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AEON Delight

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Executive summary

Aeon Delight Co., Ltd. is Japan's largest facilities management company, providing various solutions for customer facilities and their surrounding environments. The company provides services for integrated facilities management and ancillary work that is non-core for the customer. These services streamline overall facility costs and generate rationalization benefits for the customer. Aeon Delight is more than 50% owned by the Aeon group. Aeon is a large retailing group, comprising more than 300 Japanese and overseas companies and generating group sales of more than JPY8tn. In FY02/22, Aeon Delight derived 64.4% of its sales from transactions within the group.

Looking at performance by segment, in FY02/22 Facilities Management accounted for 19.4% of total sales and 22.7% of operating profit. The corresponding figures were 14.9% and 14.2% for Security Services, 21.1% and 33.4% for Cleaning Services, 13.5% and 14.8% for Construction Work, 17.8% and 10.6% for Materials and Supplies Sourcing Services, 8.3% and 2.5% for Vending Machine Services, and 5.0% and 1.8% for Support Services. 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, government offices, and events. The company operates a recurring revenue business model. Contracts typically last for one year and are usually renewed, maintaining low cancellation rates.

Overseas, the company is active in China, Malaysia, Vietnam, and Indonesia, operating in the Facilities Management, Security Services, Cleaning Services, and Support Services segments. Around half of overseas customers are members of the Aeon group. Overseas operations accounted for 7.8% of sales in FY02/22. The company uses 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.

Trends and outlook

For FY02/22, the company reported sales of JPY317.7bn (+5.9% YoY), operating profit of JPY15.7bn (+3.3% YoY), recurring profit of JPY15.8bn (+3.4% YoY), and net income attributable to owners of the parent of JPY10.7bn (-8.7% YoY). Sales rose YoY in all seven segments, and operating profit was up in all but two (Construction Work and Vending Machine Services). The Cleaning Services segment saw increases in sales and profit and buoyed overall performance. This segment benefited from the pandemic, as the company was called upon to clean entire facilities with alcohol disinfectant whenever someone there tested positive for COVID-19. In the Construction Work segment, sales rose but profit fell. Sales benefited from orders for restoration work related to the Fukushima Prefecture Offshore earthquake in February 2021. However, various construction projects were postponed or scaled back due to the pandemic. Despite an extraordinary gain associated with the sale of fixed assets at a subsidiary, net income attributable to owners of the parent declined YoY due to higher income taxes. The annual dividend was JPY84.0/share (payout ratio of 39.4%).

The company forecast for FY02/23 calls for sales of JPY310.0bn (-2.4% YoY), operating profit of JPY17.0bn (+8.1% YoY), recurring profit of JPY17.0bn (+7.7% YoY), net income attributable to owners of the parent of JPY10.7bn (+0.3%), EPS of JPY213.9, and annual dividends per share of JPY85.0 (payout ratio of 39.7%). The expected YoY decline in sales is due to the application from FY02/23 of the new Accounting Standard for Revenue Recognition. The company's sales forecast equates to a 9.3% YoY increase in sales under the previous accounting standard. The company expects COVID-19 to have a JPY800mn negative effective on operating profit. Even so, the company forecasts YoY increases in operating profit and all accounting line items below that point due to higher sales and efforts to reduce costs.

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.

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 attributable to owners of the parent of JPY14.0bn. By FY02/24, the company aims to increase sales within the Aeon group by JPY25.0bn versus FY02/21 to JPY220.0bn (60% of total sales, -5pp versus FY02/21), while growing sales outside the Aeon group by JPY35.0bn to

JPY140.0bn (40% of total sales, +5pp versus FY02/21) and raising OPM to 6.0% (+0.9pp versus FY02/21). The company intends to raise the dividend payout ratio to the 40% level by FY02/24.

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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22	FY02/23
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Est.
Sales	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**	**300,085**	**317,657**	**310,000**
YoY	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	-2.8%	5.9%	-2.4%
Gross profit	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	37,175	39,498	
YoY	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	-3.6%	6.2%	
Gross profit margin	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%	12.4%	
Operating profit	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230	15,733	17,000
YoY	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	-4.8%	3.3%	8.1%
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%	5.0%	5.5%
Recurring profit	13,892	14,600	15,472	14,534	14,263	13,381	13,362	15,949	15,268	15,789	17,000
YoY	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	-4.3%	3.4%	7.7%
Recurring profit margin	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.1%	5.0%	5.5%
Net income	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**	**11,680**	**10,665**	**10,700**
YoY	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	24.9%	-8.7%	0.3%
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%	3.4%	3.5%
Per-share data											
Shares issued (year-end; '000)	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	54,170	
EPS	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2	233.7	213.3	213.9
EPS (fully diluted)	142.7	133.8	151.3	137.6	134.6	121.3	122.6	186.9	233.5	213.1	
Dividend per share	46	48	50	52	55	61	63	65	82	84	85
Book value per share	1,202	1,303	1,400	1,471	1,559	1,637	1,466	1,579	1,747	1,891	
Balance sheet (JPYmn)											
Cash and cash equivalents	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355	59,773	68,282	
Total current assets	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**	**110,008**	**121,013**	
Tangible fixed assets	3,796	4,258	4,361	7,061	9,064	10,041	10,161	9,671	9,481	7,080	
Investments and other assets	5,257	5,829	6,268	8,176	8,904	8,512	7,578	7,698	11,557	9,111	
Intangible assets	12,321	11,008	10,320	10,006	8,802	7,813	8,103	7,185	5,518	5,653	
Total assets	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**	**136,565**	**142,859**	
Accounts payable	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388	22,170	22,070	
Short-term debt	10	5	-	-	271	225	394	252	299	247	
Total current liabilities	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**	**44,123**	**43,892**	
Long-term debt	5	-	-	-	293	-	15	11	-	-	
Total fixed liabilities	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**	**4,160**	**3,544**	
Total liabilities	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**	**48,283**	**47,437**	
Total net assets	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**	**88,281**	**95,421**	
Cash flow statement(JPYmn)											
Cash flows from operating activities	-4,358	21,359	17,234	10,303	11,703	13,568	12,373	7,371	10,403	12,598	
Cash flows from investing activities	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838	-7,325	-386	
Cash flows from financing activities	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392	-5,324	-4,572	
Financial ratios											
Total interest-bearing debt	15	5	-	-	564	225	409	263	299	247	
Net cash	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092	59,474	68,035	
ROA (RP-based)	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%	11.2%	11.3%	
ROE	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%	14.1%	11.7%	
Equity ratio	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%	64.0%	66.2%	

Source: Shared Research based on company data

Note: From FY02/23, the company has adopted the new Accounting Standard for Revenue Recognition, which will affect the way sales are recorded. Operating profit and line items below are not affected.

Recent updates

Retirement of treasury stock

2022-04-08

On April 7, 2022, Aeon Delight Co., Ltd. has announced the retirement of treasury stock.

Class of shares to be retired: Common stock of the company
Number of shares to be retired: 3,500,000 (6.46% of total shares issued before retirement)
Scheduled date of retirement: April 28, 2022

The total number of shares issued after the retirement will be 50,669,633 shares.

Structural reforms

2022-04-01

On March 31, 2022, Aeon Delight Co., Ltd. announced structural reforms.

The company formulated a thee-year medium-term management plan starting in FY02/22 and has been progressing a range of initiatives consistent with the basic policies of customer-oriented management, promotion of digital transformation (DX), and group management. The company plans to reorganize to accelerate the implementation of these basic policies.

The reorganization takes effect on April 1, 2022. The company will reorganize the role of Officer in charge of Marketing DX and establish the new position of COO of Japan Group Companies under the direct control of the president. The company will also perform reforms in divisions under the supervision of Officer in charge of Marketing DX, COO of Japan Group Companies, COO of ASEAN Business, Officer in charge of Materials and Vending Machines Business.

Partnership building declaration

2022-03-28

On March 25, 2022, Aeon Delight Co., Ltd. announced a partnership building declaration.

On March 22, 2022, the company unveiled its own partnership building declaration in support of the "Declaration of Partnership Building" framework initiated by the Council on Promoting Partnership Building for Cultivating the Future whose members include the chairs of Keidanren and Japan Chamber of Commerce and Industry, and the president of the Japanese Trade Union Confederation (Rengo). Other members are government ministers (the Minister of State for Economic and Fiscal Policy, the Minister of Economy, Trade and Industry, the Minister of Health, Labour and Welfare, the Minister of Agriculture, Forestry and Fisheries, and the Minister of Land, Infrastructure, Transport and Tourism).

Training of 37 infection control cleaning team leaders

2022-02-28

On February 25, 2022, Aeon Delight Co., Ltd. made an announcement regarding the training of 37 infection control cleaning team leaders.

In September 2021, Aeon Delight established the Advanced Course training program aimed at fostering team leaders for the company's New Standard Cleaning services incorporating proprietary measures for epidemic prevention through infection control. In February 2022, 37 people were certified as the first graduates.

As infection control cleaning team leaders, graduates of the Advanced Course will advise customers on how New Standard Cleaning can assist in quality improvement and epidemic prevention, while also taking responsibility for instructing other infection control cleaning specialists.

Plans to accelerate provision of eco-friendly products toward achieving a sustainable society

2022-02-25

On February 24, 2022, Aeon Delight Co., Ltd. announced its plan to accelerate the shift to the provision of eco-friendly products toward achieving a sustainable society.

Based on the Aeon Plastic Usage Policy which aims to reduce the disposable plastic usage volume by half by 2030 (compared with 2018), the company will expand the number and volume of eco-friendly products delivered to and used at Aeon group company stores.

The company has provided group companies with products whose materials have changed from plastics to paper-based materials or biomass plastics. In FY2021, by providing paper and wooden cutlery and paper straws, the company expects to contribute to reducing the disposable plastic usage volume by about 150 tons for the year.

Trends and outlook

Quarterly trends and results

Cumulative		FY02/20				FY02/21				FY02/22			FY02/22	
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of Est.	FY Est.
Sales	79,048	157,482	232,643	308,582	73,532	149,734	224,398	300,085	79,688	163,907	240,715	317,657	97.7%	325,000
YoY	3.5%	3.2%	2.6%	1.9%	-7.0%	-4.9%	-3.5%	-2.8%	8.4%	9.5%	7.3%	5.9%		8.3%
Gross profit	9,632	19,763	29,014	38,570	8,963	18,239	27,561	37,175	9,765	20,462	29,832	39,498		
YoY	3.1%	13.2%	12.3%	8.8%	-6.9%	-7.7%	-5.0%	-3.6%	8.9%	12.2%	8.2%	6.2%		
Gross profit margin	12.2%	12.5%	12.5%	12.5%	12.2%	12.2%	12.3%	12.4%	12.3%	12.5%	12.4%	12.4%		
SG&A expenses	5,832	11,168	16,909	22,569	5,507	10,738	16,347	21,945	6,036	12,035	17,979	23,764		
YoY	5.0%	-0.2%	-0.1%	0.7%	-5.6%	-3.9%	-3.3%	-2.8%	9.6%	12.1%	10.0%	8.3%		
SG&A ratio	7.4%	7.1%	7.3%	7.3%	7.5%	7.2%	7.3%	7.3%	7.6%	7.3%	7.5%	7.5%		
Operating profit	3,800	8,594	12,104	16,001	3,455	7,500	11,214	15,230	3,728	8,427	11,852	15,733	95.4%	16,500
YoY	0.4%	37.0%	35.8%	22.8%	-9.1%	-12.7%	-7.4%	-4.8%	7.9%	12.4%	5.7%	3.3%		8.3%
Operating profit margin	4.8%	5.5%	5.2%	5.2%	4.7%	5.0%	5.0%	5.1%	4.7%	5.1%	4.9%	5.0%		5.1%
Recurring profit	3,822	8,655	12,189	15,949	3,459	7,496	11,245	15,268	3,751	8,489	11,943	15,789	95.7%	16,500
YoY	0.2%	36.3%	31.0%	19.4%	-9.5%	-13.4%	-7.7%	-4.3%	8.4%	13.2%	6.2%	3.4%		8.1%
Recurring profit margin	4.8%	5.5%	5.2%	5.2%	4.7%	5.0%	5.0%	5.1%	4.7%	5.2%	5.0%	5.0%		5.1%
Net income	2,070	5,181	7,369	9,348	2,991	3,943	6,326	11,680	2,507	5,557	8,495	10,665	101.6%	10,500
YoY	0.1%	82.6%	89.3%	45.7%	44.5%	-23.9%	-14.2%	24.9%	-16.2%	40.9%	34.3%	-8.7%		-10.1%
Net margin	2.6%	3.3%	3.2%	3.0%	4.1%	2.6%	2.8%	3.9%	3.1%	3.4%	3.5%	3.4%		3.2%
Quarterly		FY02/20				FY02/21				FY02/22				
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	79,048	78,434	75,161	75,939	73,532	76,202	74,664	75,687	79,688	84,219	76,808	76,942		
YoY	3.5%	2.9%	1.4%	-0.3%	-7.0%	-2.8%	-0.7%	-0.3%	8.4%	10.5%	2.9%	1.7%		
Gross profit	9,632	10,131	9,251	9,556	8,963	9,276	9,322	9,614	9,765	10,697	9,370	9,666		
YoY	3.1%	24.8%	10.4%	-0.6%	-6.9%	-8.4%	0.8%	0.6%	8.9%	15.3%	0.5%	0.5%		
Gross profit margin	12.2%	12.9%	12.3%	12.6%	12.2%	12.2%	12.5%	12.7%	12.3%	12.7%	12.2%	12.6%		
SG&A expenses	5,832	5,336	5,741	5,660	5,507	5,231	5,609	5,598	6,036	5,999	5,944	5,785		
YoY	5.0%	-5.2%	-	3.0%	-5.6%	-2.0%	-2.3%	-1.1%	9.6%	14.7%	6.0%	3.3%		
SG&A ratio	7.4%	6.8%	7.6%	7.5%	7.5%	6.9%	7.5%	7.4%	7.6%	7.1%	7.7%	7.5%		
Operating profit	3,800	4,794	3,510	3,897	3,455	4,045	3,714	4,016	3,728	4,699	3,425	3,881		
YoY	0.4%	92.5%	33.1%	-5.3%	-9.1%	-15.6%	5.8%	3.1%	7.9%	16.2%	-7.8%	-3.4%		
Operating profit margin	4.8%	6.1%	4.7%	5.1%	4.7%	5.3%	5.0%	5.3%	4.7%	5.6%	4.5%	5.0%		
Recurring profit	3,822	4,833	3,534	3,760	3,459	4,037	3,749	4,023	3,751	4,738	3,454	3,846		
YoY	0.2%	90.8%	19.5%	-7.3%	-9.5%	-16.5%	6.1%	7.0%	8.4%	17.4%	-7.9%	-4.4%		
Recurring profit margin	4.8%	6.2%	4.7%	5.0%	4.7%	5.3%	5.0%	5.3%	4.7%	5.6%	4.5%	5.0%		
Net income	2,070	3,111	2,188	1,979	2,991	952	2,383	5,354	2,507	3,050	2,938	2,170		
YoY	0.1%	303.5%	107.4%	-21.5%	44.5%	-69.4%	8.9%	170.5%	-16.2%	220.4%	23.3%	-59.5%		
Net margin	2.6%	4.0%	2.9%	2.6%	4.1%	1.2%	3.2%	7.1%	3.1%	3.6%	3.8%	2.8%		

Source: Shared Research based on company data

Segment performance		FY02/20				FY02/21				FY02/22		
Cumulative (JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4
Sales	79,048	157,482	232,643	308,582	73,532	149,734	224,398	300,085	79,688	163,907	240,715	317,657
YoY	3.5%	3.2%	2.6%	1.9%	-7.0%	-4.9%	-3.5%	-2.8%	8.4%	9.5%	7.3%	5.9%
Facilities Management	14,928	29,628	44,259	58,289	14,511	29,086	43,831	58,223	15,507	31,006	46,474	61,538
YoY	5.9%	5.4%	4.0%	3.4%	-2.8%	-1.8%	-1.0%	-0.1%	6.9%	6.6%	6.0%	5.7%
Security Services	11,143	22,183	33,304	44,647	10,843	21,695	32,966	44,393	11,638	23,645	35,422	47,239
YoY	0.6%	0.5%	0.1%	0.3%	-2.7%	-2.2%	-1.0%	-0.6%	7.3%	9.0%	7.5%	6.4%
Cleaning Services	15,401	30,928	46,527	62,362	15,008	30,427	46,085	62,459	16,568	34,106	50,470	66,963
YoY	8.1%	8.0%	8.0%	7.2%	-2.6%	-1.6%	-0.9%	0.2%	10.4%	12.1%	9.5%	7.2%
Construction Work	12,014	23,103	32,024	41,844	11,523	22,120	31,026	40,657	11,205	24,776	33,697	43,015
YoY	14.4%	6.6%	3.4%	0.9%	-4.1%	-4.3%	-3.1%	-2.8%	-2.8%	12.0%	8.6%	5.8%
Materials and Supplies Sourcing	12,987	25,913	38,554	51,125	12,957	26,609	39,646	53,060	14,126	28,779	42,771	56,497
YoY	0.6%	-0.4%	-0.6%	0.2%	-0.2%	2.7%	2.8%	3.8%	9.0%	8.2%	7.9%	6.5%
Vending Machine Services	7,699	16,075	23,760	31,544	4,725	12,054	19,057	25,453	6,529	13,535	19,789	26,353
YoY	-5.0%	-1.9%	-1.0%	-1.3%	-38.6%	-25.0%	-19.8%	-19.3%	38.2%	12.3%	3.8%	3.5%
Support Services	4,872	9,647	14,211	18,768	3,963	7,739	11,784	15,837	4,113	8,055	12,090	16,049
YoY	-10.3%	-0.6%	1.2%	-3.5%	-18.7%	-19.8%	-17.1%	-15.6%	3.8%	4.1%	2.6%	1.3%
Other	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit	3,800	8,594	12,104	16,001	3,455	7,500	11,214	15,230	3,728	8,427	11,852	15,733
YoY	0.4%	37.0%	35.8%	22.8%	-9.1%	-12.7%	-7.4%	-4.8%	7.9%	112.4%	5.7%	3.3%
Operating profit margin	4.8%	5.5%	5.2%	5.2%	4.7%	5.0%	5.0%	5.1%	4.7%	5.1%	4.9%	5.0%
Facilities Management	1,433	2,789	4,039	5,293	1,256	2,549	3,916	5,175	1,275	2,622	4,038	5,495
YoY	-3.0%	-0.8%	-5.0%	-4.8%	-12.4%	-8.6%	-3.0%	-2.2%	1.5%	2.9%	3.1%	6.2%
Operating profit margin	9.6%	9.4%	9.1%	9.1%	8.7%	8.8%	8.9%	8.9%	8.2%	8.5%	8.7%	8.9%
Security Services	730	1,412	2,207	3,038	763	1,594	2,387	3,307	796	1,702	2,596	3,435
YoY	1.1%	0.6%	4.2%	5.4%	4.5%	12.9%	8.2%	8.9%	4.3%	6.8%	8.8%	3.9%
Operating profit margin	6.6%	6.4%	6.6%	6.8%	7.0%	7.3%	7.2%	7.4%	6.8%	7.2%	7.3%	7.3%
Cleaning Services	1,724	3,510	5,291	6,967	1,646	3,430	5,340	7,324	1,974	4,276	6,172	8,106
YoY	2.4%	6.2%	5.8%	4.1%	-4.5%	-2.3%	0.9%	5.1%	19.9%	24.7%	15.6%	10.7%
Operating profit margin	11.2%	11.3%	11.4%	11.2%	11.0%	11.3%	11.6%	11.7%	11.9%	12.5%	12.2%	12.1%
Construction Work	1,094	2,174	2,843	3,816	1,139	2,081	2,879	3,880	1,067	2,250	2,861	3,583
YoY	10.6%	7.8%	-1.3%	-4.3%	4.1%	-4.3%	1.3%	1.7%	-6.3%	8.1%	-0.6%	-7.7%
Operating profit margin	9.1%	9.4%	8.9%	9.1%	9.9%	9.4%	9.3%	9.5%	9.5%	9.1%	8.5%	8.3%
Materials and Supplies Sourcing	712	1,355	1,946	2,489	612	1,284	1,851	2,467	656	1,362	1,932	2,560
YoY	-4.2%	-9.4%	-8.9%	-10.4%	-14.0%	-5.2%	-4.9%	-0.9%	7.2%	6.1%	4.4%	3.8%
Operating profit margin	5.5%	5.2%	5.0%	4.9%	4.7%	4.8%	4.7%	4.6%	4.6%	4.7%	4.5%	4.5%
Vending Machine Services	256	705	948	1,396	-10	357	563	653	116	353	414	608
YoY	-38.9%	32.3%	24.1%	19.9%	-	-49.4%	-40.6%	-53.2%	-	-1.1%	-26.5%	-6.9%
Operating profit margin	3.3%	4.4%	4.0%	4.4%	-0.2%	3.0%	3.0%	2.6%	1.8%	2.6%	2.1%	2.3%
Support Services	-124	254	441	416	8	-100	-171	-75	119	255	330	441
YoY	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit margin	-2.5%	2.6%	3.1%	2.2%	0.2%	-1.3%	-1.5%	-0.5%	2.9%	3.2%	2.7%	2.7%
Eliminations, goodwill, other	-2,025	-3,605	-5,611	-7,414	-1,959	-3,695	-5,551	-7,502	-2,277	-4,394	-6,491	-8,497
Segment performance		FY02/20				FY02/21				FY02/22		

Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	79,048	78,434	75,161	75,939	73,532	76,202	74,664	75,687	79,688	84,219	76,808	76,942
YoY	3.5%	2.9%	1.4%	-0.3%	-7.0%	-2.8%	-0.7%	-0.3%	8.4%	10.5%	2.9%	1.7%
Facilities Management	14,928	14,700	14,631	14,030	14,511	14,575	14,745	14,392	15,507	15,499	15,468	15,064
YoY	5.9%	4.9%	1.3%	1.7%	-2.8%	-0.9%	0.8%	2.6%	6.9%	6.3%	4.9%	4.7%
Security Services	11,143	11,040	11,121	11,343	10,843	10,852	11,271	11,427	11,638	12,007	11,777	11,817
YoY	0.6%	0.4%	-0.9%	1.2%	-2.7%	-1.7%	1.3%	0.7%	7.3%	10.6%	4.5%	3.4%
Cleaning Services	15,401	15,527	15,599	15,835	15,008	15,419	15,658	16,374	16,568	17,538	16,364	16,493
YoY	8.1%	7.9%	7.9%	4.9%	-2.6%	-0.7%	0.4%	3.4%	10.4%	13.7%	4.5%	0.7%
Construction Work	12,014	11,089	8,921	9,820	11,523	10,597	8,906	9,631	11,205	13,571	8,921	9,318
YoY	14.4%	-0.8%	-3.9%	-6.5%	-4.1%	-4.4%	-0.2%	-1.9%	-2.8%	28.1%	0.2%	-3.2%
Materials and Supplies Sourcing	12,987	12,926	12,641	12,571	12,957	13,652	13,037	13,414	14,126	14,653	13,992	13,726
YoY	0.6%	-1.4%	-1.0%	2.8%	-0.2%	5.6%	3.1%	6.7%	9.0%	7.3%	7.3%	2.3%
Vending Machine Services	7,699	8,376	7,685	7,784	4,725	7,329	7,003	6,396	6,529	7,006	6,254	6,564
YoY	-5.0%	1.1%	0.9%	-2.1%	-38.6%	-12.5%	-8.9%	-17.8%	38.2%	-4.4%	-10.7%	2.6%
Support Services	4,872	4,775	4,564	4,557	3,963	3,776	4,045	4,053	4,113	3,942	4,035	3,959
YoY	-10.3%	11.7%	5.1%	-15.5%	-18.7%	-20.9%	-11.4%	-11.1%	3.8%	4.4%	-0.2%	-2.3%
Other	-	-	-	-	-	-	-	-	-	-	-	-
Operating profit	3,800	4,794	3,510	3,897	3,455	4,045	3,714	4,016	3,728	4,699	3,425	3,881
YoY	0.4%	92.5%	33.1%	-5.3%	-9.1%	-15.6%	5.8%	3.1%	7.9%	16.2%	-7.8%	-3.4%
Operating profit margin	4.8%	6.1%	4.7%	5.1%	4.7%	5.3%	5.0%	5.3%	4.7%	5.6%	4.5%	5.0%
Facilities Management	1,433	1,356	1,250	1,254	1,256	1,293	1,367	1,259	1,275	1,347	1,416	1,457
YoY	-3.0%	1.6%	-13.1%	-4.1%	-12.4%	-4.6%	9.4%	0.4%	1.5%	4.2%	3.6%	15.7%
Operating profit margin	9.6%	9.2%	8.5%	8.9%	8.7%	8.9%	9.3%	8.7%	8.2%	8.7%	9.2%	9.7%
Security Services	730	682	795	831	763	831	793	920	796	906	894	839
YoY	1.1%	0.1%	11.0%	9.1%	4.5%	21.8%	-0.3%	10.7%	4.3%	9.0%	12.7%	-8.8%
Operating profit margin	6.6%	6.2%	7.1%	7.3%	7.0%	7.7%	7.0%	8.1%	6.8%	7.5%	7.6%	7.1%
Cleaning Services	1,724	1,786	1,781	1,676	1,646	1,784	1,910	1,984	1,974	2,302	1,896	1,934
YoY	2.4%	10.1%	5.1%	-1.1%	-4.5%	-0.1%	7.2%	18.4%	19.9%	29.0%	-0.7%	-2.5%
Operating profit margin	11.2%	11.5%	11.4%	10.6%	11.0%	11.6%	12.2%	12.1%	11.9%	13.1%	11.6%	11.7%
Construction Work	1,094	1,080	669	973	1,139	942	798	1,001	1,067	1,183	611	722
YoY	10.6%	5.2%	-22.7%	-12.2%	4.1%	-12.8%	19.3%	2.9%	-6.3%	25.6%	-23.4%	-27.9%
Operating profit margin	9.1%	9.7%	7.5%	9.9%	9.9%	8.9%	9.0%	10.4%	9.5%	8.7%	6.8%	7.7%
Materials and Supplies Sourcing	712	643	591	543	612	672	567	616	656	706	570	628
YoY	-4.2%	-14.5%	-7.8%	-15.6%	-14.0%	4.5%	-4.1%	13.4%	7.2%	5.1%	0.5%	1.9%
Operating profit margin	5.5%	5.0%	4.7%	4.3%	4.7%	4.9%	4.3%	4.6%	4.6%	4.8%	4.1%	4.6%
Vending Machine Services	256	449	243	448	-10	367	206	90	116	237	61	194
YoY	-38.9%	293.9%	5.2%	12.0%	-	-18.3%	-15.2%	-79.9%	-	-35.4%	-70.4%	115.6%
Operating profit margin	3.3%	5.4%	3.2%	5.8%	-0.2%	5.0%	2.9%	1.4%	1.8%	3.4%	1.0%	3.0%
Support Services	-124	378	187	-25	8	-108	-71	96	119	136	75	111
YoY	-	-	-	-	-	-	-	-	-	-	-	15.6%
Operating profit margin	-2.5%	7.9%	4.1%	-0.5%	0.2%	-2.9%	-1.8%	2.4%	2.9%	3.5%	1.9%	2.8%

Source: Shared Research based on company data

FY02/22 results

- Sales: JPY317.7bn (+5.9% YoY)
- Operating profit: JPY15.7bn (+3.3% YoY)
- Recurring profit: JPY15.8bn (+3.4% YoY)
- Net income: JPY10.7bn (-8.7% YoY)

Sales expanded in all seven segments, and operating profit rose in five of the seven, with Construction Work and Vending Machine Services being the exceptions.

- Gross profit was JPY39.5bn (+6.2% YoY), and GPM was 12.4% (flat YoY). Services for disinfectant cleaning at facilities with COVID-19 exposures boosted GPM. This positive impact was offset by lower-margin orders in Construction Work, such as restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake.

- SG&A expenses were JPY23.8bn (+8.3% YoY), and the SG&A expense ratio was 7.5% (+0.2pp YoY). Although the company worked to automate operations, reduce labor, and lower costs mainly in Facilities Management and Security Services, personnel expenses rose due to increased hiring and training of new graduates and mid-career recruits, and to growth in expenses to promote area management and digital transformation (DX).

Net income attributable to owners of the parent decreased. As positive factors, the company sold two properties, including one that housed the headquarters of a subsidiary, and booked a JPY1.2bn gain on the sale of fixed assets as extraordinary profit. Another positive factor for net income was the dropout of the year-earlier JPY1.3bn extraordinary loss on the sale of businesses associated with the divestiture of the ID photo machine business. Although pre-tax profit rose accordingly, higher income taxes resulted in a YoY decline in net income.

Progress versus full-year company forecast

As a percentage of full-year company forecasts for FY02/22, sales came to 97.7% (95.3% in FY02/21), operating profit to 95.4% (92.3%), recurring profit to 95.7% (92.5%), and net income attributable to owners of the parent to 101.6% (116.8%).

Sales, operating profit, and recurring profit undershot company forecasts. In 1H FY02/22, performance outpaced company forecasts due to special cleaning at facilities with COVID-19 exposures and restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake. However, the pandemic resurged in 2H, leading to delays and cutbacks on projects in the Construction Work segment. This outbreak also delayed recovery in Vending Machine Services, affecting full-year results. COVID-19 had a JPY1.2bn impact on operating profit, higher than the JPY500mn the company had initially expected.

Net income attributable to owners of the parent exceeded the full-year company forecast, which had not factored in extraordinary gains on the sale of fixed assets at a consolidated subsidiary.

Quarterly results

- Q1 FY02/22 (March—May 2021): Sales came to JPY79.7bn (+8.4% YoY) and operating profit to JPY3.7bn (+7.9% YoY). Sales and profit increased in six of the seven segments. Construction Work was the exception due to some delays in construction work. Performance was supported in particular by Cleaning Services. Operating profit expanded in tandem with sales growth.

- Q2 FY02/22 (June—August 2021): Sales came to JPY84.2bn (+10.5% YoY) and operating profit to JPY4.7bn (+16.2% YoY). Sales and profit increased in six of the seven segments, with Vending Machine Services being the exception. Earnings were mainly driven by Cleaning Services and Construction Work. In Cleaning Services, contracts for unscheduled disinfectant cleaning at facilities with COVID-19 exposures increased. In Construction Work, the company undertook restoration work at Aeon group facilities that were affected by the Fukushima Prefecture Offshore earthquake in February 2021.

- Q3 FY02/22 (September—November 2021): Sales came to JPY76.8bn (+2.9% YoY) and operating profit to JPY3.4bn (-7.8% YoY). The rate of sales growth fell QoQ, lowering operating profit. The main factors affecting performance were (1) lower orders for disinfectant cleaning using alcohol in Cleaning Services (due to a nationwide decline in COVID-19 cases), (2) some delays in construction work in Construction Work, and (3) a drop in sales of beverages from vending machines in Vending Machine Services.

- Q4 FY02/22 (December 2021—February 2022): Sales came to JPY76.9bn (+1.7% YoY), and operating profit was JPY3.9bn (-3.4% YoY). The rate of sales growth fell QoQ, lowering operating profit. The main reason was project delays in the Construction Work segment.

Segment trends

Sales expanded in all seven segments, and operating profit rose in five of the seven, with Construction Work and Vending Machine Services being the exceptions.

Facilities Management

- Sales: JPY61.5bn (+5.7% YoY)
- Operating profit: JPY5.5bn (+6.2% YoY)
- OPM: 8.9% (flat YoY)

Sales increased. The company acquired stores of new Aeon group companies as customers, as well as manufacturers and financial institutions outside the group. It set up a sales department that specializes in cultivating new customers, worked to increase the transparency of—and share information about—its sales activities, and analyzed processes that lead to signed contracts. These organizational initiatives strengthened sales. The company stepped up account management initiatives for key customers (discussed below). There were no changes in the shares of sales inside and outside the Aeon group.

Profit increased as the company promoted area management (discussed below) directed toward reforming its work processes.

Quarterly results

- 1H FY02/22: Sales came to JPY31.0bn (+6.6% YoY), operating profit to JPY2.6bn (+2.9% YoY), and OPM to 8.5% (-0.3pp YoY). The company achieved sales and profit growth by adding new customers and expanding its services to existing customers.

- Q3 FY02/22: Sales came to JPY15.5bn (+4.9% YoY), operating profit to JPY1.4bn (+3.6% YoY), and OPM to 9.2% (-0.1pp YoY). The company acquired new Aeon group stores and manufacturers and financial institutions outside the group as new customers, and it expanded its services to existing customers.

- Q4 FY02/22: Sales came to JPY15.1bn (+4.7% YoY), operating profit to JPY1.5bn (+15.7% YoY), and OPM to 9.7% (+0.1pp YoY). The company acquired stores of new Aeon group companies as customers and expanded services to existing customers. Extraordinary factors pushed up OPM.

Account management

The company reinforced its account management initiatives. Instead of communicating with customers on a segment basis as in the past, it appointed account managers for key clients and centrally manages customer information. It expanded transaction volume by deepening its understanding of customers and various industries, and accordingly improving customer satisfaction and referring customers to other segments. The company provided services across the segments in a single package (for example, Construction Work carries out an order associated with Facilities Management), and offered the same services nationwide to clients.

The company promoted industry-specific proposals. In addition to analyzing data on customers and various industries collected through account management, the company made use of personnel familiar with target industries. In FY02/22, it grew sales by strengthening sales to manufacturers who have become increasingly sensitive to cost management amid the COVID-19 pandemic, and by capturing outsourcing demand. In FY02/23, it looks to build sales infrastructure that concentrates on the hotel, hospital, and other sectors where demand is expected to recover, and provide solutions-based sales.

Area management

In March 2021, Aeon Delight set up customer service centers at all eight branches in Japan and rolled out remote support systems. The company also achieved labor-saving on-site as it installed systems and sensors at its facilities. This infrastructure enabled cost reductions through labor-saving and automation based on area management, which involves the sharing of facilities management personnel in a set area. The company first launched the area management concept with a focus on Aeon Retail stores among the several thousand facilities under contract. It has FY02/24 targets of 360 area-managed facilities and the reduction of 180 facilities management personnel. The company introduced the system at 151 facilities and had reduced the facilities management headcount by 115 as of end-FY02/22.

In FY02/22, the company experienced only limited cost benefits from reduced headcount. From Q3 FY02/22, personnel affected by these changes were redeployed to facility management positions at new properties outside the Aeon group or to sales positions, placed in charge of proposing construction estimates, or made site supervisors. The limited cost-reduction impact was because new projects for customers under contract outside the Aeon group fell below the company's expectations. The company anticipates that the results of personnel redeployment in area management will become apparent in FY02/23.

Area management should reduce the number of personnel assigned to customer facilities and reduce the amount customers pay. However, the company has maintained the quality of facilities management using remote support, and worked to increase the spend per customer by negotiating an increase in fees per on-site personnel, and by collaborating on providing services with other segments.

Security Services

- Sales: JPY47.2bn (+6.4% YoY)
- Operating profit: JPY3.4bn (+3.9% YoY)
- OPM: 7.3% (-0.1pp YoY)

Sales expanded as growth in new contracts for new Aeon group stores, large automakers' factories, and others outside the Aeon group pushed up the number of customers under contract, and because demand for event security and other services recovered. Contract prices were unchanged YoY.

Operating profit rose in tandem with growth in the number of contracts. Labor costs were rising in the security sector due to chronic worker shortages. The company continued negotiations to optimize unit prices and worked to automate systems to handle tasks such as facility entry/exit management and store opening/closing, with the aim of improving profitability. As a result, OPM remained flat YoY.

In China, earnings from existing customers were stable, as the company signed new project contracts for complexes and condominiums, and the impact of the pandemic waned. Shared Research understands that the Security Services segment generated around JPY5.0bn in sales in China.

Quarterly results

- 1H FY02/22: Sales came to JPY23.6bn (+9.0% YoY), operating profit to JPY1.7bn (+6.8% YoY), and OPM to 7.2% (-0.1pp YoY). The company continued to win new customers outside the Aeon group, and benefited from rising orders for event crowd control and transport security. It conducted price negotiations and worked on automation measures in an effort to improve profitability.

- Q3 FY02/22: Sales came to JPY11.8bn (+4.5% YoY), operating profit to JPY894mn (+12.7% YoY), and OPM to 7.6% (+0.6pp YoY). Growth in new contracts for new Aeon group stores and customers outside the Aeon group drove up sales. OPM improved as the effects of automation efforts started to manifest.

- Q4 FY02/22: Sales came to JPY11.8bn (+3.4% YoY), operating profit to JPY839mn (-8.8% YoY), and OPM to 7.1% (-1.0pp YoY). The company received contracts to provide security at sporting events and the factories of large automakers.

Progress on automation

The company has introduced security systems at some 200 stores, which has helped curtail the number of security personnel. In FY02/22, the company incurred some costs for this automation (although not a large amount), which it expects to bolster profitability in FY02/23.

Cleaning Services

- Sales: JPY67.0bn (+7.2% YoY)
- Operating profit: JPY8.1bn (+10.7% YoY)
- OPM: 12.1% (+0.4pp YoY)

Sales and profit improved, boosting companywide performance. The company expanded disinfectant cleaning, quarantine-related cleaning, and special cleaning services to prevent the further spread of COVID-19. It won new customers and expanded contracts from existing customers. The number of customers under recurring revenue contracts increased as some customers who had previously requested one-time services switched to recurring contracts. The company also worked to introduce and expand special cleaning services at customers outside the Aeon group such as New Standard Cleaning, a cleaning method to maintain a hygienic, attractive environment based on the company's own cleaning service that was previously provided to hospitals.

Quarterly results

- 1H FY02/22: Sales came to JPY34.1bn (+12.1% YoY), operating profit to JPY4.3bn (+24.7% YoY), and OPM to 12.5% (+1.2pp YoY). Sales and profit increased as the company won new customers and expanded orders from existing customers. Margins improved on increased adoption of services such as New Standard Cleaning, a high-margin special cleaning service, and thanks to growth in contracts for unscheduled disinfectant cleaning at facilities with COVID-19 exposures.

- Q3 FY02/22: Sales came to JPY16.4bn (+4.5% YoY), operating profit to JPY1.9bn (-0.7% YoY), and OPM to 11.6% (-0.6pp YoY). Contracts from new Aeon group stores supported the growth in sales. However, sales growth slowed on a drop in orders for disinfectant cleaning using alcohol as the number of COVID-19 cases declined across the country. Profitability also worsened due to a drop in the number of orders for high-margin special cleaning services.

- Q4 FY02/22: Sales came to JPY16.5bn (+0.7% YoY), operating profit to JPY1.9bn (-2.5% YoY), and OPM to 11.7% (-0.4pp YoY). A resurgence in COVID-19 led to contracts for unscheduled disinfectant cleaning at facilities with COVID-19 exposures. However, much of this cleaning was simple, and instances of highly profitable special cleaning for customers under contact fell, sapping profitability.

Construction Work

- Sales: JPY43.0bn (+5.8% YoY)
- Operating profit: JPY3.6bn (-7.7% YoY)
- OPM: 8.3% (-1.2pp YoY)

Sales increased, while profit fell. Sales rose due to restoration work related to the Fukushima Prefecture Offshore earthquake in February 2021. Although some large construction work continued to be postponed, scaled back, or canceled, the company redoubled sales efforts targeting renovation work for customers in and outside the Aeon group. This initiative boosted sales. OPM for restoration and renovation work is lower than for large-scale construction, so operating profit decreased.

