



LAST UPDATE 【2016/01/26】

Aeon Delight | 9787 |

Research Report by Shared Research Inc.

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Key financial indicators

| Income Statement (JPYmn) | FY02/08 | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 | FY2/16 |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | Cons. | Cons. | Cons. | Cons. | Cons. | Cons. | Cons. | Cons. | Est. |
| Total Sales | 137,519 | 145,690 | 140,299 | 170,905 | 219,797 | 248,876 | 257,243 | 266,705 | 280,000 |
| YoY | 23.7% | 5.9% | -3.7% | 21.8% | 28.6% | 13.2% | 3.4% | 3.7% | 5.0% |
| Gross Profit | 18,827 | 20,955 | 21,118 | 23,989 | 28,631 | 30,227 | 33,714 | 35,117 | |
| YoY | 18.1% | 11.3% | 0.8% | 13.6% | 19.4% | 5.6% | 11.5% | 4.2% | |
| GPM | 13.7% | 14.4% | 15.1% | 14.0% | 13.0% | 12.1% | 13.1% | 13.2% | |
| Operating Profit | 8,330 | 9,946 | 9,970 | 12,031 | 13,762 | 13,901 | 15,115 | 15,861 | 17,000 |
| YoY | 49.4% | 19.4% | 0.2% | 20.7% | 14.4% | 1.0% | 8.7% | 4.9% | 7.2% |
| OPM | 6.1% | 6.8% | 7.1% | 7.0% | 6.3% | 5.6% | 5.9% | 5.9% | 6.1% |
| Recurring Profit | 8,186 | 9,812 | 9,912 | 12,089 | 13,784 | 13,892 | 15,092 | 15,943 | 17,000 |
| YoY | 49.2% | 19.9% | 1.0% | 22.0% | 14.0% | 0.8% | 8.6% | 5.6% | 6.6% |
| RPM | 6.0% | 6.7% | 7.1% | 7.1% | 6.3% | 5.6% | 5.9% | 6.0% | 6.1% |
| Net Income | 4,379 | 4,876 | 5,466 | 6,495 | 6,912 | 7,509 | 8,161 | 8,725 | 9,400 |
| YoY | 46.1% | 11.3% | 12.1% | 18.8% | 6.4% | 8.6% | 8.7% | 6.9% | 7.7% |
| Net Margin | 3.2% | 3.3% | 3.9% | 3.8% | 3.1% | 3.0% | 3.2% | 3.3% | 3.4% |
| Per Share Data | | | | | | | | | |
| Number of Shares | 41,400 | 41,400 | 41,400 | 54,170 | 54,170 | 54,170 | 54,170 | 54,170 | |
| EPS | 110 | 123 | 138 | 143 | 132 | 143 | 156 | 166 | 179 |
| EPS (Fully Diluted) | - | 123 | 138 | 142 | 132 | 143 | 155 | 166 | |
| Dividend Per Share | 25 | 22 | 27 | 39 | 40 | 46 | 48 | 50 | 52 |
| Book Value Per Share | 567 | 669 | 788 | 1,006 | 1,096 | 1,202 | 1,325 | 1,436 | |
| Balance Sheet (JPYmn) | | | | | | | | | |
| Cash and Equivalents | 7,673 | 6,991 | 7,964 | 13,098 | 9,707 | 10,014 | 12,565 | 15,580 | |
| Total Current Assets | 28,764 | 30,150 | 30,026 | 64,524 | 72,486 | 79,323 | 90,347 | 104,477 | |
| Tangible Fixed Assets, net | 1,885 | 2,602 | 2,741 | 3,756 | 3,773 | 3,796 | 4,258 | 4,361 | |
| Other Fixed Assets | 3,411 | 3,658 | 3,977 | 4,766 | 4,276 | 5,257 | 5,829 | 6,268 | |
| Intangible Assets | 13,356 | 12,623 | 11,924 | 11,577 | 12,272 | 12,321 | 11,687 | 10,937 | |
| Total Assets | 47,418 | 49,035 | 48,670 | 84,624 | 92,809 | 100,699 | 112,122 | 126,044 | |
| Accounts Payable | 10,293 | 10,551 | 8,974 | 22,424 | 23,720 | 24,544 | 26,701 | 30,902 | |
| Short-Term Debt | - | 1,688 | 80 | 49 | 41 | 10 | 5 | - | |
| Total Current Liabilities | 22,533 | 20,131 | 16,281 | 30,724 | 33,643 | 34,955 | 39,306 | 46,640 | |
| Long-Term Debt | - | 56 | 31 | 6 | 15 | 5 | - | - | |
| Total Fixed Liabilities | 2,395 | 824 | 1,024 | 1,012 | 983 | 1,195 | 1,500 | 1,908 | |
| Total Liabilities | 24,929 | 20,956 | 17,306 | 31,737 | 34,626 | 36,151 | 40,806 | 48,549 | |
| Net Assets | 22,512 | 28,079 | 31,364 | 52,887 | 58,182 | 64,547 | 71,316 | 77,495 | |
| Cash Flow Statement (JPYmn) | | | | | | | | | |
| Operating Cash Flow | 6,472 | 6,668 | 7,031 | 6,808 | 9,639 | -4,358 | 21,359 | 17,234 | |
| Investment Cash Flow | -2,190 | -2,087 | -1,966 | -3,000 | -10,051 | 7,086 | -16,632 | -11,365 | |
| Financing Cash Flow | -6,094 | -5,255 | -4,169 | -1,321 | -2,722 | -2,257 | -2,475 | -2,594 | |
| Financial Ratios | | | | | | | | | |
| Interest-Bearing Debt | - | 1,744 | 111 | 55 | 56 | 15 | 5 | - | |
| ROA | 17.3% | 20.3% | 20.3% | 18.1% | 15.5% | 14.4% | 14.2% | 13.4% | |
| ROE | 21.0% | 19.9% | 18.9% | 15.5% | 12.5% | 12.5% | 12.3% | 12.0% | |
| Equity Ratio | 47.4% | 54.1% | 64.2% | 62.3% | 61.9% | 62.6% | 62.0% | 59.8% | |

Source: Shared Research based on company data

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

Recent updates

Highlights

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

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

On **January 18, 2016**, Shared Research updated the report following interviews with management.

On **January 8, 2016**, the company announced Q3 earnings results for FY02/16; see the results section for details.

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

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

On **October 28, 2015**, Shared Research updated the report following interviews with management.

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

Summary of tender offer

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

Hakuseisha announces acceptance of tender offer and recommendation

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

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

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

Scheduled to become wholly owned subsidiary

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

Background on tender offer

About Hakuseisha

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

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

Industry environment

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

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

Events leading to the tender offer

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

AEON DELIGHT and Hakuseisha concluded that the corporate value and business foundations of each would benefit from

the tender offer. They also decided that making Hakuseisha a non-listed company would eliminate the expenses associated with maintaining stock exchange listings.

Expected synergy

Stronger sales capabilities

Reinforced service quality and cost competitiveness

Stronger business development

Improved back-office efficiency

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

Hakuseisha results summary

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

Source: Shared Research based on company data

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

Trends and outlook

Quarterly trends and results

| Quarterly Performance (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | | FY02/16 | |
|----------------------------------|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|----|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | % of FY | FY Est. |
| Sales | 66,711 | 66,841 | 61,256 | 62,435 | 66,475 | 67,574 | 65,237 | 67,419 | 70,529 | 72,254 | 67,906 | - | 75.2% | 280,000 |
| YoY | 13.9% | -2.0% | -6.7% | 10.5% | -0.4% | 1.1% | 6.5% | 8.0% | 6.1% | 6.9% | 4.1% | - | | 5.0% |
| Gross Profit | 8,173 | 8,808 | 7,984 | 8,749 | 8,306 | 8,972 | 8,429 | 9,410 | 8,864 | 9,734 | 8,923 | - | | |
| YoY | 17.0% | 10.1% | 2.5% | 17.4% | 1.6% | 1.9% | 5.6% | 7.6% | 6.7% | 8.5% | 5.9% | - | | |
| GPM | 12.3% | 13.2% | 13.0% | 14.0% | 12.5% | 13.3% | 12.9% | 14.0% | 12.6% | 13.5% | 13.1% | - | | |
| SG&A Expenses | 4,782 | 4,624 | 4,589 | 4,604 | 4,766 | 4,809 | 4,828 | 4,853 | 5,239 | 5,237 | 5,076 | - | | |
| YoY | 22.9% | 16.2% | 2.0% | 16.4% | -0.3% | 4.0% | 5.2% | 5.4% | 9.9% | 8.9% | 5.1% | - | | |
| SG&A / Sales | 7.2% | 6.9% | 7.5% | 7.4% | 7.2% | 7.1% | 7.4% | 7.2% | 7.4% | 7.2% | 7.5% | - | | |
| Operating Profit | 3,390 | 4,185 | 3,395 | 4,145 | 3,540 | 4,162 | 3,601 | 4,558 | 3,625 | 4,496 | 3,848 | - | 70.4% | 17,000 |
| YoY | 9.6% | 4.1% | 3.2% | 18.5% | 4.4% | -0.5% | 6.1% | 10.0% | 2.4% | 8.0% | 6.9% | - | | 7.2% |
| OPM | 5.1% | 6.3% | 5.5% | 6.6% | 5.3% | 6.2% | 5.5% | 6.8% | 5.1% | 6.2% | 5.7% | - | | 6.1% |
| Recurring Profit | 3,403 | 4,168 | 3,411 | 4,110 | 3,558 | 4,167 | 3,614 | 4,604 | 3,652 | 4,487 | 3,876 | - | 70.7% | 17,000 |
| YoY | 9.7% | 3.6% | 3.7% | 18.1% | 4.6% | -0.0% | 6.0% | 12.0% | 2.6% | 7.7% | 7.2% | - | | 6.6% |
| RPM | 5.1% | 6.2% | 5.6% | 6.6% | 5.4% | 6.2% | 5.5% | 6.8% | 5.2% | 6.2% | 5.7% | - | | 6.1% |
| Net Income | 1,858 | 2,289 | 1,657 | 2,357 | 2,015 | 2,365 | 2,003 | 2,342 | 2,078 | 2,604 | 2,292 | - | 74.2% | 9,400 |
| YoY | 4.0% | 6.1% | 6.1% | 17.6% | 8.4% | 3.3% | 20.9% | -0.6% | 3.1% | 10.1% | 14.4% | - | | 7.7% |
| NPM | 2.8% | 3.4% | 2.7% | 3.8% | 3.0% | 3.5% | 3.1% | 3.5% | 2.9% | 3.6% | 3.4% | - | | 3.4% |

