Aeon Delight / 9787

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Research Coverage Report by Shared Research Inc.

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

Key financial indicators

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

Source: Shared Research based on company data

Recent updates

Highlights

On **July 5**, **2019,** Aeon Delight Co., Ltd. announced earnings results for Q1 FY02/20; see the results section for details.

On **June 28**, **2019,** the company announced earnings results for full-year FY02/19, the special investigation committee's investigation report, and corrections to its historical financial statements.

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

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

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

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

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

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

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

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

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

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

Trends and outlook

Quarterly trends and results

Cumulative	FY02/18				FY02/19				FY02/20	FY02/20	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	% of FY	FY Est.
Sales	75,064	150,738	222,160	292,396	76,370	152,611	226,744	302,915	79,048	25.1%	315,000
YoY	-0.9%	-0.0%	0.3%	-0.1%	1.7%	1.2%	2.1%	3.6%	3.5%		4.0%
Gross profit	9,003	18,585	27,220	34,871	9,342	17,462	25,840	35,452	9,632		
YoY	-1.7%	3.3%	0.2%	-2.4%	3.8%	-6.0%	-5.1%	1.7%	3.1%		
GPM	12.0%	12.3%	12.3%	11.9%	12.2%	11.4%	11.4%	11.7%	12.2%		
SG&A expenses	5,669	11,167	16,656	21,961	5,556	11,186	16,927	22,421	5,832		
YoY	3.0%	1.9%	2.1%	1.7%	-2.0%	0.2%	1.6%	2.1%	5.0%		
SG&A ratio	7.6%	7.4%	7.5%	7.5%	7.3%	7.3%	7.5%	7.4%	7.4%		
Operating profit	3,334	7,418	10,563	12,909	3,785	6,275	8,913	13,030	3,800	21.1%	18,000
YoY	-8.8%	5.4%	-2.7%	-8.7%	13.5%	-15.4%	-15.6%	0.9%	0.4%		38.1%
OPM	4.4%	4.9%	4.8%	4.4%	5.0%	4.1%	3.9%	4.3%	4.8%		5.7%
Recurring profit	3,367	7,490	10,965	13,381	3,816	6,349	9,307	13,362	3,822	21.2%	18,000
YoY	-7.8%	6.5%	0.8%	-6.2%	13.3%	-15.2%	-15.1%	-0.1%	0.2%		34.7%
RPM	4.5%	5.0%	4.9%	4.6%	5.0%	4.2%	4.1%	4.4%	4.8%		5.7%
Net income	2,040	4,189	5,558	6,397	2,067	2,838	3,893	6,415	2,070	19.2%	10,800
YoY	-16.2%	8.2%	-7.6%	-9.8%	1.3%	-32.3%	-30.0%	0.3%	0.1%		68.4%
Net margin	2.7%	2.8%	2.5%	2.2%	2.7%	1.9%	1.7%	2.1%	2.6%		3.4%

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

Source: Shared Research based on company data

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

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

Full-year performance

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

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

Source: Shared Research based on company data

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

Summary

- In Q1 FY02/20, sales were JPY79.0bn (+3.5% YoY), operating profit was JPY3.8bn (+0.4% YoY), and net income attributable to owners of parent was JPY2.1bn (+0.2% YoY). Kajitaku, the group subsidiary found to have engaged in improper accounting practices, reported sales of JPY1.5bn (-29.4% YoY) and an operating loss of JPY510mn (versus an operating loss of JPY662mn in Q1 FY02/19). Excluding Kajitaku, sales were up 4.4% YoY and operating profit was down 3.1% YoY.
- Facilities Management: Sales were JPY14.9bn (+5.9% YoY) and segment profit was JPY1.4bn (-3.0% YoY). In addition to the increase in new customer development, the expansion of contract orders in related business, such as the rollout of automatic fire extinguisher systems for kitchens and ducts, the periodic inspection of fire protection equipment, and the execution of emergency generator load tests, contributed to the increase in sales. However, although sales rose, the large increase in expenses meant that profit declined.
- Security Services: Sales were JPY11.1bn (+0.6% YoY) and segment profit was JPY730mn (+1.1% YoY). With personnel expenses rising due to tight labor supply–demand balance, the company was successful in optimizing contract unit prices. The operating profit margin improved to 6.6% from 6.5% in Q1 FY02/19.
- Cleaning Services: Sales were JPY15.4bn (+8.1% YoY) and segment profit was JPY1.7bn (+2.4% YoY). Sales growth reflected an increase in new customers and results from SJS, the cleaning services business in Indonesia, which became a consolidated subsidiary in December 2018. The company also made progress in introducing and selling automatic floor cleaning robots, which should lead to labor saving.
- Construction Work: Sales were JPY12.0bn (+14.4% YoY) and segment profit was JPY1.1bn (+10.6% YoY). The company implemented an improved planning and design system in FY02/19, resulting in a higher order efficiency. Strengthened relationships with partner companies through community-based systems also contributed to an increase in contract orders for renovation work. The company carried out a restructuring at the start of FY02/20 and established new construction departments in its Kanto and Kansai branches, developing a system that is closely aligned to demand for renovation work in each area. Expanding the number of orders received is a key focus of attention going forward.
- Materials and Supplies Sourcing Services: Sales were JPY13.0bn (+0.6% YoY) and segment profit was JPY712mn (-4.2% YoY). Efforts to expand contract orders for packaging materials for TOPVALU, Aeon's private brand, contributed to increased sales. On the other hand, although the company worked to improve profitability through initiatives such as reduced distribution expenses, overall expenses increased and segment profit declined.
- Vending Machine Services: Sales were JPY7.7bn (-5.0% YoY) and segment profit was JPY256m (-38.9% YoY). In order to generate profits from favorable locations (such as large commercial facilities with large sales per unit), the company is switching to installation of the machines that contain an assortment of products from different beverage makers. Therefore results are currently in a transition period. Profit was boosted by JPY77mn after a change in accounting policy, with an amendment in the useful life of vending machines implemented following a comprehensive review of replacement period and physical life.
- Support Services: Sales were JPY4.9bn (-10.3% YoY) and the segment loss was JPY124mn (versus a JPY274mn loss in Q1 FY02/19). Kajitaku sales fell sharply due to the suspension of new equipment sales and installation in the storefront promotion business. Sales in the Support Services business excluding Kajitaku increased 1.4% YoY, and segment profit decreased 0.3% YoY. The company is working to expand its provision of services to meet outsourcing needs for business travel, conference and exhibition management, as well as management of customer facilities and the surrounding environment.

FY02/20 forecast

Aeon Delight's FY02/20 earnings forecast remains unchanged. The company forecasts sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), and net income of JPY10.8bn (+68.4% YoY).

Full-year company forecasts

	FY02/18			FY02/19			FY02/20		
(JPYmn)	1H	2H	FY	1H	2H	FY	1H	2H	FY
Sales	**151,801**	**140,595**	**292,396**	**153,884**	**149,031**	**302,915**	**158,000**	**157,000**	**315,000**
YoY	0.3%	-1.9%	-0.8%	1.4%	6.0%	3.6%	2.7%	5.3%	4.0%
Cost of sales	131,765	125,759	257,524	133,577	133,886	267,463			
Gross profit	**20,035**	**14,836**	**34,871**	**20,307**	**15,145**	**35,452**			
YoY	2.5%	-23.7%	-10.6%	1.4%	2.1%	1.7%			
GPM	13.2%	10.6%	11.9%	13.2%	10.2%	11.7%			
SG&A expenses	11,228	10,733	21,961	11,246	11,175	22,421			
SG&A ratio	7.4%	7.6%	7.5%	0.2%	4.1%	2.1%			
Operating profit	**8,806**	**4,103**	**12,909**	**9,060**	**3,970**	**13,030**	**8,500**	**9,500**	**18,000**
YoY	3.5%	-53.1%	-25.2%	2.9%	-3.2%	0.9%	-6.2%	139.3%	38.1%
OPM	5.8%	2.9%	4.4%	5.9%	2.7%	4.3%	5.4%	6.1%	5.7%
Recurring profit	**8,878**	**4,503**	**13,381**	**9,134**	**4,228**	**13,362**	**8,500**	**9,500**	**18,000**
YoY	4.4%	-49.3%	-23.0%	2.9%	-6.1%	-0.1%	-6.9%	124.7%	34.7%
RPM	5.8%	3.2%	4.6%	5.9%	2.8%	4.4%	5.4%	6.1%	5.7%
Net income	**5,573**	**824**	**6,397**	**5,628**	**787**	**6,415**	**5,100**	**5,700**	**10,800**
YoY	4.3%	-83.2%	-37.5%	1.0%	-4.5%	0.3%	-9.4%	624.3%	68.4%

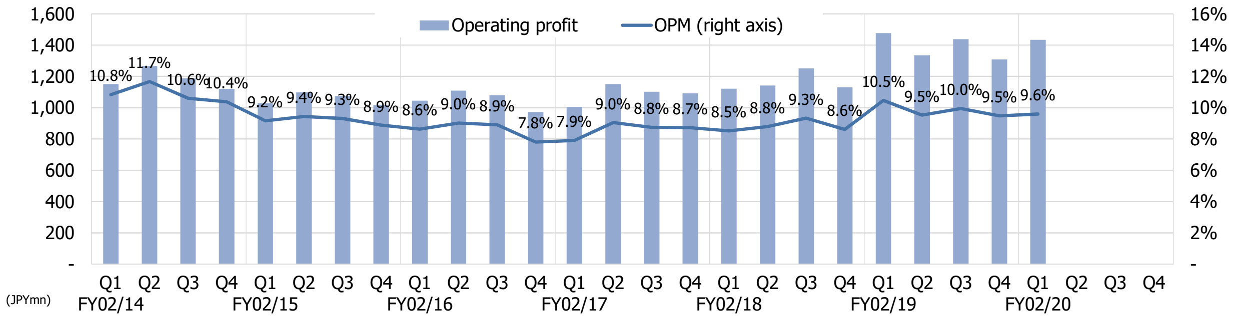
Source: Shared Research based on company data

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

For the Construction Work business, the company expects increased synergistic effects with U-COM Co., Ltd., which became a subsidiary in May 2018. U-COM has a track record for store design and interior-related work on many domestic and overseas commercial facilities. With the acquisition, Aeon Delight is in a better position to vertically integrate these value-added services with its existing services. The company is likely to have an increased amount of order backlog already. Furthermore, it is now capable of promptly making decisions and responding to customers as it has converted to a community-focused organization. This will also boost orders going forward. In the Cleaning Services business, in addition to previous efforts to improve service quality and productivity, the company anticipates reduced personnel expenses through the implementation of automatic floor cleaning robots. In the Facilities Management business, the company expects increased orders to raise earnings.

Reference

Facilities Management

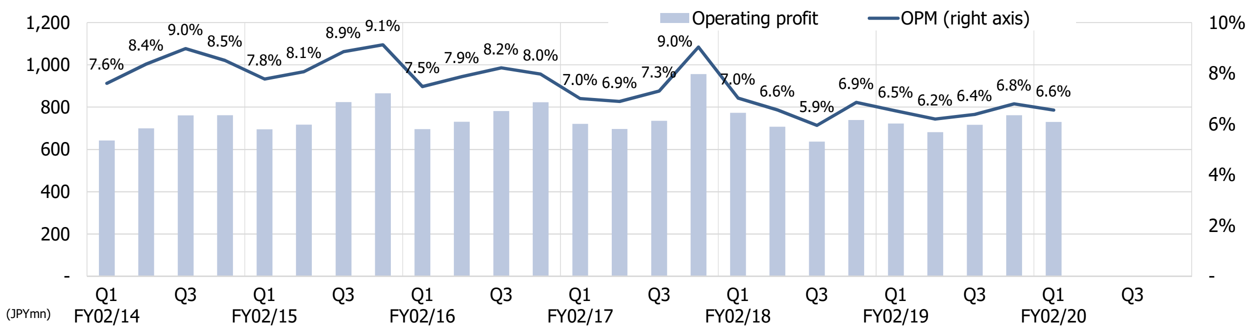


Facilities Management	FY02/18				FY02/19				FY02/20
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	13,165	12,994	13,412	13,128	14,102	14,014	14,447	13,801	14,928
YoY	3.5%	2.1%	6.5%	5.0%	7.1%	7.8%	7.7%	5.1%	5.9%
Operating profit	1,121	1,142	1,251	1,130	1,477	1,335	1,438	1,308	1,433
YoY	11.4%	-0.8%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

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

Source: Shared Research based on company data

Security Services

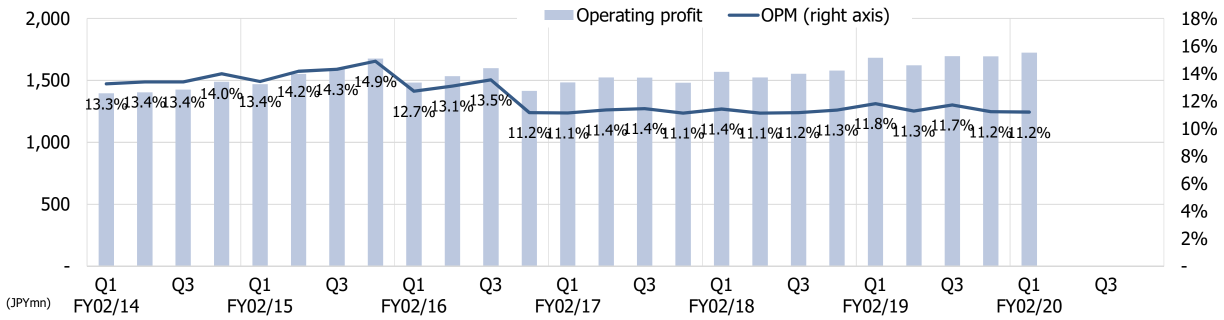


Security Services	FY02/18				FY02/19				FY02/20
Quarterly (JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Sales	11,001	10,798	10,712	10,779	11,074	10,991	11,220	11,207	11,143
YoY	6.9%	6.7%	6.3%	1.9%	0.7%	1.8%	4.7%	4.0%	0.6%
Operating profit	773	708	637	739	722	681	716	762	730
YoY	7.2%	1.6%	-13.5%	-22.7%	-6.6%	-3.8%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

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

Source: Shared Research based on company data

Cleaning Services

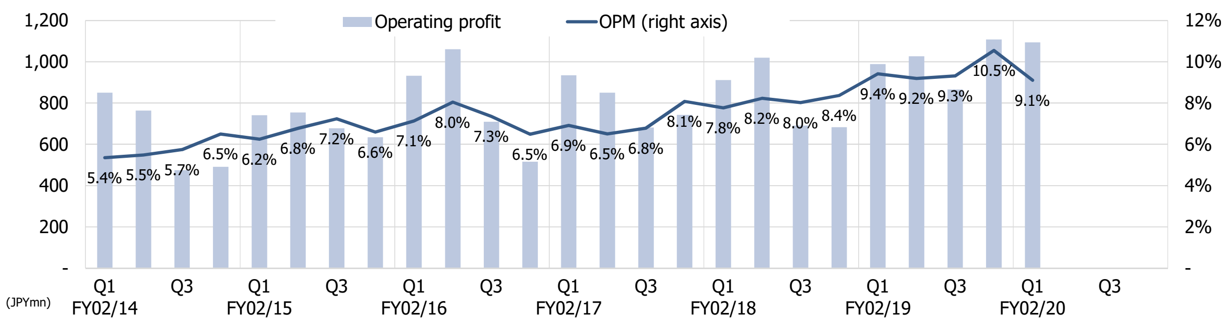


Cleaning Services Quarterly (JPYmn)	FY02/18 Q1	FY02/18 Q2	FY02/18 Q3	FY02/18 Q4	FY02/19 Q1	FY02/19 Q2	FY02/19 Q3	FY02/19 Q4	FY02/20 Q1
Sales	13,743	13,708	13,920	13,926	14,247	14,390	14,456	15,092	15,401
YoY	3.2%	2.1%	4.6%	4.6%	3.7%	5.0%	3.9%	8.4%	8.1%
Operating profit	1,570	1,525	1,554	1,579	1,683	1,622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

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

Source: Shared Research based on company data

Construction Work

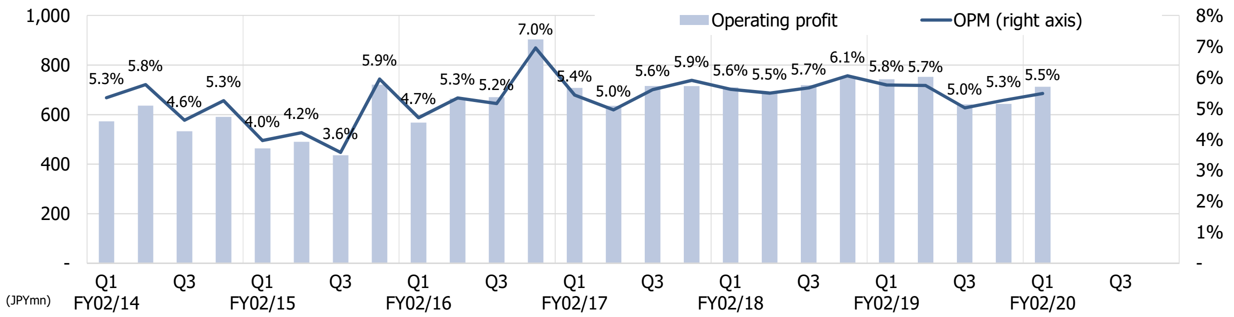


Construction Work Quarterly (JPYmn)	FY02/18 Q1	FY02/18 Q2	FY02/18 Q3	FY02/18 Q4	FY02/19 Q1	FY02/19 Q2	FY02/19 Q3	FY02/19 Q4	FY02/20 Q1
Sales	11,724	12,396	8,617	8,160	10,503	11,178	9,285	10,504	12,014
YoY	-13.3%	-5.2%	-14.1%	-11.2%	-10.4%	-9.8%	7.8%	28.7%	14.4%
Operating profit	911	1,020	691	683	989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