Quarterly results

- 1H FY02/22: Sales came to JPY24.8bn (+12.0% YoY), operating profit to JPY2.3bn (+8.1% YoY), and OPM to 9.1% (-0.3pp YoY). In Q1, some construction work was delayed due to the COVID-19 pandemic, leading to a decline in sales and profit. In Q2, however, sales and profit rose due to restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake at Aeon group facilities, and to an expanded volume of renovation contracts outside the Aeon group.

- Q3 FY02/22: Sales came to JPY8.9bn (+0.2% YoY), operating profit to JPY611mn (-23.4% YoY), and OPM to 6.8% (-2.2pp YoY). Factors negatively affecting sales included delays in and cancellations of large-scale construction work, and delayed deliveries of air conditioning and other equipment attributable to disruptions in distribution and semiconductor shortages. Profit declined as the company increased low-margin repair work orders to offset sluggish orders for large-scale construction work.

- Q4 FY02/22: Sales came to JPY9.3bn (-3.2% YoY), operating profit to JPY722mn (-27.9% YoY), and OPM to 7.7% (-2.7pp YoY). Profit fell because the company took on more relatively low-margin repair work during the pandemic, as orders for large-scale construction work were sluggish.

Materials and Supplies Sourcing Services

- Sales: JPY56.5bn (+6.5% YoY)
- Operating profit: JPY2.6bn (+3.8% YoY)
- OPM: 4.5% (-0.1pp YoY).

Sales and profit increased on sales growth for quarantine-related materials such as masks, gloves, alcohol for professional use, and acrylic partitions to prevent droplet spread amid the COVID-19 pandemic, and also thanks to growth in sales of packaging materials to newly acquired customers within the Aeon group. The company also strengthened its handling of environmentally-friendly packaging materials and their sales value increased.

Quarterly results

- 1H FY02/22: Sales came to JPY28.8bn (+8.2% YoY), operating profit to JPY1.4bn (+6.1% YoY), and OPM to 4.7% (-0.1pp YoY). Sales and profit increased due to high demand for quarantine-related materials amid the pandemic, and to rising numbers of new customer inside and outside the Aeon group.

- Q3 FY02/22: Sales came to JPY14.0bn (+7.3% YoY), operating profit to JPY570mn (+0.5% YoY), and OPM to 4.1% (-0.2pp YoY). Demand for quarantine-related materials declined as the number of COVID-19 cases settled down, but sales grew as the company secured new customers within the Aeon group and expanded sales of packaging materials. The company stepped up sales activities, focusing on companies that have newly joined the Aeon group, in a bid to become a top supplier able to meet all the materials needs of the group.

- Q4 FY02/22: Sales came to JPY13.7bn (+2.3% YoY), operating profit to JPY628mn (+1.9% YoY), and OPM to 4.6% (flat YoY). The company acquired new customers in the Aeon group, and sales of packaging materials increased.

Vending Machine Services

- Sales: JPY26.4bn (+3.5% YoY)
- Operating profit: JPY608mn (-6.9% YoY)
- OPM: 2.3% (-0.3pp YoY)

Sales rose, while profit fell. Despite an uptrend in the number of customers at shopping malls where the company installs vending machines, customer stays are growing shorter, and visitors continue to refrain from eating and drinking in public places. Accordingly, fewer consumers are purchasing beverages from vending machines than before the pandemic. Improvements from the previous year supported sales growth. The company installed more of its own multi-brand vending machines (which offer products from several different brands) to improve profitability per unit. Sales per unit rose, but rising fixed costs pushed profit down.

Quarterly results

- 1H FY02/22: Sales came to JPY13.5bn (+12.3% YoY), operating profit to JPY353mn (-1.1% YoY), and OPM to 2.6% (-0.4pp YoY). Demand for beverages from vending machines slumped in 1H FY02/21 on the closure of facilities, people refraining from going out, and increased teleworking in the wake of the government's declaration of a state of emergency. In 1H FY02/22, sales increased as customer traffic began to return to facilities and offices, and demand for beverages from vending machines recovered. Profit fell on higher fixed costs as the company installed more of its own multi-brand vending machines.

- Q3 FY02/22: Sales came to JPY6.3bn (-10.7% YoY), operating profit to JPY61mn (-70.4% YoY), and OPM to 1.0% (-1.9pp YoY). Commercial facilities operated normally, but growth in the number of customers using vending machines was sluggish as overall customer traffic was lackluster and the time spent by customers in such facilities was short. On the profit front, fixed costs expanded as the company installed more of its own multi-brand vending machines, and this pushed down profit.

- Q4 FY02/22: Sales came to JPY6.6bn (+2.6% YoY), operating profit to JPY194mn (+115.6% YoY), and OPM to 3.0% (+1.6pp YoY). Commission income from beverage producers increased, as the company hit target sales volumes, causing operating profit to double.

Support Services

- Sales: JPY16.0bn (+1.3% YoY)
- Operating profit: JPY441mn (loss of JPY75mn in FY02/21)
- OPM: 2.7%

Sales rose, and the segment turned profitable. Owing to the pandemic, demand was sluggish for services to plan and conduct overseas training. Demand for arranging domestic and overseas business trips was also lackluster. However, sales increased due to condominium management services in China. The company worked to expand services compatible with its businesses from a customer perspective in an effort to meet outsourcing needs related to the management and operation of contracted facilities and their surroundings.

Quarterly results

- 1H FY02/22: Sales came to JPY8.1bn (+4.1% YoY), operating profit to JPY255mn (versus a loss of JPY100mn in 1H FY02/21), and OPM to 3.2%. Sales and profit increased due to a recovery in demand for event, travel, and business trip support services at company subsidiary Aeon Compass, and to the exit from a loss-making subsidiary. Demand at household support services company Aqutia slumped amid price cuts by competitors.

- Q3 FY02/22: Sales came to JPY4.0bn (-0.2% YoY), operating profit to JPY75mn (versus a loss of JPY71mn in Q3 FY02/21), and OPM to 1.9%. The company won contracts to deliver mail and parcels to tenants at new Aeon group stores, and secured a higher volume of contracts to clean shared offices.

- Q4 FY02/22: Sales came to JPY4.0bn (-2.3% YoY), operating profit to JPY111mn (+15.6% YoY), and OPM to 2.8% (+0.4pp YoY). Although demand for arranging business trips was lackluster, the company acquired contracts for condominium management services in China. Being highly profitable, these products contributed to operating profit.

Overseas business

- Sales: JPY24.7bn (+24.1% YoY)
- Operating profit: JPY1.5bn (-6.3% YoY)
- OPM: 6.1% (-1.9pp YoY).

In the overseas business, individual segments are in charge depending on the type of project. Earnings from the overseas business are included within each segment. The company is active overseas in the Facilities Management, Security Services, Cleaning Services, and Support Services segments. Around half of customers are Aeon group companies.

China

Sales: JPY16.9bn (+32.0% YoY)

- Operating profit: JPY1.4bn (-2.2% YoY)
- OPM: 6.1% (-4.4pp YoY)

Sales increased, owing to a rise in the number of customers under contract and hikes in service rates at some facilities. Sales rose in Security Services (business in China accounts for 30% of the segment's total), Cleaning Services, and Support Services. Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management became consolidated subsidiaries through the acquisition of local companies, and they have won government-related products. Among its overseas business, the pandemic had a relatively small impact on business in China, and economic activity recovered quickly.

Operating profit fell, and OPM declined as a result of higher personnel expenses (stemming from a hike in minimum wages), a more competitive environment in Facilities Management, and the winning of new low-margin projects. That said, OPM tends to be higher on business in China than in Japan. That is because although competition in China is growing, China is still less competitive than Japan. Also, no outsourcing expenses are incurred by the company's own employees.

- Under the oversight of Aeon Delight China (AD China; a company established in April 2021 for this purpose), Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management focused on bolstering contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment. They worked to expand their business domains to include property management operations (facility maintenance and operation), catering services (peripheral services that accompany property management), cleaning services, and services for residents at nursing homes, while focusing on facility management operations.

- In June 2021, Aeon Delight Jiangsu acquired a 60% stake in Suzhou Nakamura Integrated Facility Management Service (making it a subsidiary), which has a high level of knowledge and success in contracting services for Japanese-owned factories, in order to expand market share in Suzhou where there is significant growth in factories owned by Japanese businesses. It expects related earnings contributions to emerge from FY02/22.

ASEAN

Sales increased while profit declined for the ASEAN region as a whole. A resurgence of the pandemic restricted economic activity in individual countries. The company implemented measures including the suspension of operations at facilities and shorter operating hours. Although there was an effect on the employment of staff at each of these local subsidiaries and at partner companies, the company ensured operations at contracted facilities while undertaking epidemic prevention measures.

- Malaysia: Sales came to JPY1.5bn (+50.5% YoY) and operating profit to JPY19mn (-64.2% YoY). Sales growth was aided in part by the effects from the infrastructure built to secure contracts from Aeon group facilities, and by contracts from existing stores of Aeon Malaysia. Profit fell as the company had to lower its prices due to price competition from rivals, and because personnel expenses rose due to increased headcount.

- Vietnam: Sales came to JPY3.1bn (+9.4% YoY) and operating profit to JPY180mn (-18.2% YoY). Sales expanded thanks to sales contributions from facilities contracted in the same period the previous year. In 2H, a resurgence in COVID-19 cases undermined normal sales activities, and growth in personnel and fixed costs pushed profit down. Aeon Mall is stepping up store rollouts in Vietnam, so the company is strengthening its local infrastructure.

- Indonesia: Sales were JPY3.2bn (-3.0% YoY), and the company posted an operating loss of JPY17mn (operating profit of JPY43mn in FY02/21). Sales fell amid economic restrictions caused by the COVID-19 pandemic. The operating loss stemmed from higher personnel expenses, reflecting an initiative to improve employee compensation. The company has access to the customer base of a cleaning company it purchased in the Indonesia in 2018. The company has orders from four Aeon group facilities. The group plans to open more stores there, and Aeon Delight is building local infrastructure by dispatching staff from Japan with an eye toward expanding contracts with those group facilities.

FY02/23 company forecast

Full-year company forecast

	FY02/21			FY02/22			FY02/23
(JPYmn)	1H Act.	2H Act.	FY Act.	1H Act.	2H Act.	FY Act.	FY Est.
Sales	**149,734**	**150,351**	**300,085**	**163,907**	**153,750**	**317,657**	**310,000**
YoY	-4.9%	-0.5%	-2.8%	9.5%	2.3%	5.9%	-2.4%
Cost of sales	131,494	131,416	262,910	143,444	134,714	278,158	
Gross profit	**18,239**	**18,936**	**37,175**	**20,462**	**19,036**	**39,498**	
YoY	-7.7%	0.7%	-3.6%	12.2%	0.5%	6.2%	
Gross profit margin	12.2%	12.6%	12.4%	12.5%	12.4%	12.4%	
SG&A expenses	10,738	11,207	21,945	12,035	11,729	23,764	
YoY	-3.9%	-1.7%	-2.8%	12.1%	4.7%	8.3%	
SG&A ratio	7.2%	7.5%	7.3%	7.3%	7.6%	7.5%	
Operating profit	**7,500**	**7,730**	**15,230**	**8,427**	**7,306**	**15,733**	**17,000**
YoY	-12.7%	4.4%	-4.8%	12.4%	-5.5%	3.3%	8.1%
Operating profit margin	5.0%	5.1%	5.1%	5.1%	4.8%	5.0%	5.5%
Recurring profit	**7,496**	**7,772**	**15,268**	**8,489**	**7,300**	**15,789**	**17,000**
YoY	-13.4%	6.6%	-4.3%	13.2%	-6.1%	3.4%	7.7%
Recurring profit margin	5.0%	5.2%	5.1%	5.2%	4.7%	5.0%	5.5%
Net income	**3,943**	**7,737**	**11,680**	**5,557**	**5,108**	**10,665**	**10,700**
YoY	-23.9%	85.7%	24.9%	40.9%	-34.0%	-8.7%	0.3%

Source: Shared Research based on company data
Note: From FY02/23, the company has adopted the new Accounting Standard for Revenue Recognition, which will affect the way sales are recorded. Operating profit and line items below are not affected.

The company forecast for FY02/23 calls for sales of JPY310.0bn (-2.4% YoY), operating profit of JPY17.0bn (+8.1% YoY), recurring profit of JPY17.0bn (+7.7% YoY), net income attributable to owners of the parent of JPY10.7bn (+0.3%), EPS of JPY213.9, and annual dividends per share of JPY85.0 (payout ratio of 39.7%).

The expected YoY decline in sales is due to the application from FY02/23 of the new Accounting Standard for Revenue Recognition. The company's sales forecast equates to a 9.3% YoY increase in sales under the previous accounting standard. The company expects COVID-19 to have a JPY800mn negative effective on operating profit. Even so, the company forecasts YoY increases in operating profit and all accounting line items below that point due to higher sales and efforts to reduce costs.

The company forecasts OPM of 5.5% (+0.5pp YoY). In the mainstay Facilities Management segment, the company aims to bolster GPM by nearly 2.0pp by reinforcing area management and reorganizing to achieve operational efficiencies. In the Construction Work segment, the company aims to curtail the negative impact of rising materials prices by estimating construction costs more precisely.

The forecast for net income attributable to owners of the parent excludes any extraordinary gains and losses.

The company anticipates a payout ratio of 40% in FY02/23. Previously, the company had sought to maintain a 35% payout ratio and aimed to reach a 40% level by FY02/24. The company now aims to bring this date forward.

Initiatives in FY02/23

In FY02/23, the company will be carrying out initiatives to realize the basic policies under its medium-term management plan: "customer-oriented management," "promotion of digital transformation (DX)," and "group management." The pandemic is delaying the impact of these measures by one to two years, and overseas M&A activity has been delayed. In FY02/23, the company plans to step up M&A efforts, both in Japan and overseas, to achieve the objectives outlined in the medium-term management plan.

Customer-oriented management

A KPI for customer-oriented management is to generate 40.0% of sales outside the Aeon group in FY02/24. (This figure was 35.6% as of end-FY02/22 and 35.7% for FY02/21.)

In FY02/22, the company assigned account managers to key customers. (Account managers are salespeople in charge of handling all transactions for a specific customer.) This approach created a system for managing customer information centrally. By using account managers to build stronger customer relationships, the company aims to boost its share of customers outside the Aeon group.

- Reorganizing and strengthening the sales function: In April 2022, the company carried out structural reforms to reorganize and strengthen the sales function. For existing customers, Aeon Delight stepped up account management. To boost its share of business with existing customers outside the Aeon group, the company drew up a list of 100 companies toward which it would step up sales activities (up from 80 in FY02/22). At the same time, the company will focus on cultivating new non-group customers.

- Developing healthcare solutions: In this category, the company makes proposals for raising facilities' hygiene levels. Its solutions leverage the track record and expertise the company has built up through hospital-oriented "hygienic cleaning" and New Standard Cleaning. In April 2022, the company set up an organization tasked with honing proposals. With this organization, the company intends to expand proposals to non-group customers such as hospitals and hotels, and to win new contracts.

- Developing solutions to support decarbonization: In April 2022, the company set up a dedicated team that takes an integrated approach toward helping customers decarbonize their operations. Efforts to date have focused on individual steps for shrinking a customer's carbon footprint: installation of energy saving equipment and other energy-saving operations at individual facilities. Going forward, the company plans to expand into such areas as buying renewable energy and issuing environmental certifications.

Promotion of digital transformation

KPIs for the promotion of digital transformation (DX) are to achieve OPM of 6.0% by FY02/24, maintain ROE of 12%, introduce area management at 360 facilities, reduce the number of people assigned to specific facilities by 180, and reassign 20% of headquarters staff to direct departmental positions. In Facilities Management, the company intends to strengthen the introduction of "area management" (assigning facility management personnel across a set area rather than to individual facilities) and save costs by reducing the number of facility management personnel and introducing automation.

- Achieving OPM of 6.0% (5.0% in FY02/22 and 5.1% in FY02/21) and, by boosting OPM, maintaining ROE of 12% (11.7% and 14.1%): The company plans to introduce area management for more facilities, reducing the number of people assigned to specific facilities and reassigning these people to other positions.

- Introducing area management at 360 facilities (151 and 27) and, as a result, reducing the number of people assigned to specific facilities by 180 (reduction of 115 people in FY02/22): The company plans to alleviate labor shortages and transform its earnings structure by accelerating the rollout of area management and applying DX to its operations. By end-FY02/23, the company aims to have reduced personnel numbers by 155 (115) at a cumulative 278 facilities (178) and reassigned these people. The company is also pursuing R&D aimed at DX in Security Services, Cleaning Services, and Support Services.

- Reassigning 20% of headquarters staff: In FY02/22, the company improved business processes at its headquarters divisions. In FY02/23, it plans to reduce headquarters staff by 20% (for reassignment elsewhere), saving back-office resources by outsourcing non-core operations and using automation tools.

- Promoting use of the Aeon Delight platform: The company plans to use the platform to collect customer feedback, facility conditions, market trends in customers' industries, and external information about weather and disasters. It will use AI to analyze and process the data and efficiently share them across the service network of the company, group companies, and partner companies. In FY02/23, the company plans to raise process efficiency by promoting links between the Aeon Delight platform and various systems, and enhance the value of data by increasing the volume of information. In addition, in the sales department the company aims to make proposals from the customer's perspective. To do so, the company will utilize data from the Aeon Delight platform, as well as visualizing and sharing information about customer requests.

Group management

KPIs for group management to be achieved by FY02/24 are JPY65.0bn in sales at group companies in Japan, overseas sales accounting for more than 8% of the total, and a shift toward shared services at the finance and accounting departments of group companies in Japan.

- Sales of JPY65.0bn at group companies in Japan (JPY52.1bn in FY02/22, JPY52.8bn in FY02/21): Progress in this area has been slow, as COVID-19 has had a greater-than-expected impact. The company is strengthening cooperation among group companies and promoting growth at group companies in Japan.

- Aeon Delight Connect: This company resulted from a March 2021 merger between A to Z Service Co., Ltd. (a construction and maintenance service provider for small and medium-sized facilities in eastern Japan) and Do Service Co., Ltd. (a cleaning services provider for small and medium-sized facilities in western Japan). Aeon Delight had planned to position the new company as a core subsidiary in the market for small- and medium-sized facilities and to accelerate the formation of a regional economic zone, but progress has been slow. In FY02/23, the company intends to strengthen Aeon Delight Connect's foundations by promoting cooperation, such as sharing personnel more actively, and strengthening sales at companies operating small- and medium-sized stores nationwide. The company also plans to strengthen the construction department through U-COM (designs commercial facilities and handles interior construction), which it absorbed in March 2021.

- Hakuseisha: Provides services such as cleaning and sanitation management, security, facilities management, construction, and installation. Aims to expand its share of business among existing customers.

- Kankyouseibi: Provides services such as facility management, construction, security, management of cleaning, and designated manager operations. Aims to expand market share in the northern Kanto region in cooperation with Aeon Delight's Kanto branch.

- Aeon Compass: In addition to handling overseas and domestic travel, the company also plans and manages events. In FY02/22, performance was lackluster due to the pandemic, but Aeon Compass is responding to resurgent demand and working to develop new services.

- An overseas sales ratio of more than 8% (7.8% and 6.7%): In FY02/22, Aeon Delight expanded its business in China through a combination of organic growth and acquisitions of leading local companies. The company is working to expand in China and strengthen its management base in the ASEAN region.

  - China: The company aims to achieve organic growth by bolstering contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment. Aeon Delight also seeks to acquire and form business alliances with local companies that provide security and cleaning services for local hospitals and the factories of Japanese companies. In these ways, it aims to acquire expertise, expand its business domain, and strengthen its customer base.