| Segment Results (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | | FY02/16 | |
|-------------------------------|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|----|---------|---------|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | % of FY | FY Est. |
| Sales | 66,711 | 66,841 | 61,256 | 62,435 | 66,475 | 67,574 | 65,237 | 67,419 | 70,529 | 72,254 | 67,906 | - | 75.2% | 280,000 |
| Facilities management | 10,622 | 10,848 | 11,198 | 10,790 | 11,228 | 11,642 | 11,532 | 11,437 | 12,103 | 12,291 | 12,126 | - | | |
| Securities management | 8,438 | 8,367 | 8,481 | 8,956 | 8,935 | 8,891 | 9,305 | 9,491 | 9,306 | 9,294 | 9,522 | - | | |
| Cleaning services | 10,539 | 10,485 | 10,642 | 10,654 | 10,942 | 10,960 | 11,129 | 11,256 | 11,656 | 11,723 | 11,811 | - | | |
| Construction work | 15,888 | 13,929 | 8,254 | 7,559 | 11,858 | 11,133 | 9,366 | 9,615 | 13,059 | 13,194 | 9,649 | - | | |
| Materials & supplies sourcing | 10,721 | 11,023 | 11,542 | 11,257 | 11,713 | 11,609 | 12,175 | 12,121 | 12,080 | 12,445 | 12,990 | - | | |
| Vending machine services | 7,498 | 8,716 | 7,479 | 9,636 | 8,330 | 9,471 | 8,003 | 9,021 | 8,107 | 8,848 | 7,507 | - | | |
| Support services | 3,002 | 3,473 | 3,660 | 3,583 | 3,466 | 3,870 | 3,726 | 4,470 | 4,215 | 4,458 | 4,302 | - | | |
| YoY | 13.9% | -2.0% | -6.7% | 10.5% | -0.4% | 1.1% | 6.5% | 8.0% | 6.1% | 6.9% | 4.1% | - | | |
| Facilities management | 2.4% | 0.9% | 5.2% | 5.0% | 5.7% | 7.3% | 3.0% | 6.0% | 7.8% | 5.6% | 5.2% | - | | |
| Securities management | 6.8% | 5.8% | 6.5% | 11.5% | 5.9% | 6.3% | 9.7% | 6.0% | 4.2% | 4.5% | 2.3% | - | | |
| Cleaning services | 4.1% | 4.0% | 4.3% | 5.4% | 3.8% | 4.5% | 4.6% | 5.7% | 6.5% | 7.0% | 6.1% | - | | |
| Construction work | 43.4% | -26.2% | -47.7% | 3.0% | -25.4% | -20.1% | 13.5% | 27.2% | 10.1% | 18.5% | 3.0% | - | | |
| Materials & supplies sourcing | 12.6% | 12.8% | 14.8% | 13.3% | 9.3% | 5.3% | 5.5% | 7.7% | 3.1% | 7.2% | 6.7% | - | | |
| Vending machine services | -0.1% | 1.7% | 0.8% | 25.1% | 11.1% | 8.7% | 7.0% | -6.4% | -2.7% | -6.6% | -6.2% | - | | |
| Support services | 44.7% | 56.6% | 2.8% | 16.0% | 15.5% | 11.4% | 1.8% | 24.8% | 21.6% | 15.2% | 15.5% | - | | |
| Operating profit | 3,390 | 4,185 | 3,395 | 4,145 | 3,540 | 4,162 | 3,601 | 4,558 | 3,625 | 4,496 | 3,848 | - | 70.4% | 17,000 |
| Facilities management | 1,151 | 1,266 | 1,188 | 1,120 | 1,029 | 1,098 | 1,074 | 1,016 | 1,045 | 1,109 | 1,080 | - | | |
| Securities management | 642 | 700 | 761 | 762 | 695 | 717 | 824 | 866 | 696 | 731 | 782 | - | | |
| Cleaning services | 1,397 | 1,404 | 1,425 | 1,490 | 1,469 | 1,552 | 1,592 | 1,676 | 1,482 | 1,535 | 1,599 | - | | |
| Construction work | 851 | 764 | 474 | 491 | 741 | 754 | 678 | 634 | 932 | 1,061 | 709 | - | | |
| Materials & supplies sourcing | 573 | 636 | 533 | 591 | 464 | 490 | 436 | 721 | 568 | 664 | 670 | - | | |
| Vending machine services | 535 | 812 | 433 | 1,288 | 551 | 894 | 506 | 1,014 | 450 | 775 | 372 | - | | |
| Support services | 154 | 410 | 395 | 201 | 352 | 420 | 179 | 252 | 355 | 556 | 510 | - | | |
| Elimination | -87 | -132 | -233 | -167 | -176 | -108 | -72 | -81 | -140 | -165 | -201 | - | | |
| Amortization of goodwill | -285 | -287 | -284 | -282 | -276 | -275 | -288 | -286 | -285 | -293 | -292 | - | | |
| Corporate expenses | -1,543 | -1,386 | -1,301 | -1,347 | -1,309 | -1,381 | -1,374 | -1,303 | -1,478 | -1,479 | -1,381 | - | | |
| YoY | 9.6% | 4.1% | 3.2% | 18.5% | 4.4% | -0.5% | 6.1% | 10.0% | 2.4% | 8.0% | 6.9% | - | | |
| Facilities management | 4.2% | 3.8% | 10.0% | -10.8% | -10.6% | -13.3% | -9.6% | -9.3% | 1.6% | 1.0% | 0.6% | - | | |
| Securities management | 6.8% | 4.6% | 16.0% | -0.5% | 8.3% | 2.4% | 8.3% | 13.6% | 0.1% | 2.0% | -5.1% | - | | |
| Cleaning services | -3.1% | -6.9% | -1.5% | -2.2% | 5.2% | 10.5% | 11.7% | 12.5% | 0.9% | -1.1% | 0.4% | - | | |
| Construction work | 84.6% | -4.0% | 5.3% | -2.2% | -12.9% | -1.3% | 43.0% | 29.1% | 25.8% | 40.7% | 4.6% | - | | |
| Materials & supplies sourcing | 109.9% | 98.8% | 39.9% | 21.1% | -19.0% | -23.0% | -18.2% | 22.0% | 22.4% | 35.5% | 53.7% | - | | |
| Vending machine services | 17.8% | 11.5% | 0.2% | 64.7% | 3.0% | 10.1% | 16.9% | -21.3% | -18.3% | -13.3% | -26.5% | - | | |
| Support services | 100.0% | 76.7% | 5.9% | 240.7% | 128.6% | 2.4% | -54.7% | 25.4% | 0.9% | 32.4% | 184.9% | - | | |
| OPM | 5.1% | 6.3% | 5.5% | 6.6% | 5.3% | 6.2% | 5.5% | 6.8% | 5.1% | 6.2% | 5.7% | - | | |
| Facilities management | 10.8% | 11.7% | 10.6% | 10.4% | 9.2% | 9.4% | 9.3% | 8.9% | 8.6% | 9.0% | 8.9% | - | | |
| Securities management | 7.6% | 8.4% | 9.0% | 8.5% | 7.8% | 8.1% | 8.9% | 9.1% | 7.5% | 7.9% | 8.2% | - | | |
| Cleaning services | 13.3% | 13.4% | 13.4% | 14.0% | 13.4% | 14.2% | 14.3% | 14.9% | 12.7% | 13.1% | 13.5% | - | | |
| Construction work | 5.4% | 5.5% | 5.7% | 6.5% | 6.2% | 6.8% | 7.2% | 6.6% | 7.1% | 8.0% | 7.3% | - | | |
| Materials & supplies sourcing | 5.3% | 5.8% | 4.6% | 5.3% | 4.0% | 4.2% | 3.6% | 5.9% | 4.7% | 5.3% | 5.2% | - | | |
| Vending machine services | 7.1% | 9.3% | 5.8% | 13.4% | 6.6% | 9.4% | 6.3% | 11.2% | 5.6% | 8.8% | 5.0% | - | | |
| Support services | 5.1% | 11.8% | 10.8% | 5.6% | 10.2% | 10.9% | 4.8% | 5.6% | 8.4% | 12.5% | 11.9% | - | | |
| OP composition | | | | | | | | | | | | - | | |
| Facilities management | 21.7% | 21.1% | 22.8% | 18.8% | 19.4% | 18.5% | 20.3% | 16.4% | 18.9% | 17.2% | 18.9% | - | | |
| Securities management | 12.1% | 11.7% | 14.6% | 12.8% | 13.1% | 12.1% | 15.6% | 14.0% | 12.6% | 11.4% | 13.7% | - | | |
| Cleaning services | 26.3% | 23.4% | 27.4% | 25.1% | 27.7% | 26.2% | 30.1% | 27.1% | 26.8% | 23.9% | 27.9% | - | | |
| Construction work | 16.0% | 12.8% | 9.1% | 8.3% | 14.0% | 12.7% | 12.8% | 10.3% | 16.9% | 16.5% | 12.4% | - | | |
| Materials & supplies sourcing | 10.8% | 10.6% | 10.2% | 9.9% | 8.8% | 8.3% | 8.2% | 11.7% | 10.3% | 10.3% | 11.7% | - | | |
| Vending machine services | 10.1% | 13.6% | 8.3% | 21.7% | 10.4% | 15.1% | 9.6% | 16.4% | 8.1% | 12.1% | 6.5% | - | | |
| Support services | 2.9% | 6.8% | 7.6% | 3.4% | 6.6% | 7.1% | 3.4% | 4.1% | 6.4% | 8.6% | 8.9% | - | | |

Source: Shared Research based on company data

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

Q3 FY02/16 results (announced January 8, 2016)

Earnings (cumulative)

Sales: JPY210.7bn (up 5.7% YoY)

Operating profit: JPY12.0bn (up 5.9%)

Earnings through Q3 set new record high; growth continues overseas

Sales were up year-on-year in six segments, with the cumulative profit for Q3 being the highest recorded for that period YoY. Overseas, the company logged approximately JPY7.3bn in sales, with sales in China rising nearly 40% YoY and sales in ASEAN countries nearly doubling.

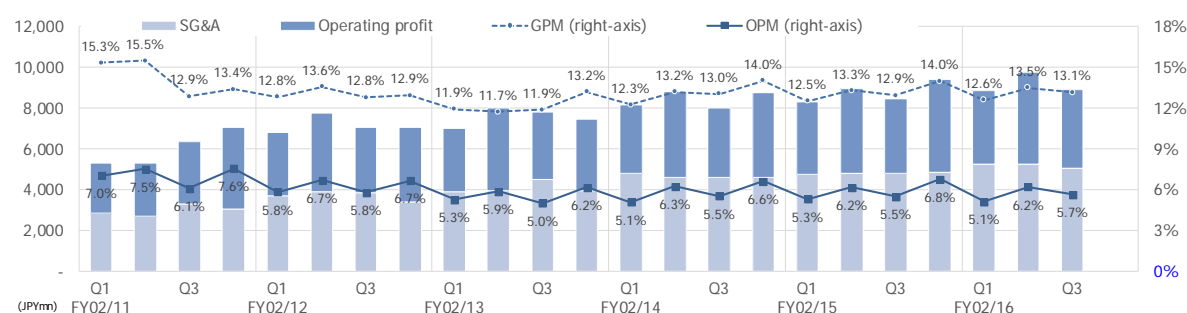
Construction Work (Aeon Group store renovation) and Support Services (subsidiary Kajitaku) drive growth

Construction Work (+11.0% YoY) and Support Services (+17.3%) saw double digit growth, pushing up overall earnings. Winning non-Aeon clients, brisk demand for new Aeon Group store openings and renovation of existing stores, as well as growth at subsidiary Kajitaku all contributed to earnings. Only the Vending Machine Services segment booked lower sales (-5.2% YoY), due to rough comparison to the mass installation of new vending machines with digital displays last year.

Q3 results finish closely in line with plan, no changes to full-term company forecast

The company left its full-year forecasts unchanged. Although Aeon Delight has made less progress towards improving gross margins at its individual business units than we had expected, the shortfalls on this front appear to have been offset by growth of its subsidiary businesses and dealings with Aeon Group companies, keeping overall sales and earnings in line with plan.

Quarterly performance



Source: Shared Research based on company data

Progress in Q3: making Hakuseisha a consolidated subsidiary

Progress during Q3 can be broken down into five main initiatives: 1) expanding domestic network of business partners in order to increase sales and earnings, resulting in record high profits booked in Q3, 2) making Hakuseisha (JASDAQ 9736)—a company with experience in cleaning department stores—a consolidated subsidiary in order to strengthen the foundations of its Cleaning Services segment, 3) establishing a virus and bacteria analysis system for a greater competitive edge in the health and sanitation area of its Cleaning Services segment, 4) introducing a water-soluble coating solution and a demonstration to promote it, as part of efforts to restructure the Cleaning Services segment, and 5) making progress in its audit leader training program for managers at all domestic facilities, overseen by ISO internal auditors, with the aim of improving quality control tests.

