%	0.2%	-2.9%	-1.8%	2.4%
Aqutia-KJS (former Kajitaku)	-661	-1,817	-1,335	-228	-510	-105	-325	-272	-145	-271	-339	-263
YoY	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-32.2%	-255.2%	-171.8%	-12.0%	-35.1%	-8.0%	-34.5%	-37.3%	-15.9%	-35.2%	-40.0%	-44.2%
Excluding Aqutia-KJS	387	534	557	293	386	483	512	247	153	163	268	359
YoY	-	-	-	-	-0.3%	-9.6%	-8.1%	-15.7%	-60.4%	-66.3%	-47.7%	45.3%
Operating profit margin	11.5%	15.0%	15.6%	8.4%	11.3%	13.9%	14.1%	6.5%	5.0%	5.4%	8.4%	10.4%

Source: Shared Research based on company data

The Support Services segment reported sales of JPY15.8bn (-15.6% YoY) and a segment loss of JPY75mn (versus profit of JPY416mn in FY02/20). Earnings of Aeon Compass (subsidiary engaged in travel-related businesses) deteriorated.

Q4 sales were JPY4.1bn (-11.1% YoY), and the segment profit was JPY96mn (versus a loss of JPY25mn in Q4 FY02/20). Weak performance at Aeon Compass due to the cancellation of events and trips and the sale of the ID photo machine business were the main reasons for the decline in sales.

Overseas businesses

Overseas businesses reported sales of roughly JPY19.9bn (+1.0% YoY) and segment profit of about JPY1.6bn (-1.7% YoY). In China, the Wuhan subsidiary was impacted by the city's lockdown from the start of the year to early April, but accelerated marketing activities to cultivate new customers once the lockdown was lifted, and has started providing services at several facilities. The Jiangsu subsidiary won contracts for mid- to upscale shopping centers, hospitals, nursing homes, and redevelopment areas. In the ASEAN region, the company expanded contracts to work mainly on Aeon group stores in Indonesia. Note that overseas subsidiaries' earnings are for January–December 2020.

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

FY02/22 company forecast

Full-year company forecast

	FY02/20			FY02/21			FY02/22
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Sales	**157,482**	**151,100**	**308,582**	**149,734**	**150,351**	**300,085**	**325,000**
YoY	3.2%	0.5%	1.9%	-4.9%	-0.5%	-2.8%	8.3%
Cost of sales	137,719	132,292	270,011	131,494	131,416	262,910	
Gross profit	**19,763**	**18,807**	**38,570**	**18,239**	**18,936**	**37,175**	
YoY	13.2%	4.5%	8.8%	-7.7%	0.7%	-3.6%	
Gross profit margin	12.5%	12.4%	12.5%	12.2%	12.6%	12.4%	
SG&A expenses	11,168	11,401	22,569	10,738	11,207	21,945	
SG&A ratio	-0.2%	1.5%	0.7%	-3.9%	-1.7%	-2.8%	
Operating profit	**8,594**	**7,407**	**16,001**	**7,500**	**7,730**	**15,230**	**16,500**
YoY	37.0%	9.7%	22.8%	-12.7%	4.4%	-4.8%	8.3%
Operating profit margin	5.5%	4.9%	5.2%	5.0%	5.1%	5.1%	5.1%
Recurring profit	**8,655**	**7,294**	**15,949**	**7,496**	**7,772**	**15,268**	**16,500**
YoY	36.3%	4.0%	19.4%	-13.4%	6.6%	-4.3%	8.1%
Recurring profit margin	5.5%	4.8%	5.2%	5.0%	5.2%	5.1%	5.1%
Net income	**5,181**	**4,167**	**9,348**	**3,943**	**7,737**	**11,680**	**10,500**
YoY	82.6%	16.5%	45.7%	-23.9%	85.7%	24.9%	-10.1%

Source: Shared Research based on company data

The FY02/22 company forecast calls for sales of JPY325.0bn (+8.3% YoY), operating profit of JPY16.5bn (+8.3% YoY), net income of JPY10.5bn (-10.1% YoY), and EPS of JPY209.99. The company expects the impact of the COVID-19 pandemic to ease and aims to boost sales by increasing orders from outside the Aeon group.

The company expects a JPY1.3bn YoY rise in operating profit, mainly due to shrinking negative factors. It expects the pandemic to have a negative operating profit impact of JPY500mn (versus JPY1.5bn in FY02/21) and the old Kajitaku to generate loss of JPY300mn (versus loss of JPY1.0bn in FY02/21). On the other hand, it anticipates higher expenses related to head office relocation and human resource development, along with amortization of investments related to the promotion of digital transformation. The projected full-year dividend is JPY84 per share (versus JPY82 per share in FY02/21).

Aeon Delight had previously set its payout ratio at 30%, but raised that to 35% in FY02/21, and is targeting 40% during its current three-year plan (FY02/22–FY02/24).

Enhanced sales structure

The company reformed its sales structure in November 2020 with the aim of expanding transactions with companies outside the Aeon group. It will establish a department for developing new customers, targeting major domestic companies to efficiently capture new customers. Also, instead of continuing to communicate with existing customers on a divisional basis, it plans to improve customer satisfaction and expand transactions by assigning account managers to key customers and centrally managing customer information. With the aim of expanding its market share, it plans to propose services from multiple departments in single packages (for example, construction needed in the Facilities Management business would be handled by the Construction Work business) and stable, quality services on a nationwide scale to customers who operate nationwide.

Reorganization within group

In March 2021, the integration of A to Z Service Co., Ltd. (construction and maintenance provider for small and medium facilities in East Japan) and Do Service Co., Ltd. (cleaning services provider for small and medium facilities in West Japan) resulted in the birth of Aeon Delight Connect Co., Ltd., which is set to become a key subsidiary in the small and medium facility market, helping Aeon Delight accelerate the formation of regional economic zones. Aeon Delight Connect expects to expand its offerings by proposing new services in addition to the construction, facility maintenance, and cleaning services that A to Z Service and Do Service already provided. In addition, in March 2021, U-COM (design and interior work for commercial facilities) underwent an absorption-type merger. By incorporating U-COM's operations into its construction business, the company intends to eliminate overlapping operations, consolidate management resources, and enhance the Construction Work business.

Response on poorly performing properties

Aeon Delight's main businesses, Facilities Management, Security Services, and Cleaning Services, are labor-intensive, so costs have been in an upward trend due to the manpower shortage. The company intends to reduce costs while maintaining or even improving the quality of its services by increasing efficiency through mechanization and automation, and by sharing management personnel on a regional basis rather than a property basis. In the case of Security Services, the company encourages customers to systematize entry/exit management and closing operations, thereby reducing the number of permanently stationed personnel while increasing sales per employee and improving margins. In the case of Facilities Management and Cleaning Services, the company intends to reduce manpower by improving work processes and expanding the use of autonomous cleaning robots.

The company's proof of concept (POC) in Hokkaido is a good example of how to move from securing personnel on a property-by-property basis to sharing personnel on a regional basis. Conventionally, the company's facilities management personnel would be assigned to individual customer facilities (customers would have full control of the employee's time). With the new method, facilities management personnel are shared across a region rather than being assigned to specific facilities. They monitor the operational status of the facilities remotely and can rush to a specific site as needed. Based on the Hokkaido POC, the company is introducing the initiative mainly at Aeon Malls in Kanto and Kansai (84 stores as of April 2021). Although sales have declined, profit has grown due to a cost reduction of about 10%.

Review of initiatives by business

- In Facilities Management, Aeon Delight expects enhanced area management and reduced outsourcing costs to lead to improved profitability, leading to higher sales and profit.
- In Security Services, in addition to continuing efforts to improve efficiency, reduce manpower, and mechanize operations, the company plans to optimize unit prices to pass on the increased costs triggered by a rise in personnel costs.
- In Cleaning Services, with increasing demand for preventive measures amid the pandemic, the company plans to increase the number of contracts it handles by proposing "new standard cleaning" based on standards for the with-COVID era not only to commercial facilities, but also to office buildings and other facilities.
- In Construction Work, Aeon Delight plans to increase the number of contracts it receives from the Aeon group by making use of U-COM (responsible for design and planning of buildings for the Aeon group), which underwent an absorption-type merger in March 2021, and to lower procurement costs by working with Materials and Supplies Sourcing Services to obtain construction materials in bulk, thereby increasing sales and profit.
- In Materials and Supplies Sourcing Services, it plans to reduce procurement costs, improve logistics efficiency, and coordinate with the Construction Work business to enhance procurement capabilities.
- In Vending Machine Services, in light of stagnant demand for beverages due to a decline in the number of customers visiting commercial facilities, the company will work to improve profitability by replacing unprofitable vending machines with its own multibrand vending machines.
- In Support Services, it expects easing of the pandemic impact and growing demand for home-delivery-type cleaning services to lead to higher sales and profit.

Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
Sales (Initial Est.)	213,000	260,000	260,000	270,000	280,000	305,000	305,000	305,000	315,000	315,000
Sales (Results)	219,797	248,876	256,654	265,572	277,926	292,607	292,396	302,915	308,582	300,085
Results vs. Initial Est.	**3.2%**	**-4.3%**	**-1.3%**	**-1.6%**	**-0.7%**	**-4.1%**	**-4.1%**	**-0.7%**	**-2.0%**	**-4.7%**
Operating profit (Initial Est.)	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500	18,000	16,500
Operating profit (Results)	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230
Results vs. Initial Est.	**-3.8%**	**-16.3%**	**-5.7%**	**-3.8%**	**-14.4%**	**-19.2%**	**-28.3%**	**-29.6%**	**-11.1%**	**-7.7%**
Recurring profit (Initial Est.)	14,300	16,600	15,500	16,000	17,000	17,500	18,000	18,500	18,000	16,500
Recurring profit (Results)	13,784	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949	15,268
Results vs. Initial Est.	**-3.6%**	**-16.3%**	**-5.8%**	**-3.3%**	**-14.5%**	**-18.5%**	**-25.7%**	**-27.8%**	**-11.4%**	**-7.5%**
Net income (Initial Est.)	7,600	8,700	8,300	8,600	9,400	10,000	10,700	11,000	10,800	10,000
Net income (Results)	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348	11,680
Results vs. Initial Est.	**-9.1%**	**-13.7%**	**-15.2%**	**-7.4%**	**-22.9%**	**-29.1%**	**-40.2%**	**-41.7%**	**-13.4%**	**16.8%**

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

Medium- and long-term outlook

Medium-term plan (JPYmn)	FY02/21 Cons.	FY02/22 FY Est.	FY02/24 Targets	FY02/26 Targets	3-year CAGR	5-year CAGR
Sales	**300,085**	**325,000**	**361,000**	**471,000**	6.4%	9.4%
YoY	-2.8%	8.3%				
Operating profit	**15,230**	**16,500**	**22,000**	**37,000**	13.0%	19.4%
YoY	-4.8%	8.3%				
Operating profit ma	5.1%	5.1%	6.1%	7.9%		
Net income	**11,680**	**10,500**	**14,000**			
YoY	24.9%	-10.1%				
Net margin	3.9%	3.2%	3.9%			
Sales: non-Aeon Group	35%		40%	50%		
Sales: overseas ratio	6.7%		Over 8%	Over 15%		
ROE	14.1%		12%	15%		

Source: Shared Research based on company data

Aeon Delight Vision 2025

In October 2018, the company announced Aeon Delight Vision 2025 (“Vision 2025”). 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,” “manpower shortage,” and “environment” as three pillars of its growth strategy. Thereafter, in the face of accounting irregularities at Kajitaku in FY02/20 and pandemic-related delays in some measures in FY02/21, Aeon Delight announced new targets when it released its FY02/21 earnings results, although with no change in the company’s overall direction. The new targets for FY02/26 are sales of JPY471.0bn (CAGR of 9.4%), operating profit of JPY37.0bn (CAGR of 19.4%), and ROE and at least 15% (ROE was 14.1% in FY02/21). (It was previously targeting sales of JPY525.0bn and operating profit of JPY48.0bn). The company is 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.