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

Source: Shared Research based on company data

Materials and Supplies Sourcing Services

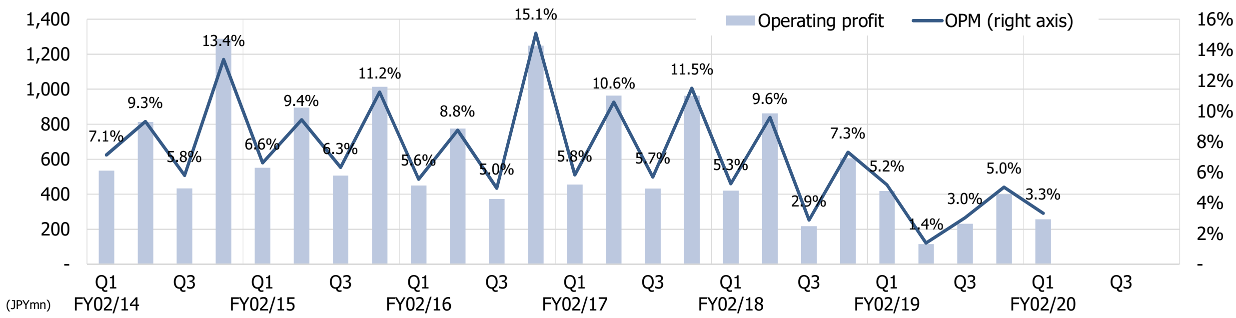


Materials and Supplies Sourcing Quarterly (JPYmn)	FY02/18 Q1	FY02/18 Q2	FY02/18 Q3	FY02/18 Q4	FY02/19 Q1	FY02/19 Q2	FY02/19 Q3	FY02/19 Q4	FY02/20 Q1
Sales	12,638	12,502	12,696	12,429	12,906	13,106	12,771	12,224	12,987
YoY	-3.1%	-2.5%	-0.6%	2.7%	2.1%	4.8%	0.6%	-1.6%	0.6%
Operating profit	710	687	719	752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

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

Source: Shared Research based on company data

Vending Machine Services



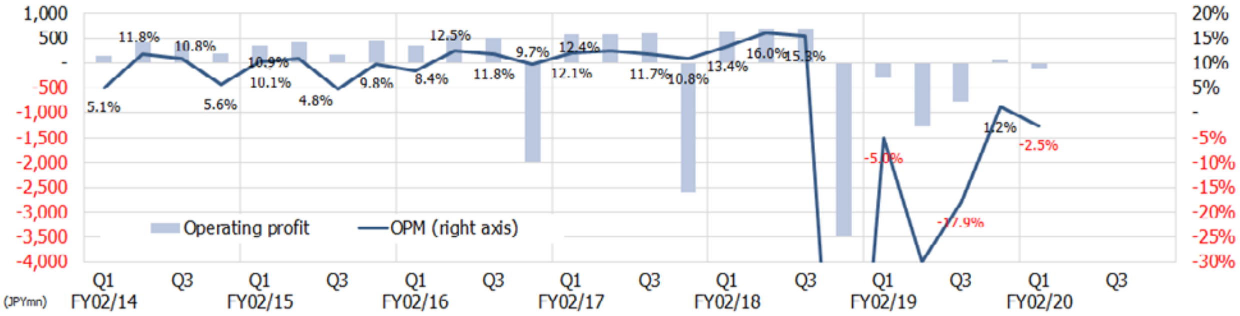
Source: Shared Research based on company data

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

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

Source: Shared Research based on company data

Support Services



Support Services Quarterly (JPYmn)	FY02/18 Q1	Q2	Q3	Q4	FY02/19 Q1	Q2	Q3	Q4	FY02/20 Q1
Sales	4,773	4,283	4,519	3,566	5,429	4,276	4,341	5,393	4,872
YoY	-5.7%	13.2%	5.5%	-29.5%	13.7%	-0.2%	-3.9%	51.2%	-10.3%
Operating profit	639	685	692	-3,482	-274	-1,283	-778	65	-124
YoY	11.1%	18.3%	16.3%	-	-	-	-	-	-
OPM	13.4%	16.0%	15.3%	-97.6%	-5.0%	-30.0%	-17.9%	1.2%	-2.5%

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

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

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

FY02/19 company forecasts (initial forecast)

Targets

For FY02/19, the company forecasts sales of JPY305.0bn (+3.1% YoY, +JPY9.2bn YoY), operating profit of JPY18.5bn (+10.0%, +JPY1.7bn), OPM of 6.1%, net income of JPY11.0bn (+6.6%, +JPY700mn), and NPM of 3.6%. The JPY1.7bn increase in operating profit is to be the result of a JPY3.0bn increase in gross profit absorbing a JPY1.2bn increase in SG&A expenses. The JPY3.0bn increase in gross profit is to be the result of measures related to client expansion (JPY800mn), store design and renovation business (JPY300mn), business expansion in Asia (JPY600mn), labor reduction and cost improvements (JPY700mn), and growth of domestic subsidiaries (JPY600mn).

Measures to increase gross profit

▷ **Client expansion:** Based on lost opportunities in FY02/18, Aeon Delight believes there are numerous contracts it could win if it could secure personnel with the required skills, and it aims to win clients outside the Aeon group by proposing labor-saving and energy-saving solutions.

▷ **Store design and renovation business:** The company expects to see more restorative construction work to be done when tenants are replaced in shopping malls. Including such work, it forecasts JPY9.2bn (+JPY2.3bn YoY) in gross profit from revitalization demand.

▷ **Business expansion in Asia:** The company plans to expand in Asia, with two thirds of the expansion in China and the other third in ASEAN.

▷ **Labor reduction and cost improvements:** This is related to client expansion, but Aeon Delight expects to achieve labor reduction and cost improvements by establishing a labor reduction business model and conducting various initiatives utilizing technology to achieve cost improvements.

▷ **Growth of domestic subsidiaries:** The company expects to achieve improvement across all of its subsidiaries, including growth at AZS, which handles non-core businesses (including call center services and facility management) under contract for small stores, recovery at Kajitaku, improved earnings at Hakuseisha, and continued profit growth at Aeon Compass.

Initiatives related to priority management issues

Aeon Delight aims to establish highly efficient labor reduction, automation, and visiting-type FM business models in FY02/19 to resolve priority management issues. Specifically, the company says it plans to establish two models to enhance services for small and medium facilities in Japan, a labor reduction model for large commercial facilities in Japan, and an automated FM model (SmartFM) for China.

Services for small and medium facilities in Japan

The company aims to establish two business models with distinct characters for small and medium domestic facilities. The first is a new FM business model created in collaboration with SECOM (TSE1: 9735). The second is a highly efficient, high-margin model that reduces the number of on-site staff, adds staff at visiting service offices, and strengthens sales.

Collaboration with SECOM

In April 2018, Aeon Delight announced a collaborative effort with SECOM to develop a new FM business model that can capture FM demand from the 2.2mn companies in Japan that have adopted machine security (remote security using sensors). This demand amounts to 2.2mn companies × JPY30,000/month (an amount similar to the fee for machine security). For example, if the company can win contracts with 2.2mn companies × 10% market share × JPY30,000/month × 12 months, sales would be about JPY80.0bn. A 20% market share would mean about JPY160.0bn in sales. The nature of the collaboration is unclear, but a 50:50 split would mean JPY40.0bn or JPY80.0bn respectively for Aeon Delight. At a briefing, the company said the sales teams of both companies would try to capture demand for safety and security at medium-sized facilities (20,000sqm and smaller) and together they are targeting a market share of about 20% by FY02/21. We will be watching related developments.

Collaboration with SECOM: On April 10, 2018, Aeon Delight agreed to collaborate with SECOM to establish a new FM business model. The content of the collaboration includes 1) by leveraging the service bases, technologies, and expertise of both companies, realizing labor reduction and automation for the management and operation of large facilities conventionally handled by on-site guards; 2) developing a one-stop service for small and medium facilities to resolve issues related to safety, security, comfort, and convenience; 3) coordinating client development by leveraging the sales abilities of both companies; and 4) promoting coordination on the development of overseas businesses by both companies, starting in China, where the market is growing fast.

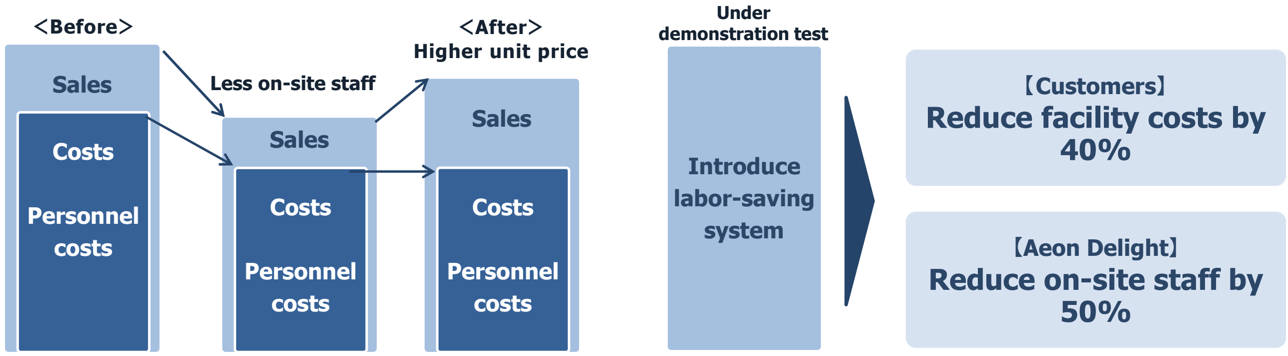
Establishment of more efficient, high-margin business model

Shared Research believes that with the new model, the company can anticipate improved profitability of the conventional on-site model through labor reduction and of the visiting model through business expansion and development of a dominant position. Aeon Delight operates through about 600 sites around the country, with a total of some 20,000 qualified staff members assigned to those sites (along with a network of about 10,000 cooperating companies). Of the 600 sites, about 450 are involved in FM, and about 80 of those conduct visiting services. When FM staff members are assigned to work on-site, this increases costs, ties up qualified staff, and keeps earnings from growing. Establishing a business model that reduces the number of on-site staff would improve profitability. The reduction can be achieved by consolidating administrative work (the aim is to reduce a four to five-person team by one).

This sort of service is already being used in commercial facilities. It seems that although sales decline, expenses decline even more, leading to improved profitability. Clients receive the benefit of cost reduction, so if a more efficient, high-margin model is established that still guarantees quality, Aeon Delight can anticipate horizontal expansion. It plans to develop the model in earnest starting in FY02/19.

The excess staff members resulting from such labor reduction would then be assigned to sites providing visiting services or to new projects. Capturing demand in areas near sites providing visiting services helps the company strengthen its dominance, increasing sales and improving profitability. The synergistic effect is sizeable.

More efficient, high-margin model for small and medium facilities (left), labor reduction model for large commercial facilities (right)



Source: Shared Research based on company data

Establishment of labor reduction model for large commercial facilities in Japan

Aeon Delight is considering a labor reduction model for large commercial facilities that is similar to the one for small and medium facilities (in terms of reducing labor through improved efficiency), but in combination with cutting-edge technology. It plans to establish a model during 1H FY02/19 for deployment at multiple facilities in 2H. This labor reduction model will have initial costs for sensors and other equipment, but halving the number of on-site staff will result in a 40% reduction in facility costs for clients. The model is already being tested both inside and outside Japan. An energy saving FM model was tested during FY02/18 as a next-generation FM model, and has now been integrated into the labor reduction model being tested at Aeon Mall Tokoname (total leased area of 86,700sqm). As the model nears its completed form, the company is working to determine the results of each of a variety of labor reduction initiatives and to satisfy clients on the safety and security of the model.

A 40% reduction in client costs naturally means a 40% reduction in related sales for Aeon Delight, but the company plans to secure profit with the establishment of a labor reduction model leveraging technology. In addition, it plans to shift staff released from on-site duties to new projects. The company feels it had at least 20 lost opportunities in FY02/18 due to the labor shortage. Being able to respond to such demand will help it generate sales and profit.

Establishment of automated FM model (SmartFM) for China

The aforementioned labor reduction model also anticipates the ultimate move to full automation. In March 2018, the company announced it plans to establish AeonDelight DeepBlue Technology (Shanghai) Co., Ltd., a joint venture with IT company DeepBlue Technology (Shanghai) Co., Ltd. (China) on April 26, 2018. Aeon Delight will have a 65% stake in the new company, while DeepBlue Technology (Shanghai) will have 35%. Aeon Delight says it has a good feeling about the venture's potential technological development speed and hopes to have SmartFM up and running in China in about a year. It is also considering using technology from DeepBlue Technology in its labor reduction model.

> Reasons for establishing a new company: DeepBlue Technology (Shanghai) possesses strengths in the basic research and application development for AI and provides integrated solutions for processes from R&D to product planning, development, and production. The new company will function as an R&D center specializing in R&D to create SmartFM, a new business model for facilities management (FM) which utilizes the company's wealth of expertise amassed in Japan, combined with cutting-edge technology. SmartFM will utilize AI and IoT in visual monitoring control systems, security systems, and assorted robot technology in order to make customer facilities more intelligent, improve convenience for facility users, and significantly increase productivity by automating and streamlining operations. In the future, the company aims to launch SmartFM in China, Japan, and ASEAN nations.

China's SmartFM (including operations of DeepBlue Technology)

Source: Shared Research based on company data

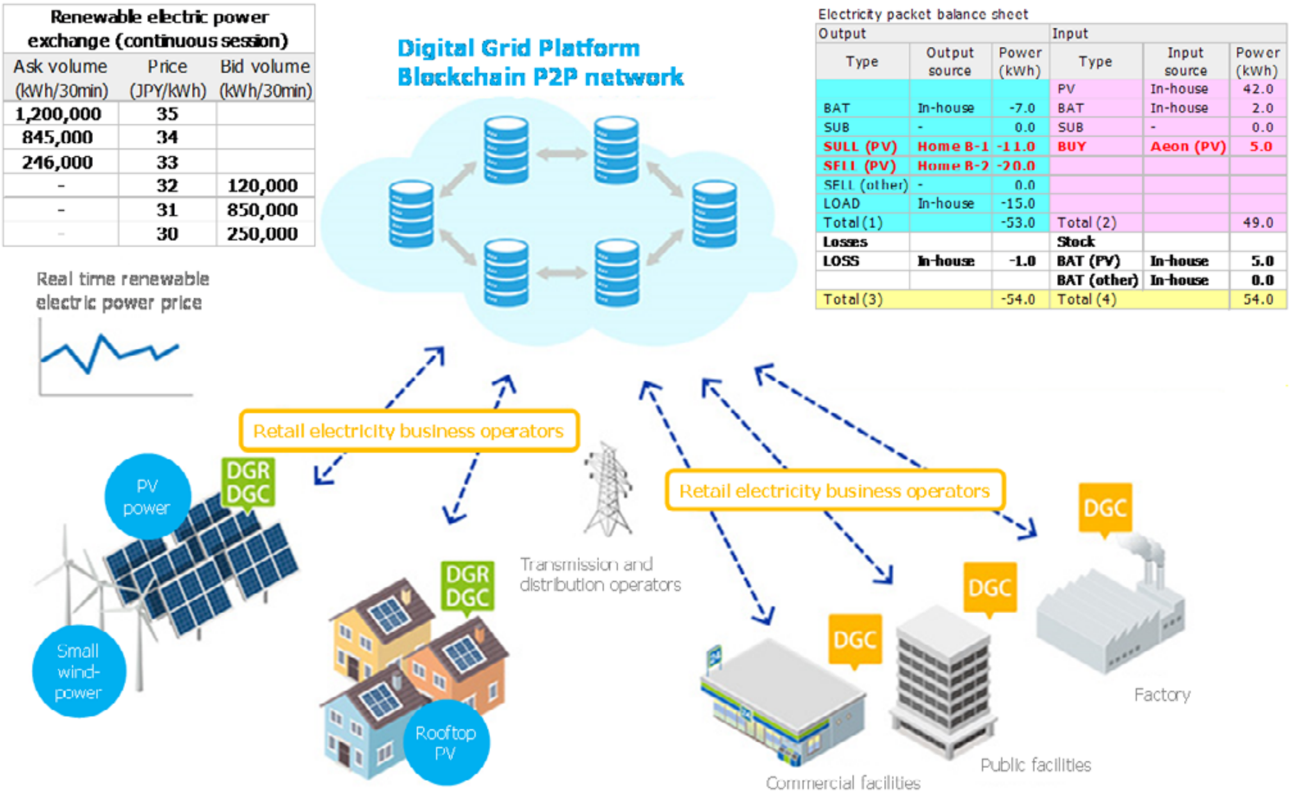
Topics

On **March 28, 2018**, the company announced that it will participate in the renewable energy pilot project utilizing blockchain technology to achieve a carbon-free society. The company plans to install dedicated equipment at 35 Aeon group stores in FY02/19 and at about 1,000 stores in FY02/20. It intends to manage energy and sell it to consumers, utilizing a platform that can identify the type of electric power being generated and trade the power accordingly (scheduled to be completed in FY02/20).

The Aeon group is the first major retailer in Japan to participate in the international RE100 initiative, which calls for businesses to use 100% renewable energy. It has declared its commitment to reducing CO_2 and other greenhouse gas emissions from stores to zero by 2050 (Aeon Decarbonization Vision 2050). As an interim target, the Aeon group hopes to reduce total greenhouse gas emissions from stores by 35% by 2030 (relative to the 2010 level).

The company says the Aeon group consumes about 7.4bn kWh per year (about 0.9% of the total used in Japan; the Aeon group itself uses about 2.0bn kWh, with the rest used by tenants and others), costing more than JPY100bn. The company invests in DIGITAL GRID Corporation (http://www.digitalgrid.com/, President and CEO Rikiya Abe), which was established by Rikiya Abe to promote digital grid technology (after he retired in November 2017 from a position as a specially appointed professor of the University of Tokyo). DIGITAL GRID plans to use this technology to manage and sell electricity derived from renewable sources. It plans to operate an energy transaction system based on renewable energy purchased from individual households and companies and to sell related devices. Aeon Delight's business model is unclear, but it seems likely the company will handle transactions (sales of electricity and devices) with the Aeon group. Shared Research will be watching related developments, particularly because of how large the amounts involved would be.