Hakuseisha results

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

Source: Shared Research based on company data

Note: The J-Front Retailing group accounted for approximately one-third of sales in FY03/15.

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

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

The company believes further top-line growth at Hakuseisha is possible with the help of 1) and 2), and sees plenty of room to improve profitability with the help of 3). Aeon Delight reported an overall gross margin of 13.2% for FY02/15, with its Facilities Management and Security Service business reporting gross margins close to the average and its Cleaning Services business reporting a gross margin more than 5ppts higher. With cleaning and related services accounting of nearly half of overall sales at Hakuseisha, Aeon Delight could expect an earnings contribution of some JPY200–300mn if it were able to bring margins at Hakuseisha in line with its own.

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

Making good progress on winning non-Aeon Group clients, structuring Support Services and Overseas businesses

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

Sales to new non-group clients were up 37% YoY (JPY1.8bn) to JPY6.8bn through the end of Q3. The company increased large-scale facility orders, including from hospitals for sanitary cleaning services, and since 2H has also launched a new sanitary cleaning services for hospitals and other medical facilities.

Sales at the Support Services business rose JPY1.9bn YoY (+17.3%), with subsidiary Kajitaku accounting for about JPY1.1bn of the increase. In addition to increases in sales at its copy machine business and other existing business lines,

the company also saw high sales from its Kaji Cloud housework services for individual households, with most of the growth here coming in urban areas.

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

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

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

Business continued to expand overseas as well, with sales rising 57% YoY (JPY2.9bn YoY) to JPY7.9bn. In China, improvement in local management helped earnings maintain solid growth, driven by government contracts (not easily affected by real estate market conditions) and contracts with new Aeon Mall stores. Thanks to the consolidation of its local management organization in Suzhou and Wuhan and more aggressive marketing, the company also appears to have had some success in winning additional contracts from non-Japanese companies. The company anticipates further contributions to growth in Q4 and FY02/17 as it begins to service the new Aeon Malls being opened in China (most of which are being opened in 2H).

In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015, and acquired the ability to take on orders for Aeon Group's stores, which is growing to be one of the largest retailers in Malaysia: the Aeon Group in Malaysia had 96 stores as of end Q2 FY02/16, 35 more stores than at end Q4 FY02/15. As of the end of Q3, the company appears to be making good progress getting clients to switch from competitors.

Operating profit above plan despite investments to acquire strategic personnel, prepare for new projects

On the earnings front, gross profit was up 7.1% YoY and operating profit up 5.9%. The gross profit margin rose 0.2ppt YoY to 13.1%, bolstered by both higher sales and a lower CoGS ratio. The increase in new contracts was a drag on earnings, but the steady improvement in margins at the company's mainstay Facilities Management and Cleaning Services business since Q1 tells us the steps management has been taking to improve profitability are bearing fruit.

Operating profit finished 1.5% above plan despite strategic human resource investments pushing up personnel costs and increased SG&A expenses from investments due to the growth in new orders.

New contracts with non-Aeon Group clients and growth at subsidiary businesses part of strategy to lift operating profit

Of the projected JPY3.0–4.0bn growth in gross profit in FY02/16, the company is looking for JPY1.0–1.5bn to come from contracts with new clients outside the Aeon Group (with roughly JPY500mn of this being realized in 1H); JPY1.0–1.5bn from margin improvement at its various business lines (with about JPY200mn being realized in 1H); JPY500mn from growth at subsidiary companies (with roughly JPY500mn of this being realized in 1H); and JPY500mn from more transactions with Aeon Group companies (with roughly JPY100mn of this being realized in 1H), for a total of roughly JPY1.3bn in contributions to gross profit being realized from these sources as of the end of 1H. Although contributions to earnings from margin improvement are still short of expectations as of the end of Q3, this shortfall appears to have been effectively offset by above-plan results at subsidiaries and increased dealings with other Aeon Group companies.

Although contributions from new contracts with Aeon Group members was lagging somewhat as of the end of 1H, given the jump in expenses related to the Aeon Mall Okinawa Rycom (April 2015 opening) in 1H and the larger number of stores openings by overseas Aeon Group companies in 2H versus 1H, the company still expects to meet its forecast for the full term. Shared Research will continue to monitor the company's progress towards its full-year forecast and the contributions from the above-mentioned factors from FY02/17 onward.

Measures to increase operating profit

| | YoY | 1H Act. | 2H Strategy |
|---|----------------------|-----------------|--|
| Total YoY growth of gross profit | JPY3bn-4bn | JPY1.3bn | |
| 1) Increase new customers outside group | JPY1bn-1.5bn | JPY0.5bn | Increase orders from hospitals, hotels, universities, and office buildings. |
| 2) Improve profit margins at each segment | JPY1bn-1.5bn | JPY0.2bn | Standardize Cleaning Services, reduce costs by revising materials logistics. Contribute to renovation and reform projects. |
| 3) Expand subsidiaries' businesses | JPY500mn | JPY0.5bn | Contribute to Kajitaku's mail-order business. |
| 4) Expand the Aeon group's market | JPY500mn | JPY0.1bn | Contribute to profits (1H<2H) with orders from new overseas stores. |
| Amount from higher SG&A expenses | ▲JPY2bn | ▲JPY0.9bn | |
| Operating profit YoY growth | JPY1bn-JPY2bn | JPY0.4bn | |

Source: Shared Research based on company data

Overseas Aeon Group businesses

| Aeon Mall | | Name | Location | Lot area | Total floor space | Open date |
|--------------------|-------|--|----------------------|-------------------------------|-------------------------------|--------------------------|
| FY02/2015 | China | AEON MALL Suzhou Yuenqu Hudong | Suzhou, Jiangsu | 99,300m ² | 218,000m ² | May 2015 |
| | | AEON MALL Beijing Fengtai | Fengtai, Beijing | 63,800m ² | 150,000m ² | September 2015 |
| | | AEON MALL Hanzhou Liangzhu Xincheng | Hanzhou, Zhejiang | 98,000m ² | 175,000m ² | November 2015 |
| | | AEON MALL Wuhan Jingkai | Wuhan, Hubei | 130,000m ² | 274,000m ² | December 2015 |
| | | AEON MALL Guangzhou Hanyu Guangchang | Guangzhou, Guangdong | 51,400m ² | 173,000m ² | December 2015 |
| | | AEON MALL Suzhou Xinqu | Suzhou, Jiangsu | approx. 153,000m ² | approx. 162,000m ² | January 2016 |
| | | AEON MALL BSD CITY | Jakarta, Indonesia | approx. 100,000m ² | approx. 177,000m ² | May 2015 |
| FY02/2016 | China | AEON MALL Long Bien | Hanoi, Vietnam | approx. 96,000m ² | approx. 120,000m ² | October 2015 |
| | | AEON MALL Hebei Yangjiso (tentative) | Sanhe, Hebei | approx. 84,000m ² | approx. 175,000m ² | Scheduled 2016 |
| | | AEON MALL Wuhan Shiqiao (tentative) | Wuhan, Hubei | approx. 46,200m ² | approx. 120,900m ² | Scheduled 2016 |
| | | AEON MALL Guangzhou Jinshasu (tentative) | Guangzhou, Guangdong | approx. 84,500m ² | approx. 187,700m ² | Scheduled 2016 |
| | | AEON MALL Binh Tan | Ho Chi Minh, Vietnam | approx. 46,800m ² | approx. 114,000m ² | Scheduled summer of 2016 |
| | | AEON MALL Tianjin Jinnan | Jinnan, Tianjin | approx. 91,000m ² | approx. 145,000m ² | Scheduled 2017 |
| | | AEON MALL Foshan Dall | Foshan, Guangdong | approx. 83,200m ² | approx. 181,600m ² | Scheduled 2017 |
| FY02/2017 or later | ASEAN | AEON MALL Jakarta Garden City | Jakarta, Indonesia | approx. 85,000m ² | approx. 210,000m ² | Scheduled 2017 |
| | | AEON MALL Deltamas | Jakarta, Indonesia | approx. 200,000m ² | | Scheduled 2016 |
| | | AEON MALL Cambodia | Cambodia, Phnom Penh | approx. 100,000m ² | approx. 151,000m ² | Scheduled summer of 2018 |
| | | AEON MALL Sentul City | Indonesia | approx. 78,000m ² | | Scheduled 2018 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| FY02/15 1H | ASEAN | MVTJ Sukhumvit 64 Elio | Thailand | SM | 254m ² | May 2015 |
| | | MV Watcharapol Venice | Thailand | SM | 1,632m ² | July 2015 |
| FY02/15 2H | China | Aeon ZhongShanShiDaiQingCheng | Zhongshan, Guangdong | GMS | 14,082m ² | TBC |
| | | MV Qianjinlu (tentative) | Guangzhou, Guangdong | SM | TBC | TBC |
| | ASEAN | AEON Ipoh Klebang | Malaysia | GMS | 20,475m ² | TBC |
| | | MV AEON Shiracha Shopping Center | Thailand | SM | 2,409m ² | TBC |

Source: Shared Research based on company data

Number of overseas Aeon Retail stores

| | Name | FY02/14 | FY02/15 | FY02/16 1H |
|-------|--|---------|---------|---------------|
| ASEAN | Malaysia AEON Co. (M) Bhd. | 31 | 33 | 68 |
| | AEON BIG (M) SDN. BHD. | 28 | 28 | 28 |
| | Thailand AEON (Thailand) CO., LTD. | 69 | 75 | 76 |
| | Vietnam AEON VIETNAM Co., Ltd. | | 2 | 2 |
| | DONG HUNG INVESTMENT DEVELOPMENT CONSULTANCY JOINT STOCK CO., LTD. | | | 29 |
| | FIRST VIETNAM INVESTMENT JOINT STOCK COMPANY | | | 21 |
| | Cambodia AEON (CAMBODIA) Co., Ltd. | | 1 | 1 |
| | Indonesia PT.AEON INDONESIA | | | 1 |
| | ASEAN total | | 139 | 226 |
| China | AEON Stores (Hong Kong) Co., Limited. | 43 | 43 | 47 |
| | Guangdong Aeon Team Co., Ltd. | 17 | 17 | 17 |
| | Quingdao Aeon Dongtai Co., Ltd. | 9 | 10 | 9 |
| | AEON South China Co., Ltd. | 11 | 10 | 10 |
| | Beijing AEON Co., Ltd. | 4 | 5 | 5 |
| | AEON EAST CHINA (SUZHOU) CO., LTD. | | 1 | 2 |
| | AEON (HUBEI) CO., LTD. | | 1 | 1 |
| | China total | 84 | 87 | 91 |

Source: Shared Research based on company data

Outlook for FY02/17

SR sees sales and earnings continuing to rise, but still some hurdles to clear before reaching medium-term targets

FY02/17 is the last year of Aeon Delight's current medium-term business plan, which targets sales of JPY330.0bn or more and operating profit of JPY21.0bn or more (representing an operating profit margin of 6.4% or better). Although there are still some high hurdles to clear if the company is to meet these targets, Shared Research believes these targets are achievable, though much will depend on the degree of margin improvement at existing businesses and the extend of further M&A activity.