Medium-term plan (FY02/22–FY02/24)

In April 2021, Aeon Delight formulated a medium-term plan covering the next three years (FY02/22–FY02/24) as it moves toward realizing the goals of Aeon Delight Vision 2025. The medium-term plan targets FY02/24 sales of JPY361.0bn (CAGR of 6.4%), operating profit of JPY22.0bn (CAGR of 13.0%), and net income of JPY14.0bn. By FY02/24, the company aims to increase sales within the Aeon group by JPY25.0bn versus FY02/21 to approximately JPY220.0bn (60% of total sales, -5pp versus FY02/21), while growing sales outside the Aeon group by JPY35.0bn to about JPY140.0bn (40% of total sales, +5pp versus FY02/21) and raising OPM to 6.0% (+0.9pp versus FY02/21). It aims to achieve this sales growth and OPM improvement by putting customer-oriented group management into practice and promoting digital transformation (DX).

Customer-oriented management

Customer-oriented management: Increase in ratio of sales outside Aeon group

Under the medium-term plan, Aeon Delight plans to increase sales outside the Aeon group to approximately JPY140.0bn (+JPY35.0bn versus FY02/21) by FY02/24, raising the ratio to total sales to 40% (+5pp versus FY02/21).

Since the pace of openings of large new Aeon group stores has slowed in Japan, the company aims to expand its share in non-Aeon group and overseas markets.

It has already been expanding its presence in the non-Aeon group market (the ratio of sales outside the Aeon group rose from 34% in FY02/11 to 36% in FY02/21). However, the allocation of its sales resources to the non-Aeon group market has been limited because its long-term growth has been specifically linked to the Aeon group’s own aggressive store opening strategy.

Under the medium-term plan, the sales division will be divided into two teams; one to develop new customers and the other to expand the share of services provided to existing customers. For existing customers, the company will assign account managers who will be responsible for all transactions with each customer, grasp the needs of that customer, and track and analyze trends in the industry to which the customer belongs.

In addition, Customer Support Centers (CSCs), which began operating at all eight branches in Japan in March 2021, will consolidate information about each facility and its requirements. The company will analyze this information by customer and by facility for use in service development and quality assurance, with the aim of providing all customers, new and existing, with optimal solutions for the challenges they face.

Customer-oriented management: Development of Aeon Delight platform

Aeon Delight aims to create a system that transforms customer feedback into organizational strength in service development, quality assurance, and sales. To that end, the company believes it is necessary to have a mechanism for collecting and analyzing a range of data (including customer feedback, facility conditions, and market trends in customers' industries) and processing it into valuable information.

At the same time, it will develop Aeon Delight Platform to serve as a conduit for efficiently sharing information and data analysis results not only internally, but across its entire service network, including group companies and their partners. To build such a system, in February 2021 the company reorganized its sales and business divisions and all domestic branches, and established a marketing DX division to oversee them.

With Aeon Delight Platform, the sales division will strengthen the company's relationships with its customers to better understand their needs, along with trends in the industries to which they belong. Furthermore, as mentioned, CSCs, which began operating at all eight branches in Japan in March 2021, will consolidate and analyze information about each facility and its requirements. The information will be used in service development and quality assurance as the company aims to provide customers with optimal solutions.

Promotion of digital transformation (DX)

Promotion of DX: Nationwide rollout of area management system centered on CSCs

Aeon Delight established CSCs at all eight domestic branches in March 2021 and will promote area management nationwide based on the results of proof-of-concept testing at the Hokkaido branch. Under its medium-term plan, it aims to increase the number of facilities subject to area management to 360, allowing it to reduce the number of facilities management personnel by 180 people.

Centered on the CSCs, the company will develop a new facilities management model using DX to address the manpower shortage and reduce the number of permanently stationed facilities management personnel. It aims to replace the conventional facilities management model (management of individual stores) with an area management model in which personnel are shared by facilities in a certain area.

Proof of concept at Hokkaido branch: With the cooperation of Aeon Hokkaido, the company conducted proof-of-concept testing in FY02/21 at its Hokkaido branch to determine the viability of area management. It established a CSC at the Hokkaido branch first and, in addition to a remote alarm management system, set up a monitoring station that integrates systems for monitoring the status of equipment within facilities and any anomalies. At Aeon Yoichi, the store used in the test, the company installed various systems and sensors, and facility inspection operations were shifted to the CSC to be conducted remotely. By enabling this operating structure centered on the CSC from daily inspection work to emergency response, Aeon Yoichi has achieved an unmanned management of onsite facilities since November 2020.

Promotion of DX: Relocation of head office

Aeon Delight will relocate its Tokyo head office in September 2021 to consolidate its head office functions. By updating the equipment and layout of the new head office, the company plans to create an environment in which diverse human resources using a variety of work styles can all maximize their performance.

The head office will be constantly in contact with CSCs located in branches, allowing real-time sharing of customer status. In addition, it will employ energy-saving and BCP measures and be open to the public as an example of an advanced facility environment, making it a strategic office for disseminating information on facilities management, allowing the company to expand its business opportunities.

Furthermore, as part of consolidating head office functions, the company will review its business processes, reduce head office staff by 20%, and reassign those employees directly to relevant departments to improve productivity.

Group management

Group management: Establishment of Aeon Delight Connect for management of small and medium facilities

In March 2021, Aeon Delight combined consolidated subsidiaries A to Z Service Co., Ltd., and Do Service Co., Ltd., to establish Aeon Delight Connect. It plans to make Aeon Delight Connect a core subsidiary for the management of small and medium facilities and to expand its service offerings to more customers, including by developing new markets. In this way, it aims to expand its business domain.

Group management: Establishment of company to oversee China business

In April 2021, the company established Aeon Delight China (AD China) to oversee its operations in China. It had already established a local subsidiary in Beijing in 2007. Thereafter, it built a business foundation and expanded its service network in China by adding to the group two local companies; Aeon Delight Jiangsu in 2012 and Wuhan Xiaozhu Property Management in 2013. Taking advantage of the expertise and energy-saving technologies the company has cultivated in Japan, the two subsidiaries, Aeon Delight Jiangsu and Wuhan Xiaozhu, have expanded their businesses by participating in regional redevelopment projects and providing services in various regions and types of facilities, including large commercial facilities, upscale residential buildings, and transportation infrastructure facilities.

With the establishment of AD China, the company aims to promote synergies among companies operating in China and enable comprehensive management of the quality of services provided there, so that it can establish the Aeon Delight brand in China as a reliable brand. In addition, it intends to accelerate growth in China by providing support to its companies operating there, especially in the North, East, Central, and South China areas.

Aeon Delight also aims to expand its operations in Vietnam, where it expects Aeon Mall to actively open new stores. It will particularly target Japanese companies entering the Vietnamese market.

Group management: Consideration of M&A candidates

The company considers M&A to be an important strategy for achieving the goals of its Vision 2025 plan, so in the five years from FY02/22 to FY02/26 it will consider M&A, with a maximum ownership limit of about JPY25.0bn. M&A objectives would be to create regional economic zones and overseas bases and to expand the company's business domain (for example, by acquiring companies that conduct facilities management business for hospitals or factories).

In selecting investment projects, the company will take into account the capital cost and implement the following three financial measures. First, it will decide a standard for holding a certain level of liquidity on hand; second, it will secure a variety of financing sources; and third, it will establish financial discipline. To ensure adequate liquidity on hand, it maintains cash and deposits (about JPY50.0bn) equivalent to two months' sales (1.5 months for working capital and 0.5 months as a risk reserve), while taking into account the cost of capital. The company plans to use surplus cash and deposits mainly for M&A and other growth strategies, but may also invest in low risk options such as securities. It intends to invest for growth, including M&A, and is considering obtaining a credit rating with a view to financing externally in case it is unable to cover investments with its own cash reserves. When financing externally, the company understands that it needs to maintain a certain degree of financial discipline, such as reducing its net assets in line with its ROE target.

Group management: Promotion of shared services and creation of a suitable organizational culture

Aeon Delight will continue working to enhance group governance to prevent improper conduct by group companies. As part of this effort, it will promote the consolidation of finance and accounting departments (shared services) to increase the reliability of financial statements produced by group companies. Based on reflection regarding the accounting irregularities at the old Kajitaku, the company will establish an organizational culture committee, because it is critical to have a suitable organizational culture to complement basic administrative mechanisms and rules.

Dividends

In FY02/21, Aeon Delight changed its targeted payout ratio to 35%. Since its policy is also to avoid reducing dividends, the company is planning a dividend of JPY84.0 (including a JPY10.0 commemorative dividend) in FY02/22 (versus JPY82.0 in FY02/21), for a payout ratio of 40% (versus 35.1% in FY02/21). It aims to keep the payout ratio at 40% for the duration of its current medium-term plan (FY02/22–FY02/24).

Business

Business description

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

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

M&A activities

Aeon Delight is active in M&A. It has purchased companies in cleaning, building management, and store interior construction. It has also purchased companies in businesses ancillary to facilities management, and been proactive in seeking out alliances in other formats. In 2018 it announced collaboration with SECOM (TSE1: 9735) to create a new business model for small and medium-sized facilities.

Business model

Aeon Delight became a leading integrated facilities management operator through its relationship with the Aeon group. It has also grown through acquisitions. The company derives its earnings by providing an integrated, all-in-one package of facilities management services to large retail and commercial properties. It was able to differentiate itself from competitors by its expertise and costs competitiveness. Competitors included Tokyu Community Corp. (not listed), Biru Daiko Co., Ltd., Nihon Housing Co., Ltd. (TSE2: 4781), and Nippon Kanzai Co., Ltd. (TSE1: 9728).

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

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

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

Business overview

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

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

Facilities Management

Facilities Management (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	42,147	42,050	43,458	45,839	48,962	50,551	52,699	56,364	58,289	58,223
YoY	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	3.4%	-0.1%
Operating profit	5,084	4,661	4,725	4,217	4,206	4,350	4,644	5,558	5,293	5,175
YoY	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	-4.8%	-2.2%
Operating profit margin	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	9.1%	8.9%

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. Operating profit margin is about 9%. Required facilities are purchased by the client (property owner), and primarily costs incurred by the company are personnel costs and facilities management costs (water and utilities costs and depreciation). The company puts personnel on-site at large retail facilities, while smaller facilities are visited periodically and monitored remotely.

Utilization of technology: Next-generation facilities management model

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

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

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

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

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

Source: Shared Research based on company data

Security Services

Security Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	32,235	31,805	34,242	36,622	38,456	41,068	43,290	44,492	44,647	44,393
YoY	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	0.3%	-0.6%
Operating profit	2,823	2,692	2,865	3,102	3,032	3,110	2,857	2,881	3,038	3,307
YoY	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	5.4%	8.9%
Operating profit margin	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	6.8%	7.4%

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 at about 7%.

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

Cleaning Services

Cleaning Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	39,852	40,519	42,320	44,287	47,870	53,365	55,297	58,185	62,362	62,459
YoY	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	7.2%	0.2%
Operating profit	5,882	5,918	5,716	6,289	6,031	6,012	6,228	6,694	6,967	7,324
YoY	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	4.1%	5.1%
Operating profit margin	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	11.2%	11.7%

Source: Shared Research based on company data

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

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

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

Hygienic cleaning business

The company believes the hygienic cleaning business will continue to steadily increase sales. There are more than 1.5mn hospital beds in medical facilities across Japan, out of which the number of hospital beds at medical facilities Aeon Delight has hygienic cleaning contracts with still make up only 2–3%. Aeon Delight began offering hygienic cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. As of April 2015, the company was providing hygienic cleaning services for 14,000 beds. In 2018, that number has increased to over 25,000 beds. The company is in the middle of expanding sales to about 100 hospitals. For sales to hospitals, it takes about three years from general bidding to winning a project, as many large hospitals are under the jurisdiction of the government.

Japanese hospitals and clinics

	Hospitals		Clinics	
As of October 1, 2019		Beds		Beds
Total	**8,300**	**1,529,215**	**102,616**	**90,825**
National	322	126,423	537	2,175
Public medical institutions	1,202	311,724	3,522	2,419
Social insurance-related organizations	51	15,523	450	-
Public service corporations	199	49,152	509	263
Medical corporations	5,720	855,804	43,593	69,070
Private schools	111	54,068	188	38
Social welfare services	197	33,640	10,015	352
Individuals	174	16,457	41,073	15,969
Other	324	66,424	2,729	539

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.