DIGITAL GRID market



Renewable electric power exchange (continuous session)

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

Electricity packet balance sheet

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

Source: DIGITAL GRID Corporation

Initiatives related to medium-term management plan and contribution to FY02/19 earnings

The following are initiatives Aeon Delight will undertake in relation to IFM, Asia, and technology as part of the medium-term management plan, along with an overview of Construction Work and other segments. Briefly, in regard to IFM, Aeon Delight's three-year target of 10 contracts seems likely to be delayed, as the company plans for two new contracts in FY02/19 and four in FY02/20. In regard to Asia, business is expanding steadily, but the company is actively considering M&A in China and ASEAN to accelerate the process. In regard to technology, it will continue to strengthen efforts to obtain technology it can use in labor reduction. In regard to Construction Work, it expects revitalization-related sales of JPY9.2bn, a YoY increase of more than 30%. It also expects higher profits for its various subsidiaries.

IFM (Integrated Facility Management)

The medium-term plan sets forth a target of ten IFM projects (each project averages roughly JPY1.0bn) over three years. Aeon Delight has been pursuing the establishment of integrated FMS as one of the main aspects of its previous medium-term plan, with the aim of securing a competitive advantage. It has begun to refer to this as IFM (integrated facility management), for the following reasons: a) strong demand for full-scale facility management has paved the way for its introduction, b) the closing of large, multiple-year contracts with a major domestic global enterprise, c) it is globally referred to as IFM. Shared Research believes that the latter is an expression of the company's commitment to global expansion.

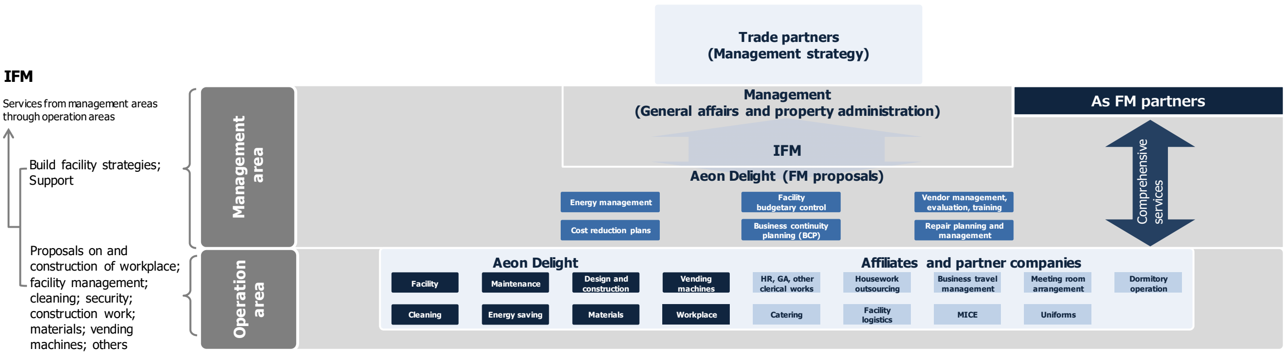
Provision of services which integrate management area on top of the company's conventional area of business

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

In September 2016, the company closed a multiple-year IFM contract with a major domestic global pharmaceuticals enterprise, as the client values the efforts Aeon Delight has made thus far and its BCP readiness. The IFM project started operations in December 2016 and sales seem to be increasing more than initially anticipated, due to taking on additional projects. The company has established a headquarters for promotion of its IFM business in October 2016 to quickly prepare itself to capture multiple large orders and manage them. Working closely with GSI, the company expects IFM to be a driver of earnings during the current medium-term plan.

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

IFM



Source: Shared Research based on company data

Advancing multi-year, full-fledged IFM contracts

Aeon Delight, which has developed into a major enterprise based on facilities management, significantly shifted its sales strategy in FY02/17 due to a domestic economic environment in which deflation persists. What the company aims for is multi-year contract, full-fledged IFM projects for all-in-one property management. While multi-year contracts have some strict conditions such as guarantees for cost reduction (for example, a 5% reduction over five years) and quality, they cover a wider range of details and services (such as catering services, for example). In addition to sales growth, multi-year contracts have properties which can also contribute to profits through effective management.

Launch of IFM sales in China

In FY02/18, the company established an IFM business model at an early stage and expanded sales in Japan and China. Specifically, it seeks to strengthen its sales structure and work toward the automation of IFM operations. To strengthen its sales structure, it established an IFM sales base in Shanghai, China, in February 2017, and launched sales in April. It has advanced sales activities, with Japanese and foreign companies as its main targets, while seeking to partner with local companies, including major Chinese firms. Through new proposals and replacement of existing IFM companies, Aeon Delight is aiming to expand business to IFM at companies with which it already has some dealings. In order to cover China's vast geographic territory, the company has also worked toward standardizing operations through E-learning.

Regarding the positioning of subsidiaries in China, each of the subsidiaries in Suzhou and Wuhan have continued to focus on the marketing of operational areas such as facilities management, cleaning, and catering—capitalizing on the government-related networks they have cultivated—while the Shanghai subsidiary provides general management and support of those activities, as well as handling IFM sales.

Developing new routes for capturing demand

Although sales activities proceeded in regard to multiple projects in FY02/18, neither inside nor outside Japan did this result in the capture of any IFM contracts. However, as a result of IFM sales activities, Aeon Delight did capture one large contract for standard FM. IFM is deeply involved with clients' FM strategies at the management level. To those clients, moving to IFM represents a profound change to their internal organizations, so although there have been plenty of inquiries, clients often require significant time before reaching any decision, or else they settle for standard FM.

That said, the company will focus on developing new sales routes in FY02/19 in order to achieve its three-year target of 10 contracts. In Hong Kong and Singapore, the market is being established by companies that introduce IFM contractors to companies desiring IFM. Aeon Delight plans to make use of this sort of market (by submitting bids) in order to accumulate overseas contracts. In Japan, it is teaming up with trust banks. Through these measures, the company is targeting two new IFM contracts in FY02/19 and four in FY02/20.

Initiatives to increase sales per region

With the abovementioned IFM in mind, the company seeks to also increase sales per region for existing FM business as follows: 1) Japan: expand construction work (such as revitalization of commercial facilities), 2) China: expand catering business and share of top five priority markets, 3) ASEAN: enter the Cambodian market and conduct M&A in Indonesia, where market growth is anticipated.

In Japan, the company is focusing on capturing demand for revitalization of commercial facilities. It aimed to increase revitalization-related sales by JPY3.0bn in FY02/18 but achieved an increase of just JPY100mn after slowed demand for remodeling of supermarkets and general supermarkets. However, the company is targeting JPY9.2bn in sales (+JPY2.3bn) in FY02/19. Revitalization demand is high priority and holds a key place, along with IFM, in the company's target of a JPY15.0–20.0bn increase in non-Aeon group sales under its medium-term plan.

Japan: Expansion of renovation work, demand for revitalization of commercial facilities

Regarding demand for revitalization of commercial facilities, in addition to securing a steady flow of renovation projects from Aeon group companies such as Aeon Mall (TSE1: 8905) and Aeon Retail, Aeon Delight is also looking at expanding into new business areas in order to maximize its business opportunities. Although there is only JPY20.0-30.0bn worth of demand for renovations from roughly 350 shopping malls across Japan, when including construction work for replacement tenants, the company estimates that the market expands to JPY200.0bn. Aeon Delight aimed to capture this market under the previous medium-term plan and advanced the reinforcement of its personnel. Under the current medium-term plan, with a favorable market environment, the company aims to reap those rewards.

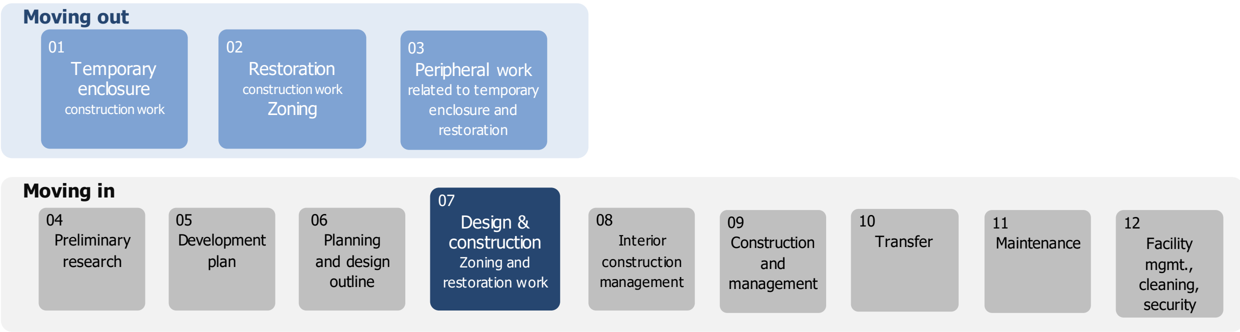
Demand for construction work for replacement tenants

For example, when malls undergo renewals, there is restorative construction work to be done when a tenant moves out, remodeling work to be done to accommodate the new tenant moving in, and there is of course renovation work on the mall itself. By acquiring experience and expertise in all these different types of construction work, Aeon Delight has put itself in a position to not only do the actual work but also supervise the entire construction process. Going forward, Aeon Delight plans to capture even more of the value-added in the store renovation process by moving into other areas such as architecture and store design. Toward this end, Aeon Delight had been beefing up its workforce since the beginning of FY02/18, and making itself more cost competitive versus major interior design companies and general contractors. In FY02/18, with small- and medium-sized tenants as its targets, the company steadily capitalized on related demand.

FY02/19

Aeon Delight plans to further expand related sales in FY02/19. In April 2018, it made U-COM (JPY550mn in sales in FY2016; http://www.ucom-web.co.jp/) a wholly owned subsidiary. Aeon Delight says this store design specialist is strong in China and it hopes U-COM will help it gain traction in capturing demand in Asia. Construction management is now the company's only weakness. Aeon Delight says that if it can plug that hole through acquisitions, its Construction Work segment (FY02/18 sales of JPY40.9bn) could target sales on a level with competing companies (for example, Tanseisha Co., Ltd. [TSE1: 9743], which had FY02/18 sales of JPY75.2bn).

Construction work process for commercial facility tenant replacement



Source: Shared Research based on company data

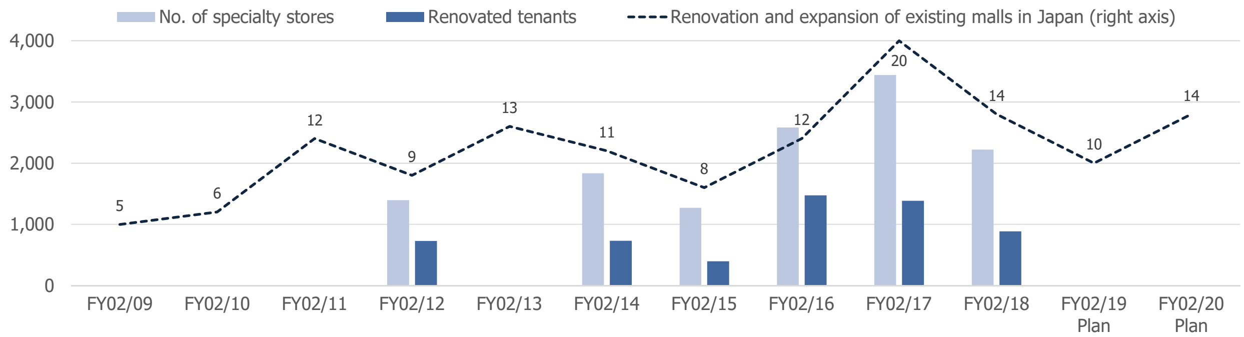
Aeon group-related demand

In terms of the Aeon group, projects targeting Aeon Mall are expected to continue to expand. Over the three years from FY02/18 to FY02/20, Aeon Mall plans to invest JPY100.0bn in the revitalization of existing malls in Japan, of which JPY30.0bn was planned for FY02/18. In fact, it invested JPY70.0bn in FY02/18, JPY40.0bn more than planned, and increased the three-year plan to JPY140.0bn, with JPY30.0bn to be spent in FY02/19 and JPY40.0bn in FY02/20. Aeon Mall generally does major renovations of existing malls once every six years and renovated 12 malls (versus 15 planned) and expanded two in FY02/18. It plans to renovate eight malls and expand two in FY02/19 and renovate 10 and expand four in FY02/20.

One reason for the shortfall in FY02/18 was projects for Aeon Retail, but Aeon Delight believes FY02/18 represented a bottoming out and there will be no further decline in FY02/19.

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

Number of renovated Aeon Malls



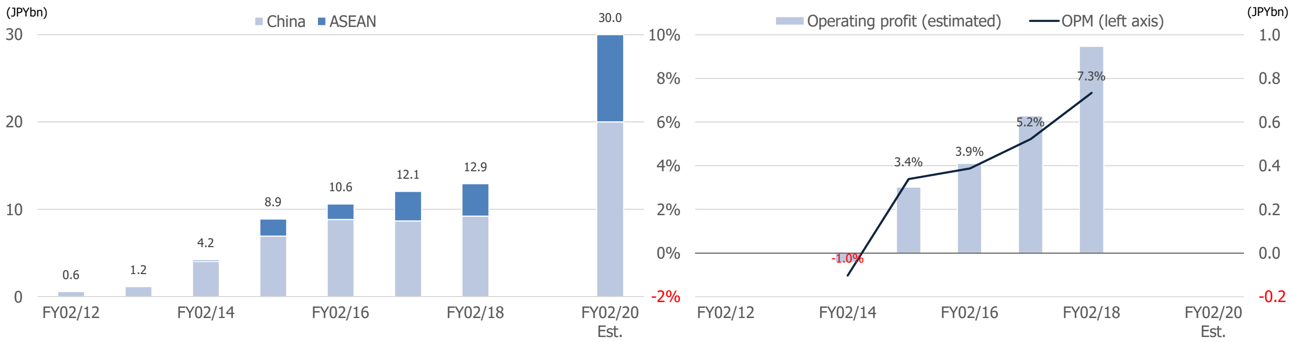
Source: Shared Research based on company data

Expansion of overseas businesses

Aeon Delight is targeting JPY30.0bn in total sales from overseas businesses in FY02/20. Of the JPY18.0bn increase over FY02/17 sales, the company is looking for JPY11.0bn from China (including IFM; representing an average annual growth rate of roughly 30%) and JPY7.0bn from ASEAN countries (where sales are expected to grow at 40–50% per annum). This compares with estimated sales of roughly JPY12.0bn in FY02/17 (representing growth of 13.5% YoY), of which an estimated JPY8.0–9.0bn was from China and JPY3.0–4.0bn was from ASEAN. FY02/18 results included sales of JPY12.9bn (+7%), of which more than JPY9.0bn was from China and just under JPY4.0bn was from ASEAN. Achieving the JPY30.0bn target may prove difficult after IFM orders fell short of plan, but initiatives related to the five primary markets in China have been progressing well. We would like to continue watching the company's enhanced efforts to capture IFM demand, initiatives related to SmartFM, and active M&A efforts.

While the overseas business continues to see an increase in investments targeting growth, sales are expanding and profitability is improving.

Overseas business



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

Business in China

In China, the company is targeting JPY20.0bn in sales in FY02/20. This represents an average growth rate of roughly 30% per annum. In China, property owners are more sensitive to the value of the building than they are in Japan, and Aeon Delight sees facilities management becoming an essential business infrastructure service, much like electric power or water. Since China is a growth market, Aeon Delight is working to develop the as-yet untapped areas of Shandong and Guangdong provinces, move into the large catering services market, and capture demand in the store design and renovation business.

The company continued to aggressively allocate management resources to China in FY02/17 and FY02/18. At the same time, Aeon Delight worked to expand its facilities management service network throughout the entire country, extending its geographical reach with the possible help of acquisitions while strengthening its internal control systems for effective nationwide management.

In order to reach sales of JPY30.0bn and expand the IFM business, the company cites the necessity to set up a network of locations in each region of China; it is currently working to establish bases in areas it has not yet done so. In February 2017, Aeon Delight established a subsidiary in Shanghai which will oversee China operations and promote IFM sales. The subsidiary started sales from April.

In FY02/17, the Wuhan subsidiary launched catering services, since such services have become common for facilities due to requests from local companies. In FY02/19, the company is considering strengthening this service through acquisitions. It also started offering property management services at the Suzhou Yuenqu Hudong shopping mall in FY02/18. Aeon Delight installed a platform, which it developed and leads to energy savings of more than JPY10.0mn annually, and plans to deploy it horizontally going forward. The company is also apparently considering introducing a system which links to tenants' marketing. In FY02/19, as mentioned earlier, it plans to make even greater use of technology to proceed with the adoption of SmartFM, as it deems it likely that labor reduction will progress in China as well.

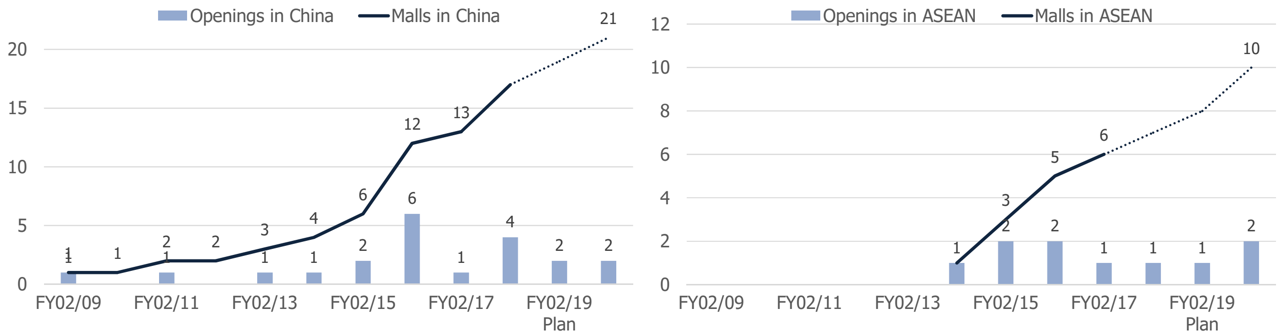
Furthermore, Aeon Delight made U-COM a wholly owned subsidiary in April 2018. It believes the store design specialist will help it expand business in the renovation field.