Regardless of whether Aeon Delight meets the above targets for sales and operating profit, Shared Research sees sales and earnings continuing to rise, underpinned by 1) ongoing investments in personnel and measures to sustain growth at existing businesses including increasing the value-added of existing services and reducing costs; 2) increasing the amount of work done for Aeon Group companies by expanding services offered to existing Aeon Group stores and expanding into new business lines; 3) increasing the amount of work done for companies outside of the Aeon Group by building on its track record of providing sanitary cleaning services for hospitals and other medical facilities, and realizing synergies from its recent acquisition of Hakuseisha.

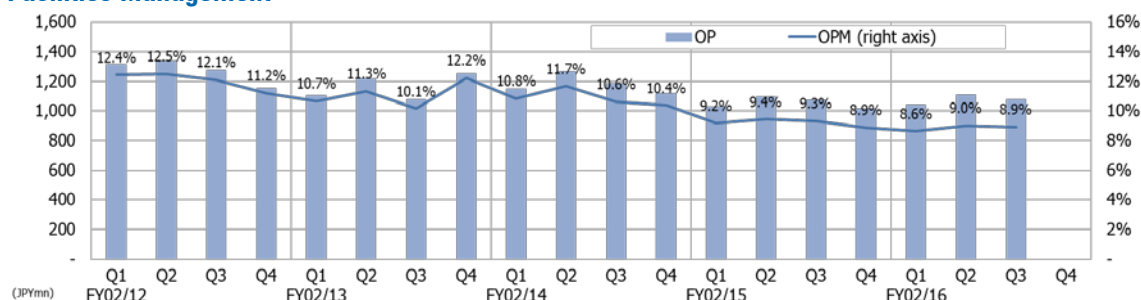
What to watch at individual business units

At the Facilities Management business, the company aims to strengthen its relationships with Aeon Group members and thereby increase its ability to win comprehensive contracts for facilities management services from group members that operate large facilities all over Japan. At Security Services, the company is looking to improve margins and continue working to differentiate itself from competitors with its on-site *Attender* services. At Cleaning Services, the company is looking to win new contracts for sanitary cleaning services and improve the profitability of existing contracts by rolling out its small work-team approach at its sanitary cleaning services business and realizing greater operating efficiencies. At Construction Work, the company is looking to continue growing with the help of renovation work at existing stores operated by Aeon Group companies and, to this end, is also hiring experienced personnel to facilitate growth in this area. In Materials and Supply Sourcing Services, the company is looking to lower its CoGS ratio by improving its purchasing processes and also extend into new business areas. And, at Support Services, the company is looking for continued growth at Kajitaku's copy machine business and housework services business.

Overseas business

Overseas, the company is looking for full-term contributions under contracts signed with the many new Aeon Mall and other stores opened in China around the end of this fiscal year and, in Malaysia, contributions from its new partnership with Malaysian Harvest as more and more Aeon Group stores switch cleaning contracts from competitors to this new company.

Facilities Management



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

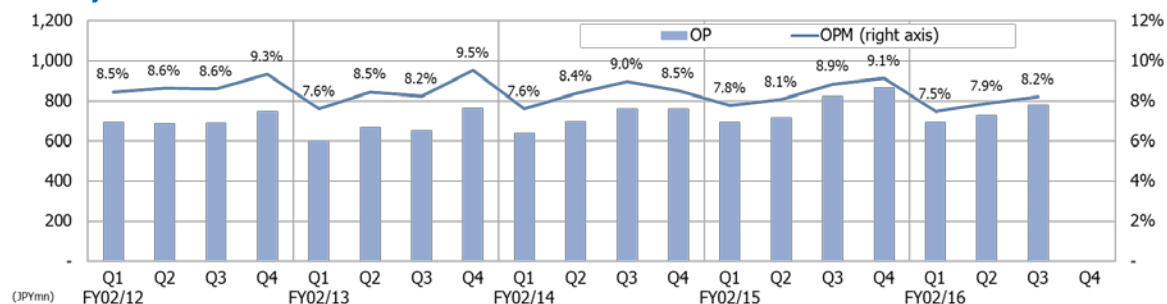
Source: Shared Research based on company data

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

Contract fluorocarbon management services adding value to existing FM services

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

Security Services

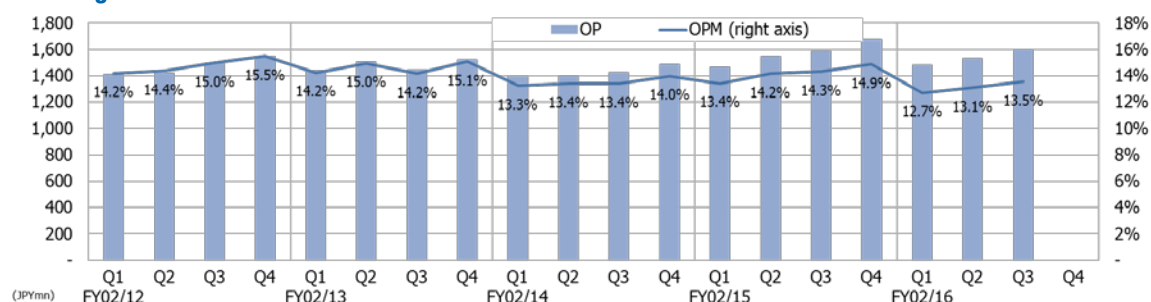


| Security Services (JPYmm) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|------------------------------|---------|-------|-------|-------|---------|-------|-------|-------|---------|-------|-------|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 8,438 | 8,367 | 8,481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

Source: Shared Research based on company data

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

Cleaning Services



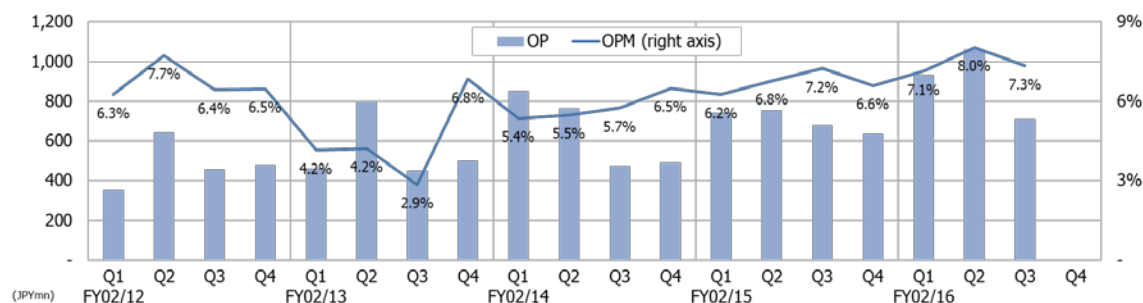
| Cleaning Services (JPYmm) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|------------------------------|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 10,539 |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

Source: Shared Research based on company data

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

segment's business foundations.

Construction Work



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

Source: Shared Research based on company data

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

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

Aeon Style: Sales before and after store renovation

| FY02/16 | Period of renovation | Sales growth rate | |
|---------|----------------------|------------------------|--|
| | | 1H (before renovation) | Q3 (after renovation) |
| | 1H | -3.1% | +1.2% |
| | Q3 | -3.2% | +7.6% (excl. stores renovated in November) |

Source: Shared Research based on company data

Aeon Retail may continue to open more large-scale stores

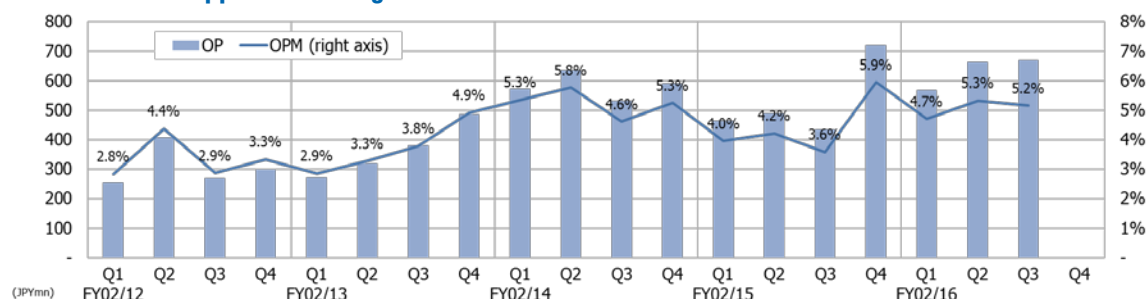
Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 there were a total of 28 stores that were part of large-scale renovation projects. There were already 19 such stores in 1H FY02/16 and the company targets a total of 54 stores in FY02/16. The company plans to have 70 to 80 stores undergoing large-scale renovations in FY02/17, and plans to press on with investment in renovation. Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

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

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

continue driving growth at its Construction Work business in the year ahead.

Materials and Supplies Sourcing

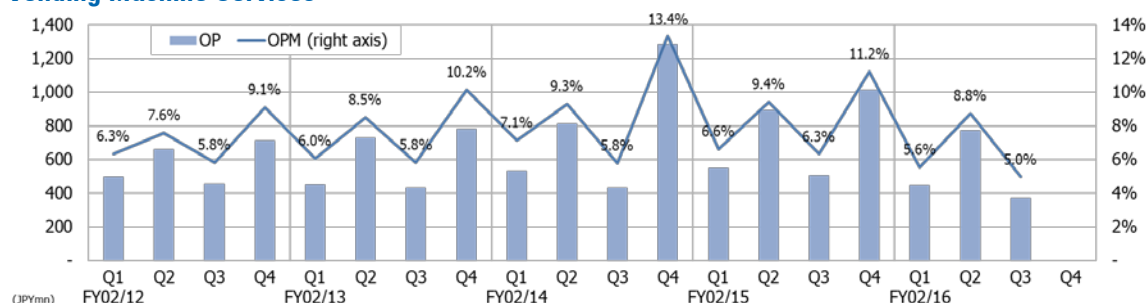


| Materials and Supplies Sourcing (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|---|---------|--------|--------|--------|---------|--------|--------|--------|---------|--------|--------|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 10,721 | 11,023 | 11,542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

Source: Shared Research based on company data

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

Vending Machine Services

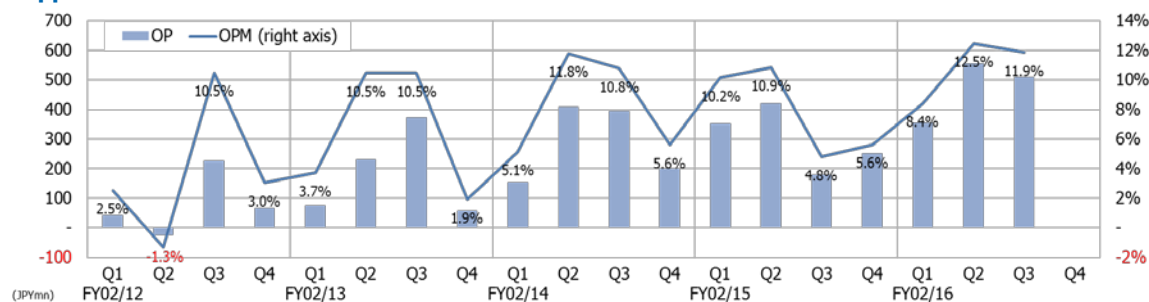


| Vending Machine Services (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|----------------------------------|---------|-------|-------|-------|---------|-------|-------|--------|---------|--------|--------|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 7,498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

Source: Shared Research based on company data

In March, the company established a special sales team to develop new customers and aggressively push vending machine location proposals at client facilities, a step that was deemed necessary to help counter the ongoing decline in vending machines sales across the industry. The company also installed value-added vending machines—such as those with digital displays—at major new commercial facilities, and developed private brand drinks specifically for vending machines. These private brand drinks are being developed for 2H. For vending machines with digital displays, the company developed a new business model, including offering video advertisements in addition to existing drinks.