  - ASEAN region: The company expects business to grow in this region in the medium to long term, due to the opening of new Aeon group stores and the expansion of Japanese companies. Aeon Delight is moving toward the establishment of an ASEAN regional headquarters to strengthen the management base and help it plan growth strategies in individual countries. The Aeon group plans to accelerate the opening of new stores in Vietnam from 2024, so Aeon Delight will strengthen its system for winning contracts there. In FY02/23, the company may incur an operating loss in Indonesia, which is stepping up efforts to improve the labor environment, leading to higher personnel expenses and other costs.

Business-specific initiatives and forecasts

The company expects sales to decline in the Materials and Supplies Sourcing Services and the Vending Machine Services segments, due to application of the new Accounting Standard for Revenue Recognition. The company forecasts YoY growth across all segments, however, based on the previous standard. Because it is engaging in group management, the company does not disclose business-specific sales and operating profit.

- Facilities Management: The company expects to generate higher sales through a focus on expanding market share among existing customers (by strengthening account management) and acquiring new customers outside the Aeon group. The company also intends to step up the introduction of area management at facilities both in and outside the Aeon group. The company forecasts a rise in profitability. It anticipates improved earnings at facilities where area management was introduced in FY02/22, and is working to reduce outsourcing expenses.

- Security Services: The company expects to increase sales by expanding its share of business among existing customers (as a result of stronger account management) and winning new customers. In FY02/22, the company installed security systems at some 200 stores and curtailed the number of security personnel. As the cost of installing security systems will be absent in FY02/23, the company expects OPM to increase. Additionally, the company aims to strengthen area management, mechanize operations, win contracts for highly profitable large projects and event security, and pass on higher personnel expenses.

- Cleaning Services: In FY02/22, extraordinary demand related to quarantine-related cleaning amid the pandemic had a JPY3.0bn positive impact on sales. The company expects this extraordinary demand to be absent in FY02/23. Even so, it will work to increase sales by winning new contracts with hospitals, hotels, and other customers outside the Aeon group by proposing solutions that raise facility hygiene levels. In FY02/22, OPM was 12.1% (+0.4pp YoY), due to an increase in special cleaning. In FY02/23, the company expects OPM to fall back to FY02/20 levels (around 11.2%). Despite the lower OPM, the company expects profit to rise on the back of higher sales.

- Construction Work: In FY02/22, the company won construction contracts related to restoration work following the offshore earthquake in Fukushima Prefecture. In FY02/23, the company anticipates higher sales due to store refurbishments that were delayed by the pandemic, as well as large-scale renovation projects. The percentage of in-group sales is relatively high in the Construction Work segment. To win customers outside the Aeon group, the company is enhancing its proposals targeting energy-saving measures and the shift to LED lighting. On the profit front, the company is seeing an increase in materials prices. It will work to reduce costs by setting up a new organization to estimate construction costs more accurately, and by strengthening cost negotiations.

- Materials and Supplies Sourcing Services: In this segment, approximately 30% of sales (equivalent to JPY17.0bn to JPY18.0bn) will no longer be recognized as sales under the new Accounting Standard for Revenue Recognition. However, the company forecasts YoY sales growth based on the previous standard. The company will work to win business with companies that have newly joined the Aeon Group: Fuji Retailing Co., Ltd. (TSE Prime: 8278), which runs supermarkets in the Chugoku/Shikoku region, and Can Do Co., Ltd. (TSE Standard: 2698), which has a nationwide chain of 100-yen shops. The company will strengthen cost management to secure profits. Additionally, Aeon Delight will augment sales efforts targeting non-group customers, its system for managing customers under contract, and its compliance system.

- Vending Machine Services: In this segment, approximately 40% of sales (equivalent to around JPY10.0bn) will no longer be recognized as sales under the new Accounting Standard for Revenue Recognition. However, the company forecasts YoY sales growth based on the previous standard. The company expects the impact of the COVID-19 epidemic to ease.

- Support Services: Although the pandemic is slowing a rebound in demand for travel arrangements, the company plans to target existing customers with which it has contracts in place for integrated facility management (IFM). It intends to step up proposals for the outsourcing of non-core businesses, such as offering to manage workplace vaccination sites and run employee onboarding events.

Historical forecast accuracy

Results vs. Initial Est.	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22	FY02/23
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Sales (Initial Est.)	260,000	270,000	280,000	305,000	305,000	305,000	315,000	315,000	325,000	310,000
Sales (Results)	256,654	265,572	277,926	292,607	292,396	302,915	308,582	300,085	317,657	
Results vs. Initial Est.	**-1.3%**	**-1.6%**	**-0.7%**	**-4.1%**	**-4.1%**	**-0.7%**	**-2.0%**	**-4.7%**	**-2.3%**	
Operating profit (Initial Est.)	15,500	16,000	17,000	17,500	18,000	18,500	18,000	16,500	16,500	17,000
Operating profit (Results)	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230	15,733	
Results vs. Initial Est.	**-5.7%**	**-3.8%**	**-14.4%**	**-19.2%**	**-28.3%**	**-29.6%**	**-11.1%**	**-7.7%**	**-4.6%**	
Recurring profit (Initial Est.)	15,500	16,000	17,000	17,500	18,000	18,500	18,000	16,500	16,500	17,000
Recurring profit (Results)	14,600	15,472	14,534	14,263	13,381	13,362	15,949	15,268	15,789	
Results vs. Initial Est.	**-5.8%**	**-3.3%**	**-14.5%**	**-18.5%**	**-25.7%**	**-27.8%**	**-11.4%**	**-7.5%**	**-4.3%**	
Net income (Initial Est.)	8,300	8,600	9,400	10,000	10,700	11,000	10,800	10,000	10,500	10,700
Net income (Results)	7,039	7,965	7,247	7,093	6,397	6,415	9,348	11,680	10,665	
Results vs. Initial Est.	**-15.2%**	**-7.4%**	**-22.9%**	**-29.1%**	**-40.2%**	**-41.7%**	**-13.4%**	**16.8%**	**1.6%**	

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 Cons.	FY02/23 FY Est.	FY02/24 Targets	FY02/26 Targets	3-year CAGR	5-year CAGR
Sales	**300,085**	**317,657**	**310,000**	**361,000**	**471,000**	6.4%	9.4%
YoY	-2.8%	5.9%	-2.4%	16.5%			
Operating profit	**15,230**	**15,733**	**17,000**	**22,000**	**37,000**	13.0%	19.4%
YoY	-4.8%	3.3%	8.1%	29.4%			
Operating profit margin	5.1%	5.0%	5.5%	6.1%	7.9%		
Net income	**11,680**	**10,665**	**10,700**	**14,000**			
YoY	24.9%	-8.7%	0.3%	30.8%			
Net margin	3.9%	3.4%	3.5%	3.9%			
Sales: Non-Aeon Group ratio	35.7%	35.6%		40.0%	50.0%		
Sales: Overseas ratio	6.7%	7.8%		Over 8%	Over 15%		
ROE	14.1%	11.7%		12%	15%		

Source: Shared Research based on company data
Note: From FY02/23, the company has adopted the new Accounting Standard for Revenue Recognition, which will affect the way sales are recorded. Operating profit and line items below are not affected.

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 of 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 facilities 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 JPY220.0bn (60% of total sales, -5pp versus FY02/21), while growing sales outside the Aeon group by JPY35.0bn to 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

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.

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)

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.

Relocation of head office

Aeon Delight relocated 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 is creating 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

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

In March 2021, the company merged A to Z Service Co., Ltd., an interior construction and maintenance services provider for mainly Kanto-area small and medium facilities, with Do Service Co., Ltd., a cleaning services provider for mainly Kansai-area small and medium facilities, to create Aeon Delight Connect Co., Ltd. The new company is set to become a core company within the group providing comprehensive facility management services for small and medium facilities throughout Japan. The reorganization allows the company to expand the service area of A to Z Service and Do Service and increase the services available to existing customers. Aeon Delight has mobilized its management team to join sales staff in marketing activities, targeting nationwide convenience store, restaurant, supermarket, and clothing store chains.

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.

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 has obtained 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.

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.

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. In FY02/22, the company derived 64.4% 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. Facilities management work at Aeon Mall was previously done by a subsidiary of Diamond City, a Mitsubishi Corp. 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 (TSE Prime: 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. 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. (TSE Standard: 4781), and Nippon Kanzai Co., Ltd. (TSE Prime: 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, and Support Services.

Customers outside the Aeon group include commercial facilities, office buildings and offices, hotels and lodging facilities, medical and welfare facilities, school facilities, factories and workshops, warehouses and logistics centers, public facilities, various events, and others.

Account management

The company is stepping up its initiatives in the area of account management. In the past, the company communicated with customers at the segment level. Now, it is assigning account managers to major customers and creating a system to manage customer information centrally. By better understanding customers and their industries, the company aims to increase customer satisfaction and expand its own business through customer referrals to other segments. Through account management, the company proposes that services covering multiple departments be provided collectively (for instance, operations related to Facilities Management could be handled by Construction Work) and that the same services are provided throughout the country to customers that are operating on a nationwide basis.

The company is also promoting industry-specific proposals. The company is analyzing the information it collects on customers and industries through account management, and has brought in personnel with expertise in the industries it targets.

Facilities Management

Facilities Management	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	42,050	43,458	45,839	48,962	50,551	52,699	56,364	58,289	58,223	61,538
YoY	-0.2%	3.3%	5.5%	6.8%	3.2%	4.2%	7.0%	3.4%	-0.1%	5.7%
Operating profit	4,661	4,725	4,217	4,206	4,350	4,644	5,558	5,293	5,175	5,495
YoY	-8.3%	1.4%	-10.8%	-0.3%	3.4%	6.8%	19.7%	-4.8%	-2.2%	6.2%
Operating profit margin	11.1%	10.9%	9.2%	8.6%	8.6%	8.8%	9.9%	9.1%	8.9%	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.

Area management

In March 2021, Aeon Delight set up customer service centers at all eight branches in Japan and rolled out remote support systems. The company also achieved labor-saving on-site as it installed systems and sensors at its facilities. This infrastructure enabled cost reductions through labor-saving and automation based on area management, which involves the sharing of facilities management personnel in a set area. The company first launched the area management concept with a focus on Aeon Retail stores among the several thousand facilities under contract.

Utilization of technology: Next-generation facilities management model

The next-generation facilities management model uses an open facilities management network system the company has developed. This system introduces IoT into facility management. Data are measured automatically by sensors installed throughout customers' facilities. These data are consolidated in the cloud, reducing manpower and time while allowing all data to be managed at once.

Using IoT, the system performs remote monitoring and automatic control of air conditioning and lighting. 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. 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 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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	31,805	34,242	36,622	38,456	41,068	43,290	44,492	44,647	44,393	47,239
YoY	-1.3%	7.7%	7.0%	5.0%	6.8%	5.4%	2.8%	0.3%	-0.6%	6.4%
Operating profit	2,692	2,865	3,102	3,032	3,110	2,857	2,881	3,038	3,307	3,435
YoY	-4.6%	6.4%	8.3%	-2.3%	2.6%	-8.1%	0.8%	5.4%	8.9%	3.9%
Operating profit margin	8.5%	8.4%	8.5%	7.9%	7.6%	6.6%	6.5%	6.8%	7.4%	7.3%

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%.

In the security industry, personnel expenses are on the rise due to chronic labor shortages. To improve profit margins, the company is automating entry/exit management and store opening/closing operations.

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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	40,519	42,320	44,287	47,870	53,365	55,297	58,185	62,362	62,459	66,963
YoY	1.7%	4.4%	4.6%	8.1%	11.5%	3.6%	5.2%	7.2%	0.2%	7.2%
Operating profit	5,918	5,716	6,289	6,031	6,012	6,228	6,694	6,967	7,324	8,106
YoY	0.6%	-3.4%	10.0%	-4.1%	-0.3%	3.6%	7.5%	4.1%	5.1%	10.7%
Operating profit margin	14.6%	13.5%	14.2%	12.6%	11.3%	11.3%	11.5%	11.2%	11.7%	12.1%

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 Aeon Delight Connect 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

Contract renewal for hygienic cleaning services at hospitals 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 its bases nationwide; its name recognition as a publicly traded company and as a member of the Aeon group; its track record with major medical institutions; and the visible quality of its cleaning services.

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.

Since the start of the pandemic, demand has increased for disinfectant cleaning (to prevent infection from spreading), as well as quarantine-related cleaning and special cleaning. The company is providing outside the Aeon group special cleaning services such as New Standard Cleaning. This is a cleaning method with procedural guidelines to maintain a hygienic, attractive environment based on the company's own cleaning service that was previously provided to hospitals.

Japanese hospitals and clinics

Hospitals		Clinics	
As of end-January 2022	Number of beds	As of end-January 2022	Number of beds
8,193	1,580,892	104,376	82,566

Source: Shared Research based on the Ministry of Health, Labour and Welfare's Statistical Survey of Medical Facilities

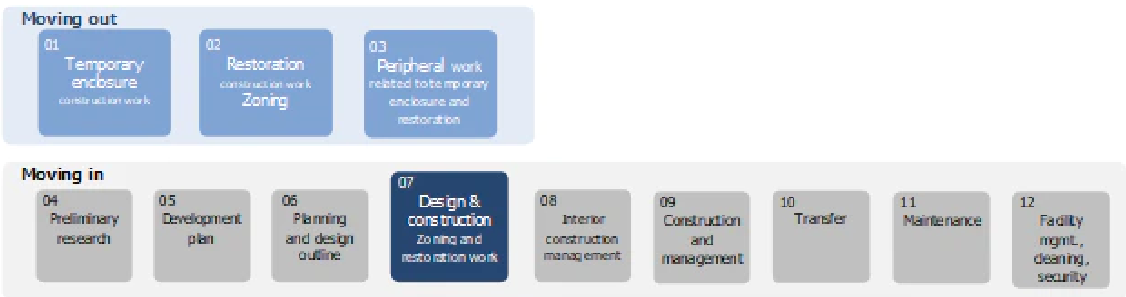
Construction Work

Construction Work	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	53,071	45,630	41,972	43,855	45,814	40,897	41,470	41,844	40,657	43,015
YoY	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%	1.4%	0.9%	-2.8%	5.8%
Operating profit	2,209	2,580	2,807	3,218	3,210	3,305	3,989	3,816	3,880	3,583
YoY	14.1%	16.8%	8.8%	14.6%	-0.2%	3.0%	20.7%	-4.3%	1.7%	-7.7%
Operating profit margin	4.2%	5.7%	6.7%	7.3%	7.0%	8.1%	9.6%	9.1%	9.5%	8.3%

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 March 2021, Aeon Delight absorbed store design specialist U-COM, 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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	39,284	44,543	47,618	50,516	50,740	50,265	51,007	51,125	53,060	56,497
YoY	7.0%	13.4%	6.9%	6.1%	0.4%	-0.9%	1.5%	0.2%	3.8%	6.5%
Operating profit	1,462	2,333	2,111	2,806	2,774	2,868	2,779	2,489	2,467	2,560
YoY	18.5%	59.6%	-9.5%	32.9%	-1.1%	3.4%	-3.1%	-10.4%	-0.9%	3.8%
Operating profit margin	3.7%	5.2%	4.4%	5.6%	5.5%	5.7%	5.4%	4.9%	4.6%	4.5%

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.). The pandemic is pushing up demand for quarantine-related materials such as professional-use masks, gloves, and alcohol, as well as acrylic partitions to prevent droplet dispersion. The company is also strengthening its handling of environmentally-friendly packaging materials.

In this business, where stores running out of inventories of materials is not an option, the company also performs logistics functions for customers. Through efficient logistics operations, the company aims to reduce costs and improve operational efficiency related to the procurement of intermediate materials. Even though this is a business where adding value is difficult, the company maintains an OPM of around 5%.

Vending Machine Services

Vending Machine Services	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	31,200	33,329	34,825	32,741	32,879	32,834	31,955	31,544	25,453	26,353
YoY	-3.3%	6.8%	4.5%	-6.0%	0.4%	-0.1%	-2.7%	-1.3%	-19.3%	3.5%
Operating profit	2,396	3,068	2,965	2,846	2,812	2,105	1,164	1,396	653	608
YoY	2.8%	28.0%	-3.4%	-4.0%	-1.2%	-25.1%	-44.7%	19.9%	-53.2%	-6.9%
Operating profit margin	7.7%	9.2%	8.5%	8.7%	8.6%	6.4%	3.6%	4.4%	2.6%	2.3%

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. 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.

The company operates its own vending machines as well as those owned by partners such as beverage makers' sales companies. Beverage purchasing and vending machine restocking are outsourced to operators, while the company determines locations and coordinates the product lineup. The company's sales are roughly tied to beverage sales, with additional compensation from the manufacturers. Operating profit is the amount left after paying commissions to operators and installation sites.

Support Services

Support Services	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	10,942	13,129	14,406	15,524	18,188	17,325	19,439	18,768	15,837	16,049
YoY	36.1%	20.0%	9.7%	7.8%	17.2%	-4.7%	12.2%	-3.5%	-15.6%	1.3%
Operating profit	741	336	281	-580	-850	-1,466	-2,270	416	-75	441
YoY	137.5%	-54.7%	-16.4%	-	-	-	-	-	-	-
Operating profit margin	6.8%	2.6%	2.0%	-3.7%	-4.7%	-8.5%	-11.7%	2.2%	-0.5%	2.7%

Source: Shared Research based on company data

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

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

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

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. 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.

China

- Under the oversight of Aeon Delight China (AD China; a company established in April 2021 for this purpose), Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management focused on bolstering contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment. They are working to expand their business domains to include property management operations (facility maintenance and operation), catering services (peripheral services that accompany property management), cleaning services, and services for residents at nursing homes, while focusing on facility management operations.

- In June 2021, Aeon Delight Jiangsu acquired a 60% stake in Suzhou Nakamura Integrated Facility Management Service (making it a subsidiary), which has a high level of knowledge and success in contracting services for Japanese-owned factories, in order to expand market share in Suzhou where there is significant growth in factories owned by Japanese businesses.

ASEAN

- Malaysia: The company has built a system aimed at increasing contracts with Aeon group facilities.

- Vietnam: Aeon Mall is working to strengthen operations by opening new stores, and the company is enhancing its system accordingly.

- Indonesia: The company currently has contracts with four Aeon group facilities. The group plans to open more stores, so Aeon Delight is sending employees from Japan to set up a system so it can win contracts at these new stores.

Strengths and weaknesses

Strengths

- Strong ties with the Aeon group: Aeon Delight is a subsidiary of Aeon Co., Ltd., and 64.4% of sales were generated from the Aeon group in FY02/22. 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 facilities management 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 JPY11.3bn per annum, and the company has spent JPY2.7bn per year on the acquisition of tangible fixed assets, generating total cashflow of about JPY8.5bn. 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 JPY3.5bn in dividend payments (cash flow basis) yearly. In FY02/19 it spent JPY9.9bn on a share buyback. The dividend payout ratio was 35% in FY02/21, and the company targets a ratio of 40% from FY02/23.

Weaknesses

- Limited organic growth: Aeon Delight depends mainly on the domestic market; overseas sales accounted for just 7.8% of total sales in FY02/22. The markets for its existing businesses in Japan are mature, which is a weakness in terms of the company's growth potential. To sustain growth, Aeon Delight must rely on aggressive development overseas and winning contracts in ancillary businesses as a facilities management company and growing market share.

- Heavy dependence on the Aeon group: Aeon Delight is a consolidated subsidiary of Aeon, and the Aeon group accounted for 64.4% of sales in FY02/22. A drawback of 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.