As part of its strategy to win new clients, the company is focusing on medium- to high-end facilities that require quality services and redevelopment areas where much facility management demand can be expected. The former includes five primary markets: medium- to high-end residential projects, shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities. Focusing on redevelopment areas with high demand entails the company's participation in large urban development projects to win orders. In FY02/18, it steadily captured contracts from major companies, as well as some contracts in Suzhou and expects these contracts to contribute to earnings in FY02/19.

With regard to business in China and ASEAN with Aeon group companies, we note that Aeon Mall opens more new malls each financial year. This is likely to become a factor which supports earnings.

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

Aeon Malls in China and ASEAN countries



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

ASEAN business

In ASEAN countries, Aeon Delight aims for sales of JPY10.0bn in FY02/20. Unlike China, most of the company's sales in ASEAN countries come from Aeon group companies as in Japan. Growth like that seen in China is unlikely, though, as the regulations governing facilities differs significantly from country to country. Aeon Delight also intends to expand geographically through acquisitions and establish a foundation to become the largest industry player in the ASEAN region.

In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015 to put it on a faster track to get business from Aeon group stores and to accelerate its alliance strategy with Malaysian Harvest. In Vietnam, Aeon Delight is looking to improve the quality of facilities management services it provides and expand the IFM business. In Q1 FY02/19, it expects to begin facilities management work on behalf of the largest Malaysian resort operator, and in Vietnam to begin facilities management work at buildings that house Japanese government offices.

Among new areas, the company is considering entering Cambodia with a branch of the Vietnam subsidiary to pursue an area strategy through M&A of local companies. In Indonesia, in addition to taking on mall-related projects, it is considering alliances with local companies and M&A targeting business acceleration. In Singapore, it is planning to leverage the IFM market.

Overseas businesses of the Aeon group

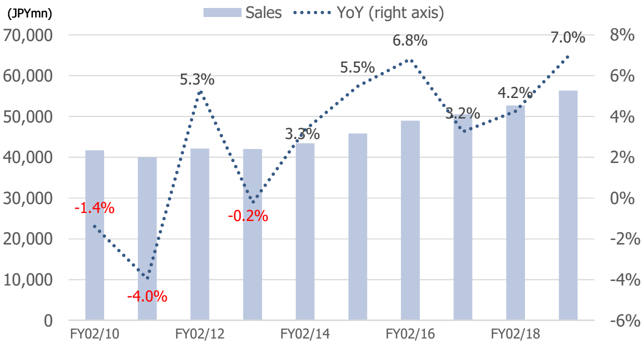
Overseas stores: Aeon Mall			FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20 Est.
Store count	China		2	3	4	6	12	13	17	19	21
	ASEAN		-	-	1	3	5	6	7	8	10
		Vietnam			1	2	3	4	4	4	5
		Cambodia				1	1	1	1	2	2
		Indonesia					1	1	2	2	3
		Other									-
	Total		**2**	**3**	**5**	**9**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

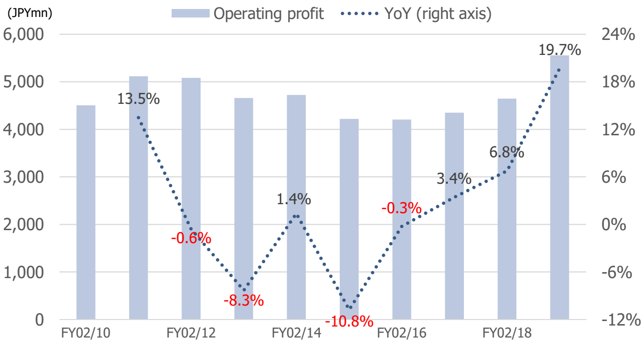
Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
ASEAN	Malaysia	Aeon Malaysia	28	30	31	33	73	84	88	100
		Aeon BiG Malaysia	-	27	28	28	26	25	21	22
	Thailand	Aeon Thailand	29	58	69	75	76	77	80	78
	Vietnam	Aeon Vietnam				2	3	4	5	6
		Aeon Citymart					30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

Source: Shared Research based on company data

Forecast by segment

Facilities Management

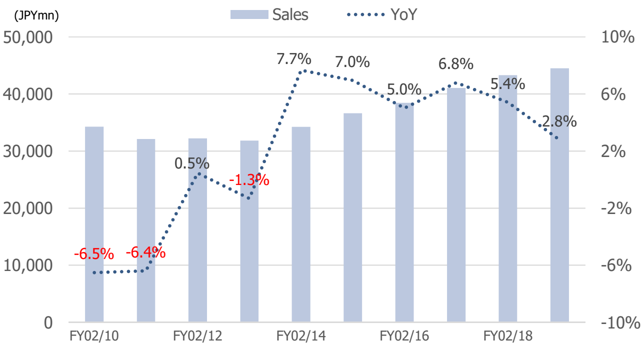


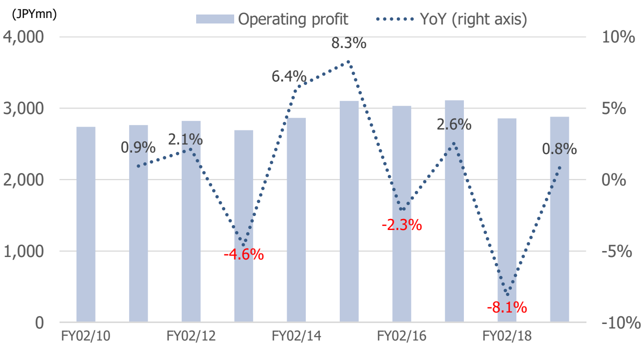


Source: Shared Research based on company data

This segment is mainly composed of IFM business and existing FM business. It is also developing a labor reduction and automation business model that takes advantage of IoT technologies, various sensors, and cloud computing.

Security Services

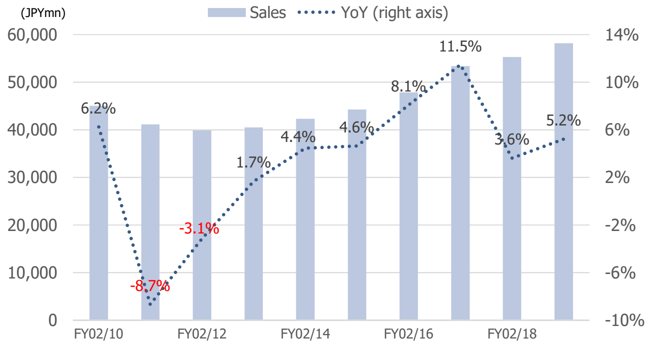


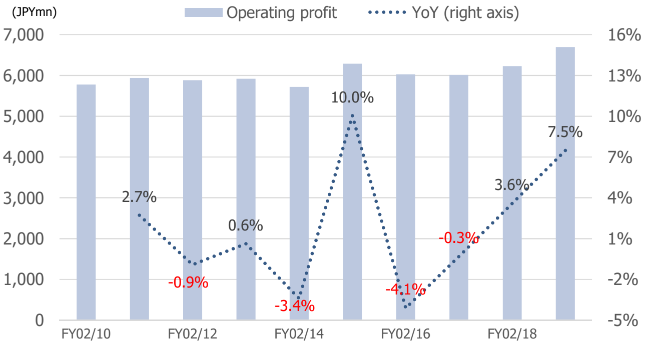


Source: Shared Research based on company data

From Q3 FY02/16 onward, the consolidation of Hakuseisha (of about JPY10.0bn in annual sales, about 30% are from Security Services) was a factor in the declining profitability. In FY02/18, the expanded application of social insurance caused an increase in personnel costs for the full year (only five months were impacted in FY02/17). In addition, expenses related to measures to alleviate the strain brought on by an increasingly tight labor market (including the creation of a new system and improving the work environment to assure that the company can continue securing employees in the future) and higher outsourcing costs led to lower profitability. Rising personnel costs reduced profit by some JPY200mn–300mn, with the impact expected to continue throughout FY02/19. However, pricing negotiations are under way with clients, and the company expects labor-saving initiatives to result in personnel reductions even as prices remain constant or even increase. The company expects to keep the GPM at the FY02/18 level.

Cleaning Services





Source: Shared Research based on company data

In Cleaning Services, the company is making efforts in the following areas: 1) expansion due to IFM, 2) improved profitability of hygienic cleaning, 3) improved cost ratio of regular cleaning services, and 4) improved profitability of Hakuseisha. In regard to hygienic cleaning, although there was no increase in large contracts, the profitability of existing contracts seems to be steadily improving. The company will also continue to make various improvements to the cost ratio for conventional cleaning. It expects the GPM to improve about 0.2pp versus FY02/18.

Hakuseisha

The drop in profitability has been in part attributed to the consolidation of Hakuseisha (out of annual sales of roughly JPY10.0bn, cleaning services account for about 50%) since Q3 FY02/16, but steady improvement was seen in FY02/18. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is an important point. In FY02/17, Aeon Delight conducted reforms carefully so that it did not affect clients. However, full-year FY02/17 results showed delayed progress, partly because the company had not yet fully reformed its income structure. In FY02/18, Aeon Delight actively worked to improve its business structure and profitability, including by adding personnel. Initially it was looking for an improvement in GPM of at least 2pp, but the actual improvement seems to have been just short of 1pp. Although the company sought improvement in existing contracts, there seem to have been some unprofitable projects among new contracts. It expects ongoing improvement in the cost ratio in FY02/19.

Further, J-Front Retailing accounted for approximately one-third of the company's sales in FY03/15 and an increase in related sales is expected as a synergy effect, but such an effect had yet to appear as of FY02/18.

Labor reduction

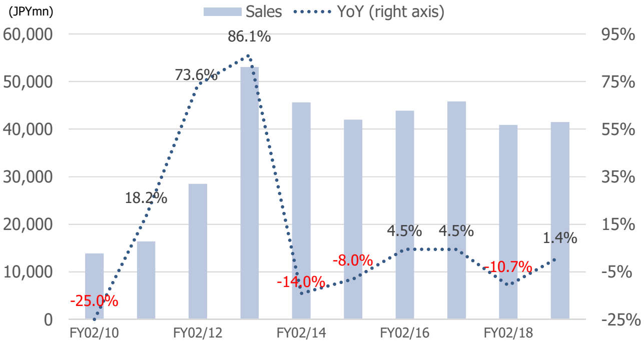
Like Security Services, labor costs are substantial in the Cleaning Services segment and it is impacted by the expansion of eligibility for social insurance. The company has, from earlier, been putting effort into the introduction of cleaning robots as a way to establish a long-term competitive advantage and as a measure for dealing with issues such as labor costs and the securing of personnel. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. In FY02/18, it conducted field testing in cooperation with a US company, with a rollout to facilities delayed by about six months from the original plan of February or March 2018.

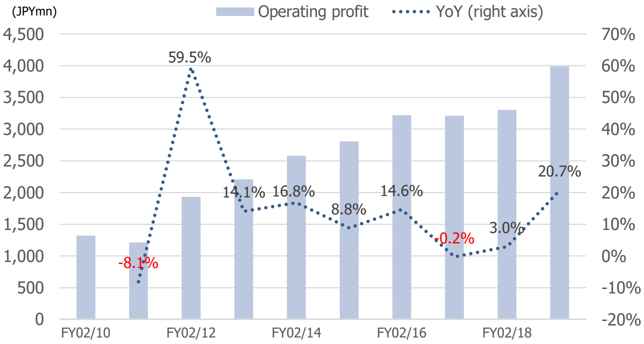
At this time the company is uncertain about just how much it will invest in cleaning robots or whether it would be better off to lease robots rather than buy and then depreciate them over time. Based on the expectation that the biggest boost to efficiency will come from using cleaning robots at large malls, the company sees a phased rollout starting with shopping malls, then proceeding to large general merchandise stores and finally to smaller stores.

Contribution to profit growth and GPM improvement from sales of materials

In the future, the company aims to increase profits through sales of materials, not only of supplies such as wax, but also of cleaning robots. Under the medium-term plan, it appears that the company anticipates a roughly JPY3.0bn increase in sales. Although some maintenance of inventory will be required, the GPM is higher than that for overall Cleaning Services. We will pay attention to sales of materials as a driver of GPM improvement.

Construction Work

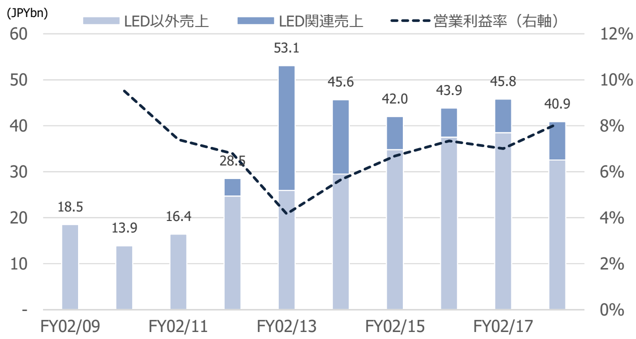


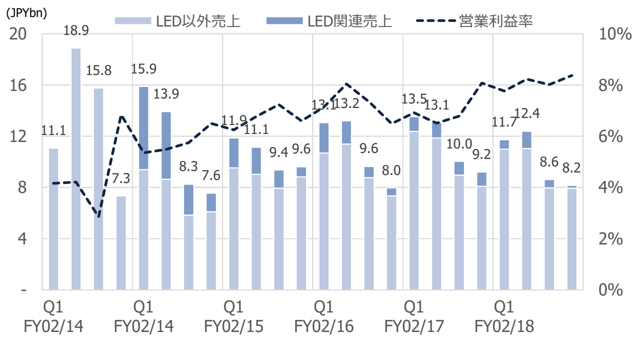


Source: Shared Research based on company data

As discussed earlier in the report, the company is focusing on capturing demand for revitalization of commercial facilities from clients within the Aeon group, and on winning construction work for replacement tenants from clients outside the group. It expects LED-related sales to be similar to the FY02/18 level or to increase slightly.

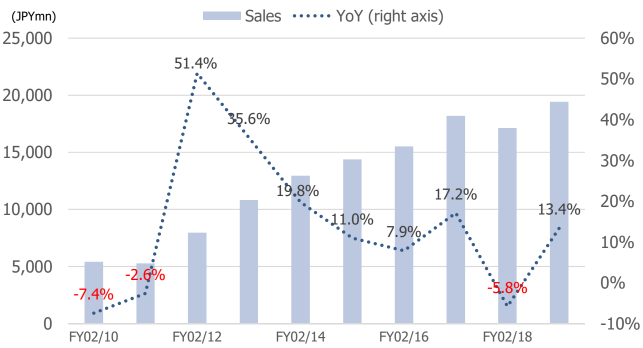
LED-related sales

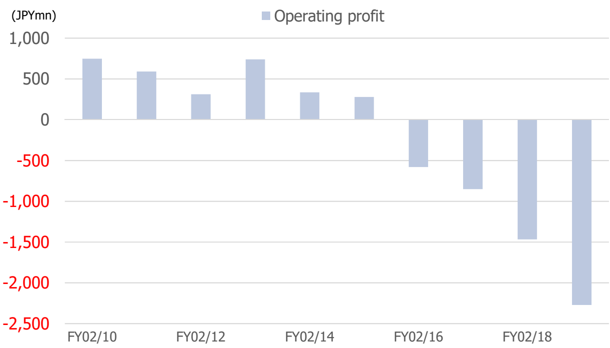




Source: Shared Research based on company data

Support Services business

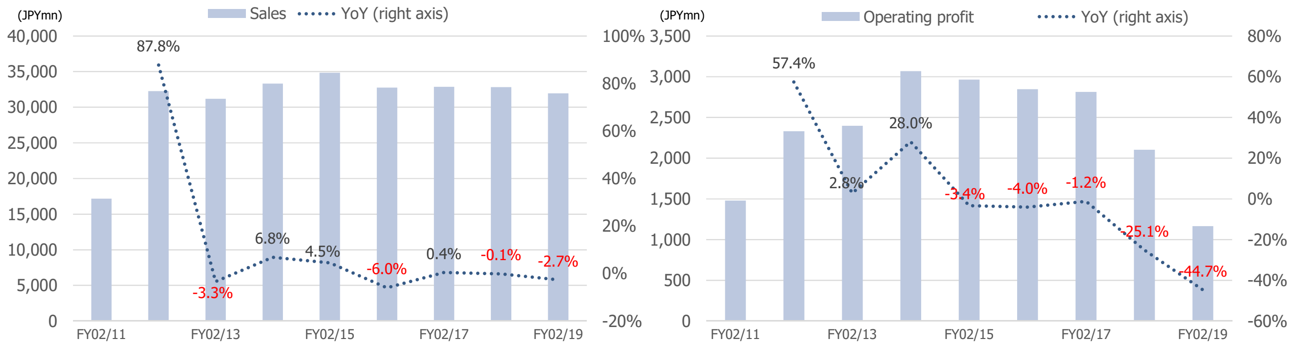




Note: Kajitaku sales figures are Shared Research estimates based on company results presentation materials
Source: Shared Research based on company data

As shown in the accompanying figure, earnings at Support Services have been rising steadily, and, combined with its high profitability, the proportion of consolidated operating profit accounted for by this segment has been increasing. Subsidiaries Kajitaku and Aeon Compass were the main drivers of growth. The drivers at Kajitaku to date have been Kaji Cloud services and small business support services (expanded introduction of ID photo machines and next-generation multi-function copy machines), but in 2H FY02/18 small business support services saw a slowdown (reactionary falloff from the favorable performance of ID photo machines in FY02/17), resulting in lower profit for full-year FY02/18. Aeon Delight expects higher profit in FY02/19 with the launch in earnest of online sales of Kaji Cloud (in a business alliance with VOYAGE GROUP). At Aeon Compass, the company anticipates the drivers to be B2B businesses such as Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), which have continued to perform strongly.