Support Services



| Support Services (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|-----------------------------|---------|-------|-------|--------|---------|-------|--------|-------|---------|-------|--------|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 3,002 | 3,473 | 3,660 | 3,583 | 3,466 | 3,870 | 3,726 | 4,470 | 4,215 | 4,458 | 4,302 | - |
| YoY | 44.7% | 56.6% | 2.8% | 16.0% | 15.5% | 11.4% | 1.8% | 24.8% | 21.6% | 15.2% | 15.5% | - |
| Operating profit | 154 | 410 | 395 | 201 | 352 | 420 | 179 | 252 | 355 | 556 | 510 | - |
| YoY | 100.0% | 76.7% | 5.9% | 240.7% | 128.6% | 2.4% | -54.7% | 25.4% | 0.9% | 32.4% | 184.9% | - |
| OPM | 5.1% | 11.8% | 10.8% | 5.6% | 10.2% | 10.9% | 4.8% | 5.6% | 8.4% | 12.5% | 11.9% | - |

Source: Shared Research based on company data

Subsidiaries continued to make significant contributions to growth in profits. Sales of Kajitaku's Kaji Cloud housework services, including online store sales, continued to be favorable, with the result that Kaji Cloud sales rose over 1.4x YoY. Kajitaku made a significant contribution to the rise in both sales and earnings in the Support Services segment.

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

Kajitaku is planning on hooking up with a large company in order to open up a new channel for expanding its housework services business and this, together with continued strong growth at its copy machine business, is expected to drive growth at Kajitaku in FY02/17. Aeon Compass appears to be enjoying solid growth as well. Following the JPY470mn YoY increase in operating profit through the end of Q3, the company sees earnings at Kajitaku, Aeon Compass, and the Support Services business as a whole continuing to grow.

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

Full-year company forecasts

| FY02/16 Forecasts (JPYmn) | FY02/14 | | | FY02/15 | | | FY02/16 | | |
|------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 1H Act. | 2H Act. | FY Act. | 1H Act. | 2H Act. | FY Act. | 1H Act. | 2H Est. | FY Est. |
| Sales | 133,552 | 123,691 | 257,243 | 134,049 | 132,656 | 266,705 | 142,783 | 137,217 | 280,000 |
| YoY | 5.3% | 1.3% | 3.4% | 0.4% | 7.2% | 3.7% | 6.5% | 3.4% | 5.0% |
| CoGS | 116,570 | 106,958 | 223,528 | 116,771 | 114,817 | 231,588 | 124,185 | | |
| Gross Profit | 16,981 | 16,733 | 33,714 | 17,278 | 17,839 | 35,117 | 18,598 | | |
| YoY | 13.3% | 9.8% | 11.5% | 1.7% | 6.6% | 4.2% | 7.6% | | |
| GPM | 12.7% | 13.5% | 13.1% | 12.9% | 13.4% | 13.2% | 13.0% | | |
| SG&A | 9,406 | 9,193 | 18,599 | 9,575 | 9,681 | 19,256 | 10,476 | | |
| SG&A / Sales | 7.0% | 7.4% | 7.2% | 7.1% | 7.3% | 7.2% | 7.3% | | |
| Operating Profit | 7,575 | 7,540 | 15,115 | 7,702 | 8,159 | 15,861 | 8,121 | 8,879 | 17,000 |
| YoY | 6.5% | 11.1% | 8.7% | 1.7% | 8.2% | 4.9% | 5.4% | 8.8% | 7.2% |
| OPM | 5.7% | 6.1% | 5.9% | 5.7% | 6.2% | 5.9% | 5.7% | 6.5% | 6.1% |
| Recurring Profit | 7,571 | 7,521 | 15,092 | 7,725 | 8,218 | 15,943 | 8,139 | 8,861 | 17,000 |
| YoY | 6.3% | 11.1% | 8.6% | 2.0% | 9.3% | 5.6% | 5.4% | 7.8% | 6.6% |
| RPM | 5.7% | 6.1% | 5.9% | 5.8% | 6.2% | 6.0% | 5.7% | 6.5% | 6.1% |
| Net Income | 4,147 | 4,014 | 8,161 | 4,380 | 4,345 | 8,725 | 4,682 | 4,718 | 9,400 |
| YoY | 5.1% | 12.6% | 8.7% | 5.6% | 8.2% | 6.9% | 6.9% | 8.6% | 7.7% |

Source: Shared Research based on company data

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

Business environment

Aeon Delight regards the business environment of FY02/16 as promoting (1) concentration of the industry to a few major players due to adverse business conditions such as cost increase driven by inflation and the shortage of new hires; (2) tendency of large-scale facilities to consolidate and outsource all FM functions and the resulting increase in the number of outsourcing businesses consolidating FM services; (3) a stronger watchfulness about emergency response and security in reaction to the increased frequency of extreme weather and natural disasters; (4) desire to invest in store renovation in commercial facilities; and (5) competition revolving around facilities management in accordance with the international standard ISO41000 and imaginative renovation.

The company takes these trends as an opportunity for expansion and growth. It is poised to take larger shares in the domestic and Asian markets. Strategic priorities are winning more non-group clients; attaining competitive advantage; and expanding business in Asia.

Versus the medium-term management plan (through FY02/17)

JPY2bn operating profit increase for FY02/16 may pave the way for JPY21bn profit

FY02/16 is the second year of the medium-term management plan, which covers the period through FY02/17. The plan calls for sales and operating profit of at least JPY330bn and JPY21bn. For FY02/15, the company missed its goal of JPY270bn in sales and JPY16bn in operating profit.

The FY02/16 target calls for operating profit of JPY17bn. That means the company must try harder for the following fiscal year to achieve the medium-term goal. But the company may post a better operating profit than forecast for this fiscal year, depending on the progress of current measures being implemented. The company, which projects an operating profit increase of JPY1.1bn, may in fact post an increase of JPY2bn. If that is achieved, an increase of JPY3bn for the following year is also possible. Thus, operating profit of JPY21bn could be attained. Shared Research suspects, however, that the company also plans business acquisitions to achieve this target.

Measures to improve operating profit

The company is taking the following measures to increase operating profit by JPY2bn. The company will 1) expand businesses with clients outside the Aeon Group; 2) improve the profitability of each operation; 3) grow operations of subsidiaries; 4) expand transactions with Aeon Group companies. The goal is to increase gross profit by between JPY3bn and JPY4bn. After deducting JPY2bn in SG&A expenses, operating profit would rise by between JPY1bn and JPY2bn.

Measures to grow operating profit

| | YoY |
|---|----------------------|
| Total YoY growth of gross profit | JPY3bn-4bn |
| 1) Increase new customers outside group | JPY1bn-1.5bn |
| 2) Improve profit margins at each segment | JPY1bn-1.5bn |
| 3) Expand subsidiaries' businesses | JPY500mn |
| 4) Expand the Aeon group's market | JPY500mn |
| Amount from higher SG&A expenses | ▲JPY2bn |
| Operating profit YoY growth | JPY1bn-JPY2bn |

Source: Shared Research based on company data

Win more non-group clients

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

Facility-management contracts for large facilities nationwide

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

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

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

Gaining competitive edge

To gain a competitive edge

| Measures | Details |
|--|---|
| Labor force and partner companies | <ul style="list-style-type: none"> • Gain trust and brand recognition as one of Japan's major FM companies • Acquire a network of partner companies throughout Japan |
| Creation and innovation with added value | <ul style="list-style-type: none"> • Further improved competitive edge (e.g., improved ability to respond to natural disasters) • On-site improvements (e.g., standardized cleaning in FY02/15) • R&D for cleaning equipment and next-generation business models such as eco-friendly and remote-controlled monitoring management • Nationwide network, global management network including ASEAN countries and China |

Source: Shared Research based on company data

The company wants to become a comprehensive facility-management company, rather than focusing on cleaning operations alone. The company, which already serves major medical institutions, can appeal this track record to win more contracts. The company could also expect referrals from existing customers. It won a contract to manage 17 facilities for

JA Hokkaido during FY02/15. As of March 2014, JA-related organizations had 111 hospitals and 61 clinics. JA also operates nursing homes and elderly care facilities.

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

Hospital and clinics in Japan

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

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

Improving profitability at each segment

The company has always been seeking to improve the profitability of each segment. In particular, Shared Research is closely monitoring the following measures, which may have an effect as early as FY02/16.

The Facility Management segment offers new value to the existing clients without increasing fixed costs.

The Security Service segment has lowered the turnover rate among older employees.

The Cleaning Service segment has improved the efficiency of directly managed centers and partner companies with a standardized business model

The Vending Machine segment has deployed machines with enhanced features, such as those with a digital signage function. The company has also developed its own private brand drinks.

Adding more value to facility management services; CFC-related businesses planned

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

Aeon Delight also began CFC-related services at 444 stores, including those operated by Aeon Retail, in April 2015. There were 618 general merchandise stores operated by the Aeon Group as of the end of February 2015 (of which 77 were outside Japan). The group also had 2,030 supermarkets (101 outside Japan). Aeon Delight will provide CFC services at only 30% of the group's general merchandise stores during this fiscal year. Thus, there is room for expansion within the group. Shared Research will closely monitor the company's efforts to increase businesses with non-Aeon clients and enter into other fields.

Among other services, energy solutions operations may have growth potential. Aeon Delight wants to build an energy-saving package that comes with facility-management services. This package does not feature centralized

monitoring. Instead, the company will reduce costs by providing control services from dispersed locations. An experiment will be conducted at a supermarket in eastern Japan during 1H FY02/16.

Standardized model in the cleaning operations

The company adopted a standardized model for its cleaning services during FY02/15. The new system has achieved 60% or 70% of the efficiency target at directly operated centers. The company wants to raise the ratio to 80% in FY02/16 while encouraging partners companies to also adopt the system. In addition, the company will also study the use of robots in an effort to change the existing, labor-intensive business model.

Growth of subsidiary businesses

Shared Research is paying particular attention to Aeon Compass and Kajitaku in the support services segment. We estimate that Aeon Compass and Kajitaku generated more than two-third of the JPY1.1bn operating profit for this segment during FY02/15. Sales of Kajitaku's Kaji Cloud housework services increased 40% in FY02/15. For FY02/16, the company will continue to expand this service. At the same time, the company may start new services for residents of high-rise condominiums in the Tokyo area. The company said that it would provide services aimed at working women, without elaborating.

Expansion of businesses within the Aeon Group

Aeon Delight generated sales of JPY162.9bn in FY02/15 from businesses within the group, 61.1% of the company's overall sales. Aeon Delight wants to increase its businesses with other Aeon companies, while expanding sales to clients outside the group.

Stronger ties with group companies; brisk demand for renovation work

The company's facility-management segment began to strengthen businesses with other group companies, such as Aeon Mall Co., Ltd., during FY02/15. Aeon Delight will continue to increase its cooperation with other Aeon companies during this fiscal year. Aeon Group is undertaking major renovation projects nationwide to increase sales at aging stores. Shared Research estimates that Aeon Delight generated sales of JPY4.5bn from businesses related to store renovation during FY02/15. Aeon Group has announced that it would increase investments for store renovation projects by 20% for FY02/16. We will observe whether Aeon Delight will be able to win orders related to store renovation.

Overseas expansion

Business environment

China

The ongoing changes in the Chinese real estate market have brought about a decline in demand for condominiums in large cities, with a shift in focus from expansion to quality. In commercial facilities, energy saving has become a priority. Aeon Delight is looking to expand its business around companies that have joined the group through acquisitions, and is seeking additional partners in energy saving.