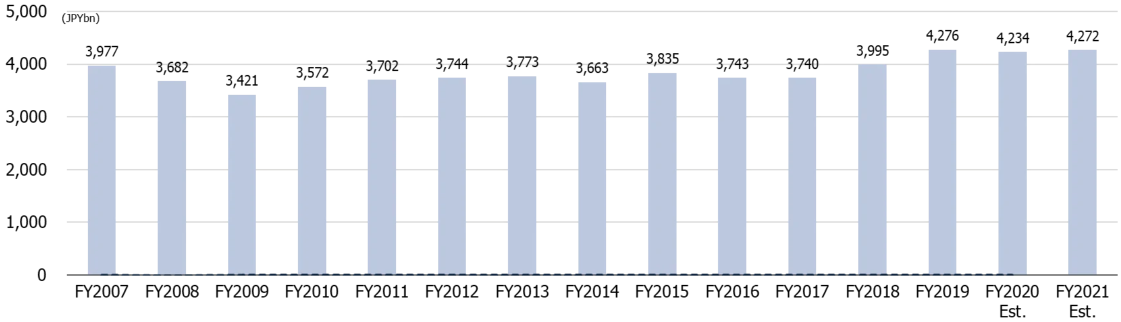
Market and value chain

Market overview

Japan's building maintenance market was worth roughly JPY4.2tn in FY2020, down 1.0% YoY, according to a survey released in October 2021 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.

Scale of the building management market (prime contractor basis)



Source: Shared Research based on Yano Research Institute Ltd. materials (October 2021)

Building maintenance services were mainly used by office buildings (21.7%), shops and commercial facilities (18.2%), medical and welfare facilities (10.0%), factories and workplaces (9.5%), and education facilities (9.7%). The company has a significant share of the shop and commercial facilities market, but low shares in office buildings, medical and welfare facilities, and factories and work places, leaving ample scope to grow.

Sales growth rates by end user were down 1.5% YoY for office buildings, down 1.4% YoY for shops and commercial facilities, up 0.1% YoY for medical and welfare facilities, down 2.0% YoY for factories and workplaces, and up 2.9% YoY for education facilities.

Building maintenance market (by building use)

	FY2018	FY2019	FY2020(Est.)
Residential	134.7	151.5	153.6
YoY	7.4%	12.5%	1.4%
Non-residential	3,860.5	4,124.8	4,080.1
YoY	6.8%	6.8%	-1.1%
Office buildings	875.4	933.2	919.4
YoY	6.4%	6.6%	-1.5%
Stores and commercial facilities	736.8	783.2	772.2
YoY	6.5%	6.3%	-1.4%
Educational facilities	403.6	424.1	411.9
YoY	5.2%	5.1%	-2.9%
Medical and welfare facilities	390.8	423.6	424.1
YoY	8.1%	8.4%	0.1%
Factories and workshops	387.4	409.2	401.1
YoY	6.1%	5.6%	-2.0%

Source: Shared Research based on Yano Research Institute Ltd. materials (October 2021)

Aeon group stores by format (domestic and overseas)

	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
GMS	598	617	618	625	626	584	583	612	613	618
Supermarket	1,708	1,977	2,038	2,121	2,130	2,159	2,166	2,228	2,291	2,285
Discount store	152	353	381	530	566	568	587	592	599	605
DIY store	123	122	121	120	119	122	122	120	118	117
Supercenter	26	26	29	28	28	28	27	25	25	25
Department store	1	1	1	1	1	1	1	1	1	1
Specialty store	4,462	4,581	4,683	5,061	4,348	4,332	4,039	3,801	3,515	4,503
Convenience store	3,664	3,853	3,932	4,331	5,261	5,436	5,449	5,350	5,300	4,661
Drugstore and pharmacy			3,347	3,765	3,980	4,376	4,817	2,392	2,599	2,868
Other retail formats	562	756	884	803	856	907	1,015	1,150	1,252	1,342
Financial services	527	641	698	701	705	690	640	658	636	592
Services	1,394	1,519	1,640	1,934	2,013	2,045	2,070	2,016	1,999	1,978
Total	**13,217**	**14,440**	**18,382**	**20,020**	**20,633**	**21,248**	**21,516**	**18,945**	**18,948**	**19,595**
Aeon Mall	62	137	148	161	166	174	180	172	174	202
Aeon Town	115	122	130	134	138	139	140	145	147	150
Total	**177**	**259**	**278**	**295**	**304**	**313**	**320**	**317**	**321**	**352**

Source: Shared Research based on company data

Stores overseas by format

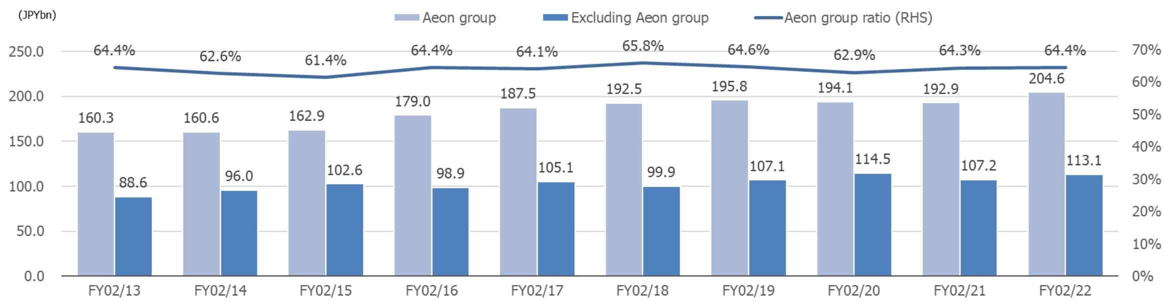
	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
GMS	61	69	77	84	87	94	96	101	103	103
Supermarket	81	95	101	115	173	150	150	125	125	131
Discount store	22	23	24	24	23	21	22	22	22	21
Convenience store	2,294	2,370	2,532	2,840	2,998	3,172	3,252	3,353	3,315	2,711
Drugstore	0	0	0	0	0	0	0	7	10	11
Specialty store	55	61	42	44	52	54	39	5	0	7
Other retail formats	29	29	30	79	97	115	124	148	147	153
Financial services	279	302	339	339	342	324	276	295	269	225
Services	41	95	180	282	335	390	426	446	431	425
Total	**2,862**	**3,044**	**3,325**	**3,845**	**4,107**	**4,320**	**4,385**	**4,502**	**4,422**	**3,787**

Source: Shared Research based on company data

Customers

In FY02/22, Aeon Delight generated almost 64.4% of its sales from the Aeon group companies, including Aeon Retail, Aeon Mall (TSE Prime: 8905), and MaxValu companies. The remainder comes from non-Aeon group customers that include commercial facilities, offices, hotels, medical facilities, schools, factories, warehouses, government offices, 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

	FY02/21	FY02/22	FY02/23
Overseas (stores)	2	2	1
China (stores)	0	1	0
ASEAN (stores)	2	1	1

Source: Shared Research based on Aeon Mall data

Overseas businesses of the Aeon group

Overseas stores: Aeon Mall	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
Total number of stores	**3**	**5**	**9**	**17**	**19**	**24**	**27**	**30**	**32**	**34**
China	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
Total openings	**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

Source: Shared Research based on Aeon Mall 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. and Sohgo Security Services Co., Ltd. in security services. It competes with Azbil Corporation (TSE Prime: 6845), Nippon Kanzai Co. Ltd. (TSE Prime: 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. (TSE Prime: 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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**
Sales	**248,876**	**256,654**	**265,572**	**277,926**	**292,607**	**292,396**	**302,915**	**308,582**	**300,085**	**317,657**
YoY	13.2%	3.1%	3.5%	4.7%	5.3%	-0.1%	3.6%	1.9%	-2.8%	5.9%
Cost of sales	218,648	223,409	231,281	243,089	256,871	257,524	267,463	270,011	262,910	278,158
Gross profit	**30,227**	**33,245**	**34,290**	**34,836**	**35,736**	**34,871**	**35,452**	**38,570**	**37,175**	**39,498**
YoY	5.6%	10.0%	3.1%	1.6%	2.6%	-2.4%	1.7%	8.8%	-3.6%	6.2%
Gross profit margin	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%	12.4%
SG&A expenses	16,326	18,622	18,900	20,280	21,596	21,961	22,421	22,569	21,945	23,764
YoY	9.8%	14.1%	1.5%	7.3%	6.5%	1.7%	2.1%	0.7%	-2.8%	8.3%
SG&A ratio	6.6%	7.3%	7.1%	7.3%	7.4%	7.5%	7.4%	7.3%	7.3%	7.5%
Operating profit	**13,901**	**14,622**	**15,390**	**14,556**	**14,139**	**12,909**	**13,030**	**16,001**	**15,230**	**15,733**
YoY	1.0%	5.2%	5.3%	-5.4%	-2.9%	-8.7%	0.9%	22.8%	-4.8%	3.3%
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%	5.0%
Non-operating income (expenses)	-9	-22	82	-22	124	472	332	-52	38	56
Recurring profit	**13,892**	**14,600**	**15,472**	**14,534**	**14,263**	**13,381**	**13,362**	**15,949**	**15,268**	**15,789**
YoY	0.8%	5.1%	6.0%	-6.1%	-1.9%	-6.2%	-0.1%	19.4%	-4.3%	3.4%
Recurring profit margin	5.6%	5.7%	5.8%	5.2%	4.9%	4.6%	4.4%	5.2%	5.1%	5.0%
Extraordinary gains (losses)	27	-1,180	-665	-408	-174	-1,135	-195	-401	-4,617	566
Implied tax rate	45.3%	46.1%	44.1%	46.0%	45.9%	42.9%	46.2%	38.3%	-8.6%	35.4%
Net income attributable to non-controlling interests	104	188	310	386	533	598	664	245	-110	-99
Net income	**7,509**	**7,039**	**7,965**	**7,247**	**7,093**	**6,397**	**6,415**	**9,348**	**11,680**	**10,665**
YoY	8.6%	-6.3%	13.2%	-9.0%	-2.1%	-9.8%	0.3%	45.7%	24.9%	-8.7%
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%	3.4%

Source: Shared Research based on company data

Note: The company restated prior-year results in June 2019.

Balance sheet

Balance sheet	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Assets										
Cash and deposits	10,014	12,565	15,580	20,386	31,717	39,536	44,233	62,355	59,773	68,282
Accounts receivable	44,673	34,448	35,757	34,328	35,360	35,739	40,089	42,612	39,176	40,708
Allowance for doubtful accounts	-144	-290	-168	-360	-202	-130	-167	-242	-212	-134
Inventories	2,237	2,575	2,663	2,840	3,218	2,623	2,211	1,822	2,006	2,074
Deposits for consumption to subsidiaries and affiliates	18,020	32,420	41,326	37,362	31,713	32,000	16,000	-	-	-
Other	4,523	8,196	8,476	9,634	9,292	8,543	6,405	5,815	9,265	10,083
Total current assets	**79,323**	**89,914**	**103,634**	**104,190**	**111,098**	**118,311**	**108,771**	**112,362**	**110,008**	**121,013**
Buildings	1,089	1,046	1,009	1,629	1,631	1,582	1,479	1,458	1,671	1,629
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	3,589
Land	282	278	278	1,978	1,975	1,975	2,032	2,032	2,000	466
Construction in progress	-	-	-	-	-	-	-	-	-	-
Other fixed assets	72	209	345	610	1,974	1,591	1,585	1,334	1,545	1,394
Total tangible fixed assets	**3,796**	**4,258**	**4,361**	**7,061**	**9,064**	**10,041**	**10,161**	**9,671**	**9,481**	**7,078**
Goodwill	10,801	9,399	8,452	7,654	6,813	6,113	6,865	5,975	3,938	3,360
Other	1,520	1,609	1,867	2,352	1,989	1,699	1,338	1,209	1,579	2,293
Total intangible assets	**12,321**	**11,008**	**10,320**	**10,006**	**8,802**	**7,813**	**8,103**	**7,185**	**5,518**	**5,653**
Investment securities	2,973	3,897	3,768	4,463	4,546	5,334	4,256	3,623	3,960	3,720
Deferred tax assets	288	254	284	310	551	330	412	1,763	4,840	2,951
Other	2,196	1,877	2,750	3,896	4,342	3,458	3,264	2,347	2,766	2,470
Allowance for doubtful accounts	-200	-199	-535	-494	-536	-610	-355	-36	-11	-30
Investments and other assets	**5,257**	**5,829**	**6,268**	**8,176**	**8,904**	**8,512**	**7,578**	**7,698**	**11,557**	**9,111**
Total fixed assets	**21,375**	**21,096**	**20,950**	**25,244**	**26,772**	**26,367**	**25,842**	**24,554**	**26,556**	**21,845**
Total assets	**100,699**	**111,010**	**124,584**	**129,434**	**137,870**	**144,678**	**134,614**	**136,917**	**136,565**	**142,859**
Liabilities	-	-	-	-	-	-	-	-	-	-
Accounts payable	24,544	21,876	24,934	28,457	25,114	25,820	25,967	23,388	22,170	22,070
Short-term debt	10	5	-	-	271	225	394	252	299	247
Other	10,401	12,622	15,771	17,377	21,666	18,541	20,137	20,410	17,466	21,575
Total current liabilities	**34,955**	**39,309**	**46,639**	**45,834**	**47,051**	**49,060**	**51,408**	**48,864**	**44,123**	**43,892**
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	3,544
Total fixed liabilities	**1,195**	**1,556**	**2,387**	**3,925**	**6,214**	**6,474**	**7,667**	**6,767**	**4,160**	**3,544**
Total liabilities	**36,151**	**40,865**	**49,026**	**49,760**	**53,266**	**55,535**	**59,075**	**55,631**	**48,283**	**47,437**
Capital stock	3,238	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	13,239
Retained earnings	40,539	45,112	50,505	55,099	59,355	62,756	65,910	72,063	80,344	86,559
Treasury stock	-458	-449	-443	-441	-436	-430	-10,327	-10,208	-10,123	-10,077
Other comprehensive income	992	1,711	1,373	525	799	1,484	466	-86	662	1,619
Share subscription rights	205	165	166	221	263	303	299	186	119	86
Non-controlling interests	1,260	1,547	1,869	2,168	2,434	2,773	2,062	2,213	814	757
Total net assets	**64,547**	**70,145**	**75,558**	**79,674**	**84,604**	**89,143**	**75,539**	**81,286**	**88,281**	**95,421**
Working capital	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046	19,012	20,712
Total interest-bearing debt	15	5	-	-	564	225	409	263	299	247
Net cash	28,019	44,980	56,906	57,748	62,866	71,311	59,824	62,092	59,474	68,035
Shareholders' equity	63,082	68,433	73,523	77,285	81,907	86,067	73,178	78,887	87,348	94,578
Equity ratio	62.6%	61.6%	59.0%	59.7%	59.4%	59.5%	54.4%	57.6%	64.0%	66.2%

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 (JPY68.3bn, FY02/22), accounts receivable (JPY40.7bn), tangible fixed assets (JPY7.1bn), and intangible assets (JPY5.7bn). Interest-bearing debt is JPY247mn. The company has a cash-rich balance sheet. Tangible fixed assets and intangible 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 (TSE Prime: 8905), Aeon Hokkaido (TSE Standard: 7512), Aeon Kyushu (TSE Standrd: 2653), Aeon Fantasy (TSE Prime: 4343), and MaxValu companies.

Shareholders' equity

At end-FY02/22, the equity ratio was 66.2%. 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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Gross profit	30,227	33,245	34,290	34,836	35,736	34,871	35,452	38,570	37,175	39,498
Gross profit margin	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%	12.5%	12.4%	12.4%
Operating profit	13,901	14,622	15,390	14,556	14,139	12,909	13,030	16,001	15,230	15,733
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%	5.0%
EBITDA	16,138	17,054	17,856	17,014	16,928	16,038	16,391	19,168	18,458	15,733
EBITDA margin	6.5%	6.6%	6.7%	6.1%	5.8%	5.5%	5.4%	6.2%	6.2%	5.0%
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%	3.4%
Financial ratios										
ROA (RP-based)	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%	11.7%	11.2%	11.3%
ROE	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%	12.3%	14.1%	11.7%
Total asset turnover	2.6	2.4	2.3	2.2	2.2	2.1	2.2	2.3	2.2	2.3
Working capital (JPYmn)	22,366	15,147	13,486	8,711	13,464	12,542	16,333	21,046	19,012	20,712
Current ratio	226.9%	228.7%	222.2%	227.3%	236.1%	241.2%	211.6%	229.9%	249.3%	275.7%
Quick ratio	207.6%	201.3%	198.3%	200.1%	209.5%	218.4%	194.8%	214.3%	223.8%	248.0%
OCF / Current liabilities	-12.7%	57.5%	40.1%	22.3%	25.2%	28.2%	24.6%	14.7%	22.4%	28.6%
OCF / Total liabilities	-12.1%	52.3%	35.2%	20.7%	22.0%	24.4%	20.9%	13.2%	21.5%	26.6%
Cash conversion cycle (days)	18.5	22.3	15.4	10.1	9.7	12.4	13.6	18.3	20.8	19.5
Change in working capital	13,319	-7,219	-1,661	-4,775	4,753	-922	3,791	4,713	-2,034	1,700

Source: Shared Research based on company data

Statement of cash flows

Cash flow statement	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	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	12,598
Pre-tax profit	13,920	13,420	14,807	16,526	14,089	12,247	13,166	15,548	10,651	16,355
Depreciation	1,130	1,294	1,341	1,699	2,069	2,414	2,602	2,352	2,427	2,755
Impairment losses	-	678	578	250	122	39	123	175	1,659	441
Amortization of goodwill	1,107	1,138	770	759	720	715	759	815	801	722
Change in working capital	-13,728	10,386	2,008	-552	449	1,035	-53	-4,745	-1,831	-2,311
Income taxes	-6,578	-6,114	-6,615	-6,336	-6,602	-6,115	-5,188	-6,506	-4,838	-2,592
Other	-209	557	4,345	-2,043	856	3,233	964	-268	1,534	-2,772
Cash flows from investing activities (2)	7,086	-16,632	-11,365	-3,255	2,233	-2,666	12,256	13,838	-7,325	-386
Purchase of intangible/tangible fixed assets	-1,607	-1,999	-1,903	-2,414	-4,113	-3,228	-2,059	-2,361	-2,469	-3,478
Proceeds from sale of intangible/tangible fixed assets	147	41	18	116	24	14	15	-	39	3,254
Acquisition of shares in subsidiaries affecting the scope of consolidation	-694	-388	-	-4,771	-	-	-1,516	-	-	-117
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	-45
Free cash flow (1+2)	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**	**10,902**	**24,629**	**21,209**	**3,078**	**12,212**
Cash flows from financing activities	-2,257	-2,475	-2,594	-2,821	-2,400	-3,264	-19,686	-3,392	-5,324	-4,572
Net change in short-term borrowings	-25	-	-	-	219	-28	179	-143	60	-74
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	-4,450
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	-48
Other	26	99	172	-229	-6	80	-228	-98	32	925
Change in cash and cash equivalent	497	2,351	3,447	3,997	11,530	7,718	4,715	17,719	-2,214	8,564
Cash and cash equivalent (year-end)	9,676	12,028	15,476	19,473	31,004	38,722	43,437	61,151	58,937	67,520

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.

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	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
Accounts receivable turnover	6.6	6.5	7.6	7.9	8.4	8.2	8.0	7.5	7.3	8.0
Days in accounts receivable	**55.7**	**56.3**	**48.2**	**46.0**	**43.5**	**44.4**	**45.7**	**48.9**	**49.7**	**45.9**
Inventory turnover	116.2	92.9	88.3	88.3	84.8	88.2	110.7	133.9	137.4	136.4
Days in inventory	**3.1**	**3.9**	**4.1**	**4.1**	**4.3**	**4.1**	**3.3**	**2.7**	**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	12.6
Days in accounts payable	**40.3**	**37.9**	**36.9**	**40.1**	**38.1**	**36.1**	**35.3**	**33.4**	**31.6**	**29.0**
Cash conversion cycle (days)	**18.5**	**22.3**	**15.4**	**10.1**	**9.7**	**12.4**	**13.6**	**18.3**	**20.8**	**19.5**

Source: Shared Research based on company data

Days in accounts receivable are longer than days in accounts payable (including notes payable and electronically recorded obligations), which means that working capital will increase and operating cash flow will slow in the short term during the business expansion. Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers.