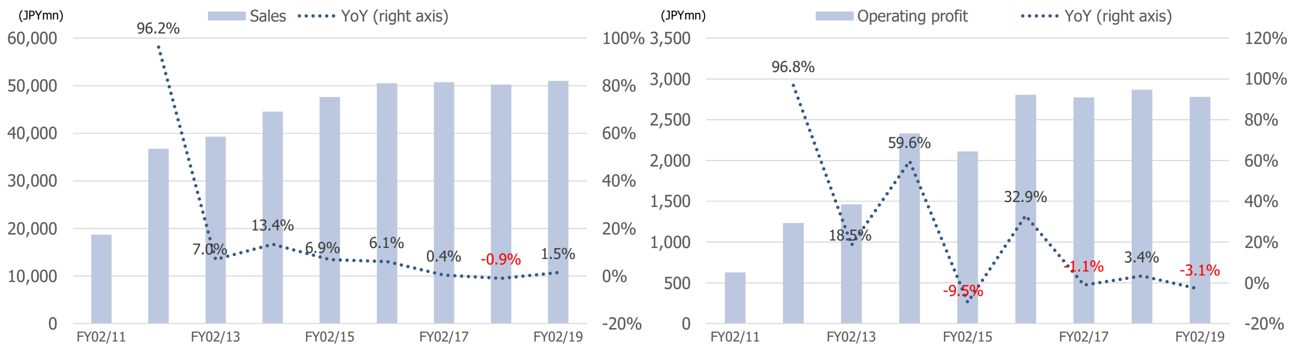
Vending Machine Services



Source: Shared Research based on company data

In Vending Machine Services, we will continue to focus on the advertising business. Aeon Delight plans to proceed with the introduction of equipped vending machines to expand the business (internal targets are 2,500 vending machines during 1H and 3,000 by the end of the financial year).

Materials and Supplies Sourcing Services



Source: Shared Research based on company data

Historical forecast accuracy

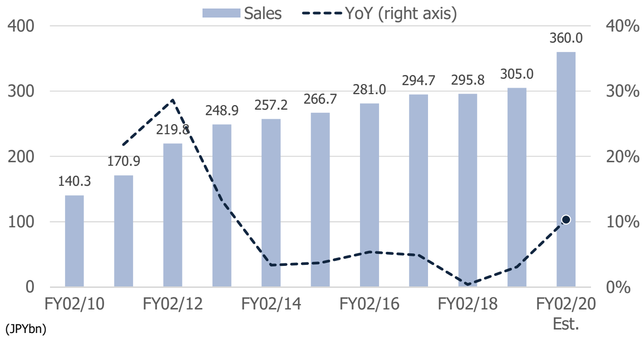
Results vs. Initial Est. (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Sales (Initial Est.)	181,000	213,000	260,000	260,000	270,000	280,000	305,000	305,000	305,000
Sales (Results)	170,905	219,797	248,876	256,654	265,572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

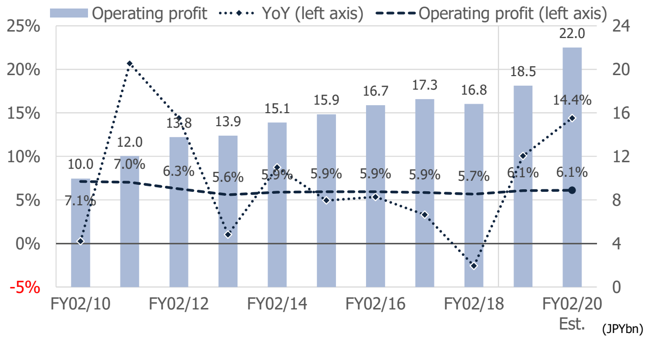
Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

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

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

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





Source: Shared Research based on company data

In April 2017, the company announced a new medium-term business plan which will be in effect through FY02/20. The plan targets sales of JPY360.0bn (6.9% average annual growth rate, JPY65.3bn increase over three years), operating profit of JPY22.0bn (8.4%, JPY4.7bn increase), and net income of JPY12.8bn (7.7%, JPY2.6bn increase). In addition to organic growth, the company says the targeted JPY65.3bn increase in sales will include 1) a JPY15.0-20.0bn increase in sales, mainly IFM, to clients outside the domestic Aeon group, 2) a JPY15.0-20.0bn increase from revitalization work for Aeon group companies and remodeling work for incoming tenants, 3) a JPY15.0-20.0bn increase from overseas sales, mainly IFM in China.

The medium-term plan's priority issues are 1) IFM, 2) Asia, and 3) technology, among which it is aiming for significant increases in IFM and Asia.

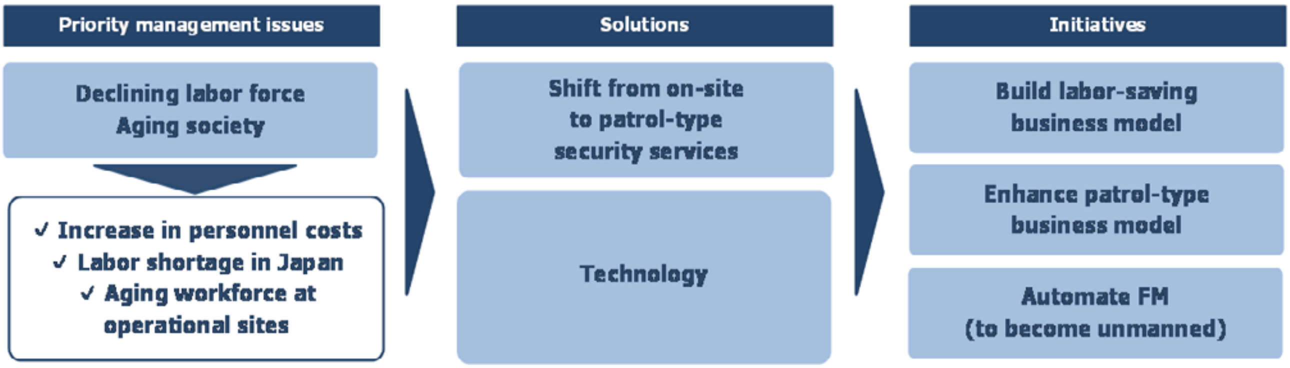
First year of plan (FY02/18) ends

The company positioned FY02/18, the first year of the plan, as one in which to focus resources on high potential growth markets such as IFM and overseas, and transform its business model, while continuing to make initiatives taken in the previous medium-term plan profitable. There are three priority initiatives under the plan. One is IFM. The company aims to gain expertise under a new corporate business model as it provides an IFM service to a major pharmaceutical company. In Japan, lost opportunities due to a labor shortage have put the company behind schedule as it tries to meet its three-year target of 10 contracts. The second initiative is Asia. The company aims to improve performance and steadily expand businesses in five primary markets in China. The third initiative is technology. The company has made steady progress on a number of measures, including the establishment of a next-generation energy-saving facility management model. However, it has yet to get a labor-saving model in place, leaving it with the issue of being unable to absorb the rising cost of labor.

Aeon Delight recognizes labor reduction as the biggest and most urgent issue it faces, since labor shortages impact not only the business environment, but the company directly (blunting its ability to capture new contracts). In 2H, it raised the management priority of developing labor reduction and automation facility management (FM) models as soon as possible.

FY02/18 operating profit was just JPY16.8bn, down JPY400mn YoY and falling short of the initial forecast (JPY18.0bn). Specific factors were slowing demand for remodeling work at some commercial facilities in the Construction Work segment, rising personnel costs to improve the workplace environment and establish a new system in the Security Services segment, one-time expenses and increased depreciation related to the installation of value-added vending machines with digital signage in the Vending Machine Services segment, and lost opportunities related to IFM. The labor shortage did not directly impact the factors associated with Construction Work and Vending Machine Services.

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



Source: Shared Research based on company data

Initiatives undertaken in 2H FY02/18 have begun bearing fruit early in FY02/19.

As it works toward realizing the medium-term management plan, Aeon Delight considers FY02/19 a period for establishing a business model that embraces multiple keywords, including efficiency, profitability, labor reduction, and automation. It also intends to accelerate growth in new business areas.

Approach for FY02/19

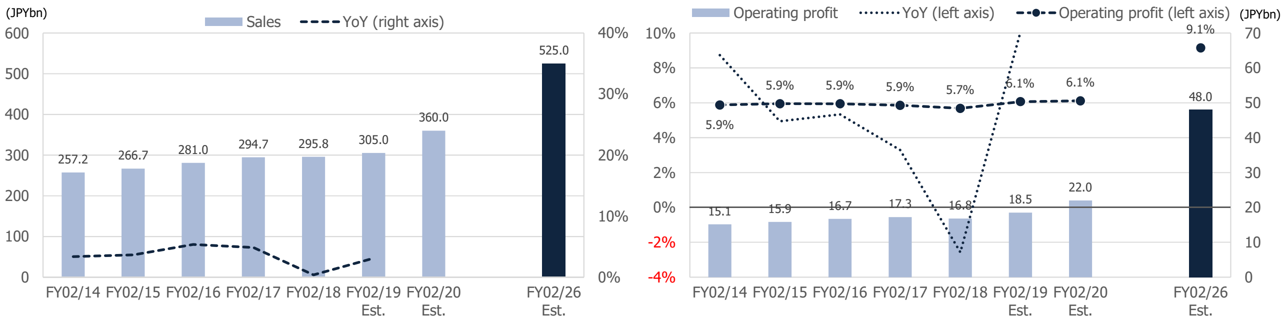
Aeon Delight is targeting a 10% YoY increase in operating profit to JPY18.5bn. Admittedly, the company is behind schedule on the path to its FY02/21 target of JPY22.0bn. However, considering the labor shortage a priority management issue, it is working to establish an efficient labor reduction business model and develop new business areas using the labor shortage as a tailwind, which will allow it to accelerate growth and bring it closer to achieving the targets of the medium-term management plan. The following is an overview of initial company forecasts and issue resolution initiatives for FY02/19.

Aeon Delight Vision 2025

Objectives

The company announced Aeon Delight Vision 2025 (“Vision 2025”) at the time it released its 1H FY02/19 earnings results. In the current medium-term plan, the company’s views for the core themes of IFM, Asia, and technology (next-generation facilities management) were tactics-oriented in nature, whereas the Vision 2025 brings the focus back to Aeon Delight’s management principle. In Vision 2025, the company remaps the initiatives under the medium-term plan into management strategies with IFM, Asia, and technology positioned as composing elements. The current medium-term plan reflects a consensus reached through three drawn-out discussion sessions led by President Hamada (who became president in May) and attended by all directors, including Chairman Nakayama (who formerly served as president). On October 1, 2018, the company pushed through structural reforms and personnel changes aimed at realizing Vision 2025 objectives, and clarified responsibilities for all directors. We understand the Board of Directors has been engaged in intense debates for hours, which exceed the originally scheduled meeting time.

Vision 2025



Source: Shared Research based on company data

Management principle, strategies, and tactics

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

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

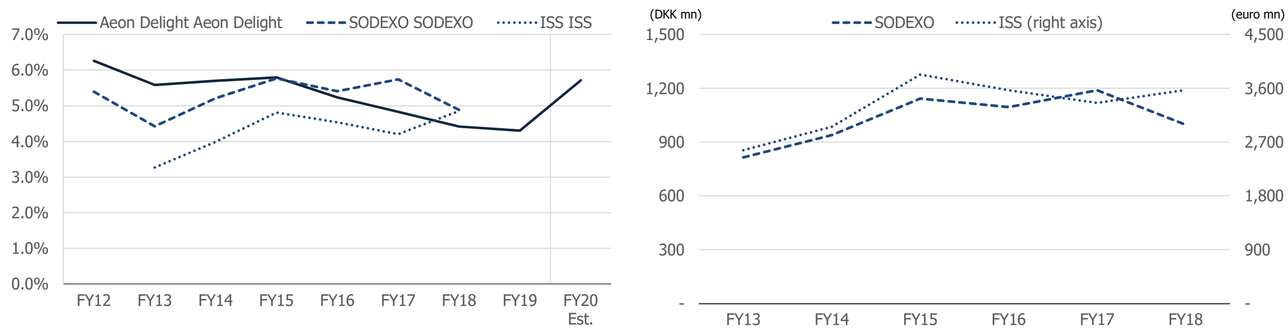
The company will earnestly engage in the energy management business. Aeon group’s annual energy consumption volume is 7.4bn kWh (about 1% of the 2016 overall energy consumption in Japan of 850.5bn kWh). Against this backdrop, it participated in Aeon Decarbonization Vision 2050 as a company in charge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

Making two core companies wholly-owned subsidiaries: The company signed a share acquisition agreement on October 10 to acquire the remaining 49% of shares in Aeon Delight Jiangsu and Wuhan Xiaozhu. It aims to accelerate its growth in China by unifying operations, strengthening partnerships, and accelerating decision-making processes.

Assumptions underpinning targets

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

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



Source: Shared Research based on company data

Existing FM business in Japan

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

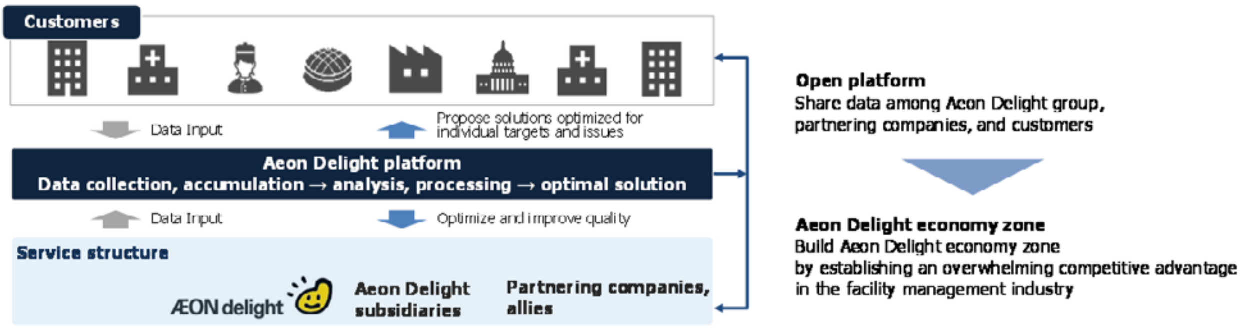
Market share: Aeon Delight estimates the domestic market is worth JPY3.7tn (based on FY02/18 sales in the Facilities Management, Security Services, and Cleaning Services businesses).

AD platform

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

The AD platform caters to a wide range of facilities from office building to commercial facilities, proposes optimal solutions that address specific challenges for each type of facility, and aims to deliver improved efficiency and quality. The company notes that (1) the platform is expected to be deployed at all Aeon stores (albeit with some variation in scale), (2) customers will find it difficult to cancel the service once they get used to its convenience and efficiency, and (3) a partial deployment in the early stages will also generate opportunities to secure various types of ancillary FM work. By taking charge of areas ranging from power supply to management, security and cleaning, interior design and construction work accompanying tenant store openings and closures, and operation of other facility infrastructure such as vending machines, the company aims to gain a competitive advantage and build AD economic zone with affiliated companies and other partners.

AD platform



Source: Shared Research based on company data

Initiatives from 2H FY02/18 also conducted as part of AD platform rollout

From 2H FY02/18, Aeon Delight undertook initiatives in the context of the AD platform rollout. In FY02/18, it recognized labor reduction as the biggest and most urgent issue it faces, since labor shortages impact not only the business environment, but the company directly (blunting its ability to capture new contracts). In 2H FY02/18, the company raised the management priority of developing labor reduction and automation facility management (FM) models as soon as possible. From early FY02/19, it made consecutive announcements related to labor reduction and automation. These included the establishment of a joint venture with DeepBlue Technology (China), an agreement to collaborate with SECOM on a new business model, and the launch of a floor cleaning robot jointly developed with Tennant Company (US; NSYE: TNC). It will also establish a more efficient model for a major general supermarket chain that allows reductions in on-site staffing (resulting in cost reductions for the chain and Aeon Delight) and will test a labor reduction model that reduces client costs by 40% at major commercial facilities and allows the company to halve the number of on-site staff. These initiatives arose from the sense of urgency surrounding labor shortages.

Platform that confers benefits to Aeon Delight, customer facilities, and partners

The aforementioned initiatives are part of the AD platform efforts. Labor reduction and automation in facility management and floor cleaning robots are important parts of building the AD platform, and the research lab jointly operated with DeepBlue Technology will also play a critical role. The company will leverage technology to capture big data comprising information automatically obtained from various sensors under its labor reduction and automation FM model, and visually collected information on everyday operations through its dispersed management system Delight Viewer, which is still under development. It plans to use AI to analyze such data at the jointly operated research lab, and share findings with AD economic zone participants. This approach is expected to deliver benefits to the company, its customer facilities, and its partners. In short, we understand that Vision 2025 is not meant to be a departure from the current medium-term plan or management principle, but rather represents a comprehensive strategy that encompasses both.

Overview of targets

Aeon Delight intends to leverage the AD platform to expand its market share and build AD economic zone. According to the company, it currently leads the FM sector, but its market share stands at only 4.1%. This is largely because the market is populated with a large number of small and medium-sized business operators, but Aeon Delight has a competitive advantage from its nationwide network and its AD platform, particularly under the business environment in which worker shortages have become a major issue. By facility type, the company's market share is nearly 15% for commercial facilities, but only 2–3% for office buildings, and roughly 1% for medical institutions. The company intends to strengthen its market share for commercial facilities by securing further contracts from Aeon stores under Aeon Decarbonization Vision 2050, and expand its share for office and other buildings through collaborations with other companies. At the results briefing in April 2018, management revealed that it was aiming to introduce the AD platform at security service customers of SECOM, and that it may be able to secure a higher market share if it succeeds in providing bundled services that also include cleaning and other services to these customers. We look forward to seeing further developments related to SECOM customers.