ASEAN

The development of FM services differs by country. FM services have spread in Singapore and Malaysia. US and European companies have made inroads into the ASEAN markets, but there is no single dominant company. Aeon Delight is intent on building a firm business foundation as a major player in the industry, while the power balance is still in flux.

Expansion in Asia

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

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

China

The company will give local subsidiaries more management autonomy, expand business fields, and carry out reorganization, as well as form partnerships with major local companies to develop an energy saving package (consisting of LED, heat source, air conditioning). The company will enter Phase 2 of its China operations by entering into new business fields, in addition to pursuing geographical expansion.

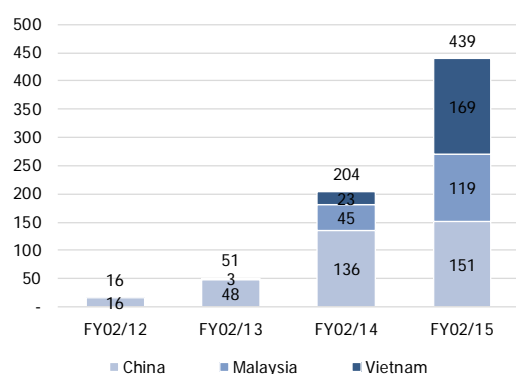
Malaysia

The company will win more clients for its cleaning and ESCO businesses by urging Aeon Group companies in the country to switch services and by adding non-Aeon clients. The company expects a sales decline for FY02/16 from a year earlier, when the company received many orders related to LED installation.

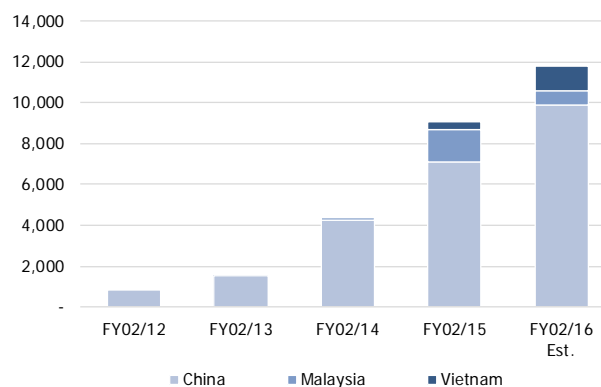
Vietnam

The company will create a new facility in Hanoi. Corporate acquisitions are also in view to quickly expand operations in a growing market.

Overseas orders



Overseas sales (JPYmn)



Source: Shared Research based on company data

AEON Mall overseas business

| | | Name | Location | Lot area | Total floor space |
|------|-------|--|----------------------|------------------------------|------------------------------|
| 2015 | China | AEON MALL Suzhou Yuenqu Hudong | Suzhou, Jiangsu | 99,300m ² | 218,000m ² |
| | | AEON MALL Beijing Fengtai | Fengtai, Beijing | 63,800m ² | approx.153,300m ² |
| | | AEON MALL Guangzhou Hanyu Guangchang | Guangzhou, Guangdong | 51,400m ² | approx.172,900m ² |
| | | AEON MALL Suzhou Xinqu | Suzhou, Jiangsu | approx.153,000m ² | approx.162,000m ² |
| | | AEON MALL Hanzhou Liangzhu Xincheng | Hanzhou, Zhejiang | approx.94,800m ² | approx.176,000m ² |
| | | AEON MALL Wuhan Jingkai | Wuhan, Hubei | approx.129,900m ² | approx.274,600m ² |
| | ASEAN | AEON MALL Long Bien | Hanoi, Vietnam | approx.96,000m ² | approx.110,000m ² |
| | | AEON MALL Binh Tan | Ho Chi Minh, Vietnam | approx.46,800m ² | approx.114,000m ² |
| 2016 | China | AEON MALL Hebei Yangjiso (tentative) | Sanhe, Hebei | approx.84,000m ² | approx.175,000m ² |
| | | AEON MALL Wuhan Shiqiao (tentative) | Wuhan, Hubei | approx.46,200m ² | approx.120,900m ² |
| | | AEON MALL Guangzhou Jinshasu (tentative) | Guangzhou, Guangdong | approx.84,500m ² | approx.187,700m ² |
| | | Other 2 more malls | | | |
| | ASEAN | | | | |

Source: Shared Research based on company data

Outlook

In April 2014, Aeon Delight announced a new medium term plan, with FY02/17 as the final year. Targets for FY02/17 include sales of JPY330.0bn or more, operating profit of JPY21.0bn or more, and an operating profit margin of 6.4% or greater. The company aims to reduce its reliance on the Aeon Group and expand its overseas reach, setting sales composition targets of 35% and 10% for the two respective categories. In light of recent employment trends, personnel expenses are expected to rise 2% per year.

The framework for the medium term plan involves:

Establishing comprehensive FMS (Creating competitive advantages);

Creating inroads into the Asian market;

Establishing a foundation for business.

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

The company may revise its medium-term management plan

The company may revise its FY02/16 medium-term management plan because of concerns that it will miss its FY02/15 operating profit target. If revised, the new plan may have targets that can easily be achieved in preparation for the next medium-term plan that will likely call for more challenging goals.

(For details regarding expected FY02/16 earnings for each segment based on Q3 FY02/15 results, see the section on Q3 FY02/15 Results.)

The comments that follow were written using the company's view of its initial medium-term plan as of the beginning of FY02/15; see this fiscal year's outlook for views as of the beginning of JPY02/16.

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

M&A not included

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

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

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

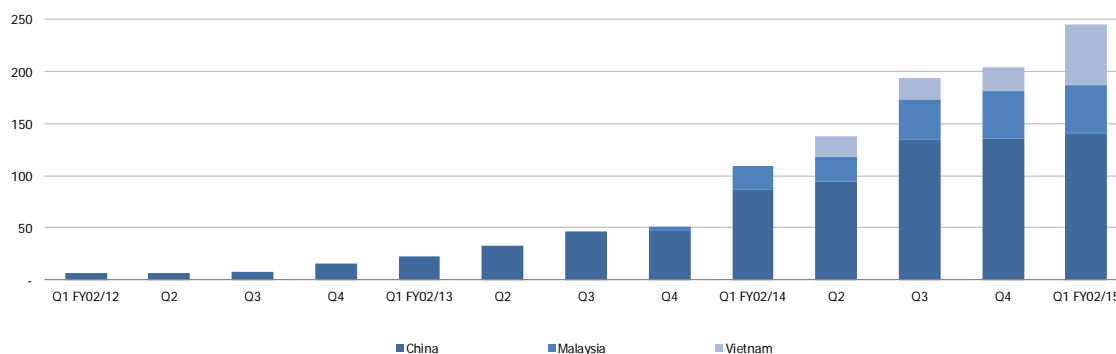
Sales toward domestic Aeon Group companies

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

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

Number of overseas facilities contracts acquired

Number of projects overseas



Source: Shared Research based on company data

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

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

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

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

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

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

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

Expansion in China will revolve around the company differentiating itself via strengths in areas such as the ESCO business

and elevator business. China is the world's largest market for elevators, and the company is prepped to make inroads thanks to its acquisition of one of the largest elevator manufacturers in Jiangsu.

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

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

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

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

Establishing comprehensive FMS (Creating competitive advantages)

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

Strengthening the cleaning services business

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

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

Expanding into new areas: taking on major nationwide hospital groups

Through the organizational restructuring described below in FY02/15, the company has created a framework to tackle

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

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

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

Improving gross profit margin by establishing a standardized cleaning model

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

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

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

Strengthening the energy solutions business

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

ESCO business

The ESCO business will be increasingly integrated into the combined facilities management ESCO business. Although competition is fierce, the company has strengths in its energy conservation technologies in building maintenance. Without merely stopping with installation of control equipment, the company stated that energy savings of 10-15% are

possible through addition of its unique facilities management expertise. Aeon Delight aims to expand its business by leveraging strengths such as those above.

Energy management for the Aeon Group

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

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

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

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

Building an organizational base

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

Active business development and organizational restructuring with solutions-based sales in mind;

HR development with an emphasis on service quality;

IT investment to realize corporate growth and a small headquarters.

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

Business

Business description

Aeon Delight provides maintenance services for retail facilities and office buildings. The company, formerly known as Japan Maintenance (a subsidiary of MyCal Corp.), was established mainly to undertake maintenance at Mycal stores in November 1972. Mycal filed for bankruptcy in September 2001 (delisted on September 17, 2001), and became a subsidiary of Aeon in 2003. Japan Maintenance merged with Aeon Techno Service and the name was changed to Aeon Delight in September 2006. As of FY02/13, the company derives 65% of sales and 70% of operating profit from Aeon Retail Co., Ltd. and other Aeon group companies.

Aeon Delight handles between 80% and 90% of the facilities management work required by Aeon Retail, and about 65% of such work required by Aeon Mall Co., Ltd. (TSE1: 8905). Facilities management work at Aeon Mall was previously done by a subsidiary of Diamond City, a Mitsubishi Corp. (TSE1: 8058) affiliate absorbed by Aeon Mall in 2007. Aeon Delight also handles between 60% and 70% of the facilities management work at MaxValu retail stores owned the Aeon.

Aeon Delight is a subsidiary of Aeon, a comprehensive retail operator. Aeon was established in 1926 and moved to a holding company format in order to generate group synergies in August 2009. The Aeon group consists of “Aeon” flagship general merchandise stores (Aeon Retail), “MaxValu” supermarkets, “Aeon” shopping centers and malls (Aeon Mall). The company is not only looking to develop its own shopping centers, but also to build its business in facilities management, which will contract management of retail facilities developed by other companies. Aeon has been expanded into Hong Kong, Thailand, and Malaysia, and will also expand more broadly in ASEAN countries including Taiwan, Indonesia, China, Vietnam and Cambodia.

M&A activities

Aeon Delight has pursued growth through acquisitions. In May 2007, the company established a business alliance with A to Z Service Co., Ltd., maintenance service provider for small commercial facilities, and raised its stake in the company to 54.8% from 20.4% in May 2011. A to Z Service specializes in maintenance services to convenience stores and fast food restaurants. Clients include McDonalds Japan (JASDAQ: 2702), Komeri (TSE1: 8218), and Seiyu. A to Z Service contributes roughly 5 billion yen in sales, but operating profit margin is low at around 3%.

The company took a 90% stake in Kajitaku Co., Ltd., a provider of cleaning, laundry and other household services in April 2011. Kajitaku adds about 500 million yen to 600 million to Aeon Delight’s top line, and strengthened its expansion into the household segment. It acquired a 40% stake in Kankyouseibi Co., Ltd., operator of maintenance services for large-scale buildings in October 2008, and a 40% stake in Do Service Co., Ltd., a building maintenance services operator in western Japan in April 2009.

It also acquired Certo Corp., a provider of office supplies and operator of soft drink beverage vending machines in September 2010, and its subsidiary in Beijing, renamed the entity Aeon Delight (Beijing) Commerce Co., Ltd. in September 2010.

In April 2011, the company acquired 90% of Kajitaku Co., Ltd., a provider of house cleaning and condominium concierge services. In October 2012, it acquired a 55% stake in a domestic travel services company and renamed it Aeon Compass

Co., Ltd. The company also bought 51% of General Services Inc., a business-process outsourcing company.

M&A activities by Aeon Holding

On March 4, 2013, Aeon acquired Peacock Store Ltd., a supermarket operator, from J Front Retailing Co., Ltd. (TSE1: 3086). There were 82 Peacock stores as of March 2013, providing a potential business opportunity for Aeon Delight. In April 2013, the company said that it would raise its stake in Daiei to over 40% from 20%. Aeon Delight had 9 billion in sales to Daiei in FY02/13, and may expand to 13 billion or more after it is integrated into the Aeon group.