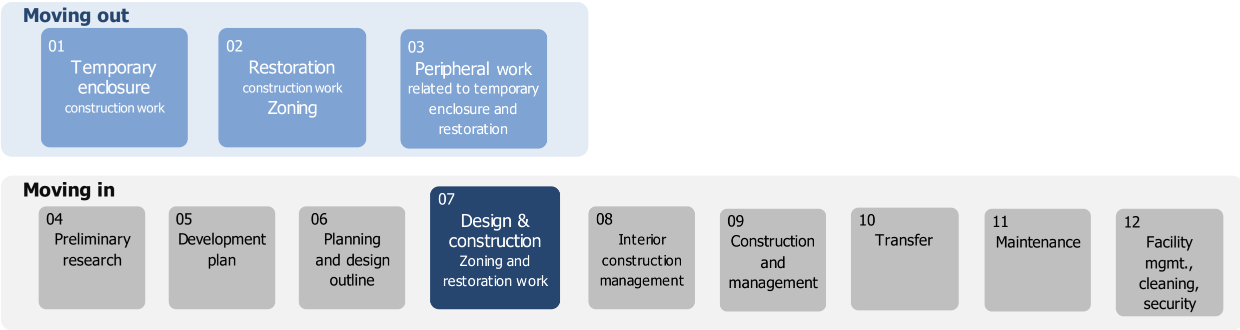
Construction Work

Construction Work	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	28,513	53,071	45,630	41,972	43,855	45,814	40,897	41,470	41,844	40,657
YoY	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	0.9%	-2.8%
Operating profit	1,936	2,209	2,580	2,807	3,218	3,210	3,305	3,989	3,816	3,880
YoY	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	-4.3%	1.7%
Operating profit margin	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	9.1%	9.5%

Source: Shared Research based on company data

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

Construction work process for commercial facility tenant replacement



Source: Shared Research based on company data

Materials and Supplies Sourcing Services

Materials and Supplies Sourcing (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	36,730	39,284	44,543	47,618	50,516	50,740	50,265	51,007	51,125	53,060
YoY	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	0.2%	3.8%
Operating profit	1,234	1,462	2,333	2,111	2,806	2,774	2,868	2,779	2,489	2,467
YoY	96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	-10.4%	-0.9%
Operating profit margin	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	4.9%	4.6%

Source: Shared Research based on company data

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

Vending Machine Services

Vending Machine Services (JPYmn)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	32,280	31,200	33,329	34,825	32,741	32,879	32,834	31,955	31,544	25,453
YoY	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	-1.3%	-19.3%
Operating profit	2,330	2,396	3,068	2,965	2,846	2,812	2,105	1,164	1,396	653
YoY	57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	19.9%	-53.2%
Operating profit margin	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	4.4%	2.6%

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)	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.	FY02/19 Act.	FY02/20 Act.	FY02/21 Act.
Sales	8,037	10,942	13,129	14,406	15,524	18,188	17,325	19,439	18,768	15,837
YoY	50.9%	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	-3.5%	-15.6%
Operating profit	312	741	336	281	-580	-850	-1,466	-2,270	416	-75
YoY	-47.1%	137.5%	-54.7%	-16.4%	-	-	-	-	-	-
Operating profit margin	3.9%	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	2.2%	-0.5%

Source: Shared Research based on company data

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

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

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

Kajitaku: In 2019, accounting fraud was discovered at subsidiary Kajitaku, which operated storefront promotion and housework support businesses. The company submitted corrected financial statements covering FY02/14 through FY02/18. In February 2020, it spun off the housework support business, which got a new start under the name Actia. In June 2020, the company sold the ID photo machine business of Kajitaku (renamed KJS), and in FY02/21 withdrew from the smartphone printing and picture palette businesses of KJS. In February 2021, Aeon Delight conducted an absorption-type merger with KJS and took over the copy machine business, for which some customers still have contracts in force.

Additionally, A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was converted to a subsidiary in 2011. In addition to designing small-scale stores for nationwide chains and providing subsequent facility management, equipment maintenance, and general maintenance services, 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 facilities management:** 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.
- **Ability to generate stable cash flows:** Over the past five years, average operating cashflow has been JPY11.0bn per annum, and the company has spent JPY2.8bn per year on the acquisition of tangible fixed assets, generating total cashflow of about JPY8.0bn. The company is using stable cash flow to invest strategically in acquisitions and technological development based on its longer-term vision. If there are no investment outlets that meet its growth strategy, the cash flow funds shareholder returns. Over the past five years, Aeon Delight has spent an average of JPY3.0bn in dividend payments (cash flow basis) yearly. In FY02/19 it spent JPY9.9bn on a share buyback. The company targets a dividend payout ratio of 35% from FY02/21 onward.

Weaknesses

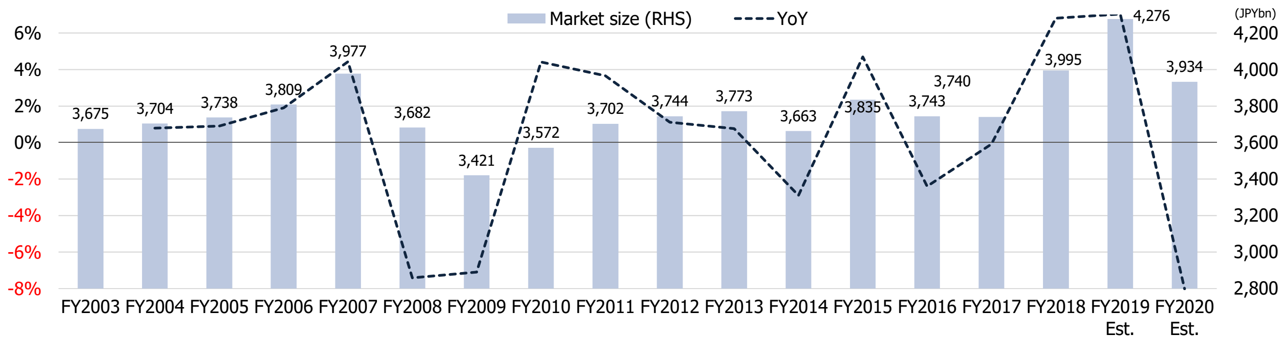
- **Limited organic growth:** Aeon Delight depends mainly on the domestic market which generates about 95% of sales. The markets for its existing businesses in Japan are mature, which is a weakness in terms of the company's growth potential. It will be challenging to sustain growth, as Aeon Delight must rely on aggressive development overseas and winning contracts in ancillary businesses as an FMS company and growing market share.
- **Heavy dependence on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives just over 60% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.
- **Mature property management market:** The property management market is relatively mature. However, small retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large facilities, mainly supporting the Aeon group retail stores such as shopping centers and supermarkets. As smaller commercial facilities emerge in large urban areas, the question remains whether the company can successfully adapt its facilities maintenance know-how to this segment of the market. The company may need to look at this segment for growth.

Market and value chain

Market overview

Japan's building maintenance market was worth roughly JPY4.2tn in FY2019 (April 1, 2018 to March 31, 2019), up 7.0% YoY, according to a survey released in October 2020 by Yano Research Institute Ltd.

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



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

Building maintenance services were mainly used by office buildings (21.8%), shops and commercial facilities (18.3%), medical and welfare facilities (9.9%), factories and workplaces (9.6%), and education facilities (9.9%). 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 6.6% YoY for office buildings, up 6.3% YoY for shops and commercial facilities, up 8.4% YoY for medical and welfare facilities, up 5.6% YoY for factories and workplaces, and up 5.1% YoY for education facilities. Market growth was strong for medical and welfare facilities and 5–6% for others (such as office buildings and commercial facilities).

Building maintenance market (by building use)

	FY2018	FY2019
Residential	134.7	151.5
YoY	7.4%	12.5%
Non-residential	3,860.5	4,124.8
YoY	6.8%	6.8%
Office buildings	875.4	933.2
YoY	6.4%	6.6%
Stores and commercial facilities	736.8	783.2
YoY	6.5%	6.3%
Educational facilities	403.6	424.1
YoY	5.2%	5.1%
Medical and welfare facilities	390.8	423.6
YoY	8.1%	8.4%
Factories and workshops	387.4	409.2
YoY	6.1%	5.6%

Source: Shared Research based on Yano Research Institute Ltd. materials (October 2020)

Aeon group stores by format (domestic and overseas)

	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
GMS	590	598	617	618	625	626	584	583	612	613
Supermarket	1,537	1,708	1,977	2,038	2,121	2,130	2,159	2,166	2,228	2,288
Discount store	105	152	353	381	530	566	568	587	592	599
DIY store	122	123	122	121	120	119	122	122	120	118
Supercenter	29	26	26	29	28	28	28	27	25	25
Department store	1	1	1	1	1	1	1	1	1	1
Specialty store	4,121	4,462	4,581	4,683	5,061	4,348	4,332	4,039	3,801	3,519
Convenience store	3,424	3,664	3,853	3,932	4,331	5,261	5,436	5,449	5,350	5,300
Drugstore and pharmacy				3,347	3,765	3,980	4,376	4,817	2,392	2,599
Other retail formats	418	562	756	884	803	856	907	1,015	1,150	1,252
Financial services	460	527	641	698	701	705	690	640	658	636
Services	1,383	1,394	1,519	1,640	1,934	2,013	2,045	2,070	2,016	1,938
Total	12,190	13,217	14,440	18,382	20,020	20,633	21,248	21,516	18,945	18,888

Aeon Mall	59	62	137	148	161	166	174	180	172	174
Aeon Town	107	115	122	130	134	138	139	140	145	
Total	166	177	259	278	295	304	313	320	317	

Source: Shared Research based on company data

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

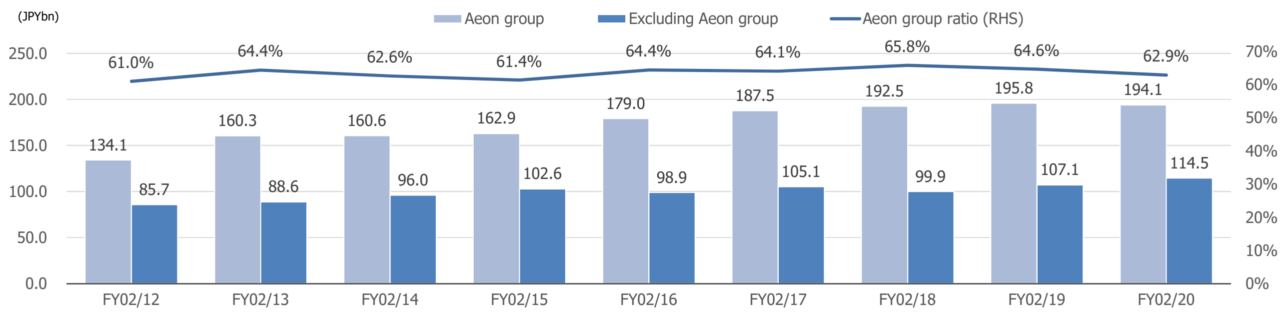
	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
GMS	54	61	69	77	84	87	94	96	101	102
Supermarket	44	81	95	101	115	173	150	150	125	122
Discount store	-	22	23	24	24	23	21	22	22	22
Specialty store	2,033	2,294	2,370	2,532	2,840	2,998	3,172	3,252	3,353	3,315
Drugstore									7	10
Convenience store	37	55	61	42	44	52	54	39	5	0
Other retail formats	27	29	29	30	79	97	115	124	148	147
Financial services	236	279	302	339	339	342	324	276	295	269
Services	25	41	95	180	282	335	390	426	446	428
Total	2,456	2,862	3,044	3,325	3,845	4,107	4,320	4,385	4,502	4,416

Source: Shared Research based on company data

Customers

Aeon Delight generates almost 65% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall (TSE1: 8905), and MaxValu companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, public facilities, and event operators.