Collaboration with SECOM: In April 2018, Aeon Delight announced a collaborative effort with SECOM to develop a new FM business model that can capture FM demand from the 2.2mn companies in Japan that have adopted machine security (remote security using sensors). This demand amounts to 2.2mn companies × JPY30,000/month (an amount similar to the fee for machine security). For example, if the company can win contracts with 2.2mn companies × 10% market share × JPY30,000/month × 12 months, sales would be about JPY80.0bn. A 20% market share would mean about JPY160.0bn in sales. The nature of the collaboration is unclear, but a 50:50 split would mean JPY40.0bn or JPY80.0bn respectively for Aeon Delight. At a briefing, the company said the sales teams of both companies would try to capture demand for safety and security at medium-sized facilities (20,000sqm and smaller) and together they are targeting a market share of about 20% by FY02/21. We will be watching related developments.

Details of announcement: On April 10, 2018, Aeon Delight agreed to collaborate with SECOM to establish a new FM business model. The content of the collaboration includes 1) by leveraging the service bases, technologies, and expertise of both companies, realizing labor reduction and automation for the management and operation of large facilities conventionally handled by on-site guards; 2) developing a one-stop service for small and medium facilities to resolve issues related to safety, security, comfort, and convenience; 3) coordinating client development by leveraging the sales abilities of both companies; and 4) promoting coordination on the development of overseas businesses by both companies, starting in China, where the market is growing fast.

Floor cleaning robot

In August 2018, Aeon Delight announced it will begin sales of a floor cleaning robot that was jointly developed with US-based Tennant Company. The company has completed testing of the robot at its stores, and plans a full-scale launch from 2H FY02/19. The robot achieves a roughly 70% reduction in labor compared to solutions operated by cleaning staff, and thus helps resolve worker shortages. Cleaning staff is hard to secure because the bulk of the cleaning work is conducted at night, when stores and offices are closed. Responding to such demand, the company will start external sales of the robot in November. Aeon Delight will work with its partners to develop and secure new contracts, and the robot will become another asset to reduce lost opportunities and expand its AD economic zone.

New environmental business: Energy management business

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

The two avenues to achieve the Aeon Decarbonization Vision 2050 are promotion of energy conservation and a transition to renewable energy. Aeon Delight intends to promote energy-saving measures through the AD platform that was discussed above, and will accordingly take charge of the group's power supply, the bulk of which goes to air conditioning, refrigerated display cases for cold and frozen foods, and lighting. Using highly precise, real-time management, the AD platform looks to reduce demand by optimizing demand projections through AI and accumulated data on the group's energy consumption, which represents 1% of Japan's total energy consumption. Turning to renewable energy, the company will utilize the solar power generation facilities of Aeon stores, procure renewable energy, and leverage the technology of investee Digital Grid Corporation (see Full-year company forecasts section) to demonstrate the viability of renewable energy. We should add that Aeon Delight has no plans to construct thermal power generation facilities.

Environmental materials business

To help reduce the global environmental load, Aeon Delight intends to go beyond renewable energy initiatives. As the issue of plastic pollution in oceans is growing more serious, the company plans to evolve its Materials and Supplies Sourcing Services to an environmental materials business which can make proposals from as early as the stage of selecting raw materials.

Overseas FM market

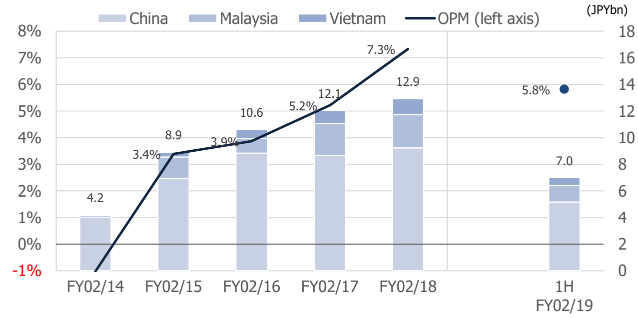
The overseas business is the only area in which the Vision 2025 diverges from the medium-term plan. The latter calls for FY02/20 overseas sales of JPY30.0bn (+JPY18.0bn from FY02/17), breaking down as JPY20.0bn in China (+JPY11.0bn, CAGR of 30%), JPY10.0bn for the ASEAN region (+JPY7.0bn, CAGR of 40–50%), with both regions expected to deliver strong growth. Conversely, Vision 2025 looks for sales in the ASEAN region to remain flat, and targets a rise of JPY40.0bn in China. This apparently reflects the company's belief that (1) management resources need to be concentrated in China to rapidly establish a foothold in the massive Chinese market where building construction continues, and (2) the business model for ASEAN operations needs to be revamped because the company's independent foray into countries such as Vietnam and Malaysia ultimately has not led to the acquisition of expertise (in contrast to China, where Aeon Delight achieved growth by acquiring local companies that already possessed the necessary expertise).

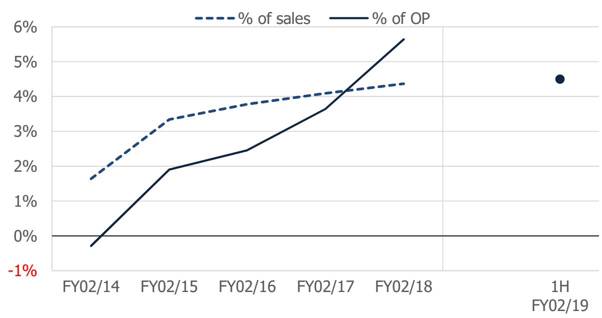
China business

The China business reported sales of nearly JPY10.0bn in FY02/18, and targets sales of JPY50.0bn in FY02/26. This is another meaningful target underpinned by the fact that leading companies in China generate sales of JPY20.0–30.0bn (according to the company), and the belief that a target of JPY50.0bn is feasible if factoring in growth from the acquisition of a rival. To this end, Aeon Delight turned two core companies into wholly owned subsidiaries (from previous stakes of 51%) on October 10, 2018, thus establishing the business foundations to accelerate growth in the China business. The company aims to strengthen its brand in China and join the top ten companies in the facility management industry by unifying its Chinese operations, strengthening cooperation between the two subsidiaries and Japan, and accelerating related decision-making process.

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

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





Source: Shared Research based on company data

Profit margins

We have discussed the breakdown of the JPY230.0bn sales increase above, but Vision 2025 also looks for sharp growth in profit margins, calling for OPM of 9.1% in FY02/26 (3.4pp increase from 5.7% in FY02/18). This target is based on comparable margins (5–6%) achieved by global leaders such as SODEXO and ISS. Aeon Delight believes it can achieve such an ambitious level based on a unique approach that combines technology and AD economic zone. It plans to incrementally improve OPM, mirroring its approach for sales growth.

By market, Aeon Delight looks for the following:

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

- Chinese market: Overseas OPM already reached over 8% in 1H FY02/19, exceeding consolidated OPM of 5.9%, but the company will leverage its labor-saving model to achieve a further increase in China, a market that is facing worker shortages like Japan
- New businesses: The company will aim for OPM that surpasses consolidated OPM (5.6% in FY02/18) through procurement, big data utilization, and highly efficient power management of the Aeon group's energy consumption, which corresponds to roughly 1% of overall energy consumption in Japan. Aeon Delight looks to improve profitability of its subsidiaries in Japan by clarifying each company's function within the group, with consideration given to organizational restructuring

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

Business

Business description

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

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

M&A activities

Aeon Delight has pursued growth through acquisitions, with aggressive acquisitions overseas in particular in recent years. It has also proceeded with the establishment of subsidiaries through alliances with other companies and in 2018 announced collaboration with SECOM to create a new business model for small and medium facilities.

Business model

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

There are three type of property management, residential, commercial, and office buildings. Most of these competitors were mainly involved in residential management of condominiums. Few other large companies were focused on commercial facilities and building management due the high costs involved.
The company was able to gain expertise in commercial property management through servicing large retail facilities such as

shopping malls and supermarkets. The property maintenance industry includes over 5,000 companies, most of which are small- and medium-sized businesses.

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

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

Business overview

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

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

Facilities Management

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

Source: Shared Research based on company data

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

Utilization of technology: Next-generation facilities management model

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

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

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

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

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

Source: Shared Research based on company data

Security Services

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

Source: Shared Research based on company data

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

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

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

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

Cleaning Services

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

Source: Shared Research based on company data

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

From its experience in managing many large shopping centers for the Aeon group, the company has implemented measures to increase efficiency of large machinery such as floor cleaners. These and other initiatives serve to standardize and increase the efficiency of work performed. This is a staple business that is, on an orders-received basis, composed of about 10-20% work performed directly by the company, and 80-90% work performed by outsourcing partners. Gross profit margin was 20% (25% for directly operated services). Service contracts are renewed annually (80% of clients renew and are long-term customers). Primary outsourcing partners are Do Service Co., Ltd. and Kankyouseibi Co., Ltd. Approximately 30,000 persons are involved in the cleaning services business. The following is an overview of the hygienic cleaning business launched in FY02/15.

Hygienic cleaning business

The company believes the hygienic cleaning business will continue to steadily increase sales. There are more than 1.5mn hospital beds in medical facilities across Japan, out of which the number of hospital beds at medical facilities Aeon Delight has hygienic cleaning contracts with still make up only roughly 1%. Aeon Delight began offering hygienic cleaning services in FY02/15 and began providing service to two major medical facilities in April 2015. These two major hospitals boosted the number of hospital beds for which the company was providing hygienic cleaning services by 7,000 to 14,000. As of the end of April 2016, the company is providing hygienic cleaning services for approximately 16,000 beds. As of April 2017, that number has remained flat but the company is in the middle of expanding sales to about 100 hospitals. For sales to hospitals, it takes about three years from general bidding to winning a project, as many large hospitals are under the jurisdiction of the government. The company is in the process of finalizing a sales scheme which can win orders in three years, and expects sales to steadily build up during the medium-term plan period.

Japanese hospitals and clinics

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

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

Because many of the large national hospital chains are keen on implementing management reforms, Aeon Delight believes that its integrated facilities management service can match these hospital chains' needs for improved sanitation, environmental conditions, safety, peace of mind, service standardization, and cost reductions. Contract renewal for hygienic cleaning services typically happens every year. That said, few companies replace the cleaning services provided by major groups servicing many medical facilities nationwide. Aeon Delight presents proposals capitalizing on 1) its roughly 600 bases nationwide; 2) its name recognition as a publicly traded company and as a member of the Aeon group; 3) its track record with major medical institutions; and 4) the visible quality of its cleaning services.

Because hospitals and other medical centers must take steps to prevent patients from becoming infected or transmitting their disease to others while they are in the hospital, Aeon Delight actually offers clients a numerical scale that gives them a visual measure of cleaning quality. During FY02/15, most of the marketing for its hygienic cleaning services was done by a special sales team. However, after receiving training and all the related sales tools, local offices have also been doing their own marketing since FY02/16. The profitability of hygienic cleaning services was still relatively low in FY02/16, in part because it was the first fiscal year that the company serviced a major hospital. However, it appears profitability has been improving from FY02/17 as its cleaning staff becomes increasingly proficient at their duties.

In addition, the recent rise in labor costs is providing a tailwind for the company. That is to say, bidding prices for projects at large hospitals are often bound to incorporate the rise in labor costs stemming from labor shortage. However, by capitalizing on its network across Japan, the company can, for example, bring on board managers from regions that are easy to recruit in, enabling the company to demonstrate its competitive advantage compared to local and other companies. Along with other advantages, such as cleaning quality visibility, the company expects to steadily increase the number of projects it wins. Aeon Delight started providing cleaning services at about five hospitals during Q1 FY02/18. As these projects were won by regional branch sales representatives, it is clear that the results of initiatives on the sales side are starting to show.

Construction Work

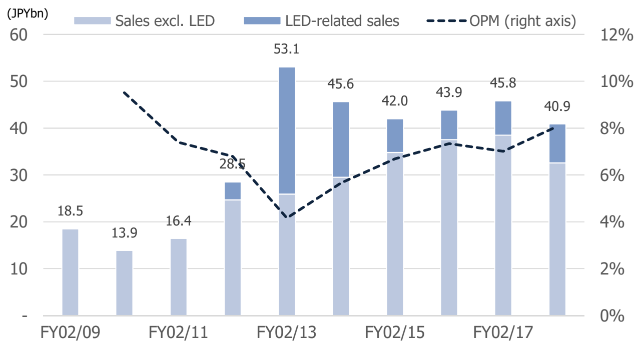
Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	40,897
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	-10.7%
Operating profit	1,321	1,214	1,936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

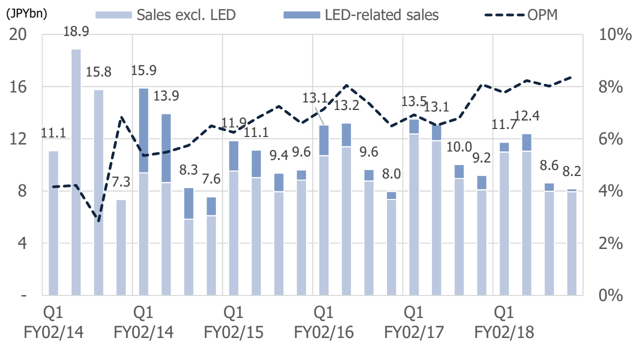
Source: Shared Research based on company data

This segment conducts large-scale renovation, interior design work, and installation of energy-saving devices (i.e., LED lighting) and solar power systems. This segment generates 70% of its sales from Aeon group companies, and has a gross profit margin of about 10%. Renovation is remodeling (not designing) of Aeon retail locations, such as replacing signage, or modifying retail floor space. Sales for Aeon Mall have not been significant, since individual tenant stores perform their own renovation work. However, Aeon Delight has been steadily gaining experience in related construction and in April 2018 made store design specialist U-COM a wholly owned subsidiary as it strengthens its efforts to obtain contracts from Aeon Mall facilities and tenants.

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

LED-related sales





Source: Shared Research based on company data

Materials and Supplies Sourcing Services

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

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

Also, aiming for a business model change, the company seeks to increase the number of vending machines equipped with digital signage functionality (about 1,500 machines at end-FY02/17) and capture advertising revenues.

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

As of the end of FY02/16, Aeon Delight owned more than 40,000 vending machines. Up until last year, the company has been busy expanding the selection of private brand goods offered in its vending machines and has also began installing new vending machines with digital signage (hereafter referred to as DS vending machines). As of the end of FY02/16, Aeon Delight had roughly 800 DS vending machine, more than any other domestic competitor. Although falling short of initial plans in FY02/17, the number of DS vending machines increased to about 1,500. In FY02/18, the company aims to increase that number to 2,500, and, to take full advantage of these new machines, it plans to continue advancing use of their digital signboards to run video ads.

The DS vending machines Aeon Delight is using are already equipped for video streaming and, since they are mainly located in shopping malls, their value as an advertising medium is quite high. It takes about nine seconds from the time the customer selects a drink and the drink is delivered, enough time to run an effective ad. The number of equipped vending machines and advertising revenues both missed targets in FY02/17. In FY02/18, while still small in size, the company aims to roughly double advertising revenues. If it appears that the increase in equipped vending machines and ads are effective, the company will install more DS vending machines in subsequent years.

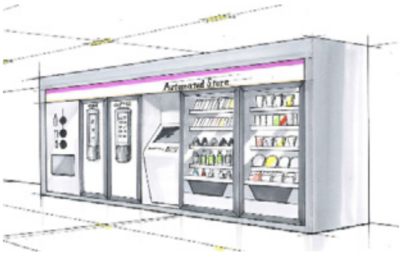
According to statistics compiled by the Japan Vending Machine Manufacturers Association, in 2014 there were roughly 2.2mn beverage vending machines installed, generating annual sales of JPY1.87tn. Based on these figures, we estimate that the average beverage vending machine generates annual sales of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

Utilization of technology: Micro-markets (unmanned stores)

In Vending Machine Services, the company plans to roll out micro-markets (unmanned stores) as parts of its business restructuring to utilize technology. Micro-markets target offices with 300–1,000 workers (offices with fewer than 300 workers are covered by vending machines, while offices with more than 1,000 workers are covered by convenience stores). The company has been conducting a demonstration experiment at Aeon Mall Funabashi since August 2017. It had about 50,000 vending machines in the Vending Machine Services business (90% are installed within the Aeon group) but is looking for a new business structure that does not center on beverage vending machines. This includes shifting toward digital signage and micro-markets.

Convenience store chains have been installing similar vending machines, but the company's business model is advantageous in that even daily sales of JPY100,000 surpass the breakeven point and generate a profit. After the breakeven point, gross profit is effectively equal to operating profit. Micro-markets have some issues with logistics and supply operations, but the market deserves a close watch. Competition in intra-office retail space includes the Aeon group, which has a company running retail stores such as My Basket, and convenience store chains, which have also entered this field.

Example of installed micro-market



Source: Shared Research based on company data

Support Services

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,539	18,639	20,306	20,583
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	1.4%
Operating profit	748	590	312	741	829	1,108	1,972	2,377	2,518
YoY	-	-21.1%	-47.1%	137.5%	11.9%	33.7%	78.0%	20.5%	5.9%
OPM	13.8%	11.1%	3.9%	6.8%	6.0%	7.1%	10.6%	11.7%	12.2%

Source: Shared Research based on company data

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

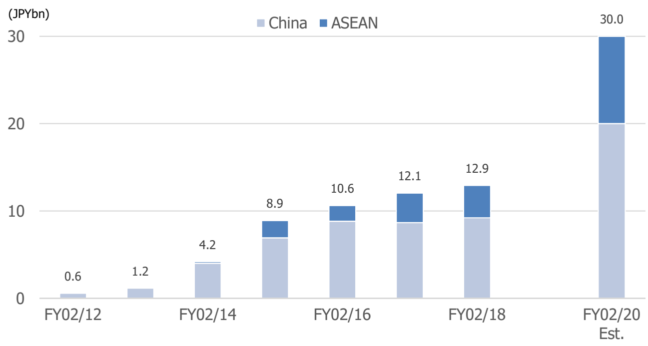
The main subsidiaries in the segment are 1) Aeon Compass: mainly B2B services including Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), and 2) Kajitaku: mainly small business support services, such as sales of copy machines, and household support services. Together, these two subsidiaries are the main growth drivers of the Support Services segment. Kajitaku provides “Kaji Cloud,” a housework services package. In fall 2017, Aeon Delight launched online sales of Kaji Cloud in cooperation with VOYAGE GROUP (TSE1: 3688).