In March 2013, Aeon announced it would raise its stake in Daiei to more than 40% from 20% by April 2013, and would assume a majority of Daiei's board seats. Shouhei Murai, who led Aeon's supermarket operations, will become Daiei's president effective May 2013. Mr. Murai became president of Aeon Retail in 2008 and boosted the company's profitability.

Business overview

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

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

Source: Shared Research based on company data

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

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

Facilities management

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

| FY02/15 | | | |
|---------|--------|--------|--------|
| Q1 | Q2 | Q3 | Q4 |
| 11,228 | 11,642 | 11,532 | 11,437 |
| 5.7% | 7.3% | 3.0% | 6.0% |
| 1,029 | 1,098 | 1,074 | 1,016 |
| -10.6% | -13.3% | -9.6% | -9.3% |
| 9.2% | 9.4% | 9.3% | 8.9% |

Source: Shared Research based on company data

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

Security services

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

| FY02/15 | | | |
|---------|-------|-------|-------|
| Q1 | Q2 | Q3 | Q4 |
| 8,935 | 8,891 | 9,305 | 9,491 |
| 5.9% | 6.3% | 9.7% | 6.0% |
| 695 | 717 | 824 | 866 |
| 8.3% | 2.4% | 8.3% | 13.6% |
| 7.8% | 8.1% | 8.9% | 9.1% |

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 (JPYmm) | | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 | FY02/15 | | | |
|---------------------------|-----|---------|---------|---------|---------|---------|---------|--------|--------|--------|
| | | Act. | Act. | Act. | Act. | Act. | Q1 | Q2 | Q3 | Q4 |
| Sales | | 41,142 | 39,852 | 40,519 | 42,320 | 44,287 | 10,942 | 10,960 | 11,129 | 11,256 |
| | YoY | -8.7% | -3.1% | 1.7% | 4.4% | 4.6% | 3.8% | 4.5% | 4.6% | 5.7% |
| Operating profit | | 5,937 | 5,882 | 5,918 | 5,716 | 6,289 | 1,469 | 1,552 | 1,592 | 1,676 |
| | YoY | 2.7% | -0.9% | 0.6% | -3.4% | 10.0% | 5.2% | 10.5% | 11.7% | 12.5% |
| | OPM | 14.4% | 14.8% | 14.6% | 13.5% | 14.2% | 13.4% | 14.2% | 14.3% | 14.9% |

Source: Shared Research based on company data

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

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

Construction work

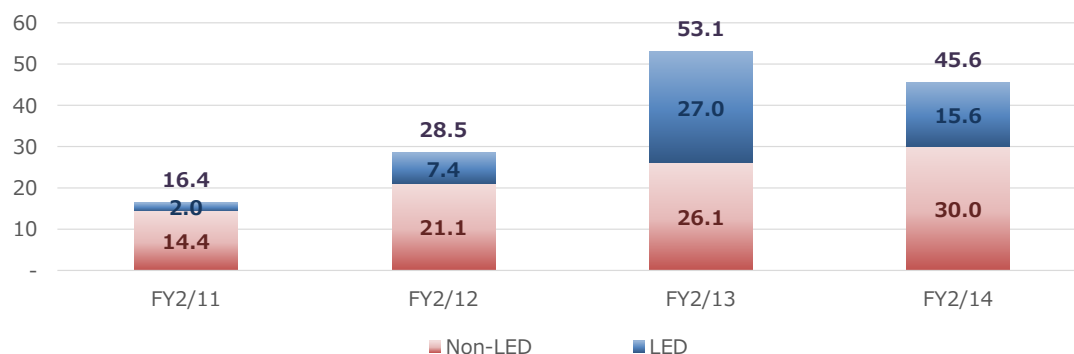
| Construction Work (JPYmm) | | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 | FY02/15 | | | |
|---------------------------|-----|---------|---------|---------|---------|---------|---------|--------|-------|-------|
| | | Act. | Act. | Act. | Act. | Act. | Q1 | Q2 | Q3 | Q4 |
| Sales | | 16,420 | 28,513 | 53,071 | 45,630 | 41,972 | 11,858 | 11,133 | 9,366 | 9,615 |
| | YoY | 18.2% | 73.6% | 86.1% | -14.0% | -8.0% | -25.4% | -20.1% | 13.5% | 27.2% |
| Operating profit | | 1,214 | 1,936 | 2,209 | 2,580 | 2,807 | 741 | 754 | 678 | 634 |
| | YoY | -8.1% | 59.5% | 14.1% | 16.8% | 8.8% | -12.9% | -1.3% | 43.0% | 29.1% |
| | OPM | 7.4% | 6.8% | 4.2% | 5.7% | 6.7% | 6.2% | 6.8% | 7.2% | 6.6% |

Source: Shared Research based on company data

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

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

LED-related sales (JPYbn)



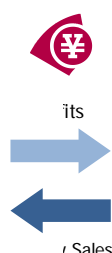
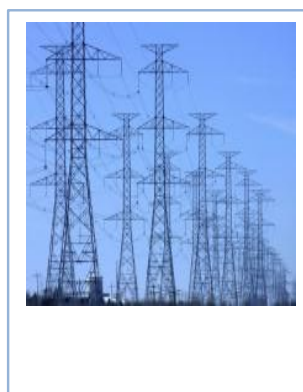
Source: Shared Research based on company data

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

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



Electric Utility Companies



AEON Group



Source: Shared Research based on company data

Materials and supplies sourcing services

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

| FY02/15 | Q1 | Q2 | Q3 | Q4 |
|---------|--------|--------|--------|--------|
| | | | | |
| | 11,713 | 11,609 | 12,175 | 12,121 |
| | 9.3% | 5.3% | 5.5% | 7.7% |
| | 464 | 490 | 436 | 721 |
| | -19.0% | -23.0% | -18.2% | 22.0% |
| | 4.0% | 4.2% | 3.6% | 5.9% |

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

| FY02/15 | Q1 | Q2 | Q3 | Q4 |
|---------|-------|-------|-------|--------|
| | | | | |
| | 8,330 | 9,471 | 8,003 | 9,021 |
| | 11.1% | 8.7% | 7.0% | -6.4% |
| | 551 | 894 | 506 | 1,014 |
| | 3.0% | 10.1% | 16.9% | -21.3% |
| | 6.6% | 9.4% | 6.3% | 11.2% |

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, and its gross profit margin is around 11% (as of FY02/14). About 70% of segment sales come from supermarkets belonging to the Aeon group. The remainder of sales came from shopping malls operated by Aeon group and non-Aeon companies. Aeon Delight acquired Certo Corp. (delisted from JASDAQ after being acquired) in September 2010, a vending machine operator 66.4% owned by Aeon.

Support services

| Support Services (JPYmm) | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|--------------------------|---------|---------|---------|---------|---------|
| | Act. | Act. | Act. | Act. | Act. |
| Sales | 5,271 | 7,980 | 10,823 | 13,551 | 15,522 |
| YoY | -2.6% | 51.4% | 35.6% | 25.2% | 14.5% |
| Operating profit | 375 | 156 | 504 | 829 | 1,108 |
| YoY | - | -58.4% | 223.1% | 64.5% | 33.7% |
| OPM | 7.1% | 2.0% | 4.7% | 6.1% | 7.1% |

| FY02/15 | Q1 | Q2 | Q3 | Q4 |
|---------|--------|-------|--------|--------|
| | | | | |
| | 3,460 | 3,859 | 3,735 | 4,468 |
| | 16.7% | 12.4% | 3.6% | 25.9% |
| | 308 | 369 | 179 | 252 |
| | 300.0% | 14.2% | -42.6% | 115.4% |
| | 8.9% | 9.6% | 4.8% | 5.6% |

Source: Shared Research based on company data

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

Kajitaku Co., Ltd., a housework services provider, implemented a comprehensive FMS model for BtoBtoC, and its sales for FY02/14 were JPY4.7bn, demonstrating almost 20% YoY growth. Sales for “Kaji Cloud,” a housework services package, are contributing to strong growth. A to Z Service Co., Ltd., a maintenance service provider for small commercial facilities, was acquired in 2011. A to Z Service operates a 24 hour, 365 days a year call center to provide comprehensive support services for retail chains in small-scale shopping centers.

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

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

Overseas business

As of FY02/14, overseas business accounted for about 2% of sales, but Aeon Delight is looking to expand into China and Asia in the medium term. In China, expansion is looked at on a per-province basis, and the company is able to expand rapidly through cooperation with the largest regional firms. As of FY02/14, the company has expanded into Beijing, Tianjin, Jiangsu, Hubei, and Guangdong, and preparations are underway to expand into Shandong. Aeon Delight aims to have overseas sales account for 10% of its overall sales by FY02/17. In China, the company plans to further its relationships with local firms and differentiate itself via its ESCO and elevator businesses. For the ASEAN region, the company will establish a comprehensive list of FMS services.

Overseas companies

Aeon Delight (China) Co., Ltd. (facilities management services, 100% owned by Aeon Delight)

Utilizes accumulated expertise from Japan to provide Japanese-quality service that is made in China, yielding unique Chinese comprehensive FMS.

Aeon Delight (Hangzhou) Service Outsourcing Co., Ltd. (outsourcing services, 70.0% owned)

Utilizes IT to provide outsourced BPO solutions for personnel management, administrative tasks, and accounting.

Aeon Delight Sufang (Suzhou) Comprehensive Facility Management Service Co., Ltd. (maintenance services, 51.0% owned)

After acquisition of a First Class Manufacturing Management License in Suzhou, provides cleaning, road maintenance, parking maintenance, and warehousing services. Acquired an elevator business via M&A in September 2013.

Wuhan Xiaozhu Comprehensive Facility Management Service Co.,Ltd. (management services, 51.0% owned)

Largest provider of manufacturing management in Wuhan. After acquiring a First Class Manufacturing Management License in Wuhan, also provides meeting room, cafeteria, and building maintenance services, in addition to comprehensive building management services.

Aeon Delight (Vietnam) Co., Ltd. (facilities management, 100% owned)

Provides Japanese services after becoming the first Japanese firm to acquire multiple licenses. Provides comprehensive FMS in Vietnam.

Aeon Delight (Malaysia) Sdn. Bhd. (facilities management, 100% owned)

Provides comprehensive FMS primarily in Malaysia, but also in the greater ASEAN region. Also provider of facilities and back office service functions.

Business model

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

There are three type of property management, residential, commercial, and office buildings. Most of these competitors were mainly involved in residential management of condominiums. Few other large companies were focused on commercial facilities and building management due the high costs involved.

The company was able to gain expertise in commercial property management through servicing large-scale retail facilities such as shopping malls and supermarkets. The property maintenance industry includes over 5,000 companies, most of which are small- and medium-sized businesses.

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

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

In response to these changing requirements of its customers, Aeon Delight intends to leverage its accumulated expertise in areas such as building and equipment diagnostics to expand its operations from building maintenance into building and project management. The company has an in-house developed system for building and equipment. It uses the system for tasks including the diagnosis of deterioration in a building's fabric and analysis of its energy consumption performance. Based on the results, Aeon Delight can carry out any necessary repairs and improvements. It already has developed expertise in using the latest equipment and technology, such as infrared imaging, fiber optics, X-rays, and ultrasound. Management now intends to further develop the company's analysis capabilities in this area.