ROE and dividends

	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
ROE	**12.5%**	**10.7%**	**11.2%**	**9.6%**	**8.9%**	**7.6%**	**8.1%**	**12.3%**	**14.1%**	**11.7%**
Net margin	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%	3.0%	3.9%	3.4%
Total asset turnover	2.57	2.42	2.25	2.19	2.19	2.07	2.17	2.27	2.19	2.27
Financial leverage (equity multiplier)	1.61	1.61	1.66	1.68	1.68	1.68	1.75	1.79	1.65	1.54
ROA (RP-based)	**14.4%**	**13.8%**	**13.1%**	**11.4%**	**10.7%**	**9.5%**	**9.6%**	**11.7%**	**11.2%**	**11.3%**
ROIC	**13.4%**	**13.5%**	**13.1%**	**12.1%**	**11.5%**	**10.2%**	**10.9%**	**14.1%**	**12.4%**	**11.8%**
NOPAT	8,245	9,064	9,540	9,368	9,464	8,925	9,040	11,101	10,567	10,916
Interest-bearing deb + Net assets	61,400	67,356	72,854	77,616	82,421	87,268	82,658	78,749	85,065	92,124
ROIC (before tax)	22.6%	21.7%	21.1%	18.8%	17.2%	14.8%	15.8%	20.3%	17.9%	17.1%
Operating profit margin	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%	5.2%	5.1%	5.0%
Sales / Invested capital	4.05	3.81	3.65	3.58	3.55	3.35	3.66	3.92	3.53	3.45

Source: Shared Research based on company data

Dividends

		FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20	FY02/21	FY02/22
(JPYmn)		Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Total dividends	a)	2,413	2,519	2,625	2,731	2,890	3,207	3,114	3,246	4,099	4,201
Total treasury stock acquired	b)	1	1	1	-	-	1	9,906	-	-	-
Total returns to shareholders	c) = a) + b)	2,414	2,520	2,626	2,731	2,890	3,208	13,020	3,246	4,099	4,201
Net income attributable to parent company shareholders	d)	7,509	7,039	7,965	7,247	7,093	6,397	6,415	9,348	11,680	10,665
Dividend payout ratio	a) / d)	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	48.5%	34.7%	35.1%	39.4%
Total shareholder return ratio	c) / d)	32.1%	35.8%	33.0%	37.7%	40.7%	50.1%	203.0%	34.7%	35.1%	39.4%
EPS	(JPY)	143.2	134.2	151.7	138.0	135.0	121.7	122.9	187.2	233.7	213.3
Dividend per share	(JPY)	46.0	48.0	50.0	52.0	55.0	61.0	63.0	65.0	82.0	84.0
Dividend on equity ratio	a) / f)	4.0%	3.8%	3.7%	3.6%	3.6%	3.8%	3.9%	4.3%	4.9%	4.6%

Source: Shared Research based on company data

Shareholder returns

THe company had planned to achieve a dividend payout ratio of 40% by FY02/24, but it has since brought forward this date to FY02/23. In FY02/19, the company 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 aiming to maintain a level of 12% through FY02/24.

- 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 40%.

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
February	2021	Absorbed KJS Co., Ltd. (formerly Kajitaku Co., Ltd.)

Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Aeon Co., Ltd.	27,613	55.3%
The Master Trust Bank of Japan, Ltd. (Trust account)	2,841	5.7%
Custody Bank of Japan, Ltd. (Trust account)	1,470	2.9%
Aeon Delight Business Partners Stockholding Association	1,149	2.3%
SSBTC CLIENT OMNIBUS ACCOUNT	897	1.8%
Northern Trust Company AVFC Re Fidelity Funds	715	1.4%
The Nomura Trust and Banking Co., Ltd.	648	1.3%
Aeon Delight Employees Stockholding Association	502	1.0%
The Bank of New York Mellon Corporation 140044	488	1.0%
Custody Bank of Japan, Ltd. (Trust account 5)	378	0.8%

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

Corporate governance

(As of December 2021)

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Board
Controlling shareholder	Y
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
Number of directors	8
Outside directors	4
Independent outside officers	4
Audit & Supervisory Board	
Existence of Audit & Supervisory Board	Y
Number of Audit & Supervisory Board members per Articles of Incorporation	5
Number of members of Audit & Supervisory Board	4
Outside members of Audit & Supervisory Board	2
Independent outside officers	1
General shareholders meeting	
Participation to electronic voting platform	Y
Preparation of convening notices in English	Y
Investor relations	
Corporate disclosure policy	Y
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
Dedicated IR section and/or staff	Y
Other current assets	
Foreign shareholding ratio	10–20%
Independent officers	4
Implementation of measures regarding director incentives	Stock option
Disclosure of individual director's compensation	N
Policy to determine amount and calculation method of remuneration	Y
Corporate takeover defenses	N

Source: Shared Research based on company data

Top management

President and CEO: Kazumasa Hamada (born in 1964)

President and CEO Kazumasa Hamada 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. He has held his current position since April 2020.

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: JPY4.9mn (FY02/21)

In the Aeon group, the Aeon Delight Union (4,577 members in FY02/21) 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

The company's management principle calls for the ongoing pursuit of "environmental value" for customers and local communities. In 2021, the company established its Basic Policies for Sustainability in accordance with this management principle. These policies stipulate that the company shall contribute to the achievement of a decarbonized society, support biodiversity conservation, and facilitate resource recycling.

Included below are some examples of efforts the company is performing to improve the global environment.

Proposals concerning energy conservation at facilities

The company offers proposals that it believes will reduce overall facility power consumption by combining its expertise with systems for conserving energy consumed through facility operations. These systems include LED and other lighting equipment capable of substantially reducing power usage, as well as energy-saving equipment such as air conditioning equipment, refrigerated display cases, etc. The company helps its customers reduce their CO2 emissions and energy costs while contributing to the decarbonization of society.

Renewable energy-related business development

Through its power supply services, the company provides commercial facilities, office buildings, medical institutions, and other extra-high and high-voltage facilities with inexpensive, high-quality, and stable electricity. At the same time, it is striving to prevent global warming by offering CO2 Emission Reduction Plan and 100% Renewable Energy Plan.

Environmentally-friendly product proposals in materials business

The company is promoting the use of biomass plastic, recycled plastic, and traceable paper.

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. In addition to providing children with opportunities to think about environmental issues, the company is involved in a number of social contribution activities, including support for school construction and teacher training in Southeast Asia and for the reconstruction of Shuri Castle in Okinawa.

Tree planting through Aeon Environmental Foundation

The Aeon Environmental Foundation, which celebrated its 30th anniversary in 2020, has been engaged in projects to address current global environmental issues. One representative example of the foundation's activities is the Aeon Forest Program, an ongoing tree-planting project. The foundation is also quite active outside of Japan, where it has conducted its Project to Revitalize the Forests at the Great Wall of China (a tree planting and growing activity) while also participating in tree planting activities in countries including Vietnam, Cambodia, and Malaysia.

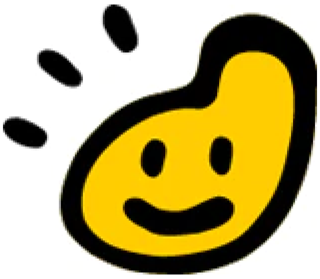
"Clean Day" on the 11th Day of Each Month

On the 11th of every month, all of the company's employees conduct ecologically- and locally-themed community contribution activities (focused on improving environmental conditions and giving back to the community, respectively).

Acquisition of Eco Mark certification for Cleaning Services

In 2022, the Japan Environment Association (JEA) granted the company Eco Mark certification for its Cleaning Services. The Eco Mark is an environmental label issued by JEA that indicates products and services that have a low environmental impact throughout their life cycles (from production to disposal) and are useful in terms of environmental conservation.

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

Cumulative Q3 FY02/22 results

- Sales: JPY240.7bn (+7.3% YoY)
- Operating profit: JPY11.9bn (+5.7% YoY)
- Recurring profit: JPY11.9bn (+6.2% YoY)
- Net income: JPY8.5bn (+34.3% YoY)

In cumulative Q3 FY02/22, sales expanded in all seven segments, and operating profit rose in five of the seven segments, with Construction Work and Vending Machine Services being the exceptions.

- Gross profit: Gross profit was JPY29.8bn (+8.2% YoY), and GPM was 12.4% (+0.1pp YoY). Demand for services with relatively high GPMs such as disinfectant cleaning at facilities with COVID-19 exposures increased.

- SG&A expenses: SG&A expenses were JPY18.0bn (+10.0% YoY), and the SG&A expenses ratio was 7.5% (+0.2pp YoY). Although the company worked to automate operations, reduce labor, and lower costs mainly in Facilities Management and Security Services, personnel expenses rose due to increased hiring of new graduates and mid-career recruits, and to growth in expenses to promote area management.

Net income attributable to owners of the parent increased. The company sold two properties, including one that housed the headquarters of a subsidiary, and booked a JPY1.2bn gain on the sale of fixed assets as extraordinary profit. The growth in net income was also in part supported by the dropout of the year-earlier JPY1.3bn loss on the sale of businesses associated with the divestiture of the ID photo machine business.

Progress versus full-year company forecast

Versus the FY02/22 full-year company forecast, sales in cumulative Q3 FY02/22 achieved 74.1% (74.8% of full-year results in cumulative Q3 FY02/21), operating profit 71.8% (73.6%), recurring profit 72.4% (73.7%), and net income 80.9% (54.2%). This fell short of the progress in cumulative Q3 FY02/21.

At the start of the year, the company expected Construction Work and Vending Machine Services to recover as the COVID-19 pandemic settled down, but that recovery was slower than anticipated.

Quarterly results

- Q1 FY02/22 (March–May 2021): Sales came to JPY79.7bn (+8.4% YoY) and operating profit to JPY3.7bn (+7.9% YoY). Sales and profit increased in six of the seven segments. Construction Work was the exception due to some delays in construction work. Performance was supported in particular by earnings growth in Cleaning Services. Operating profit expanded in tandem with sales growth.

- Q2 FY02/22 (June–August 2021): Sales came to JPY84.2bn (+10.5% YoY) and operating profit to JPY4.7bn (+16.2% YoY). Sales and profit increased in six of the seven segments, with Vending Machine Services being the exception. Earnings were mainly driven by Cleaning Services and Construction Work. In Cleaning Services, contracts for unscheduled disinfectant cleaning at facilities with COVID-19 exposures increased. In Construction Work, the company undertook restoration work at Aeon group facilities that were affected by the Fukushima Prefecture Offshore earthquake in February 2021.

- Q3 FY02/22 (September–November 2021): Sales came to JPY76.8bn (+2.9% YoY) and operating profit to JPY3.4bn (-7.8% YoY). While sales rose, slower sales growth pushed operating profit down. The main factors affecting performance were (1) lower orders for disinfectant cleaning using alcohol in Cleaning Services (due to a nationwide decline in COVID-19 cases), (2) some delays in construction work in Construction Work, and (3) a drop in sales of beverages from vending machines in Vending Machine Services.

Segment trends

Facilities Management

- Sales improved 6.0% YoY to JPY46.5bn, while operating profit expanded 3.1% YoY to JPY4.0bn. OPM was down 0.2pp YoY to 8.7%.

Sales increased. The company acquired new Aeon group stores and manufacturers and financial institutions outside of the group as new customers. It had previously set up a sales team that specializes in cultivating new customers, worked to increase the transparency of—and share information about—its sales activities, and analyzed processes that lead to signed contracts. These organizational initiatives to strengthen sales started to pay off. Among existing customers, orders expanded mainly for maintenance of air conditioning equipment and elevators. Account management for key customers (discussed below) and other initiatives also provided contributions. There were no changes in the shares of sales inside and outside the Aeon group.

Profit increased as the company promoted area management (discussed below) directed toward reforming its work processes.

- 1H FY02/22: Sales came to JPY31.0bn (+6.6% YoY), operating profit to JPY2.6bn (+2.9% YoY), and OPM to 8.5% (-0.3pp YoY). The company achieved sales and profit growth by adding new customers and expanding its services to existing customers.

- Q3 FY02/22: Sales came to JPY15.5bn (+4.9% YoY), operating profit to JPY1.4bn (+3.6% YoY), and OPM to 9.2% (-0.1pp YoY). The company acquired new Aeon group stores and manufacturers and financial institutions outside of the group as new customers, and it expanded its services to existing customers.

Account management

The company started account management initiatives. Instead of communicating with customers on a segment basis as in the past, it now appoints account managers for key clients and centrally manages customer information. It aims to expand transaction volume by deepening its understanding of customers and various industries, and accordingly improving customer satisfaction and referring customers to other segments. To achieve this, it plans to provide services across the segments in a single package (for example, Construction Work carries out an order associated with Facilities Management), and provide the same services nationwide to clients.

The company promoted industry-specific proposals. In addition to analyzing data on customers and various industries collected through account management, the company made use of personnel familiar with target industries. In FY02/22, it grew sales by strengthening sales to manufacturers who have become increasingly sensitive to cost management amid the COVID-19 pandemic, and by capturing outsourcing demand. In FY02/23, it looks to build sales infrastructure that concentrates on the hotel, hospital, and other sectors where demand is expected to recover, and provide solutions-based sales.

Area management

In March 2021, Aeon Delight set up customer service centers at all eight branches in Japan and rolled out remote support systems. The company also achieved labor-saving on-site as it installed systems and sensors at its facilities. This infrastructure enabled cost reductions through labor-saving and automation based on area management, which involves the sharing of facilities management personnel in a set area. The company first launched the area management concept with a focus on Aeon Retail stores among the several thousand facilities under contract. It has FY02/24 targets of 360 area-managed facilities and the reduction of 180 facilities management personnel. The company introduced the system at 133 facilities and reduced the facilities management headcount by about 114 through Q3 FY02/22. Progress was as planned.

In Q3, the company started redeploying personnel affected by these changes to new properties or sales positions. It expects cost reduction benefits to become apparent going forward. Area management should reduce the number of personnel assigned to customer facilities and reduce the amount customers pay. However, the company has maintained the quality of facilities management using remote support, and worked to increase the spend per customer by negotiating an increase in fees per on-site personnel, and by collaborating on providing services with other segments.

Security Services

- Sales improved 7.5% YoY to JPY35.4bn while operating profit expanded 8.8% YoY to JPY2.6bn. OPM was up 0.1pp YoY to 7.3%.

Sales expanded as growth in new contracts for new Aeon group stores and stores outside of the Aeon group pushed up the number of customers under contract, and because demand for event security and other services recovered. Contract prices were unchanged YoY.

Operating profit rose in tandem with growth in the number of contracts. Labor costs were rising in the security sector due to chronic worker shortages. The company continued negotiations to optimize unit prices and worked to automate systems to handle tasks such as facility entry/exit management and store opening/closing, with the aim of improving profitability. As a result, OPM remained on par with the year-earlier level. Expenses rose temporarily in tandem with automation efforts.

- 1H FY02/22: Sales came to JPY23.6bn (+9.0% YoY), operating profit to JPY1.7bn (+6.8% YoY), and OPM to 7.2% (-0.1pp YoY). The company continued to win new customers outside the Aeon group, and benefited from rising orders for event crowd control and transport security. It conducted price negotiations and worked on automation measures in an effort to improve profitability.

- Q3 FY02/22: Sales came to JPY11.8bn (+4.5% YoY), operating profit to JPY894mn (+12.7% YoY), and OPM to 7.6% (+0.6pp YoY). Growth in new contracts for new Aeon group stores and customers outside the Aeon group drove up sales. OPM improved as the effects of automation efforts started to manifest.

Cleaning Services

- Sales improved 9.5% YoY to JPY50.5bn while operating profit expanded 15.6% YoY to JPY6.2bn. OPM was up 0.6pp YoY to 12.2%.

Sales and profit improved. The company focused on introducing and expanding disinfectant cleaning, quarantine-related cleaning, and special cleaning services to prevent the further spread of COVID-19. It acquired new customers and expanded contracts from existing customers. The number of customers under recurring revenue contracts increased as some customers who had previously requested one-time services switched to recurring contracts. The company also worked to introduce and expand special cleaning services at customers outside the Aeon group such as New Standard Cleaning, a cleaning method to maintain a hygienic, attractive environment based on the company's own cleaning service that was previously provided to hospitals.

In regions with labor shortages, the company worked to secure subcontractors by strengthening its relationships with regional cleaning service providers.

- 1H FY02/22: Sales came to JPY34.1bn (+12.1% YoY), operating profit to JPY4.3bn (+24.7% YoY), and OPM to 12.5% (+1.2pp YoY). Sales and profit increased as the company won new customers and expanded orders from existing customers. Margins improved on increased adoption of services such as New Standard Cleaning, a high-margin special cleaning service, and thanks to growth in contracts for unscheduled disinfectant cleaning at facilities with COVID-19 exposures.

- Q3 FY02/22: Sales came to JPY16.4bn (+4.5% YoY), operating profit to JPY1.9bn (-0.7% YoY), and OPM to 11.6% (-0.6pp YoY). Contracts from new Aeon group stores supported the growth in sales. However, sales growth slowed on a drop in orders for disinfectant cleaning using alcohol as the number of COVID-19 cases declined across the country. Profitability also worsened due to a drop in the number of orders for high-margin special cleaning services.

Construction Work

- Sales improved 8.6% YoY to JPY33.7bn while operating profit fell 0.6% YoY to JPY2.9bn. OPM was down 0.8pp YoY to 8.5%.

While some large-scale construction work was behind plan due to the COVID-19 pandemic, strengthened sales activities to win renovation contracts within and outside the Aeon group supported sales growth. However, operating profit fell because renovation work generates lower margins than large-scale construction work.

- 1H FY02/22: Sales came to JPY24.8bn (+12.0% YoY), operating profit to JPY2.3bn (+8.1% YoY), and OPM to 9.1% (-0.3pp YoY). In Q1, some construction work was delayed due to the COVID-19 pandemic, leading to a decline in sales and profit.

- In Q2, however, sales and profit rose due to restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake at Aeon group facilities, and to an expanded volume of renovation contracts outside the Aeon group.

- Q3 FY02/22: Sales came to JPY8.9bn (+0.2% YoY), operating profit to JPY611mn (-23.4% YoY), and OPM to 6.8% (-2.2pp YoY). Factors negatively affecting sales included delays in and cancellations of large-scale construction work, and delayed deliveries of air conditioning and other equipment attributable to disruptions in distribution and semiconductor shortages. Profit declined as the company increased low-margin renovation orders to offset sluggish orders for large-scale construction work.

In Q4 FY02/22, the company expects demand to recover as the pandemic settles down. It plans to strengthen sales activities and review construction specifications and procedures to tackle work that has been delayed due to the pandemic, and work on new projects. Through its account managers, it intends to make proposals for renovation work and other services, and secure a higher volume of contracts. The company plans cost-cutting moves such as scrutinizing expenses more carefully at the construction estimate stage in an effort to improve margins.

Materials and Supplies Sourcing Services

- Sales improved 7.9% YoY to JPY42.8bn, while operating profit expanded 4.4% YoY to JPY1.9bn. OPM was down 0.2pp YoY to 4.5%.

Sales and profit increased on sales growth for quarantine-related materials such as masks, gloves, alcohol for professional use, and acrylic partitions to prevent droplet spread amid the COVID-19 pandemic, and also thanks to growth in sales of packaging materials to newly acquired customers within the Aeon group.

- 1H FY02/22: Sales came to JPY28.8bn (+8.2% YoY), operating profit to JPY1.4bn (+6.1% YoY), and OPM to 4.7% (-0.1pp YoY). Sales and profit increased due to high demand for quarantine-related materials amid the pandemic, and to rising numbers of new customer inside and outside the Aeon group.

- Q3 FY02/22: Sales came to JPY14.0bn (+7.3% YoY), operating profit to JPY570mn (+0.5% YoY), and OPM to 4.1% (-0.2pp YoY). Demand for quarantine-related materials declined as the number of COVID-19 cases settled down, but sales grew as the company secured new customers within the Aeon group and expanded sales of packaging materials. The company stepped up sales activities, focusing on companies that have newly joined the Aeon group, in a bid to become a top supplier able to meet all the materials needs of the group.