Sales composition by customer



Source: Shared Research based on company data

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

Plans for overseas openings of Aeon Malls

(stores)	FY02/20	FY02/23	FY02/26
Overseas	30	35	52
China	21	22	29
ASEAN	9	13	23

Source: Shared Research based on Aeon Mall data

Overseas businesses of the Aeon group

Overseas stores: Aeon Mall			FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22 Est.
Store count	**Total**		**2**	**3**	**5**	**9**	**17**	**19**	**24**	**27**	**30**	**32**	**34**
	China		2	3	4	6	12	13	17	19	21	21	22
	ASEAN		-	-	1	3	5	6	7	8	9	11	12
		Vietnam			1	2	3	4	4	4	5	6	6
		Cambodia				1	1	1	1	2	2	2	2
		Indonesia					1	1	2	2	2	3	4
Openings	**Total**		**-**	**1**	**1**	**2**	**6**	**1**	**5**	**3**	**3**	**1**	**2**
	China			1	1	2	6	1	4	2	2	-	1
	ASEAN								1	1	1	1	1
		Vietnam									1	1	
		Cambodia								1			
		Indonesia							1			1	1

Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
ASEAN	**Total**		**57**	**115**	**128**	**139**	**233**	**263**	**269**	**256**	**261**	**251**
	Malaysia	Aeon Malaysia	28	30	31	33	73	84	88	100	118	112
		Aeon BiG Malaysia	-	27	28	28	26	25	21	22	22	22
	Thailand	Aeon Thailand	29	58	69	75	76	77	80	78	51	48
	Vietnam	Aeon Vietnam				2	3	4	5	6	18	19
		Aeon Citymart					30	30	30	26	25	22
		Aeon Fivimart					23	27	25	-	-	-
	Cambodia	Aeon Cambodia				1	1	1	4	7	11	14
	Indonesia	Aeon Indonesia					1	1	2	2	2	3
	Myanmar	Aeon Orange						14	14	15	14	11
Chihna	**Total**		**68**	**78**	**84**	**87**	**97**	**103**	**119**	**119**	**124**	**135**
		Aeon Stores Hong Kong	38	42	43	43	49	55	65	63	66	74
		Guangdong Aeon	12	15	17	17	18	19	20	23	23	25
		Quingdao Aeon Dongtai	7	8	9	10	9	6	6	6	7	7
		Aeon South China	8	9	11	10	10	10	10	8	7	8
		Beijing Aeon	3	4	4	5	6	7	9	9	9	9
		Aeon East China				1	3	4	5	5	7	7
		Aeon Hubei				1	2	2	4	5	5	5

Source: Shared Research based on company data

Competition

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

Aeon Delight's competitors include SECOM Co., Ltd. (TSE1: 9735) and Sohgo Security Services Co., Ltd. (TSE1: 2331) in security services. It competes with Azbil Corporation (TSE1: 6845), Nippon Kanzai Co. Ltd. (TSE1: 9728), and Tokyu Community Corporation (not listed) in property management services. There are no major competitors that offer cleaning services; Aeon Delight competes with smaller, regional cleaning operators. In construction-related work, Aeon Delight competes with Azbil in the environmental solutions business, while in the energy-saving business, major rivals are NTT Facilities, Inc. (not listed) and Hitachi, Ltd. (TSE1: 6501).

Barriers to entry

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

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

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

Financial Statements

Income statement

Income statement (JPYmn)	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
Sales	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**	**300,085**
YoY	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	-2.8%
Cost of sales	218,648	223,409	231,281	243,089	256,871	257,524	267,463	270,011	262,910
Gross profit	**30,227**	**33,245**	**34,290**	**34,836**	**35,736**	**34,871**	**35,452**	**38,570**	**37,175**
YoY	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	-3.6%
Gross profit margin	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%
SG&A expenses	16,326	18,622	18,900	20,280	21,596	21,961	22,421	22,569	21,945
YoY	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%	0.7%	-2.8%
SG&A ratio	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%	7.3%	7.3%
Operating profit	**13,901**	**14,622**	**15,390**	**14,556**	**14,139**	**12,909**	**13,030**	**16,001**	**15,230**
YoY	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	-4.8%
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%
Non-operating income (expenses)	-9	-22	82	-22	124	472	332	-52	38
Recurring profit	**13,892**	**14,600**	**15,472**	**14,534**	**14,263**	**13,381**	**13,362**	**15,949**	**15,268**
YoY	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	-4.3%
Recurring profit margin	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.1%
Extraordinary gains (losses)	27	-1,180	-665	-408	-174	-1,135	-195	-401	-4,617
Implied tax rate	45.3%	46.1%	44.1%	46.0%	45.9%	42.9%	46.2%	38.3%	-8.6%
Net income attrib. to non-controlling interests	104	188	310	386	533	598	664	245	-110
Net income	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**	**11,680**
YoY	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	24.9%
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%

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

Balance sheet

Balance sheet (JPYmn)	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
ASSETS									
Cash and deposits	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355	59,773
Accounts receivable	44,673	34,448	35,757	34,328	35,360	35,739	40,089	42,612	39,176
Allowance for doubtful accounts	-144	-290	-168	-360	-202	-130	-167	-242	-212
Inventories	2,237	2,575	2,663	2,840	3,218	2,623	2,211	1,822	2,006
Deposits for consumption to subsidiaries and affiliates	18,020	32,420	41,326	37,362	31,713	32,000	16,000	-	-
Other current assets	4,523	8,196	8,476	9,634	9,292	8,543	6,405	5,815	9,265
Total current assets	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**	**110,008**
Buildings	1,089	1,046	1,009	1,629	1,631	1,582	1,479	1,458	1,671
Facilities and equipment for area management	274	238	211	190	175	-	-	-	-
Tools, furniture, and fixtures	2,079	2,487	2,516	2,651	3,307	4,892	5,064	4,846	4,264
Land	282	278	278	1,978	1,975	1,975	2,032	2,032	2,000
Construction in progress	-	-	-	-	-	-	-	-	-
Other fixed assets	72	209	345	610	1,974	1,591	1,585	1,334	1,545
Total tangible fixed assets	**3,796**	**4,258**	**4,361**	**7,061**	**9,064**	**10,041**	**10,161**	**9,671**	**9,481**
Goodwill	10,801	9,399	8,452	7,654	6,813	6,113	6,865	5,975	3,938
Other	1,520	1,609	1,867	2,352	1,989	1,699	1,338	1,209	1,579
Total intangible fixed assets	**12,321**	**11,008**	**10,320**	**10,006**	**8,802**	**7,813**	**8,103**	**7,185**	**5,518**
Investment securities	2,973	3,897	3,768	4,463	4,546	5,334	4,256	3,623	3,960
Deferred tax assets	288	254	284	310	551	330	412	1,763	4,840
Other	2,196	1,877	2,750	3,896	4,342	3,458	3,264	2,347	2,766
Allowance for doubtful accounts	-200	-199	-535	-494	-536	-610	-355	-36	-11
Investments and other assets	**5,257**	**5,829**	**6,268**	**8,176**	**8,904**	**8,512**	**7,578**	**7,698**	**11,557**
Total fixed assets	**21,375**	**21,096**	**20,950**	**25,244**	**26,772**	**26,367**	**25,842**	**24,554**	**26,556**
Total assets	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**	**136,565**
LIABILITIES	-	-	-	-	-	-	-	-	-
Accounts payable	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388	22,170
Short-term debt	10	5	-	-	271	225	394	252	299
Other	10,401	12,622	15,771	17,377	21,666	18,541	20,137	20,410	17,466
Total current liabilities	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**	**44,123**
Long-term debt	5	-	-	-	293	-	15	11	-
Other	1,190	1,556	2,387	3,925	5,921	6,474	7,652	6,756	4,160
Total fixed liabilities	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**	**4,160**
Total liabilities	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**	**48,283**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	18,770	18,818	18,850	18,862	18,949	19,019	13,888	13,880	13,226
Retained earnings	40,539	45,112	50,505	55,099	59,355	62,756	65,910	72,063	80,344
Treasury stock	-458	-449	-443	-441	-436	-430	-10,327	-10,208	-10,123
Other comprehensive income	992	1,711	1,373	525	799	1,484	466	-86	662
Share subscription rights	205	165	166	221	263	303	299	186	119
Non-controlling interests	1,260	1,547	1,869	2,168	2,434	2,773	2,062	2,213	814
Total net assets	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**	**88,281**
Working capital	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046	19,012
Total interest-bearing debt	15	5	-	-	564	225	409	263	299
Net cash	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092	59,474
Shareholders's equity	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887	87,348
Equity ratio	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%	64.0%

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

Assets

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

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

Shareholders' equity

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

Profitability and financial ratios

Profit margins (JPYmn)	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
Gross profit	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	37,175
Gross profit margin	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%
Operating profit	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%
EBITDA	16,138	17,054	17,856	17,014	16,928	16,038	16,391	19,168	18,458
EBITDA margin	6.5%	6.6%	6.7%	6.1%	5.8%	5.5%	5.4%	6.2%	6.2%
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%
Financial ratios									
ROA (RP-based)	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%	11.2%
ROE	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%	14.1%
Total asset turnover	2.6	2.4	2.3	2.2	2.2	2.1	2.2	2.3	2.2
Working capital	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046	19,012
Current ratio	226.9%	228.7%	222.2%	227.3%	236.1%	241.2%	211.6%	229.9%	249.3%
Quick ratio	207.6%	201.3%	198.3%	200.1%	209.5%	218.4%	194.8%	214.3%	223.8%
OCF / Current liabilities	-12.7%	57.5%	40.1%	22.3%	25.2%	28.2%	24.6%	14.7%	22.4%
OCF / Total liabilities	-12.1%	52.3%	35.2%	20.7%	22.0%	24.4%	20.9%	13.2%	21.5%
Cash conversion cycle (days)	18.5	22.3	15.4	10.1	9.7	12.4	13.6	18.3	20.8
Change in working capital	13,319	-7,219	-1,661	-4,775	4,753	-922	3,791	4,713	-2,034

Source: Shared Research based on company data

Statement of cash flows

Cash flow statement (JPYmn)	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
Cash flows from operating activities (1)	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	7,371	10,403
Pre-tax profit	13,920	13,420	14,807	16,526	14,089	12,247	13,166	15,548	10,651
Depreciation	1,130	1,294	1,341	1,699	2,069	2,414	2,602	2,352	2,427
Impairment losses	-	678	578	250	122	39	123	175	1,659
Amortization of goodwill	1,107	1,138	770	759	720	715	759	815	801
Change in working capital	-13,728	10,386	2,008	-552	449	1,035	-53	-4,745	-1,831
Income taxes	-6,578	-6,114	-6,615	-6,336	-6,602	-6,115	-5,188	-6,506	-4,838
Other	-209	557	4,345	-2,043	856	3,233	964	-268	1,534
Cash flows from investing activities (2)	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838	-7,325
Purchase of intangible and tangible fixed assets	-1,607	-1,999	-1,903	-2,414	-4,113	-3,228	-2,059	-2,361	-2,469
Proceeds from sale of intangible and tangible fixed assets	147	41	18	116	24	14	15	-	39
Acquisition of shares in subsidiaries affecting the scope of consolidation	-694	-388	-	-4,771	-	-	-1,516	-	-
Payments of deposit for consumption to subsidiaries and affiliates	-170,520	-212,400	-220,511	-218,798	-229,151	-250,400	-284,000	-192,500	-31,000
Collection of deposit for consumption from subsidiaries and affiliates	180,020	198,000	211,605	222,762	234,800	250,113	300,000	208,500	31,000
Other	-260	114	-574	-150	673	835	-184	199	-4,895
Free cash flow (1+2)	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**	**10,902**	**24,629**	**21,209**	**3,078**
Cash flows from financing activities	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392	-5,324
Net change in short-term borrowings	-25	-	-	-	219	-28	179	-143	60
Net change in long-term borrowings	-6	-	-	-	324	90	-2	-3	-14
Payment of dividends	-2,256	-2,464	-2,573	-2,676	-2,842	-2,996	-3,259	-3,195	-3,397
Acquisition of treasury stock	2	57	37	14	28	41	-9,906	109	-
Acquisition of shares in subsidiaries not affecting the scope of consolidation	-	-	-	-	-57	-21	-6,458	-	-1,853
Other	28	-68	-58	-159	-72	-350	-240	-160	-120
Other	26	99	172	-229	-6	80	-228	-98	32
Change in cash and cash equivalent	497	2,351	3,447	3,997	11,530	7,718	4,715	17,719	-2,214
Cash and cash equivalent (year-end)	9,676	12,028	15,476	19,473	31,004	38,722	43,437	61,151	58,937