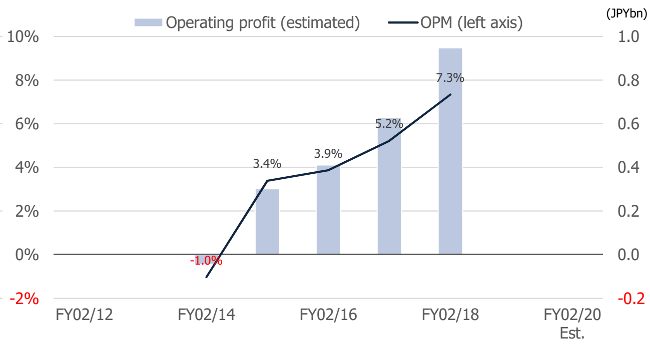
A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was acquired in 2011. A to Z Service operates a 24 hour, 365 days a year call center to provide comprehensive support services for retail chains in small shopping centers. Aeon Delight Academy, Co., Ltd. operates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

Further, under comprehensive contracts in IFM, the proportion of sales made up by catering services is expected to increase. As such, it is important to note that catering services sales will be reported in this segment.

Overseas business

Under its medium-term plan, Aeon Delight is looking to expand into China and Asia. In China, the Shanghai subsidiary is serving as headquarters for the country and handling IFM sales, while the Suzhou and Wuhan subsidiaries, capitalizing on the government-related networks they have cultivated, continue to focus on sales activities for operational areas such as facilities management, cleaning services, and catering services. In ASEAN, the company has subsidiaries in Malaysia and Vietnam.





Source: Shared Research based on company data

Strengths and weaknesses

Strengths

- **Strong ties with the Aeon group:** Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated from the Aeon group. This provides for stable sales, and the Aeon group's expansion into Asia is also proving to be a positive factor for Aeon Delight's growth. The company is able to leverage economies of scale from the Aeon group, and has accumulated expertise in integrated FMS from its transactions with Aeon. This provides for a stable recurring-revenue model.
- **Industry leader in comprehensive commercial maintenance services:** Aeon Delight is the industry leader capable of providing integrated all-in-one building maintenance services such as facilities management, security, cleaning, and renovations. Its competitors can only provide one to two of these services (i.e., security or cleaning). Owners of large commercial facilities and buildings are would prefer to contract such services to one service provider rather than negotiate with each individual service provider based on their specialty. The company's ability to provide such integrated service is a competitive advantage over its competitors.
- **Financial strength to buy growth:** Aeon Delight has a very strong balance sheet. Shared Research believes that this balance sheet could be used aggressively to buy growth. According to the Japan Building Maintenance Association, there are currently over 5,000 property maintenance service providers throughout Japan. This market is relatively mature, and a realignment of the industry is possible. Aeon Delight, with its financial strength and industry prowess, would be able to acquire smaller firms with specialized services in local areas. This could lead to further growth and expansion. The company is able to benefit from economies of scale. It can leverage its balance to buy growth since it has a recurring stable source of revenue from the Aeon group. The company could take on debt to expand its business since it has an under leveraged balance sheet.

Weaknesses

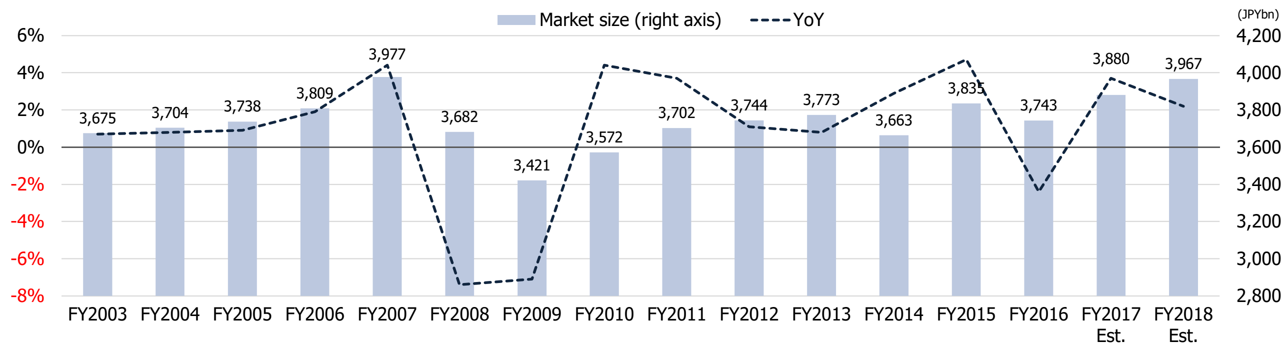
- **Organic growth challenging:** Aeon Delight has grown through acquisitions. Therefore, organic growth may be a challenge because the market is relatively mature. There is limited domestic growth and overseas offers one avenue of expansion. M&A activities could dry up, and this could have an impact on earnings. The company has been able to buy growth using its strong financial position.
- **Overly dependent on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives almost 70% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.
- **Mature property management market:** The property management market is relatively mature. However, small 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 JPY3.7tn in FY2016 (April 1, 2016 to March 31, 2017), down 2.4% YoY, according to November 2017 data from Yano Research Institute Ltd.

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



Source: Shared Research based on Yano Research Institute Ltd., (November 9, 2017)

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

Analysis of potential market

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

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

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

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

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

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

Aeon group stores by format (domestic and overseas)

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

Source: Shared Research based on company data

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

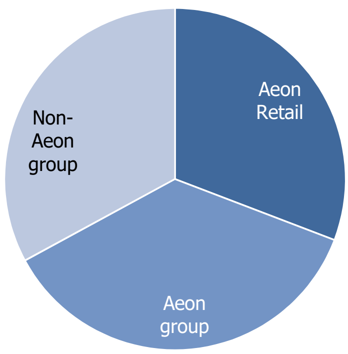
	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
GMS	52	54	61	69	77	84	87	94	96
Supermarket	25	44	81	95	101	115	173	150	150
Discount store	-	-	22	23	24	24	23	21	22
Specialty store	-	2,033	2,294	2,370	2,532	2,840	2,998	3,172	3,252
Convenience store	-	37	55	61	42	44	52	54	39
Other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

Source: Shared Research based on company data

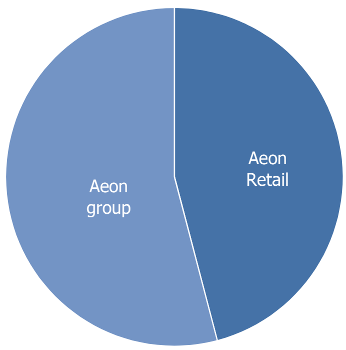
Customers

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

Sales composition by customer



Aeon Retail versus Aeon group



Source: Shared Research based on company data

Competition

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

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

Barriers to entry

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

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

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

Financial Statements

Income statement

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

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Engineering-training operations, staffing operations, and document-management operations were part of the "Other" section until FY 02/10. These businesses were designated as Support Services from FY 02/11 after the company merged with Certo Corp. in September 2010. Materials and Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Profitability and financial ratios

Profit margins (JPYmn)	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
Gross profit	23,989	28,631	30,227	33,245	34,290	34,836	35,736	34,871	35,452
GPM	14.0%	13.0%	12.1%	13.0%	12.9%	12.5%	12.2%	11.9%	11.7%
Operating profit	12,031	13,762	13,901	14,622	15,390	14,556	14,139	12,909	13,030
OPM	7.0%	6.3%	5.6%	5.7%	5.8%	5.2%	4.8%	4.4%	4.3%
EBITDA	13,818	16,107	16,138	17,054	17,856	17,014	16,928	16,038	16,391
EBITDA margin	8.1%	7.3%	6.5%	6.6%	6.7%	6.1%	5.8%	5.5%	5.4%
Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%
Financial ratios									
ROA (RP-based)	18.1%	15.5%	14.4%	13.8%	13.1%	11.4%	10.7%	9.5%	9.6%
ROE	15.5%	12.5%	12.5%	10.7%	11.2%	9.6%	8.9%	7.6%	8.1%
Total asset turnover	2.6	2.5	2.6	2.4	2.3	2.2	2.2	2.1	2.2
Working capital	7,298	9,047	22,366	15,147	13,486	8,711	13,464	12,542	13,788
Current ratio	210.0%	215.5%	226.9%	228.7%	222.2%	227.3%	236.1%	241.2%	211.6%
Quick ratio	195.4%	201.0%	207.6%	201.3%	198.3%	200.1%	209.5%	218.4%	189.9%
OCF / Current liabilities	29.0%	30.0%	-12.7%	57.5%	40.1%	22.3%	25.2%	28.2%	24.6%
Net debt / Equity	60.4%	63.5%	43.4%	64.1%	75.3%	72.5%	74.3%	80.0%	79.2%
OCF / Total liabilities	21.5%	27.8%	-12.1%	52.3%	35.2%	20.7%	22.0%	24.4%	20.9%
Cash cycle (days)	10.4	8.2	18.5	22.3	15.4	10.1	9.7	12.4	12.1
Changes in working capital	-32	1,749	13,319	-7,219	-1,661	-4,775	4,753	-922	1,246

Source: Shared Research based on company data

Balance sheet

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

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

Assets

Current assets account for approximately 80% of the company's assets (as of FY02/14). A large portion of receivables are due from Aeon Retail, and amounted to about JPY20.0bn as of the end of FY02/13. Majority of its investment securities are with Aeon Mall, Aeon Kyushu Co., Ltd. (JASDAQ: 2653), Aeon Fantasy Co., Ltd. (TSE1: 4343), and MaxValu companies. There is also a large amount of goodwill (JPY6.2bn; 4.3% of total assets as of FY02/18) due to the volume of M&A.

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

Liabilities

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

Shareholders' equity

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

Shareholder returns

Aeon Delight aims to provide dividends that correspond to its financial performance in a stable and continuous manner. It aims to provide a 20% dividend payout ratio, while keeping a close watch on its net asset ratio.

Statement of cash flows

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

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Simple free cash flow

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

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

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

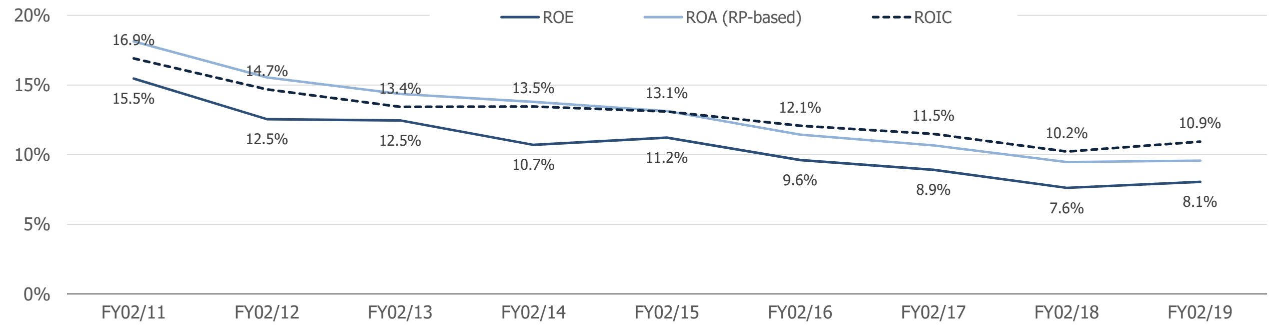
The company acquired Certo Corp., a provider of office supplies and operator of soft drink beverage vending machines in September 2010. Inventory turnover rate deteriorated due to increased inventories from acquired company.

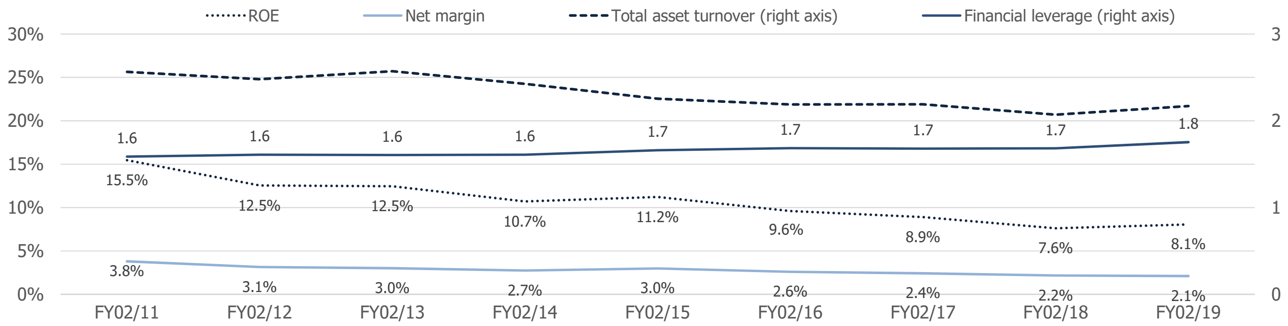
Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers. In FY02/13, its cash-conversion cycle increased due to increased LED installation work for Aeon group companies.

ROE and dividends

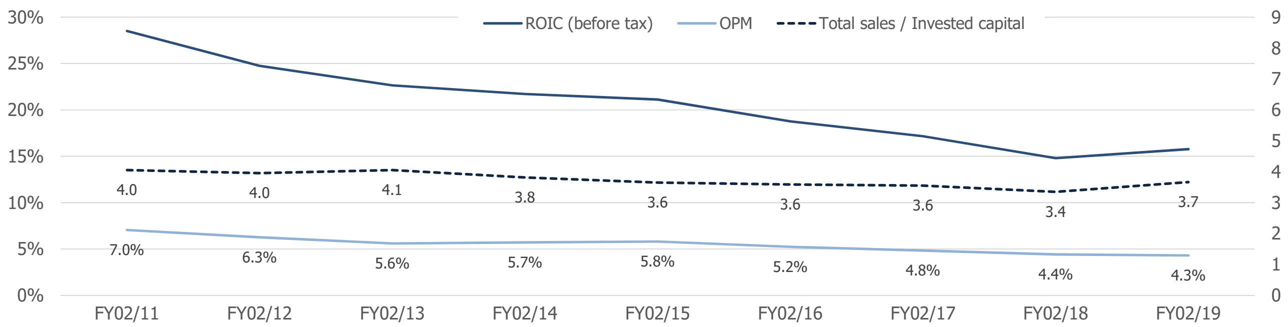
(JPYmn)		FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.	FY02/18 Cons.	FY02/19 Cons.
ROE		**15.5%**	**12.5%**	**12.5%**	**10.7%**	**11.2%**	**9.6%**	**8.9%**	**7.6%**	**8.1%**
	Net margin	3.8%	3.1%	3.0%	2.7%	3.0%	2.6%	2.4%	2.2%	2.1%
	Total asset turnover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

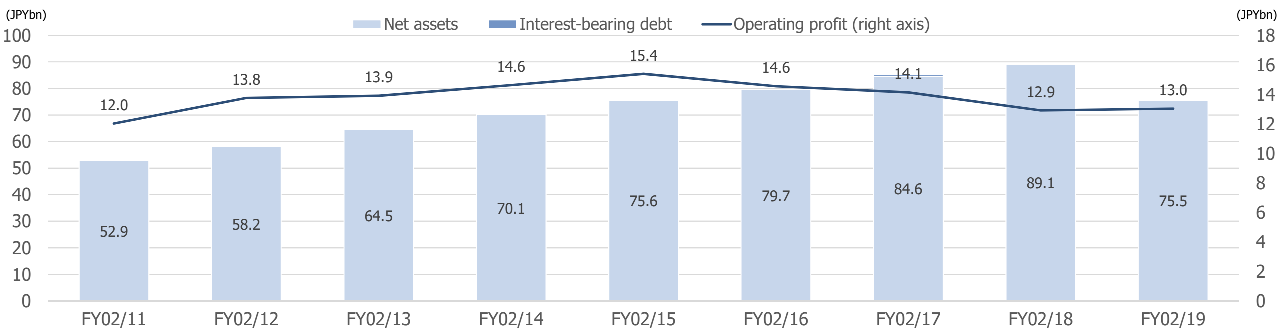
ROE





ROIC

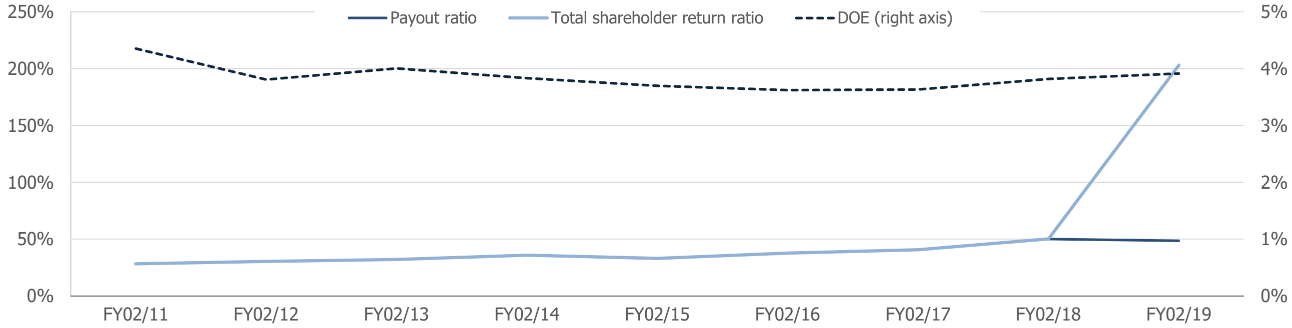




Source: Shared Research based on company data

Dividends

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



Source: Shared Research based on company data

Other information

History

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

Source: Shared Research based on company data

Major shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
Aeon Co., Ltd.	14,350	28.7%
Aeon Retail Co., Ltd.	11,558	23.2%
Goldman Sachs & Co. Regular Account (Standing proxy: Goldman Sachs Securities Co., Ltd.)	2,280	4.6%
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,149	2.3%
Aeon Delight Business Partners Stockholding Association	1,028	2.1%
ORIGIN TOSHU Co., Ltd.	854	1.7%
Japan Trustee Services Bank, Ltd. (Trust account)	798	1.6%
Strate Street Bank and Trust Client Omnibus Account OM02 505002 (Standing proxy: Mizuho Bank, Ltd. Settlement Department)	541	1.1%
Aeon Delight Employees Shareholding Association	487	1.0%
Japan Trustee Services Bank, Ltd. (Trust account 5)	461	0.9%

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

Aeon group companies own about 60% of the company.