Vending Machine Services

- Sales improved 3.8% YoY to JPY19.8bn, while operating profit fell 26.5% to JPY414mn. OPM was down 0.9pp YoY to 2.1%.

While the operating environment remained tough due to restrictions on movement and changes in consumer purchasing behavior under the COVID-19 pandemic, improvements from the previous year supported sales growth. The company installed more of its own multi-brand vending machines (which offer products from several different brands) to improve profitability per unit, but rising fixed costs pushed profit down.

- 1H FY02/22: Sales came to JPY13.5bn (+12.3% YoY), operating profit to JPY353mn (-1.1% YoY), and OPM to 2.6% (-0.4pp YoY). Demand for beverages from vending machines slumped in 1H FY02/21 on the closure of facilities, people refraining from going out, and increased teleworking in the wake of the government's declaration of a state of emergency. In 1H FY02/22, sales increased as customer traffic began to return to facilities and offices, and demand for beverages from vending machines recovered. Profit fell on higher fixed costs as the company installed more of its own multi-brand vending machines.

- Q3 FY02/22: Sales came to JPY6.3bn (-10.7% YoY), operating profit to JPY61mn (-70.4% YoY), and OPM to 1.0% (-1.9pp YoY). Commercial facilities operated normally, but growth in the number of customers using vending machines was sluggish as overall customer traffic was lackluster and the time spent by customers in such facilities was short. On the profit front, fixed costs expanded as the company installed more of its own multi-brand vending machines, and this pushed down profit.

Support Services

- Sales improved 2.6% YoY to JPY12.1bn while operating profit came to JPY330mn (versus a loss of JPY171mn in cumulative Q3 FY02/21). OPM was 2.7%.

Sales and profit improved as the company worked to expand services compatible with its businesses from a customer perspective in an effort to meet outsourcing needs related to the management and operation of contracted facilities and their surroundings.

- 1H FY02/22: Sales came to JPY8.1bn (+4.1% YoY), operating profit to JPY255mn (versus a loss of JPY100mn in 1H FY02/21), and OPM to 3.2%. Sales and profit increased due to a recovery in demand for event, travel, and business trip support services at company subsidiary Aeon Compass, and to the exit from a loss-making subsidiary. Demand at household support services company Aqutia slumped amid price cuts by competitors.

- Q3 FY02/22: Sales came to JPY4.0bn (-0.2% YoY), operating profit to JPY75mn (versus a loss of JPY71mn in Q3 FY02/21), and OPM to 1.9%. The company won contracts to deliver mail and parcels to tenants at new Aeon group stores, and secured a higher volume of contracts to clean shared offices.

Overseas business

- Sales improved 24.5% YoY to JPY17.8bn while operating profit expanded 1.2% YoY to JPY1.2bn. OPM was down 1.5pp YoY to 6.5%.

In the overseas business, individual segments are in charge depending on the type of project. Earnings from the overseas business are included within each segment.

Sales and profit grew, as the business expanded mainly in China. The company operates Facilities Management, Security Services, Cleaning Services, and Support Services overseas. Aeon group companies comprise roughly half of its customers. OPM in each business is roughly the same as in the company's domestic business.

China

Sales improved 35% YoY to JPY12.2bn while operating profit increased by double digits YoY to JPY1.1bn, leaving both sales and profit on an upward trajectory. Sales rose as Aeon Delight Jiangsu secured a higher number of facility contracts, and increased the pricing of its services. Compared with other regions in the overseas business, the impact of the COVID-19 pandemic was relatively small in China, and economic activity also rebounded quickly.

- Under the oversight of Aeon Delight China (AD China; a company established in April 2021 for this purpose), Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management focused on bolstering contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment. They worked to expand their business domains to include property management operations (facility maintenance and operation), catering services (peripheral services that accompany property management), cleaning services, and services for residents at nursing homes, while focusing on facility management operations.

- In June 2021, Aeon Delight Jiangsu acquired a 60% stake in Suzhou Nakamura Integrated Facility Management Service (making it a subsidiary), which has a high level of knowledge and success in contracting services for Japanese-owned factories, in order to expand market share in Suzhou where there is significant growth in factories owned by Japanese businesses. It expects related earnings contributions to emerge from FY02/22.

ASEAN

The spread of COVID-19 continued in the ASEAN region, and there were restrictions on economic activity in Malaysia, Indonesia, and Vietnam, where the company has local entities. This means that the company continued to face a tough operating environment in the region, with measures including the suspension of operations at facilities and shorter operating hours. Although there was an effect on the employment of staff at each of these local subsidiaries and at partner companies, the company ensured operations at contracted facilities while taking thorough epidemic prevention measures.

- Malaysia: Sales came to JPY1.1bn (+50% YoY) and operating profit to JPY6mn. Sales growth was aided in part by the effects from the infrastructure built to secure contracts from Aeon group facilities, and by contracts from existing stores of Aeon

- Malaysia. Profit deteriorated as the company had to lower its prices due to price competition from rivals, and because personnel expenses increased due to additional hiring.

- Vietnam: Sales came to JPY2.1bn (+5.5% YoY) and operating profit to JPY120mn (YoY decline of about 30%). Sales expanded thanks to sales contributions from facilities contracted in the same period the previous year. A resurgence in COVID-19 cases undermined normal sales activities, and growth in fixed expenses pushed profit down. Aeon Mall is stepping up store rollouts in Vietnam, so the company is strengthening its local infrastructure.

- Indonesia: Sales were JPY2.4bn (-6% YoY), and the company posted an operating loss. The loss was attributable to lower sales amid economic restrictions caused by the COIVD-19 pandemic. Indonesia is a large market within the ASEAN region, and the company has access to the customer base of a cleaning company it purchased in the country in 2018. It is building local infrastructure by dispatching staff from Japan with an eye toward expanding contracts with Aeon group facilities.

Summary of measures for FY02/22

Obtained external credit rating

The company obtained a new credit rating from Rating and Investment Information, Inc. (R&I). Shared Research understands it obtained the rating to expand future fundraising options as it intends to increase capital expenditures and step up M&A going forward.

Reducing dependence on the Aeon group

The company intends to increase the ratio of sales outside the Aeon group to 40.0% by the end of FY02/24 from 35.7% in FY02/21 to reduce its dependence on intragroup sales. It reformed its sales structure in November 2020 with the aim of expanding transactions with external companies. It established a department to cultivate new customers among major domestic companies, and plans to efficiently secure such customers through focused sales activities. The company is making progress with bringing in new customers from outside the group in Facilities Management, Security Services, and Cleaning Services.

In Q3 FY02/22, the ratio of sales outside the group was 34.9% (35.7% at end-FY02/12). Demand for disinfectant cleaning and similar services at group companies increased, and the company continued to win orders from outside the group. Note: There is no difference between service pricing and the company's margins for services offered within the Aeon group and externally.

Head office relocation

The company relocated its head office in September 2021. Head office functions previously divided between Tokyo, Chiba, and Osaka were consolidated in Tokyo (Chiyoda). Relocation expenses and expenses for relocating employees were booked through 1H, but were small. The company capitalized renovation expenses in Q3.

The company's interior design department remodeled the premises with the aim of creating a smart office to boost head office operational efficiency and facilitate work style reforms. The company has built a system enabling smooth communication with employees working from home or satellite offices with an enhanced communication environment throughout the building. It has also established a network environment permanently connected to all eight domestic branches, enabling instant communication with group companies in Japan and overseas.

Digital transformation progress

In June 2021, the Ministry of Economy, Trade and Industry named the company a digital transformation (DX) certified business, in recognition of its initiatives in promoting DX aimed at building sustainable business models in facilities management. With an increasingly acute labor shortage in the facilities management business, the company plans to use DX to build systems that enable efficient service provision.

The company continues to develop its Aeon Delight platform. It plans to use the platform to collect, analyze, and process customer feedback, facility conditions, and market trends in customers' industries. It plans to use the data to strengthen relationships between the sales department and customers and offer solutions that will solve customer issues.

1H FY02/22 results (out October 6, 2021)

Sales: JPY163.9bn (+9.5% YoY)
- Operating profit: JPY8.4bn (+12.4% YoY)
- Recurring profit: JPY8.5bn (+13.2% YoY)
- Net income*: JPY5.6bn (+40.9% YoY)
*Net income attributable to owners of the parent

1H FY02/22 results analysis

Sales: Rose YoY. Sales and profit improved YoY in six segments, with Vending Machine Services the exception. Performance was helped in particular by sales growth in the Cleaning Services segment.

Gross profit: In 1H, gross profit was JPY20.5bn (+12.2% YoY), and GPM 12.5% (+0.3pp YoY). Demand for services with relatively high GPMs such as disinfectant cleaning at facilities with COVID-19 exposures increased. There were also signs of benefits from automating systems and reducing headcount, especially in the Facilities Management and Security Services.

SG&A expenses: SG&A expenses were JPY12.0bn (+12.1% YoY) in 1H, and SG&A expenses ratio was 7.3% (+0.1pp YoY). Personnel expenses rose as the company stepped up new graduate and mid-career hires.

Progress versus full-year company forecast

Versus FY02/22 full-year company forecast, 1H sales achieved 50.4% (49.9% of full-year results in 1H FY02/21), operating profit 51.1% (49.2%), recurring profit 51.4% (49.1%), and net income 52.9% (33.8%). This was generally in line with the company forecast, and ahead of progress in 1H FY02/21.

Restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake and unscheduled disinfectant cleaning at facilities with COVID-19 exposures helped results track above forecast. Overall, the impact of the pandemic on operating profit was minimal as increased sales in Cleaning Services and Materials and Supplies Sourcing Services offset the negative impact on the Vending Machine Services and Support Services.

Q2 (June–August 2021) FY02/22 results analysis

Q2 (June–August 2021) FY02/22 sales were JPY84.2bn (+10.5% YoY), operating profit JPY4.7bn (+16.2% YoY), recurring profit JPY4.7bn (+17.4% YoY), and net income JPY3.1bn (+220.4% YoY).

Gross profit was JPY10.7bn (+15.3% YoY), and GPM 12.7% (+0.5pp YoY). The share in sales of services with relatively high GPMs such as disinfectant cleaning increased.

Net income increased significantly. In addition to higher recurring profit, extraordinary losses declined to JPY284mn (from JPY2.0bn in Q2 FY02/21) as the JPY1.3bn in loss on sale of businesses associated with the transfer of the former Kajitaku's ID photo machine business dropped out.

Cleaning Services and Construction Work drove results at the segment level. In Q2, Cleaning Services booked sales of JPY17.5bn (+13.7% YoY) and operating profit of JPY2.3bn (+29.0% YoY), and Construction Work sales of JPY13.6bn (+28.1% YoY) and operating profit of JPY1.2bn (+25.6% YoY). Cleaning Services was contracted to carry out unscheduled disinfectant cleaning at facilities with COVID-19 exposures. Restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake in Aeon group facilities boosted Construction Work sales.

Segment trends

Facilities Management

- Sales: JPY31.0bn (+6.6% YoY)
- Operating profit: JPY2.6bn (+2.9% YoY)
- OPM: 8.5% (-0.3pp YoY)

Sales and profit in the segment rose YoY as the company reviewed services for existing customers and added new customers.

The company set up a sales team dedicated to new customer development. It also strengthened its organizational sales capabilities by visualizing and sharing sales activities and analyzing project processes through to the contract signing stage, with the aim of boosting sales efficiency.

For existing customers, the company has unrolled account management initiatives covering key customers and area management initiatives to reform workflow processes.

Account management

Instead of communicating with customers on a segment basis as in the past, account managers are appointed for key clients to provide services across the segments in a single package (for example, Construction Work carries out an order associated with Facilities Management). The company provides consistent quality services nationwide to clients who operate throughout Japan. It aims to expand transaction volume by centrally managing customer information to improve customer satisfaction and refer customers to other segments.

Area management

In March 2021, Aeon Delight set up customer service centers at all eight branches in Japan and rolled out remote support systems. The company also achieved labor-saving on-site as it installed systems and sensors at its facilities. This infrastructure enabled labor-saving and automation through area management, which involves the sharing of facilities management personnel in a set area. The company has launched the area management concept first with a focus on Aeon Retail stores among the several thousand facilities under contract. It has FY02/24 targets of 360 area-managed facilities and the reduction of 180 facilities management personnel. Progress was solid as of Q2 FY02/22. The company had introduced the system at 123 facilities and reduced facilities management headcount by about 100.

In 2H, personnel affected by these changes will be redeployed to new properties or sales positions, and the benefits in terms of higher sales and lower costs should become apparent, according to the company. Area management should reduce the number of personnel assigned to customer facilities and reduce the amount customers pay. However, the company has maintained the quality of facilities management using remote support, so is negotiating to raise fees per on-site personnel and working to collaborate on providing services with other segments.

Security Services

- Sales: JPY23.6bn (+9.0% YoY)
- Operating profit: JPY1.7bn (+6.8% YoY)
- OPM: 7.2% (-0.1pp YoY)

Sales and profit improved YoY amid a recovery in demand in Japan and overseas. The company continued to win new customers outside the Aeon group, and increased orders for event crowd control and transport security for sports events.

In the security industry, order unit prices are falling due to price competition even as labor costs rise. The company is working to optimize unit prices through negotiations and automating systems to handle tasks such as facility entry/exit management and store opening/closing to improve profitability. Despite a temporary increase in capex for automation, there are signs of improving margins.

Cleaning Services

- Sales: JPY34.1bn (+12.1% YoY)
- Operating profit: JPY4.3bn (+24.7% YoY)
- OPM: 12.5% (+1.2pp YoY)

Sales and profit improved as demand in Japan and overseas recovered. Margins improved as demand for high-margin special cleaning services increased.

Orders for preventive cleaning services using alcohol and hygienic cleaning services increased to help prevent the spread of COVID-19 among both existing and new customers. The overall number of customers grew as some who had requested one-time services switched to recurring contracts. The company has expanded its special cleaning services such as New Standard Cleaning and cleaning for disease prevention to customers outside the Aeon group. Orders for unscheduled disinfectant cleaning at facilities with COVID-19 exposures, primarily in the Aeon group, exceeded company expectations. Both the price and the profit margin for such cleaning are relatively high, and contributed to higher OPM.

New Standard Cleaning: A cleaning method with procedural guidelines to maintain a hygienic, attractive environment based on the company's own cleaning service that was previously provided to hospitals.

Construction Work

- Sales: JPY24.8bn (+12.0% YoY)
- Operating profit: JPY2.3bn (+8.1% YoY)
- OPM: 9.1% (-0.3pp YoY)

Sales and profit grew. In Q1 (February—May 2021), some construction work was delayed by the COVID-19 pandemic and sales and profit declined YoY. However, in Q2 (June—August 2021), sales and profit both rose YoY due to restoration work related to the February 2021 Fukushima Prefecture Offshore earthquake in Aeon group facilities, and an expanded volume of renovation contracts outside the Aeon group.

In 2H, the company plans to strengthen sales activities and review construction specifications and procedures to tackle work that has been delayed due to the pandemic and work on new projects. Further, with the aim of improving margins, the company plans cost-cutting moves such as scrutinizing expenses more carefully at the construction estimate stage.

Materials and Supplies Sourcing Services

- Sales: JPY28.8bn (+8.2% YoY)
- Operating profit: JPY1.4bn (+6.1% YoY)
- OPM: 4.7% (-0.1pp YoY)

Following the spread of COVID-19, sales and profit increased on still-high demand for quarantine-related materials such as masks, gloves, alcohol for professional use, and acrylic partitions to prevent droplet dispersion. New customer numbers rose as the segment continued to expand customer numbers inside and outside the Aeon group.

The company expects demand to decline in 2H as the pandemic settles down. It plans to step up sales activities, focusing on companies that have newly joined the Aeon group, in a bid to become a top supplier able to meet all the needs of materials for the group.

Aeon Delight plans to redouble its efforts in joint procurement with the Construction Work segment to boost margins. Other segments acquire supplies that the Materials and Supplies Sourcing Services handles from external companies. The company is encouraging other segments to purchase such supplies from the Materials and Supplies Sourcing Services. It expects procurement costs to fall as procurement volume increases.

Vending Machine Services

- Sales: JPY13.5bn (+12.3% YoY)
- Operating profit: JPY353mn (-1.1% YoY)
- OPM: 2.6% (-0.4pp YoY).

Demand for beverages from vending machines slumped in 1H FY02/21 on the closure of facilities, people refraining from going out, and increased teleworking in the wake of the government's declaration of a state of emergency. In 1H FY02/22, sales increased as customer traffic began to return to facilities and offices, and demand for beverages from vending machines recovered.

Profit fell. Fixed costs rose as the company installed more of its own multi-brand vending machines, which feature a mix of brands from several beverage companies, in a bid to boost unit profitability.

Support Services

- Sales: JPY8.1bn (+4.1% YoY)
- Operating profit: JPY255mn (versus an operating loss of JPY100mn in 1H FY02/21)
- OPM: 3.2%

Sales and profit increased on a recovery in demand for event, travel, and business trip support services at company subsidiary Aeon Compass and exit from a loss-making subsidiary. Demand at household support services company Aqutia slumped amid price cuts by competitors.

In 2H, the company plans to meet outsourcing operational needs at customer facilities and expand its service offerings to improve earnings.

Overseas business

- Sales: JPY11.9bn (+25.9% YoY)
- Operating profit: JPY870mn (+21.4% YoY)

In the overseas business, individual segments are in charge depending on the type of project. Earnings from the overseas business are included within each segment.

Sales and profit grew, as the business expanded, mainly in China. The company operates Facilities Management, Security Services, Cleaning Services, and Support Services overseas. Aeon group companies comprise roughly half of its customers. OPM is roughly the same as in the company's domestic business.

China

Sales and profit grew. Sales were JPY7.9bn and operating profit JPY700mn. The impact of the pandemic was relatively small, and economic activity rebounded quickly.

In China, under the oversight of Aeon Delight China (AD China; a company established in April 2021), Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management expanded their businesses by focusing on contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment.

In June 2021, Aeon Delight Jiangsu acquired a 60% stake in Suzhou Nakamura Integrated Facility Management Service (making it a subsidiary), which has a high level of knowledge and success in contracting services for Japanese-owned factories, in order to expand market share in Suzhou where there is significant growth in factories owned by Japanese businesses.

ASEAN

In Malaysia, sales were JPY800mn and operating profit breakeven; in Vietnam, sales were JPY1.6bn and operating profit JPY130mn; and in Indonesia sales were JPY1.6bn and operating profit JPY37mn. The spread of COVID-19 continued in the ASEAN region, and there were restrictions on economic activity in ASEAN countries where the company has local entities. This means that the company continued to face a tough operating environment in the region, with measures including the suspension of operations at facilities and shorter operating hours.

The company thinks that earnings in ASEAN may decline YoY in 2H. The pandemic is severe, and some Aeon group facilities are temporarily closed. In Malaysia and Indonesia, the company has dispatched personnel from Japan to build infrastructure with a view to winning more contracts from Aeon group facilities. The company intends to reinforce its infrastructure in Vietnam, where Aeon Mall is stepping up store openings.

Summary of measures for FY02/22

Improving business with entities outside the Aeon group

The company plans to increase the ratio of sales outside the Aeon group to 40.0% by the end of FY02/24 from 35.7% in FY02/21 to reduce its dependence on intragroup sales. It reformed its sales structure in November 2020 with the aim of expanding transactions with external companies, and established a department to efficiently acquire new customers by targeting major domestic companies. The company has also made use of personnel familiar with target industries to strengthen sector specific sales. It has gained customers from outside the group in the Facilities Management, Security Services, and Cleaning Services.

However, the ratio of sales outside the group declined to 34.2% in 1H FY02/22 due to a rise in demand for disinfectant cleaning and similar services at group companies, despite the company continuing to win orders from outside the group. Note: There is no difference between service pricing and the company's margins for services offered within the Aeon group and externally.