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Cash conversion cycle (days)	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21
Accounts receivable turnover	6.6	6.5	7.6	7.9	8.4	8.2	8.0	7.5	7.3
Days in accounts receivable	**55.7**	**56.3**	**48.2**	**46.0**	**43.5**	**44.4**	**45.7**	**48.9**	**49.7**
Inventory turnover	116.2	92.9	88.3	88.3	84.8	88.2	110.7	133.9	137.4
Days in inventory	**3.1**	**3.9**	**4.1**	**4.1**	**4.3**	**4.1**	**3.3**	**2.7**	**2.7**
Accounts payable turnover	9.1	9.6	9.9	9.1	9.6	10.1	10.3	10.9	11.5
Days in accounts payable	**40.3**	**37.9**	**36.9**	**40.1**	**38.1**	**36.1**	**35.3**	**33.4**	**31.6**
Cash conversion cycle (days)	**18.5**	**22.3**	**15.4**	**10.1**	**9.7**	**12.4**	**13.6**	**18.3**	**20.8**

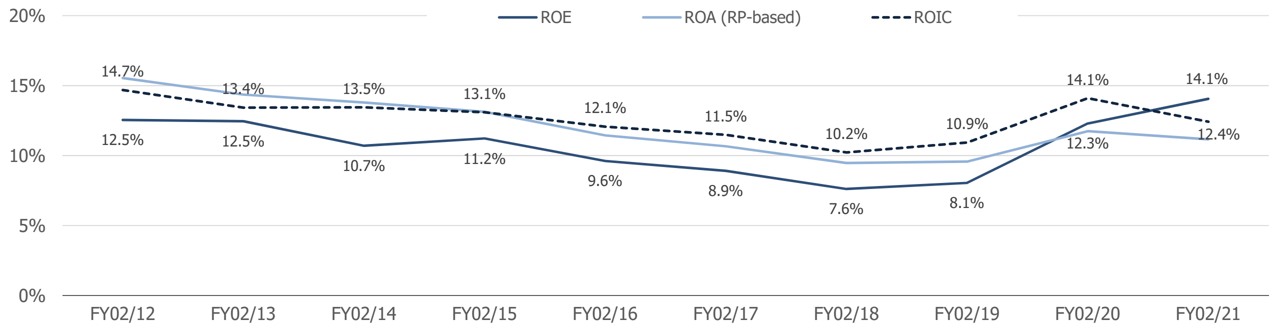
Source: Shared Research based on company data

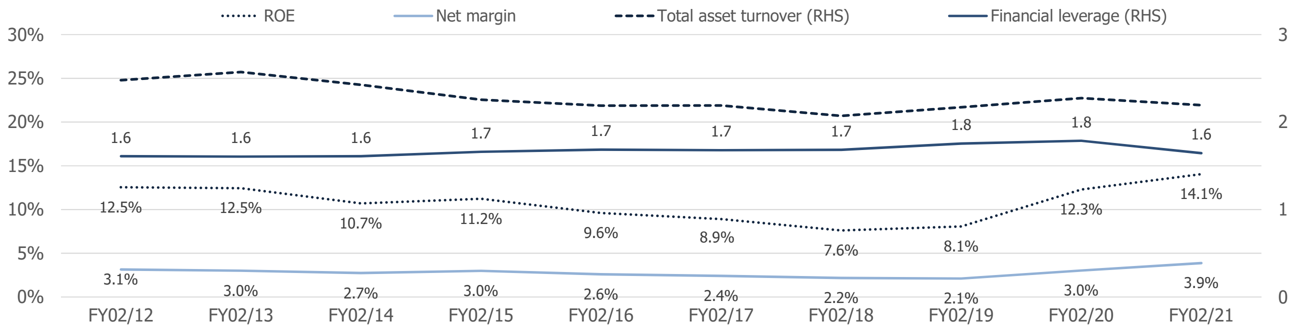
Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers.

ROE and dividends

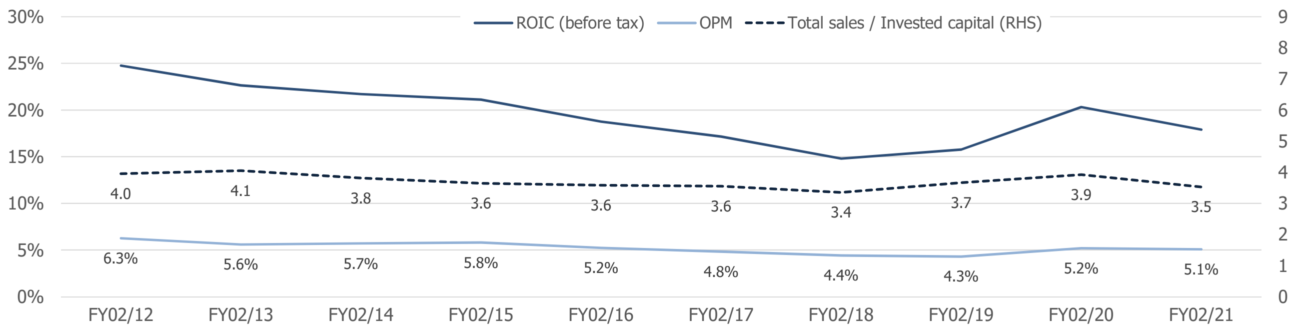
(JPYmn)		FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
ROE		**12.5%**	**12.5%**	**10.7%**	**11.2%**	**9.6%**	**8.9%**	**7.6%**	**8.1%**	**12.3%**	**14.1%**
	Net margin	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%
	Total asset turnover	2.48	2.57	2.42	2.25	2.19	2.19	2.07	2.17	2.27	2.19
	Financial leverage (equity multiplier)	1.61	1.61	1.61	1.66	1.68	1.68	1.68	1.75	1.79	1.65
ROA (RP-based)		**15.5%**	**14.4%**	**13.8%**	**13.1%**	**11.4%**	**10.7%**	**9.5%**	**9.6%**	**11.7%**	**11.2%**
ROIC		**14.7%**	**13.4%**	**13.5%**	**13.1%**	**12.1%**	**11.5%**	**10.2%**	**10.9%**	**14.1%**	**12.4%**
	NOPAT	8,162	8,245	9,064	9,540	9,368	9,464	8,925	9,040	11,101	10,567
	Interest-bearing debt + Net assets	55,590	61,400	67,356	72,854	77,616	82,421	87,268	82,658	78,749	85,065
ROIC (before tax)		24.8%	22.6%	21.7%	21.1%	18.8%	17.2%	14.8%	15.8%	20.3%	17.9%
	Operating profit margin	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%
	Sales / Invested capital	3.95	4.05	3.81	3.65	3.58	3.55	3.35	3.66	3.92	3.53

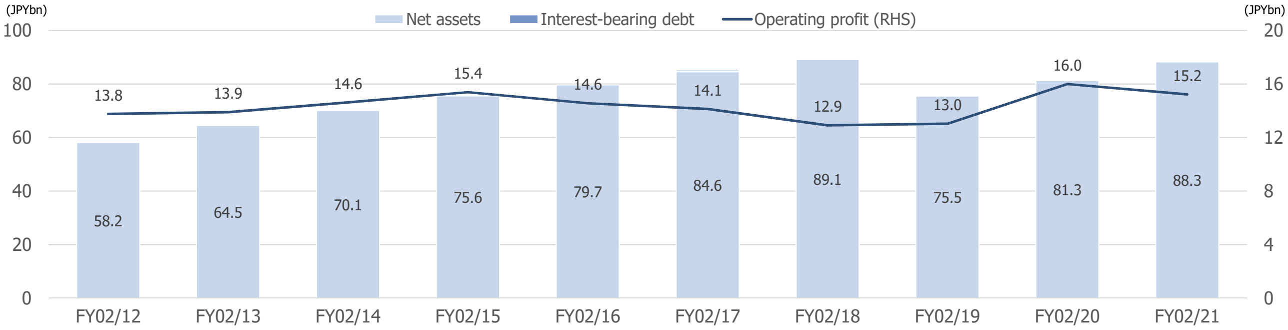
ROE





ROIC

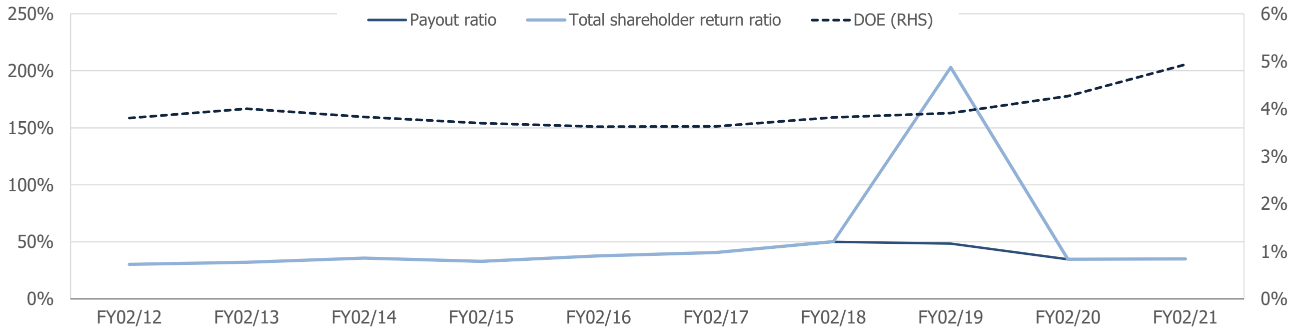




Source: Shared Research based on company data

Dividends

(JPYmn)		FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.	FY02/20 Cons.	FY02/21 Cons.
Total dividends	a)	2,097	2,413	2,519	2,625	2,731	2,890	3,207	3,114	3,246	4,099
Total treasury stock acquired	b)	6	1	1	1	-	-	1	9,906	-	-
Total returns to shareholders	c) = a) + b)	2,103	2,414	2,520	2,626	2,731	2,890	3,208	13,020	3,246	4,099
Net income attributable to parent company sl	d)	6,912	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348	11,680
Dividend payout ratio	a) / d)	30.3%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	48.5%	34.7%	35.1%
Total shareholder return ratio	c) / d)	30.4%	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	203.0%	34.7%	35.1%
Net assets available to common		57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887	87,348
Average of beginning and end of year	f)	55,101	60,273	65,758	70,978	75,404	79,596	83,987	79,623	76,033	83,118
Before deducting assets available to holders of Class		57,464	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887	87,348
EPS	(JPY)	131.8	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2	233.7
Dividend per share	(JPY)	40.0	46.0	48.0	50.0	52.0	55.0	61.0	63.0	65.0	82.0
Dividend on equity ratio	a) / f)	3.8%	4.0%	3.8%	3.7%	3.6%	3.6%	3.8%	3.9%	4.3%	4.9%



Source: Shared Research based on company data

Shareholder returns

The company said that it pays dividends with a standard payout ratio of 35% 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

- ▷ 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%.
- ▷ 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 35%.

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
February	2020	Conducted incorporation-type company split of Kajitaku's housework support business, which was transferred to Aqutia Co., Ltd., a newly established wholly owned subsidiary

Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Aeon Co., Ltd.	27,613	55.2%
The Master Trust Bank of Japan, Ltd. (Trust account)	1,999	4.0%
Aeon Delight Business Partners Stockholding Association	1,127	2.3%
Custody Bank of Japan, Ltd. (Trust account)	1,009	2.0%
Northern Trust Company AVFC Re Fidelity Funds	801	1.6%
Aeon Delight Employees Stockholding Association	497	1.0%
Clearstream Banking S.A.	495	1.0%
Custody Bank of Japan, Ltd. (Trust account 9)	484	1.0%
The Nomura Trust and Banking Co., Ltd.	456	0.9%
The Bank of New York Mellon 140051	401	0.8%

Source: Shared Research based on company data
(As of end-February 2021)

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 May 2020)	20–30%	
	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

At end-FY02/21, Aeon Delight had 20,117 employees (22,062 at end-FY02/20) and an average of 7,191 temporary employees (7,459 at end-FY02/20) on a consolidated basis. At the parent level, there were 4,118 employees (4,074 at end-FY02/20) and 2,915 temporary employees (2,847 at end-FY02/20). In FY02/21, the average age, average length of employment, and average annual salary on a parent basis were as follows:

- ▷ Average age: 46.1 years
- ▷ Average length of employment: 11.8 years
- ▷ Average annual salary: JPY4.7mn (FY02/20)

In the Aeon group, the Aeon Delight Union (3,074 members in FY02/20) has been organized and belongs to the Aeon Delight Labor Union and the Japanese Federation of Textile, Chemical, Food, Commercial, Service and General Workers' Unions (UA ZENSEN）. The Aeon group adopts a union shop system.