Top management

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

Employees

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

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

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

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

Tree planting through Aeon Environmental Foundation

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

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

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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

Historical financial statements and news

Historical financial statements

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

Summary

- On June 28, 2019, Aeon Delight announced earnings results for full-year FY02/19, the special investigation committee's investigation report regarding improper accounting at subsidiary Kajitaku Co., Ltd., and corrections to its historical financial statements.
- Kajitaku: The investigation report revealed that Kajitaku's improper accounting inflated company profits by JPY16.3bn on a cumulative basis between FY02/14 and FY02/19. The company also announced corrections to its historical financial statements. As of end-FY02/19, the company reported BPS of JPY1,466 (JPY1,853 in FY02/18 prior to corrections) and an equity ratio of 54.4% (66.4%). Aeon Delight dismissed involved parties and held management responsible through dismissals and compensation reductions. In response to the special investigation committee's recommendations, the company will work to strengthen the group's governance system and formulate effective measures to prevent reoccurrence.
- FY02/19 results: The company reported sales of JPY302.9bn (+3.6% YoY), operating profit of JPY13.0bn (+0.9% YoY), and net income of JPY6.4bn (+0.3% YoY). If excluding Kajitaku's performance, Aeon Delight booked approximately JPY17.0bn in operating profit (+6.1% YoY). Considering Kajitaku's operating profit forecast for FY02/19 was JPY1.2bn before the investigation, the company's performance net of Kajitaku was in line with the original operating profit forecast of JPY18.5bn. Aeon Delight repurchased 2.7mn shares for a total of JPY9.9bn through a tender offer between December 5, 2018 and January 8, 2019.
- FY02/20 forecast: The company expects sales of JPY315.0bn (+4.0% YoY), operating profit of JPY18.0bn (+38.1% YoY), net income of JPY10.8bn (+68.4% YoY), EPS of JPY216.35, and dividend per share of JPY65 (dividend payout ratio of 30.0%). Aeon Delight expects Kajitaku-related one-time expenses to drop out, and Construction Work, Facilities Management, and Cleaning Services to drive business performance.

Improper Accounting at Kajitaku

Impact of improper accounting

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

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

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

Source: Shared Research based on company data

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

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

Clarifying management responsibility

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

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

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

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

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

Source: Shared Research based on company data

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

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

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

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

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

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

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

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

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

▷ 2025: In Japan, expand market share by constructing Aeon Delight (AD) economic zone. Overseas, concentrate management resources in China and aim to become a top ten company in the industry.

▷ Vision 2025: Aim for above targets with "safety and security," "labor shortage," and "environment" as key pillars of growth strategy in Asia

▷ Q3 progress: Under "safety and security," in areas struck by disasters such as earthquakes and typhoons, provided building restoration work, temporary cleaning, and materials delivery services. Under "labor shortage," launched installations of dispersed management system "Delight Viewer," in October, streamlined maintenance and inspection processes, began installation and sales of floor cleaning robots, built a labor-saving model in collaboration with Secom for security work at commercial facilities, and began a trial operation of toilet IoT services at Aeon Mall Binh Tan in collaboration with Softbank Telecom Vietnam.

▷ Segment earnings: Six businesses grew profit. Vending Machine Services transitioning to new earnings model. Key driver of JPY630mn profit growth was Facilities Management (+JPY740mn), followed by Cleaning Services (+JPY350mn, higher productivity), Construction Work (+JPY260mn, higher margins on growth in comprehensive contracts and provision of high value-added service), Materials and Supplies Sourcing Services (+JPY20mn on higher sales), and Support Services (+JPY80mn, growth in service provision). These offset lower profit in Vending Machine Services and other segments.

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

Earnings overview

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

▷ In Q3 FY02/19, Aeon Delight reported sales of JPY229.9bn (+2.7% or +JPY6.1bn YoY) and operating profit of JPY13.3bn (+5.0% or +JPY600mn YoY). OPM increased 0.2pp YoY to 5.8%.

- The capital surplus declined by JPY5.2bn to JPY13.9bn. This was due to accounting treatments for business combinations as the company purchased additional stakes in consolidated subsidiaries Aeon Delight Jiangsu and Wuhan Xiaozhu from non-controlling shareholders on November 30, 2018.
- After the end of Q3, the company purchased some of its shares from Aeon (4.98% of issued shares) as treasury stock. Aeon Delight said it decided to do so to boost ROE, which measures the efficiency of shareholders' invested capital.

Business environment and company initiatives

Environment

Decarbonization

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

Renewable energy

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

Electricity

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

Safety and security

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

Labor shortage

Aeon Delight Platform (AD Platform)

- Labor shortages are becoming critical in Japan and China, where the company operates. The company has started developing the Aeon Delight Platform (AD Platform), with the aim of easing the labor shortage in-house and at client companies.

- ▷ The AD Platform will collect, store, and analyze data obtained from the facilities it manages and others to offer the optimal solutions to issues faced by individual client companies.
- ▷ The company developed Delight Viewer, a dispersed management system, in anticipation of the development of the AD Platform, and launched it in October 2018. Delight Viewer efficiently collects and stores data obtained from facility maintenance and inspection operations.

Floor cleaning robot

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

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

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

Toilet IoT services

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

Accelerating global development

Asian expansion intentions

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

China business: Making two core companies wholly owned subsidiaries

- ▷ The company made its two core Chinese subsidiaries, Aeon Delight Jiangsu and Wuhan Xiaozhu, wholly owned subsidiaries by purchasing the remaining outstanding shares in October 2018, to accelerate its business growth in China.

- The move will strengthen collaboration between the two companies and accelerate the decision-making process, as well as help establish the Aeon Delight brand in China. The company aims to build a brand image such that Aeon Delight is seen as a Japanese security company synonymous with building maintenance for foreign companies.
- The company is steadily growing its business as competing players have low productivity and the market is growing rapidly.

ASEAN business: Purchase of shares in Indonesian cleaning company

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

First ISO 41001 certification in Japan

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

Initiatives to improve employee engagement

- The company has unrolled small group activities at the individual workplace level. These foster a workplace culture where members of its Clean Crew (its internal designation for cleaning staff) volunteer information on things they notice day-to-day and ideas on creating a pleasant working environment.
- These are reflected in work processes. In November 2018, the company held a conference at the Tokyo Big Sight to share the results from Japan and abroad and further promote the program. This was the fourth such conference highlighting initiatives in pursuit of a pleasant working environment.

Segment overview

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

- Recurring revenue business; annual contracts are renewed in most years.
- Sales are growing especially outside the Aeon group. This is because Aeon Delight has met demand for one-stop contracts for facilities management, security services, and cleaning services at one company that previously went to separate companies. It has similarly met needs for nationwide contracts run by one company rather than region-by-region contracts for separate companies. Aeon Delight thinks that it is the only company that can comprehensively satisfy such needs.

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

Segment conditions

- **Facilities Management** (operating profit JPY4.3bn, +JPY740mn YoY): In addition to gaining new contracts, the company focused on helping customers develop disaster prevention and mitigation systems. It won increased orders for scheduled fire safety equipment testing (under revised regulations) and emergency generator load testing, as well as associated fault repairs. Growth was stronger than normal.
- **Security Services** (JPY2.1bn, unchanged YoY): Aeon Delight conducted ongoing initiatives to reform workstyles starting with improving the workplace environment to facilitate recruitment, and made progress on systematizing services such as building access control and security patrols, but profit was impacted by higher outsourcing costs.
    - The availability of manpower is the main limiting factor on sales growth, and for security services in particular. Amid a spike in Olympics related construction demand, the company is competing with the construction industry for security personnel.
    - The company said that earnings have deteriorated due to the personnel shortage, and some contracts are in the red. It is responding by changing specifications or entering price negotiations. In some cases it is considering ending contracts that have no prospects for improvement. The company intends to deal with the personnel shortage by increasing the proportion of collaborations with Secom it can operate using equipment.
- **Cleaning Services** (JPY5.0bn, +JPY350mn YoY): In addition to new contracts, the company grew sales of materials developed in-house, made progress on labor saving in toilet cleaning, and introduced/launched sales of floor cleaning robots.

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

- Most sales are to the Aeon group.

Segment conditions

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

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

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

1H FY02/19 results (Out October 10, 2018)

- 1H FY02/19: Sales up 1.4%, operating profit up 2.9%. Results in line with initial forecasts. Announced 2025 targets (sales of JPY525bn, operating profit of JPY48bn)
  - 2025: In Japan, expand market share by constructing Aeon Delight (AD) economic zone. Overseas, concentrate management resources in China and aim to become a top ten company in the industry
- Vision 2025: Aim for above targets with “safety and security,” “labor shortage,” and “environment” as key pillars of growth strategy in Asia
  - Convert medium-term initiatives related to IFM, Asia, and technology into management principle and strategies, and rethink tactical approach. In addition to growth in existing FM business, target higher sales and profit in China and new businesses. Build organizational structure that supports sharing of information among employees and directors and allows directors to execute responsibilities
  - Japan (existing businesses): Target sales increase of JPY60.0bn. Leverage open AD platform to develop AD economic zone and expand market share
  - Japan (new businesses): Target sales increase of JPY100.0bn. Provide energy management services (tied to AD platform) to Aeon stores and surrounding areas
  - Overseas business (China): Target sales increase of JPY40.0bn. Turn two core companies into wholly owned subsidiaries, and focus on shopping centers, high-end residential projects, factories, medical institutions, and public infrastructure

- Profit margins: In Japan, aim to substantially raise profit margins by leveraging AD platform in existing businesses, reducing labor, and improving productivity, while also targeting contributions from new businesses. Overseas, look for further growth in profit margins
- 1H progress: Constructed a labor-saving model for large commercial facilities with an eye toward the AD platform; developed a dispersed management system; opened an R&D facility through joint investment with China-based AI company; pushed forward with final tests on cleaning robots; and participated in electricity transaction verification business using blockchain technology

- Segment earnings: Key driver of JPY250mn profit growth was Facilities Management (+JPY550mn), followed by Cleaning Services (+JPY210mn, higher productivity), Construction Work (+JPY90mn, higher margins on portfolio changes and review of project estimates), and Materials and Supplies Sourcing Services (+JPY100mn on higher sales). These offset lower profit in Vending Machine Services and other segments
  - Vending Machine Services: Operating profit down JPY750mn (-58% YoY). In addition to being midway through transitioning to a new revenue model, results were impacted by Q2 heavy rains and typhoons
- 2H: Facilities Management, Cleaning Services, and Materials and Supplies Sourcing Services expected to maintain performance exceeding initial forecasts. Profits in Construction Work expected to grow thanks to large projects concentrated in 2H. Despite the dropout of one-time factors that had an impact in Q2, Vending Machine Services expected to remain sluggish as it is midway through transitioning to a new revenue model. Support Services to aim for recovery

Earnings overview

1H FY02/19: Sales up 1.4%, operating profit up 2.9%. Results in line with initial forecasts. Announced 2025 targets (sales of JPY525.0bn, operating profit of JPY48.0bn)

In 1H FY02/19, Aeon Delight reported sales of JPY153.9bn (+1.4% or +JPY2.1bn YoY) and operating profit of JPY9.1bn (+2.9% or +JPY300mn YoY). OPM increased 0.1pp YoY to 5.9% as initiatives to boost productivity in Japan and abroad have lowered CoGS and SG&A expenses, compensating for an increase in outsourcing expenses in Security Services as well as delays in product supply caused by natural disasters and the ongoing alteration of the revenue model in Vending Machine Services. The shortfall in Vending Machine Services was offset by other businesses. The company notes steady progress in achieving full-year estimates.

Gross profit increased JPY300mn YoY, an underwhelming outcome compared to the initial forecast (+JPY3.0bn over the full year). Shared Research thinks quarterly trends (Q1: +JPY400mn, Q2: -JPY200mn) suggest Vending Machine Services weighed down profit. At the same time, the company kept SG&A expenses firmly under control while staying focused on operating profit and continuing to secure specialist staff.

> Reversal of allowance for doubtful accounts and some reductions in personnel expenses were temporary factors that contributed to the YoY decline in SG&A expenses in Q1, but initiatives to internally deal with the work previously outsourced were successful. Shared Research thinks the increase in SG&A expenses in Q2 was partly due to progress steadily being made in securing specialists.

Business environment and company initiatives

In Japan the labor shortage due to the declining working-age population and aging of society is a social issue, and labor shortages are also becoming apparent in China. The company is taking a number of initiatives to improve productivity in Japan and overseas. It has also continued to strengthen activities to market IFM to fulfill its customers' outsourcing needs.

The company has established a joint venture with leading IT company DeepBlue Technology (Shanghai) Co., Ltd., which has strengths in basic research into artificial intelligence and applications development in China. This will become an R&D center for the company, and aims to develop SmartFM by fusing expertise Aeon Delight has developed in Japan in facilities management with advanced technologies in AI, IoT, and robotics. Aeon Delight says that SmartFM would improve convenience for facilities users and yield significant gains in productivity (cost cuts for customers and the company itself).

These initiatives are based on the medium-term business plan. At 1H earnings announcement, the company announced new targets for 2025 and three pillars of its growth strategy under the medium-term plan Aeon Delight Vision 2025. The company indicated its resolve to take specific initiatives to accelerate implementation of the medium-term plan based on its vision. An overview of the growth strategy and 1H are as follows.

News & topics

April 2019

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

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

January 2019

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

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

Details of purchase

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

December 2018

On **December 19, 2018**, the company announced it has obtained an approval from the Indonesian authorities to acquire shares in PT Sinar Jernih Sarana (SJS). It was also granted a local license to offer comprehensive real estate-related support services.

On December 11, 2018, the company obtained approval from the Indonesian authorities regarding its acquisition of shares in SJS, a cleaning services company in Indonesia. On the same day, SJS—ahead of any other foreign companies—was granted a local business license necessary for operating "comprehensive real estate-related support services" (KBLI 81100) in Indonesia. These developments satisfied the terms set forth in the conditional share transfer agreement regarding Aeon Delight's acquisition of SJS shares (see the company release dated October 30, 2018), leading to a full conclusion of the agreement.

The subject license allows foreign capital companies to operate facility management (FM) in Indonesia. FM has traditionally been a difficult business area for foreign companies to enter. With this license, however, as a company of the Aeon Delight group, SJS can now offer such services as cleaning, facility management, and security in Indonesia.

On **December 4, 2018**, the company announced the purchase and tender offer of treasury shares.

The company announced that it will repurchase up to 2,970,100 of its treasury shares (5.48% of issued shares, purchase price: JPY10,897,296,900), including 2,700,000 shares (4.98% of issued shares) owned by Aeon Co., Ltd. (Aeon owns a total of 13,195,250 company shares [24.36% of issued shares]). Aeon has informed the company that it intends to hold onto the remaining 10,495,250 shares of the company (19.37% of issued shares). The company had cash and cash equivalents of JPY38.6bn as of end-August 2018, and even after allocating JPY11.0bn to fund the tender offer, the company maintains it would have sufficient liquid assets.

Further details are as follows:

- ▷ Repurchase period: December 5, 2018 to February 28, 2019
- ▷ Tender offer period: December 5, 2018 to January 8, 2019
- ▷ Tender offer price: JPY3,669 (93% of JPY3,945, simple average of the company's share price for the last three months)
- ▷ Number of shares as of end-October 2018: 52,612,791 outstanding shares, 1,556,842 treasury shares

October 2018

On **October 30, 2018**, the company announced its resolution to conclude a conditional share transfer agreement with PT Sinar Jernih Sarana (SJS), an Indonesian company in the cleaning services business.

Aeon Delight resolved to conclude a conditional (pending the acquisition of licenses from relevant authorities) share transfer agreement with SJS and acquire stock from the company. Through its medium-term plan Aeon Delight Vision 2025, Aeon Delight is aiming for top sales in Asia and envisions becoming a company that creates environmental value and establishes "safety and security," "labor shortage," and "environment" as key pillars of its growth strategy. Shared Research understands that this share transfer agreement, conducted within the ASEAN, resembles a successful agreement made in China (business expansion through M&A with prominent local companies) and continues to observe related developments.

Summary

SJS has achieved rapid growth in Indonesia under its management, which has abundant experience in the facility management (FM) industry. It has expanded its business to such a scale that it recorded the second highest cleaning services sales in the country (FY12/17 sales of IDR368.7bn [about JPY2.7bn at a rate of IDR1,000=JPY7.4], operating profit of IDR22.4bn [JPY170mn]). Aeon Delight intends to utilize its expertise to spread the FM business approach in Indonesia, which boasts the largest market in the ASEAN, and expand SJS's business fields to include facilities management and security services, in addition to its current field of cleaning services. This expansion will allow for growth as an FM company. After the transfer, which is scheduled for December 3, 2018, Aeon Delight's share in SJS will be 90%.

SJS

Earnings (IDRmn)	FY12/15	% of sales	FY12/16	% of sales	FY12/17	% of sales
Sales	233,470	100.0%	274,817	100.0%	368,695	100.0%
Operating profit	10,602	4.5%	13,949	5.1%	22,442	6.1%
Net income	6,208	2.7%	7,659	2.8%	13,444	3.6%
IDR ('000)/JPY	8.8		8.6		8.3	

(JPYmn)	FY12/15	FY12/16	FY12/17
Total assets	14,244	22,142	44,286
Net assets	53,258	74,068	99,278
ROE	11.7%	10.3%	13.5%

Source: Shared Research based on company data

Company profile

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

About Shared Research Inc.

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 http://www.sharedresearch.jp.

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MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
Milbon Co., Ltd.
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