Head office relocation

The company relocated its head office in September 2021. Head office functions previously divided between Tokyo, Chiba, and Osaka were consolidated in Tokyo (Chiyoda). Relocation expenses and expenses for relocating employees were booked through 1H, but were small. The company plans to capitalize renovation expenses in Q3.

The company's interior design department remodeled the premises with the aim of creating a smart office to boost head office operational efficiency and facilitate work style reforms. The company has built a system enabling smooth communication with employees working from home or satellite offices with an enhanced communication environment throughout the building. It has also established a network environment permanently connected to all eight domestic branches, enabling instant communication with group companies in Japan and overseas.

Digital transformation progress

In June 2021, the Ministry of Economy, Trade and Industry named the company a digital transformation (DX) certified business, in recognition of its initiatives in promoting DX aimed at building sustainable business models in facilities management. With an increasingly acute labor shortage in the facilities management business, the company plans to use DX to build systems that enable efficient service provision.

The company continues to develop its Aeon Delight platform. It plans to use the platform to collect, analyze, and process customer feedback, facility conditions, and market trends in customers' industries. It plans to use the data to strengthen relationships between the sales department and customers and offer solutions that will solve customer issues.

Q1 FY02/22 results (out July 7, 2021)

Summary

- Sales: JPY79.7bn (+8.4% YoY)
- Operating profit: JPY3.7bn (+7.9% YoY)
- Recurring profit: JPY3.8bn (+8.4% YoY)
- Net income: JPY2.5bn (-16.2% YoY)

Sales rose YoY Except for the Construction Work segment, sales and profit improved YoY in each of the company's segments. Performance was helped in particular by favorable growth in the Cleaning Services segment.

With the rise in sales, operating profit also increased, but net income fell. This occurred due to earlier accounting irregularities at Kajitaku and the resulting tax refund of JPY1.1bn recorded in connection with requests for amended returns.

Kajitaku: In late March 2019, accounting irregularities were discovered at Kajitaku, a former company subsidiary. The company submitted corrected financial statements covering FY02/14 through FY02/19 with a cumulative revised figure of JPY16.3bn.

Progress versus full-year company forecast

Versus FY02/22 full-year company forecast, in Q1 sales achieved 24.5%, operating profit 22.6%, recurring profit 22.7%, and net income 23.9%. This was generally in line with the company forecast. Operating profit was below 25%. While this appears lower than expected, it was due to an increase in personnel costs, as the company forecasted in its initial forecast.

In the Construction Work business, the company expects that the postponement of some store renovation projects it has received will delay booking of construction revenue to Q2. In other segments, the results were generally in line with the company's initial forecast. Regarding the impact of the COVID-19 pandemic, although the state of emergency lasted longer than expected in the company's initial forecast, the impact was within the anticipated range (resulting in a decrease in operating profit of JPY170mn). The negative impact of the pandemic is expected to reduce operating profit by JPY500mn in FY02/22, with a JPY250mn decline in Support Services.

All segments appear to be progressing in line with the company forecast in Q2.

Segment trends

Facilities Management

- Sales: JPY15.5bn (+6.9% YoY)
- Operating profit: JPY1.3bn (+1.5%YoY)
- OPM: 8.2% (-0.5pp YoY)

Sales and profit in the segment increased YoY thanks mainly to an increase in orders for a variety of maintenance services, along with additional orders from major clients. The efforts to enhance account management for key customers during its medium-term business plan (FY02/22 to FY02/24) turned to be successful.

Account management: Instead of communicating with customers on a segment basis as in the past, account managers are appointed for key clients to provide services across the segments in a single package (for example, the Construction Work segment receives an order for a construction project which is handled by the Facilities Management segment). In this way, the company provides services of stable quality on a national scale to clients who operate throughout Japan. By centrally managing client information, the company aims to improve customer satisfaction and expand transactions.

In March 2021, customer service centers began operating at all eight branches in Japan, enabling remote support and labor-saving on-site operations using various systems and sensors. Collaboration with Customer Support Centers has enabled area management, which involves the sharing of facilities management personnel in a certain area. In the past, various facilities had permanently stationed management personnel assigned to them; area management makes it possible to deal with labor shortages by reducing or eliminating the need for these permanent assignments. With medium-term targets of 360 area-managed facilities and the reduction of 180 management personnel, by Q1 FY02/22 the company had introduced the system at 95 facilities and reduced the number of facilities management personnel by about 70. The personnel affected by these changes will be moved to new properties and sales positions. According to the company, the benefits of these measures in terms of cost reductions and boosted revenue are expected to become apparent in Q2 and beyond.

Security Services

- Sales: JPY11.6bn (+7.3% YoY)
- Operating profit: JPY796mn (+4.3% YoY)
- OPM: 6.8% (-0.2pp YoY)

Sales and profit improved YoY amid a recovery in demand in Japan and the overseas markets. In Q1 FY02/21, many facilities utilizing the company's Security Services were closed due to the COVID-19 pandemic, and demand for event security dropped. However, Q1 02/22 saw a rebound.

To improve profitability, the company continued its initiatives to optimize unit prices through price negotiations and progress in automating systems to handle routine tasks such as facility entry/exit management and store closings. The challenge is that in the security industry, even while labor costs are on the rise, order unit prices are falling due to price competition with competitors. Industry companies, including Aeon Delight, are negotiating price increases to help optimize order unit prices.

Cleaning Services

- Sales: JPY16.6bn (+10.4% YoY)
- Operating profit: JPY2.0bn (+19.9% YoY)
- OPM: 11.9% (+0.9pp YoY)

Sales and profit improved as demand in Japan and overseas recovered. Orders for preventive cleaning services using alcohol and hygienic cleaning services increased to help prevent the spread of COVID-19 among both existing and new customers. The overall number of clients grew as some who had requested one-time cleaning services switched to recurring contracts. The implementation of cleaning for disease prevention and special cleaning services like "new standard cleaning" is also expanding. Both the price and the profit margin for such cleaning are relatively high, and OPM rose as a result.

New Standard Cleaning: A cleaning method with procedural guidelines to maintain a hygienic, attractive environment based on the company's own cleaning service that was previously provided to hospitals.

Construction Work

- Sales: JPY11.2bn (-2.8% YoY)
- Operating profit: JPY1.1bn (-6.3% YoY)
- OPM: 9.5% (-0.4pp YoY)

Sales and profit declined YoY on the reduction and delay of store renovation work ordered due to the COVID-19 pandemic. Although OPM fell compared to Q1 FY02/21 due to a decline in sales, it improved compared to 9.1% in Q1 FY02/20. The effects of cost reduction measures like more carefully scrutinizing expenses at the construction estimate stage have gradually become apparent since FY02/21.

The company expects construction revenue that was delayed in Q1 02/22 to be booked in Q2, as well as income from large-scale construction. 1H results are anticipated to be in line with the company forecast.

Materials and Supplies Sourcing Services

- Sales: JPY14.1bn (+9.0% YoY)
- Operating profit: JPY656mn (+7.2% YoY)
- OPM: 4.6% (-0.1pp YoY)

Following the spread of COVID-19, sales and profit increased on the rise in demand of quarantine-related materials such as masks, gloves, alcohol for professional use, and acrylic partitions to prevent droplet dispersion. The segment continued to focus on expanding its market share within the Aeon group. Customer development progressed, and orders from new customers also rose.

Even so, OPM fell 0.1pp YoY. This was due to a deteriorating product mix with higher sales of low-margin products, as well as higher distribution costs.

Vending Machine Services

- Sales: JPY6.5bn (+38.2% YoY)
- Operating profit: JPY116mn (versus a loss of JPY10mn in Q1 FY02/21)
- OPM: 1.8% (operating loss in Q1 FY02/21)

Demand for beverages from vending machines slumped in Q1 FY02/21 on the closure of facilities and people refraining from going out in the wake of the government's declaration of a state of emergency. Although some facilities were closed or operated with reduced hours in Q1 FY02/22, both sales and profit increased as customer traffic began to return to the facilities and demand for beverages from vending machines recovered.

OPM was 1.8%. This was down compared to the OPM of 3.3% in Q1 FY02/20 (operating loss in Q1 FY02/21). In order to improve profitability per unit, the company has been installing more of its own multi-brand vending machines (which offer products from several different brands), but fixed costs such as labor costs and depreciation became more burdensome as sales declined.

There are two types of vending machines in operation: machines owned by the company and machines owned by partner companies like sales companies of beverage makers. The purchase of beverages and filling of vending machines are outsourced to contractors, while the company determines the locations and coordinates the product lineup. The company's overall sales in this area are tied to beverage sales, with additional compensation from the manufacturers. Operating profit is the amount remaining after paying commissions to operators and installation sites.

Support Services

- Sales: JPY4.1bn (+3.8% YoY)
- Operating profit: JPY119mn (15x Q1 FY02/21)
- OPM: 2.9% (+2.7pp YoY)

In Q1 FY02/21, the COVID-19 pandemic caused a slump in demand for the event and travel-related services of a company's subsidiary, Aeon Compass. As the situation improved, both sales and profit increased in Q1 02/22.The company worked to expand the provision of a variety of services in order to meet outsourcing needs related to the management and operation of contracted facilities and their surroundings.

Overseas business

- Sales: JPY5.6bn (+16.7% YoY)
- Operating profit: JPY420mn (+16.7% YoY)
- OPM: 7.5% YoY

Segments manage their overseas business according to the type of business conducted. The company mainly operates Security Services business and Cleaning Services business overseas while it is also involved in Facilities Management and Support Services businesses. OPM is almost at the same level as the company's domestic business.

China

The impact of the COVID-19 pandemic in China was relatively limited, and economic activity recovered quickly. Aeon Delight Jiangsu and Wuhan Xiaozhu Property Management expanded their businesses by focusing on bolstering contracts for priority facilities such as medium- to high-end shopping centers, hospitals and nursing homes, and facilities in areas undergoing redevelopment.

In April 2021, the company established Aeon Delight Jiangsu in Suzhou, China to oversee its operations in the country, aiming to enhance group governance in China, maximize synergy among its operating companies, and establish the company brand. Aeon Delight Jiangsu promotes investment and M&A deals in China and develops a national sales strategy in collaboration with its local subsidiaries.

ASEAN

The spread of COVID-19 in the ASEAN region is ongoing and the company continued to face a tough operating environment as shorter operating hours, partial closures, idling of facilities, and curfews were in effect in countries like Malaysian (its government issued travel and movement restrictions in January 2021) and Indonesia where the company operates.

Summary of measures for FY02/22

Subsidiary reorganization

In March 2021, the integration of A to Z Service Co., Ltd., an interior construction and maintenance services provider for mainly Kanto-area small and medium facilities, and Do Service Co., Ltd., a cleaning services provider for mainly Kansai-area small and medium facilities, resulted in the birth of Aeon Delight Connect Co., Ltd. The new company is set to become a core company within the group that can provide comprehensive management services for small and medium-sized facilities throughout Japan. The reorganization will allow the company to expand the service area of A to Z Service Co., Ltd. and Do Service Co., Ltd. and increase the services available to existing customers.

Both sales representatives and top management are engaged in sales activities at national chains, including convenience stores, restaurants, supermarkets, and apparel shops. Although the company did not see any significant results in Q1, the number of estimates requested rose, and it expects to see results in 2H.

Improving business with entities outside the Aeon group

The company plans to increase the ratio of sales outside the Aeon group, thereby reducing its dependence on intragroup sales. The ratio of sales outside the Aeon group in FY02/21 was 35.7%, and the company plans to raise this to 40.0% by the end of FY02/24.

The company reformed its sales structure in November 2020 with the aim of expanding transactions with external companies, and established a new department to efficiently acquire new customers by targeting major domestic companies. However, the ratio of sales outside the Aeon group declined to 35.4% in Q1 02/22 due to a rise in demand for disinfectant cleaning and similar services at companies within the group. Still, sales to companies outside the Aeon group increased by about 8%.

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

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

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

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

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

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

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

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.

News and topics

Acquisition of Eco Mark certification for Cleaning Services

2022-01-24

On January 24, 2022, Aeon Delight Co., Ltd. announced the acquisition of Eco Mark certification for Cleaning Services.

The company acquired Eco Mark certification for Product Category No. 510 "Cleaning Services Version 1.0" from Japan Environment Association on January 21, 2022.

At 46 commercial facilities where the company provides cleaning services, the company's services were deemed to satisfy the criteria for Eco Mark certification for Cleaning Services (certification number: 21 510 005). The company aims to expand the number of facilities, including commercial facilities, offices, hotels, and factories, to about 2,000 by FY2025.

Announcement of Application for the Prime Market in TSE's New Market Category

2021-12-01

On November 30, 2021, AEON Delight Co., Ltd. made an announcement concerning its selection of and application for the Prime Market in the Tokyo Stock Exchange's new market category.

In July 2021, the company received the results of its initial assessment from the Tokyo Stock Exchange (TSE), confirming that it was in compliance with the listing criteria for the Prime Market in the new market category. Based on these results, the company resolved at its Board of Directors meeting held on November 30 to select and apply for listing on the Prime Market as its new TSE market category scheduled to take effect April 4, 2022.

Received credit ratings

2021-10-29

Aeon Delight Co., Ltd. announced it received credit ratings from Rating and Investment Information, Inc.

On October 29, 2021, the company received its first credit rating as detailed below from Rating and Investment Information.

- Rating agency: Rating and Investment Information, Inc.
- Rating assigned: Issuer rating
- Rating: A- (newly assigned)
- Rating outlook: Stable

Change to subsidiary companies held by an overseas subsidiary (due to a share purchase and subscription to new shares)

2021-10-25

Aeon Delight Co., Ltd. announced the change of subsidiary companies held by its own overseas subsidiary (due to a share purchase and subscription to new shares).

At a meeting of the board of directors held on October 25, 2021, the company resolved that its consolidated subsidiary Aeon Delight China would acquire a 51% stake in Zhejiang Metelan Property Management Co., Ltd. by purchasing shares and subscribing to new shares.

Reason for the change

Zhejiang Metelan Property Management has a high level of experience and expertise in the management of medical facilities, and investment in making it a second-tier subsidiary is intended to expand medical facility operations in the China business and accelerate growth.

Overview of the second-tier subsidiary

Company name: Zhejiang Metelan Property Management Co., Ltd.
Business: Cleaning, internal transportation, security, facility management, patient attendance, etc. for medical facilities.

FY12/20 results

- Net assets: JPY4mn
- Total assets: JPY140mn
- Sales: JPY716mn
- Operating loss: JPY35mn
- Recurring loss: JPY34mn
- Net loss: JPY34mn

Investment amount and stake before and after investment

- Investment amount: CNY28,050,000 (approximately JPY484mn)
- This investment will bring Aeon Delight China's stake in Zhejiang Metelan Property Management from 0% to 51%.

Schedule

- Board of directors' resolution: October 25, 2021
- Expected contract execution date: November 2021
- Expected investment date: December 2021 to February 2022

Publication of integrated report

2021-10-06

Aeon Delight Co., Ltd. released its first integrated report, Aeon Delight Integrated Report 2021, on the company's corporate website. An English version of this document is to be published toward the end of November 2021.

Crisis management center in the new head office

2021-08-31

Aeon Delight Co., Ltd. announced its plan to have the customer support center in its new head office (Chiyoda-ku, Tokyo) also serve as a crisis management center. This is in preparation for major disasters that may affect large areas, including natural disasters as well as an earthquake directly beneath the Tokyo Metropolitan Area and Nankai Trough earthquakes expected to occur in near future.

Structural reforms, personnel change, and new head office opening

2021-08-30

Aeon Delight Co., Ltd. announced that it will relocate its head office from Minamisenba Heart Building (Osaka, Osaka Prefecture) to Teitokanda Building (Chiyoda-ku, Tokyo) and will start operations at the new head office from September 1, 2021.

The aim is to improve productivity through consolidating head office functions, which were previously divided between Osaka, Tokyo and Chiba, and implementing work style reforms.

The company announced structural reforms and a personnel change.

Details of structural reforms (as of September 1, 2021)

The new Group Control Department will be established under the direct management of the president. The Control Division, Affiliated Companies Management Division and Budget Management Division will be transferred to this new department and renamed the Parent Company Management Division, Affiliated Companies Division and Consolidated

Management Division respectively. The Affiliated Companies Department and the International Division will be abolished, and their functions will be divided and transferred to the appropriate departments and divisions.

Executive officer announcement (as of September 1, 2021)

Name	New position	Former position
Hiroaki Ochi	Executive Officer, COO of ASEAN Business	Executive Officer, COO of ASEAN Business and General Manager of Affiliated Companies Department

Achievement of the WELL Health-Safety Rating at new headquarters

2021-08-19

Aeon Delight Co., Ltd. announced that its new headquarters has earned the WELL Health-Safety Rating for the first time.

On August 2021, the company's new head office (due to open in September 2021) was awarded a WELL Health-Safety Rating. The company intends to utilize the technology and knowledge accumulated through the achievement of the WELL Health-Safety Rating to create a safe and healthy facility environment for its customers.

The WELL Health-Safety Rating is an international certification system established in response to the COVID-19 pandemic as part of the WELL Certification, which offers performance evaluations for buildings and facilities on their environmental and energy efficiency as well as heath and well-being of the users. As of the end of July 2021, 12,000 buildings and facilities worldwide and about 30 in Japan have been awarded the certification by the International WELL Building Institute (IWBI) in the US.

The company's new head office has implemented various measures to prevent the spread of COVID-19 and features to ensure employee health, and has earned the certification. In addition, measures have been put in place to ensure business continuity, including the construction of a power supply and dedicated communication circuits in the event of a disaster.

Basic policies for sustainability

2021-08-02

Shared Research updated the report following interviews with Aeon Delight Co., Ltd.
On August 2, 2021, the company announced that it has formulated Basic Policies for Sustainability.

(click here for a link to the company's release)

To fulfill its social responsibilities as a corporate citizen and promote ESG management that aims to resolve social issues through its business activities, Aeon Delight has established the Basic Policies for Sustainability ("the Policies") based on its management philosophy. In accordance with the Policies, the company will promote initiatives with a strong awareness of sustainability in its business models, growth strategy, and business activities.

The company's press release presented the following outline of its Basic Policies for Sustainability.

Aeon Delight's management philosophy is "We Pursue the Creation of 'Environmental Value' for our Customers and for the Local Communities." Based on this management philosophy, the company intends to contribute to solving social issues and achieving a sustainable society by creating "environmental value" in all aspects of its business together with its many stakeholders.

- The company will strive to create a safe, secure, hygienic, and healthy environment in and around its facilities.
- By providing solutions that meet society's expectations, the company will contribute to achieving a decarbonized society, conserving biodiversity, and promoting recycling.
- The company will comply with laws and social norms, build relationships of mutual trust with business partners, and conduct fair business activities throughout the supply chain.

- The company will respect the human rights of each individual and create a vibrant organizational culture in which diverse human resources can demonstrate their abilities.

- As a corporate citizen, the company will engage in social contribution activities that aim for a better environment and society

Structural reforms and personnel changes

2021-07-27

Aeon Delight Co., Ltd. announced structural reforms and personnel changes.

Details of structural reforms (effective August 1, 2021)

The company will implement the following structural reforms related to group strategy and ESG, which falls under the direct supervision of its president.

- The company will establish a new Office of the President that will be responsible for public relations, IR, and secretarial operations. This office will be supervised by the managing director responsible for group strategy and ESG.

- The Delight Communication Department, which is currently supervised by the managing director responsible for group strategy and ESG, will be placed under the authority of the new Office of the President and will subsequently be referred to as the Public Relations and IR Group.

Personnel changes (effective August 1, 2021)

Name	New position	Former position
Emiko Ishii	Head of the Office of the President	Head of the Delight Communication Department

Profile

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03-6895-3892

Established

1972-11-16

Website

https://www.aeondelight.co.jp/

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Tokyo Stock Exchange, Prime Market

Exchange Listing

1995-09-29

Fiscal Year-End

Feb

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We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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