Union shop system: Under this system, an employer requires its employees to join a union within a certain period of employment. If an employee does not join the union, withdraws from the union, or is expelled from the union, the employer is obliged to dismiss the employee. Unlike a closed shop system that employs only union members, the union shop system does not require employees to join a union in order to be hired. On the other hand, an open shop system does not require union membership of employees, leaving it up to their free will.

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

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

Tree planting through Aeon Environmental Foundation

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

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

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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

Historical financial statements and news

Historical financial statements

Q3 FY02/21 results (out January 13, 2021)

Summary

- In cumulative Q3 FY02/21, Aeon Delight reported consolidated sales of JPY224.4bn (-3.5% YoY), operating profit of JPY11.2bn (-7.4% YoY), and net income of JPY6.3bn (-14.2% YoY). Sales and profit fell as some contracted facilities were partially closed or temporarily shut down, events were canceled, and people refrained from going out due to the COVID-19 pandemic. The company assumes that the pandemic will have a negative impact of about JPY1.5bn on FY02/21 operating profit. In cumulative Q3, the drag was about JPY1.3bn (roughly JPY1.1bn in 1H).
- Non-cumulative Q3 sales were JPY74.7bn (-0.7% YoY), and operating profit was JPY3.7bn (+5.8% YoY). Q3 sales fell less than Q1, when they were down by 7.0% YoY, and Q2, when they were down by 2.8%. Sales generated by facilities management, security, and cleaning began to rise thanks in part to results associated with commercial facilities and new contracts involving headquarter buildings held by automobile and drug manufacturers, head offices of local banks, hotels, distribution centers, baseball fields, and other facilities. GPM improved to 12.5% (versus 12.3% in Q3 FY02/20). Gradually contributing to this improvement were price negotiations for low-fee deals, cost control achieved through personnel saving, supplier consolidation, and purchase price optimization. The company reduced SG&A expenses to JPY5.6bn (-2.3% YoY). Travel and transportation expenses fell thanks to the active application of teleworking and remote conferencing.
- FY02/21 company forecast remains unchanged at consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. The annual dividend forecast is also unchanged at JPY70 per share. Versus full-year forecast, cumulative Q3 sales were 71.2% (75.4% in Q3 FY02/20), operating profit 68.0% (75.6%), and net income 63.3% (78.8%). Aeon Delight seeks to grow sales in part by expanding sales of cleaning for epidemic prevention and related supplies, replacing security cameras, and stepping up proposals related to EV charger installation. At the same time, it will aim to achieve the projections in its full-year forecast by minimizing costs through measures such as supplier consolidation, purchase price optimization, and active implementation of teleworking remote conferencing. The company will also bolster its efforts to achieve targets by raising capital efficiency through asset sales and other means.

Results by segment

Facilities Management

The Facilities Management segment reported cumulative Q3 sales of JPY43.8bn (-1.0% YoY) and segment profit of JPY3.9bn (-3.0% YoY). To increase sales, the company brought its integrated facility management service using an open network system into Aeon Style Shin-Urayasu and worked to expand sales of environment-friendly, CFC-free refrigerated display cases, but these efforts were not sufficient to turn sales around. With the aim of improving profitability, the company is concentrating on area management and progressing cost reduction measures such as improving profitability of poorly performing properties, centralizing purchasing, and optimizing purchase unit prices.

Q3 sales were JPY14.7bn (+0.8% YoY), and segment profit was JPY1.4bn (+9.4% YoY). Sales in Q1 and Q2 fell YoY due in part to the COVID-19 pandemic. However, sales began to rise in Q3, benefitting from new contracts as negative impact from the pandemic abated. Earning power in the Facilities Management segment rose thanks in part to personnel saving achieved through expansion in the areas covered by facility management services (reducing personnel assigned to customer facilities and undertaking facility management by region instead of individual facility), cost reduction attained through standardization of replacement equipment and devices, and internalization of repair work. Segment OPM was 9.3%, up from 8.5% in Q3 FY02/20. Aeon Delight installed a variety of systems and sensors targeting automation of resident facility management at model stores in

Hokkaido. Later, the company field tested this equipment and verified its efficacy. Moving forward, the company plans to promote a horizontal rollout that will cut back on required personnel and expand the area covered by its facility management services to include all of Hokkaido. At the same time, it is also planning a nationwide rollout that will focus on Aeon group stores.

Security Services

The Security Services segment reported cumulative Q3 sales of JPY33.0bn (-1.0% YoY) and segment profit of JPY2.4bn (+8.2% YoY). Amid a worker shortage in recent years, the company continued to streamline its business by automating systems to handle routine tasks such as facility entry/exit management and store closings. Profitability improved as a result of initiatives to optimize unit prices through price negotiations.

Q3 sales were JPY11.3bn (+1.3% YoY), and segment profit was JPY793mn (-0.3% YoY). Sales in Japan fell slightly YoY, but sales generated overseas (in China, Vietnam, etc.) rose on a rise in the number of contracts acquired. The company is conducting negotiations aimed at achieving optimal pricing for nighttime security system installation proposals and other business propositions. However, segment profit fell slightly YoY due to a larger fixed cost burden associated with overseas subsidiaries.

Cleaning Services

The Cleaning Services segment reported cumulative Q3 sales of JPY46.1bn (-0.9% YoY) and segment profit of JPY5.3bn (+0.9% YoY). The company stepped up proposals to expand the rollout of “new standard cleaning” (a new cleaning method that is based on scientific evidence and produces hygienic environments using equipment that is different from that used in typical cleaning), its cleaning standards in the with-COVID era, focusing on training specialists in cleaning for epidemic prevention. Profitability improved as a result of efforts to improve profitability of poorly performing properties and share successful workplace case studies.

Q3 sales were JPY15.7bn (+0.4% YoY), and segment profit was JPY1.9bn (+7.2% YoY). Sales began to rise in Q3 thanks in part to an increase in new contracts, contract acquisitions associated with solutions such as emergency disinfecting conducted in response to the COVID-19 pandemic, and the launch of “new standard cleaning.” Sources of new added value such as emergency disinfecting and “new standard cleaning” appear to be contributing to improvement in profitability.

Construction Work

The Construction Work segment reported cumulative Q3 sales of JPY31.0bn (-3.1% YoY) and segment profit of JPY2.9bn (+1.3% YoY). Cumulative results in Q3 were slightly below projections, apparently due to some construction work launch delays caused by the COVID-19 pandemic. However, the company secured higher profit YoY as earning power in the segment increased thanks in part to a decrease in cost of sales. Aeon Delight is targeting recovery through acquisition of construction projects that have not yet been started and construction projects associated with environmental measures, including the installation of electric vehicle charging stations.

Q3 sales were JPY8.9bn (-0.2% YoY), and segment profit was JPY798mn (+19.3% YoY). The company is steadily receiving orders for services such as renovation work for the Aeon group, thereby securing relatively stable results. The company is endeavoring to raise earning power in the segment in spite of its present tendency to fluctuate according to the quantity and nature of acquired contracts. In support of this objective, the company is implementing a variety of measures, including efforts aimed at raising the accuracy of its work estimates and standardizing its procured materials. In December 2020, the company announced its absorption of wholly owned subsidiary U-COM Co., Ltd. Through this merger, the company is seeking to improve efficiency.

Materials and Supplies Sourcing Services

The Materials and Supplies Sourcing Services segment reported cumulative Q3 sales of JPY39.6bn (+2.8% YoY) and segment profit of JPY1.9bn (-4.9% YoY). Sales grew on orders for products to prevent the spread of COVID-19 (such as commercial-grade masks, gloves, alcohol, and acrylic screens to prevent droplet spread), as well as orders for Aeon’s TOPVALU private brand packaging materials. Despite lower purchasing costs achieved through economies of scale and improved distribution efficiency, profit declined, hurt by factors such as the new charge for checkout bags starting in July 2020. Q3 sales were JPY13.0bn (+3.1% YoY), and segment profit was JPY567mn (-4.1% YoY).

Vending Machine Services

The Vending Machine Services segment reported cumulative Q3 sales of JPY19.1bn (-19.8% YoY) and segment profit of JPY563mn (-40.6% YoY). Beverage sales fell sharply due to temporary closure of commercial facilities where vending machines are installed. Although the company installed more of its own multibrand vending machines (which offer products from a number of different brands), this was not sufficient to compensate for lower sales.

Q3 sales were JPY7.0bn (-8.9% YoY), and segment profit was JPY206mn (-15.2% YoY). Ostensibly, these results occurred because the COVID-19 pandemic lowered the frequency of visits to commercial facilities and reduced the lengths of time that visitors spent at these facilities.

Support Services

The Support Services segment reported cumulative Q3 sales of JPY11.8bn (-17.1% YoY) and a segment loss of JPY171mn (versus profit of JPY441mn in cumulative Q3 FY02/20). Earnings of Aeon Compass (subsidiary engaged in travel-related businesses) deteriorated. The Support Services segment excluding the former Kajitaku recorded sales of JPY9.3bn (-11.9% YoY) and segment profit of JPY584mn (-57.7% YoY).

Q3 sales were JPY4.0bn (-11.4% YoY), and segment loss was JPY71mn (versus profit of JPY187mn in Q3 FY02/20). Excluding impact from Actier, Inc. and Keiji Shinyoukumiai (formerly known as KAJITAKU), segment sales were JPY3.2bn (-11.7% YoY), and operating profit was JPY268mn (-47.7% YoY). Curtailment of business trips from Aeon group companies continues to affect the results generated by Aeon Compass. Aqutia Corporation, which operates the Housekeeping Support Business formerly handled by KAJITAKU, reported a recovery in demand compared to Q1 and Q2, but future demand has once again become uncertain due to a second state of emergency declared in January 2021. KJS Corporation, which operates a store support business formerly handled by KAJITAKU, experienced a contraction in business scale due to the transfer of its ID photo machine business on June 30, 2020. It is also expected to withdraw from its smartphone printing business and picture palette business during FY02/21. Starting in FY02/22, it will comprise only the copier business, and the company projects a decline in operating loss along with this decrease in scale.

Overseas

Overseas businesses reported sales of roughly JPY14.3bn (+2.6% YoY) and segment profit of about JPY1.1bn (-1.9% YoY). In China, the Wuhan subsidiary was impacted by the city's lockdown in early 2020, but accelerated marketing activities to cultivate new customers once the lockdown was lifted, and has started providing services at several facilities. The Jiangsu subsidiary won contracts for mid- to upscale shopping centers, hospitals, nursing homes, and redevelopment areas. In the ASEAN region, the company expanded contracts to work mainly on Aeon group stores in Indonesia. Note that overseas subsidiaries' cumulative Q3 earnings are for January–September 2020.

1H FY02/21 results (out October 7, 2020)

Summary

- In 1H FY02/21, Aeon Delight reported consolidated sales of JPY149.7bn (-4.9% YoY), operating profit of JPY7.5bn (-12.7% YoY), and net income of JPY3.9bn (-23.9% YoY). Sales and profit fell YoY as some contracted facilities were partially closed or temporarily shut down, some events were canceled, and people refrained from going out due to the COVID-19 pandemic. The company assumes that the pandemic will have a negative impact of about JPY1.5bn on FY02/21 operating profit. In 1H, the drag was about JPY1.1bn (roughly JPY1.0bn in Q1). Q2 standalone sales were JPY76.2bn (-2.8% YoY), and operating profit was JPY4.0bn (-15.6% YoY). Q2 sales fell less than Q1, when they were down by 7.0% YoY.
- FY02/21 company forecast remains unchanged at consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. Versus full-year forecast, 1H sales were 47.5% (51.0% in 1H FY02/20), operating profit 45.5% (53.7%), and net income 39.4% (55.4%). The rate of progress in terms of net

income was particularly low due in part to the booking of JPY1.3bn in loss on sale of businesses associated with the transfer of the former Kajitaku's certification photo machine business. The company is aiming to achieve its targets, including the target for net income, by making up for delays to various measures caused by the COVID-19 pandemic; strengthening its proposal of epidemic prevention-related services and capturing new demand; and selling assets. The annual dividend forecast is also unchanged at JPY70 per share.

▷ Life with and after the COVID-19 pandemic: As well as adapting to life with the COVID-19 pandemic, the company has started initiatives to create a new normal for its facilities management services after the pandemic. Initiatives include establishing scientific evidence-based cleaning methods to deliver a hygienic environment; providing efficient ventilation while maintaining comfort levels; developing and implementing contact-less services; and educating store employees regarding infection awareness and prevention. Aeon Delight is the company responsible for spearheading crisis management for the Aeon group. As such, it plans to provide services to major customers and develop new standards for other customers as well.

Results by segment

Security Services

Sales in Security Services in 1H were JPY21.7bn (-2.2% YoY) and segment profit was JPY1.6bn (+12.9% YoY). Demand for facility security, crowd control, and traffic security fell off due to partial and temporary closures of a portion of contracted facilities. Meanwhile, profitability improved as the company cut costs by negotiating to optimize unit prices and systemizing store entry and exit management and closing operations. In Q2, sales were JPY10.9bn (-1.7% YoY) and segment profit was JPY831mn (+21.8% YoY). In response to manpower shortages, the company systemized its security services and increased its level of productivity per individual member of security staff. At the same time, the company conducted negotiations aimed at price optimization (achieving an increase in sales per employee). Through these efforts, the company achieved higher segment profit despite a decline in sales.

Cleaning Services

In Cleaning Services, 1H sales were JPY30.4bn (-1.6% YoY) and segment profit was JPY3.4bn (-2.3% YoY). The company captured demand for services associated with the spread of the COVID-19 pandemic, such as sterilization, disinfection, and cleaning, but sales declined YoY due in part to both partial and temporary disclosures of some commercial facilities. It also strove to cut costs by laterally applying successful examples of improvement measures on a wider scale while conducting price negotiations for low-profit properties. Although these efforts did produce measurable results, the negative impacts from commercial facility closures and other factors were significant. In Q2, sales came to JPY15.4bn (-0.7% YoY) and segment profit was JPY1.8bn (-0.1% YoY). Sales fell for the second consecutive quarter due primarily to sluggish performance associated with department stores and other commercial facilities. However, performance is gradually recovering and at the end of Q2 (August), the company noted an uptick in monthly sales. OPM in Q2 improved to 11.6% (versus 11.5% in Q2 FY02/20) thanks in part to the expanded lateral application of successful improvement measures and automation involving the installation of cleaning robots.

Construction Work

In Construction Work, 1H sales were JPY22.1bn (-4.3% YoY) and segment profit was JPY2.1bn (-4.3% YoY). The company expanded its volume of renovation contracts, adding among others an agreement regarding renewal construction work for an entire live entertainment facility developed by a major publisher (a new market area for the company). Despite this expansion, sales declined YoY as some construction work was delayed due to the COVID-19 pandemic. The company additionally endeavored to reduce costs by optimizing the operating procedures and processes associated with all types of construction. Consequently, Q2 sales were JPY10.6bn (-4.4% YoY) and segment profit was JPY942mn (-12.8% YoY). Q2 also saw some construction work pushed back until 2H due primarily to movement restrictions associated with the COVID-19 pandemic and delayed procurement of parts. Also contributing to the YoY decline in performance was the comparative impact of a large project for the Aeon group that generated sales bookings in 1H FY02/20, but not during 1H FY02/21. In 2H, the company will strive to expand its volume of large-scale construction contracts through participation from the design stage, acquire small-scale construction projects through collaboration with partner companies, and improve productivity while making up for the delayed achievement of targets in its plan.

Materials and Supplies Sourcing Services

In Materials and Supplies Sourcing Services, 1H sales were JPY26.6bn (+2.7% YoY) and segment profit was JPY1.3bn (-5.2% YoY). Sales rose YoY thanks to orders for products used to prevent the spread of the COVID-19 pandemic (protective masks for professional use, gloves, alcohol, acrylic panels used to prevent droplet exposure, etc.) and for packaging materials associated with TOPVALU, a private brand from Aeon. Despite growth in sales, profit declined YoY due to deterioration in profitability. In Q2, sales were JPY13.7bn (+5.6% YoY) and segment profit was JPY672mn (+4.5% YoY). Driving growth in sales were pandemic prevention products for the Aeon group and packaging materials associated with TOPVALU. The company was able to achieve this growth in sales, absorbing a decline in sales of disposable shopping bags (which account for about 4% of segment sales) that occurred as stores began charging for these bags. During 2H, the company will strive to expand sales outside of the Aeon group, expand installation of acrylic panels, reduce costs by leveraging its procurement scale, and improve logistical efficiency as it aims to improve profitability.

Vending Machine Services

In Vending Machine Services, sales in 1H were JPY12.1bn (-25.0% YoY) and segment profit was JPY357mn (-49.4% YoY). Beverage sales fell off significantly due primarily to the temporary closure of commercial facilities where vending machines are installed. The company expanded installation of its own multibrand vending machines, which feature a mix of brands from several beverage companies, but was unable to compensate for the decline in sales. In Q2, sales were JPY7.3bn (-12.5% YoY) and segment profit was JPY367mn (-18.3% YoY). Performance has been gradually recovering but sales continued to decline because customers of shopping malls and other facilities have not returned in sufficient numbers. During 2H, the company will aim to strengthen its business foundations primarily by engaging in collaborative campaigns with manufacturers as it continues to expand installation of its own multibrand vending machines.

Support Services

In Support Services, sales in 1H were JPY7.7bn (-19.8% YoY) and segment loss was JPY100mn (versus operating profit of JPY254mn in 1H FY02/20). Excluding impact from the former Kajitaku, sales were JPY6.1bn (-12.1% YoY) and segment profit was JPY316mn (-63.6% YoY). This decline in performance was largely due to deteriorating business performance at Aeon Compass, a subsidiary that is developing a travel-related business. Although losses at the former Kajitaku narrowed, its surviving household support services business did not perform well due to impact from the COVID-19 pandemic (demand for services such as air conditioner cleaning was sluggish). In Q2, sales were JPY3.8bn (-20.9% YoY) and segment loss was JPY108mn (versus segment profit of JPY378mn in Q2 FY02/20). Excluding impact from the former Kajitaku, sales were JPY3.0bn (-13.3% YoY) and operating profit was JPY163mn (-66.3% YoY).

Overseas business

In the Overseas business, sales in 1H were about JPY9.4bn (+2.9% YoY) and operating profit was approximately JPY710mn (-1.3% YoY). The company’s subsidiary in Wuhan, China was impacted by the city lockdown associated with the COVID-19 pandemic but swiftly transitioned back to normal business conditions after the lockdown was lifted. At present, the company is pushing forward with activities aimed at returning to the trajectory of growth it was following prior to the COVID-19 pandemic and has begun new customer development. The impact of the pandemic on the company’s subsidiary in Jiangsu, China was small as the company successfully expanded orders associated with middle- and high-end shopping centers, hospitals and nursing homes, infrastructure, and redevelopment areas, and it began providing services for several facilities. In ASEAN regions, performance also received a boost from the conclusion of a contract associated with the fifth Aeon Mall in Vietnam and expansion in the volume of contracts regarding complex management services for the first and second Aeon Malls in Indonesia. It is important to note that 1H performance from overseas subsidiaries reflects results booked from January through June.

Q1 FY02/21 results (out July 8, 2020)

Summary

- In Q1 FY02/21, Aeon Delight reported consolidated sales of JPY73.5bn (-7.0% YoY), operating profit of JPY3.5bn (-9.1% YoY), and net income of JPY3.0bn (+44.5% YoY). Sales from commercial facilities management services (Facilities Management, Cleaning Services, Security Services, Materials and Supplies Sourcing Services, and Vending Machine Services businesses) declined YoY as some facilities were partially closed and others temporarily shut down due to the COVID-19 pandemic. In the Construction Work business, the number of contracts declined and some projects were postponed mainly as a result of delays in sourcing parts from overseas. Sales of security and travel-related services also fell because fewer events were held. According to the company, the COVID-19 pandemic had a roughly JPY1.0bn negative impact on operating profit. The company initially anticipated an annual negative impact of roughly JPY1.5bn on operating profit from the COVID-19 pandemic, and Q1 results overall (including the impact of the pandemic) were largely in line with the company's initial forecast.
- FY02/21 company forecast remains unchanged at consolidated sales of JPY315.0bn (+2.1% YoY), operating profit of JPY16.5bn (+3.1% YoY), net income of JPY10.0bn (+7.0% YoY), and EPS of JPY200.13. Versus full-year forecast, Q1 sales were 23.3% (25.6% in Q1 FY02/20), operating profit 20.9% (23.7%), and net income 29.9% (22.1%). The fast progress rate of net income is attributed to tax obligations in Q1 being smaller than usual. The annual dividend forecast is also unchanged at JPY70 per share.

Results by segment

Facilities Management

The Facilities Management segment posted Q1 sales of JPY14.5bn (-2.8% YoY) and segment profit of JPY1.3bn (-12.4% YoY). The drop in sales was attributable to closures of some commercial facilities and a temporary suspension of operations at other commercial facilities operated by the company's customers. However, the decline was modest as many facilities still require facilities management services (such as disaster prevention and periodic repair services) even when they are not operating. Although the company worked to improve operations at low-margin facilities and enhance business processes to achieve greater work efficiency and a reduction in manpower, OPM in the segment fell to 8.7% (from 9.6% in Q1 FY02/20) due to considerable impact from higher outsourcing costs in the existing businesses.

In terms of enhancing business processes to achieve greater work efficiency and a reduction in manpower, new initiatives in Hokkaido yielded results. The company reduced on-site staff at customer facilities by scaling back operations that do not contribute value to customers, and by introducing remote monitoring and patrol-type facility management. It is working toward a system with which it can provide the same level of facility management services as before but with smaller teams. According to the company, GPM for related facilities rose 4pp in Q1 FY02/21 thanks to these efforts. The company aims to test these initiatives in Hokkaido through the summer of 2020, and subsequently roll them out across the rest of Japan.

Security Services

The Security Services segment posted Q1 sales of JPY10.8bn (-2.7% YoY) and segment profit of JPY763mn (+4.5% YoY). The decline in sales reflected lower demand for security for facilities and security to handle crowds and traffic as some contracted facilities closed or temporarily suspended operations. Disappearance of demand for event-related security was another factor weighing on sales. At the same time, the company has continued pricing negotiations against the backdrop of a tight labor market. While working toward optimization of prices, the company introduced equipment to support store entry/exit management and operations at store closing. The company also aimed to reduce costs by introducing systems, and OPM improved to 7.0% (from 6.6% in Q1 FY02/20) as a result.

According to the company, the number of stores that have adopted its systems for store entry/exit management and operations at store closing has steadily increased. In Q1 FY02/21 alone, 26 stores adopted such system, and it plans to roll this out to over 100 stores within FY02/21.

Cleaning Services
The Cleaning Services segment posted Q1 sales of JPY15.0bn (-2.6% YoY) and segment profit of JPY1.6bn (-4.5% YoY). Sales fell YoY due to a suspension of operations at commercial facilities. The company pushed ahead with measures to reduce costs in an effort to improve profitability at low-margin facilities. It expanded successful improvement initiatives horizontally across the company, and proceeded with introducing autonomous cleaning robots. However, store closures at some contracted facilities had a major impact on results, and OPM in the segment declined to 11.0% (from 11.2% in Q1 FY02/20) as a result.

Construction Work
The Construction Work segment posted Q1 sales of JPY11.5bn (-4.1% YoY) and segment profit of JPY1.1bn (+4.1% YoY). Orders for various types of renovation work increased, but some construction work lagged due to delays in the sourcing of parts from overseas amid the COVID-19 pandemic, resulting in a decline in sales. However, segment profit increased YoY on cost reductions.

From FY02/21, the segment moved to a structure under which orders over a certain amount are carefully examined by the company's construction work division. Following this change, the company made progress in optimizing specifications for various types of work and streamlining processes, contributing to a reduction in costs. In addition, the company considers the Kanto and Kansai regions—both large markets—as strategic areas, and aims to increase projects in which it can participate from upstream stages (design, etc.). The company looks to expand orders for large construction projects and continues to strengthen group-wide collaboration. In Q1, it turned subsidiary A to Z Service Co., Ltd. (55.9% ownership held to date), which provides small-scale store design, construction management, facility maintenance, and general maintenance services to major chains, including leading coffee shop chains) into a wholly owned subsidiary.

Materials and Supplies Sourcing Services
The Materials and Supplies Sourcing Services segment posted Q1 sales of JPY13.0bn (-0.2% YoY) and segment profit of JPY612mn (-14.0% YoY). The decline in sales was modest thanks to orders from Aeon group companies and other customers for products to prevent the spread of COVID-19 infections (such as masks, gloves, alcohol, and plastic sheets to prevent droplet infection to be used in business settings).

Vending Machine Services
The Vending Machine Services segment posted Q1 sales of JPY4.7bn (-38.6% YoY) and a segment loss of JPY10mn (versus profit of JPY256mn in Q1 FY02/20). The weak outcome was driven by a sharp decline in sales of beverages due to the suspension of operations at commercial facilities where the company's vending machines are located. Meanwhile, as an initiative to improve earnings over the medium term, the company continued to expand installation of its own multibrand vending machines that feature a mix of brands from several beverage companies (these vending machines accounted for just over 30% of the 43,000 vending machines installed as of Q1). However, the company says sales of beverages are recovering now that temporary suspensions of operations at commercial facilities have been lifted.

Support Services
The Support Services segment posted sales of JPY4.0bn (-18.7% YoY) and segment profit of JPY8mn (versus loss of JPY124mn in Q1 FY02/20). Excluding the former Kajitaku, sales came to JPY3.1bn (-10.8% YoY) and segment profit to JPY153mn (-60.4% YoY). At subsidiary Aeon Compass, which arranges business trips for companies, earnings worsened as people refrained from traveling, and this had a negative impact on segment results. The company says the rental meeting room business performed surprisingly well as a greater number of customers booked large meeting rooms to ensure sufficient distance between meeting participants. Aeon Delight sold the ID photo machine business of consolidated subsidiary KJS (former Kajitaku) on June 30, 2020, and we understand it is making progress with business reforms.

Earnings trend in overseas business
In Q1, which reflects results in January–March, overseas sales were about JPY4.8bn (+8.9% YoY) and operating profit was about JPY360mn (+11.9% YoY). In Chinese city of Wuhan, many commercial facilities suspended operations as the city was closed off,

and the company's Wuhan subsidiary saw sales decline even though it continued to provide services to local Aeon group and other stores. However, the same subsidiary won contracts for construction preparation work ahead of the construction of temporary medical facilities, as well as for preliminary cleaning of hotels and room setting/arrangement for medical teams dispatched to deal with the COVID-19 crisis. In other words, it actively provided services that were outside the scope of its ordinary functions. Its efforts in this respect were recognized, and it was awarded the title of "Infection Prevention Advanced Property Management Service Company" by the Jiangxia District in Wuhan City, which led to enhancing its name recognition.

The company's subsidiary in Jiangsu Province, China expanded sales YoY on growth in orders from facilities related to medium- to high-end shopping centers, hospitals and nursing homes, infrastructure, and redevelopment areas. The company says many of these new projects came from outside the Aeon group. China-wide sales remained flat YoY in part thanks to contributions from the sales growth at the Jiangsu subsidiary, and sales in China accounted for roughly 60% of total overseas sales. In Q2 (April–June), sales at the Wuhan subsidiary recovered as the city was reopened.

In the ASEAN region, earnings expanded as the company's Indonesian subsidiary PT Sinar Jernih Sarana (SJS) started providing comprehensive facility management services to Indonesia's first and second Aeon Malls. In Vietnam, the company achieved sales growth by cultivating new customers. The negative impact of partial facility closures and restrictions on going out on earnings in the ASEAN region was more significant in Q2 than in Q1. (However, sales from the ASEAN region only account for roughly 40% of total overseas sales, so the impact of the earnings deterioration on consolidated earnings is small.)

Post-COVID-19 world

Aeon Delight realizes that the COVID-19 pandemic will make infection-prevention measures standard practice at public facilities, and drive changes in the functions expected for office and education buildings as telework and online learning gain traction. The company has established a project team tasked with undertaking initiatives in preparation for the "new normal" in facility management. Specifically, the project team will 1) establish epidemic prevention and disinfection methods based on hygienic cleaning, 2) develop a no-contact store environment, and 3) improve energy efficiency, ventilation, and air conditioning through HVAC management that leverages open network systems. The company's new approach toward facility management was also reflected in the COVID-19 Pandemic Prevention Protocol released by the Aeon group on June 30.

Electric power-related initiatives

The company aims to establish energy management services—covering all aspects from supplying necessary energy to local communities to energy-efficient facility management and operation—as a new core business. In FY02/20, it participated in a trial related to the construction of an electricity interchange settlement system based on blockchain technology in the Urawa-misono district in Saitama Prefecture. In FY02/21, the company will participate in a Virtual Power Plant (VPP) Construction Demonstration Project promoted by the Ministry of Economy, Trade and Industry (METI). Led by a consortium headed by Kansai Electric Power (TSE1: 9503), the project will test power adjustment capacity control methods for water pumps and air conditioning equipment at Aeon Mall Kobe Kita by leveraging energy management systems provided by Aeon Delight. Through its participation in the project, the company aims to accelerate the construction of VPPs, and develop power supply and demand adjusting capabilities for the Aeon group based on the concept of a supply/demand adjustment market, starting from FY2021.

Virtual Power Plant (VPP): Technology that aggregates power from a range of energy resources dispersed in various regions (including energy storage solutions) spanning solar and wind power generation facilities, storage batteries, and electric vehicles, controls them through IoT, and makes them function as a single power station. VPPs are being built as a technology to stabilize the supply/demand balance for electric power supplied by renewable energy sources, which are heavily influenced by weather conditions.

Supply/demand adjustment market: Refers to the capability of adjusting supply when a general electricity transmission and distribution utility company (electric power utility company) ultimately matches electric power demand to supply. A supply/demand adjustment market, where adjustment capacity can be traded, is slated to be established in FY2021. The establishment of this market is expected to prompt further technological development and advance the development of new markets.

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

Summary

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

Results by segment

Facilities Management

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

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

Security Services

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

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

Cleaning Services

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

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

Construction Work

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

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

Materials and Supplies Sourcing Services

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

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

Vending Machine Services

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

Support Services

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

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

Overseas businesses

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

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

Note that the fiscal year-end for key consolidated subsidiaries overseas such as Aeon Delight Jiangsu is December (therefore Q4 means October to December). As a result, any impact of the COVID-19 pandemic is yet to appear in the accounts.

News & topics

December 2020

On December 22, 2020, the company announced an absorption-type merger with wholly owned subsidiary KJS.

Aeon Delight has been promoting structural reforms at KJS (formerly Kajitaku) since revelations of accounting irregularities at the latter emerged. With the market for household support services expected to expand, Aeon Delight believed it vital to maintain operations in the domain, and in November 2019 announced a spin-off of the household support services business from Kajitaku through an incorporation-type company split, with the new company to be operated under the name Actia. Aeon Delight changed the Kajitaku name to KJS and advanced structural reforms in the company, including the transfer of the certification photo machine business. The company has also decided to withdraw from the smartphone printing and picture palette business in FY02/21, leaving KJS with just the copy machine business. The company has copy machine installation contracts extending as far as 2023, and intends to fulfill its responsibilities to its customers and end-users by honoring those existing contracts. Given the difficulties KJS is having in maintaining its business, including in securing a sufficient number of employees, Aeon Delight decided to conduct an absorption-type merger. Since KJS is a wholly owned subsidiary, Aeon delight does not expect the merger to have an impact on consolidated earnings. The company expects a decline in corporate taxes on the succession of KJS losses carried forward and intends to announce related data whenever the need for disclosure arises. Shared Research thinks that the merger announcement signals that the reforms triggered by the accounting irregularities at Kajitaku have generally run their course.

On the same day, the company announced an absorption-type merger with wholly owned subsidiary U-COM.

The company made U-COM, which operates a commercial facility design and interior decoration business, a wholly owned subsidiary in May 2018. Aeon delight intended to increase store design and interior decoration work orders in its construction business through the acquisition. However, the company also created a design division in its interior design department that handles commercial facility design and interior decoration operations. Though the absorption-type merger announced on December 22, 2020, the company hopes to consolidate its creative human resources to expand refurbishing operations for commercial facilities and specialty stores, while also eliminating redundant work, consolidating management resources, and improving capital efficiency. Since U-COM is a wholly owned subsidiary, the company does not expect the merger to have an impact on consolidated earnings.

On the same day, the company announced the dissolution and liquidation of wholly owned subsidiary General Services.

With the goal of fully developing the business process outsourcing (BPO) business, the company acquired General Services Inc. (GSI) in October 2012, and made it a wholly owned subsidiary in December 2018. This allowed the company to acquire sales expertise for large clients and serve as a consulting firm to a certain extent. Factoring in the potential for growth at GSI as well as the possibility for synergies with Aeon Delight, management decided to dissolve and liquidate the former. The company believes the action will have only a marginal impact on consolidated earnings.

On the same day, the company made an announcement regarding the recommendation of a surcharge payment order by the Securities and Exchange Surveillance Committee.

The Securities and Exchange Surveillance Committee recommended that the company be ordered to pay a surcharge of JPY35.7mn in line with the latter's June 28, 2020 filing of an amended securities report. The company will consider taking action after receiving a formal notice from the Financial Services Agency, though the general policy is that as long as there are no special circumstances, the violations are to be admitted and the surcharges paid. Since the revelation of suspected accounting irregularities at Kajitaku, the company has been working to prevent any similar recurrence and to restore its corporate value over the longer term.

On the same day, the company announced a strengthening in New Standard Cleaning offerings for offices.

New Standard Cleaning is a cleaning method provided by sanitation specialists and includes epidemic prevention measures. Aeon Delight started offering the service mainly to commercial facilities in September 2020, and has now decided to strengthen its service offerings to offices. It aims to increase office service sales in FY02/24 to a level 1.5 times that seen in FY02/20. Following the COVID-19 Pandemic Prevention Protocol released by Aeon (TSE1: 8267) in June 2020, the company developed the New Standard Cleaning method based on the expertise gained through its service offerings to medical institutions. As of December 2020, the company employs more than 1,100 experts in epidemic prevention measures. The company is expanding the New Standard Cleaning offerings for offices, objectively assessing the risk of infection in each office space and providing the most optimal and efficient science-based plan in terms of cleaning procedures, frequency, and materials needed.

June 2020

On June 30, 2020, the company announced the transfer of its certification photo machine business.

The company spun off the certification photo machine business of its consolidated subsidiary KJS Co., Ltd. (formerly Kajitaku Co., Ltd.) and transferred all shares of the new company to DNP Photo Imaging Japan, a wholly owned subsidiary of Dai Nippon Printing Co., Ltd. (TSE1: 7912). After the accounting irregularities at Kajitaku came to light, the company developed measures to prevent reoccurrences and proceeded with restructuring, including the spin-off and sale of the subsidiary’s storefront promotion business. As a part of this effort, the household support services business, where continued market growth is expected, was transferred to a new company in February 2020 through a spin-off. Through this transaction, the company is essentially selling off the certification photo machine business, one of KJS’ remaining storefront promotion businesses.

Aeon Delight plans to further reorganize the post-split KJS business. The company expects to incur extraordinary losses as a result of the spin-off and transfer of the business. However, transferred assets and the transfer price will need to be carefully examined and adjusted, and hence its impact on the company’s results is not yet determined. The company plans to disclose the amount of impact once it is determined.

Company profile

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IR Contact	**IR Web**
-	https://www.aeondelight.co.jp/english/ir/

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ipet Insurance CO., Ltd.
Itochu Enex Co., Ltd.
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SHIFT Inc.
Shikigaku Co., Ltd
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
SMS Co., Ltd.
Snow Peak, Inc.
Solasia Pharma K.K.
SOURCENEXT Corporation
Star Mica Holdings Co., Ltd.
Strike Co., Ltd.
SymBio Pharmaceuticals Limited
Synchro Food Co., Ltd.
TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
Take and Give Needs Co., Ltd.
TEAR Corporation
Tenpo Innovation Inc.
3-D Matrix, Ltd.
The Hokkoku Bank,Ltd.
TKC Corporation
TKP Corporation
Tsuzuki Denki Co., Ltd.
TOCALO Co., Ltd.
TOKAI Holdings Corporation
Tokyu Construction Co., Ltd.
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
TSURUHA Holdings
VISION INC.
VISIONARY HOLDINGS CO., LTD.
World Holdings Co., Ltd.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
ZAPPALLAS, INC.

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