Profitability snapshot, financial ratios

| Profit Margins (JPYmn) | FY02/08 | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|----------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Gross Profit | 18,827 | 20,955 | 21,118 | 23,989 | 28,631 | 30,227 | 33,714 | 35,117 |
| Gross Profit Margin | 13.7% | 14.4% | 15.1% | 14.0% | 13.0% | 12.1% | 13.1% | 13.2% |
| Operating Profit | 8,330 | 9,946 | 9,970 | 12,031 | 13,762 | 13,901 | 15,115 | 15,861 |
| OP Margin | 6.1% | 6.8% | 7.1% | 7.0% | 6.3% | 5.6% | 5.9% | 5.9% |
| EBITDA | 9,711 | 11,441 | 11,563 | 13,818 | 16,107 | 16,138 | 17,547 | 18,327 |
| EBITDA Margin | 7.1% | 7.9% | 8.2% | 8.1% | 7.3% | 6.5% | 6.8% | 6.9% |
| Net Profit Margin | 3.2% | 3.3% | 3.9% | 3.8% | 3.1% | 3.0% | 3.2% | 3.3% |
| Financial Ratios | | | | | | | | |
| ROA | 17.3% | 20.3% | 20.3% | 18.1% | 15.5% | 14.4% | 14.2% | 13.4% |
| ROE | 21.0% | 19.9% | 18.9% | 15.5% | 12.5% | 12.5% | 12.3% | 12.0% |
| Total Asset Turnover | 2.9 | 3.0 | 2.9 | 2.6 | 2.5 | 2.6 | 2.4 | 2.2 |
| Working Capital | 7,394 | 7,502 | 7,330 | 7,298 | 9,047 | 22,366 | 13,223 | 12,534 |
| Current Ratio | 127.7% | 149.8% | 184.4% | 210.0% | 215.5% | 226.9% | 229.9% | 224.0% |
| Quick Ratio | 127.6% | 135.8% | 166.6% | 195.4% | 201.0% | 207.6% | 208.9% | 207.5% |
| OCF / Current Liabilities | 29.4% | 31.3% | 38.6% | 29.0% | 30.0% | -12.7% | 57.5% | 40.1% |
| Net Debt / Equity | 40.7% | 27.6% | 34.6% | 60.4% | 63.5% | 43.4% | 63.1% | 73.4% |
| OCF / Total Liabilities | 26.0% | 31.8% | 40.6% | 21.5% | 27.8% | -12.1% | 52.3% | 35.5% |
| Cash Cycle (days) | 14.0 | 14.3 | 14.8 | 10.4 | 8.2 | 18.5 | 20.3 | 12.3 |
| Changes in Working Capital | 968 | 108 | -172 | -32 | 1,749 | 13,319 | -9,143 | -689 |

Source: Shared Research based on company data

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

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

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

Source: Shared Research based on company data

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

The main driver of SG&A expenses is labor, which accounted for 40% as of FY02/13. The company outsources most of its facilities management work, such as security and cleaning jobs. Outsourcing expenses accounted for 58.5% of total cost of sales as of FY02/13. Its cost of sales increased 29% YoY in FY02/11, as a result of its acquisition of Certo Corp., a provider of office supplies and operator of soft drink vending machines in September 2010.

Strengths and weaknesses

Strengths

Strong ties with the Aeon Group: Aeon Delight is a subsidiary of Aeon Co., Ltd., and almost 70% of sales are generated 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 comprehensive 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 comprehensive all-in-one building maintenance services such as facilities management, security, cleaning, and renovations. Its competitors can only provide one to two of these services (i.e., security or cleaning). Owners of large-scale commercial facilities and buildings 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 comprehensive service is a competitive advantage over its competitors.

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

Weaknesses

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

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

Mature property management market: The property management market is relatively mature. However, small-scale retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small-scale retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large-scale facilities, mainly supporting the Aeon group retail stores such as shopping centers and supermarkets. As smaller commercial facilities emerge in large urban areas, the question remains whether the company can successfully adapt its facilities maintenance know-how to this segment of the market. The company may need to look at this segment for growth.

Market and value chain

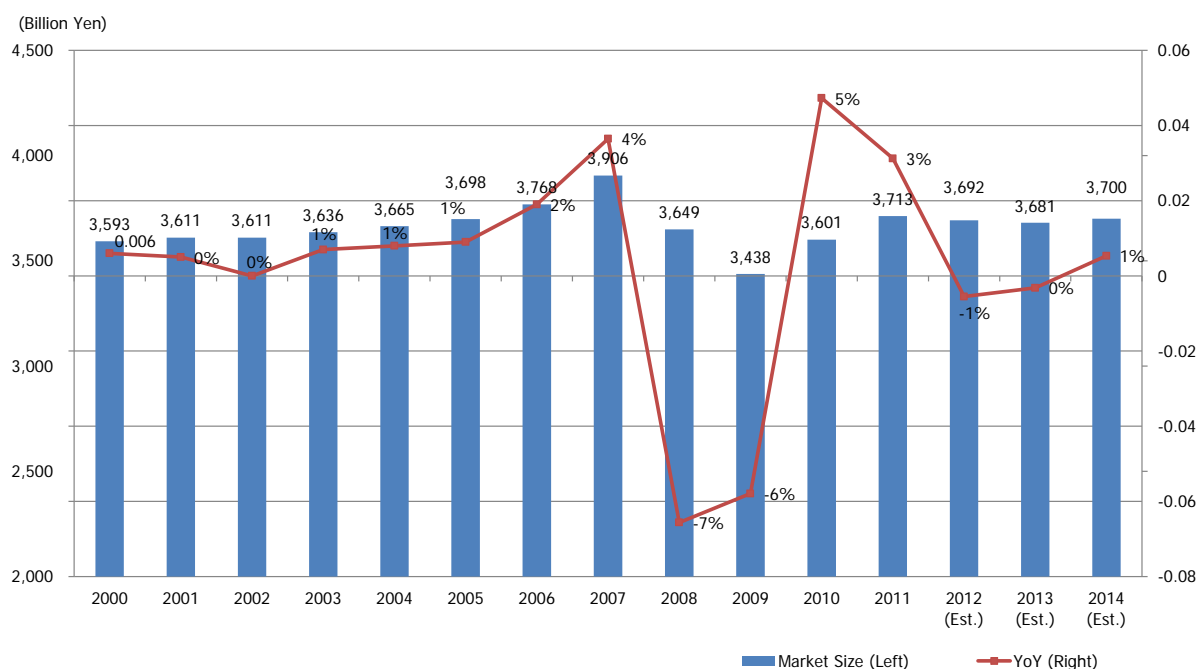
Market overview

Building maintenance market valued at JPY3.3tn

Japan's building maintenance market was worth 3.7 trillion yen in FY03/12 (April 1, 2011 to March 31, 2011), up 3.1 YoY, according to Yano Research Institute Ltd. This included facilities maintenance, cleaning, and security services, as well as repairs and renovation work. The market grew steadily until the second half of the 1990s, supported by the expansion in office buildings. However, the financial crisis caused the real estate market and, consequently, property management services to contract in 2009 and 2010. The market fell to 3.4 trillion in FY03/10. The market slightly expanded for the next two years, and has stabilized at 3.6 billion yen to 3.7 billion yen.

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 960 billion yen in FY02/12. Retail stores accounted for 17% of its cleaning business sales, while hotels made up a mere 2%.

Building Maintenance Market



Source: Yano Research Institute Ltd., Shared Research data

Instead of agreeing to individual contracts for facilities management, security services, and cleaning activities, customers now prefer comprehensive agreements covering all their requirements. In order to drive up the profitability of their facilities, customers have been seeking further progress in minimization of the maintenance and equipment replacement costs over the entire lifespan of such facilities. Property maintenance providers are given more freedom to offer an effective program for facility management, security, and sanitation, based on its accumulated expertise.

LED

The domestic market for LED lamps was 202.0 billion yen in FY03/12, and 370.0 billion yen in FY03/13, according to Yano Research Institute. By 2020, the market has the potential to expand to 450 billion yen. Aeon Delight had sales of about 26

billion yen, for a market share of slightly less than 7% in FY02/13.

Recirculating, water-saving, plastic urinal

According to Aeon Delight, there are 4 million urinals in Japan, most of which are ceramic (as of April 2013). The potential market for its water-saving urinals is 500 billion yen (4 million units x 120,000 yen).

Analysis of potential market

Floor space is a direct measure of potential market size for the company's facilities maintenance services. According to the Ministry of Land, Infrastructure, Transport, and Tourism, total floor space of Japan's hospitals and medical facilities was around 13.4 million sq.m. in March 2010. If sales per sq.m. and workers' hourly pay were the same across the board (in reality, cleaning hospitals is more expensive), SR Inc. estimates that potential demand from hospitals and other medical facilities is 50 billion yen (355,000 yen/sq.m. x 13.4 million sq.m.).

The ministry data also show that total floor space of non-residential buildings owned by corporations was about 1.7 billion sq.m. 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 6.2 trillion yen (355,000 yen/sq.m. x 1.7 billion sq.m.).

Furthermore, the Aeon group's store openings and acquisition strategy affect Aeon Delight's business performance. Aeon Delight generated 14.1 billion yen in sales from cleaning services to Aeon Retail in FY02/12. Total floor space of Aeon Retail was 3.97 million sq.m., which translates to 355,000 yen in annual sales per sq.m. for Aeon Delight.

AEON Group stores by format (domestic and overseas)

| | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| GMS | 603 | 601 | 590 | 590 | 598 | 617 | 618 |
| Supermarket | 1,231 | 1,267 | 1,307 | 1,537 | 1,708 | 1,977 | 2,030 |
| Discount Store | 41 | 52 | 72 | 105 | 152 | 353 | 381 |
| DIY Store | 127 | 125 | 127 | 122 | 123 | 122 | 121 |
| Supercenter | 31 | 33 | 32 | 29 | 26 | 26 | 29 |
| Department Store | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Convenience Store | 3,270 | 3,514 | 3,811 | 4,121 | 4,462 | 4,581 | 4,683 |
| Specialty Store | 4,746 | 4,475 | 3,305 | 3,424 | 3,664 | 3,853 | 3,932 |
| Other Retail Format | 87 | 180 | 268 | 418 | 562 | 756 | 889 |
| Financial Service | 395 | 386 | 401 | 460 | 527 | 641 | 698 |
| Services | 1,621 | 1,549 | 1,410 | 1,383 | 1,394 | 1,519 | 1,640 |
| Total | 12,153 | 12,183 | 11,324 | 12,190 | 13,217 | 14,440 | 15,022 |
| AEON MALL | 51 | 53 | 56 | 59 | 62 | 137 | 148 |
| AEON TOWN | 42 | 44 | 45 | 107 | 115 | 122 | 130 |
| Total | 93 | 97 | 101 | 166 | 177 | 259 | 278 |

Source: Shared Research based on company data

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

| | FY02/09 | FY02/10 | FY02/11 | FY02/12 | 1900年1月 | FY02/14 | FY02/15 |
|---------------------|---------|---------|---------|---------|---------|---------|---------|
| GMS | 42 | 46 | 52 | 54 | 61 | 69 | 77 |
| Supermarket | 18 | 19 | 25 | 44 | 81 | 95 | 101 |
| Discount Store | - | - | - | - | 22 | 23 | 24 |
| Convenience Store | - | - | - | 2,033 | 2,294 | 2,370 | 2,532 |
| Specialty Store | - | - | - | 37 | 55 | 61 | 42 |
| Other Retail Format | 18 | 21 | 24 | 27 | 29 | 29 | 30 |
| Financial Service | - | - | - | 236 | 279 | 302 | 339 |
| Services | - | - | - | 25 | 41 | 95 | 180 |
| Total | 78 | 86 | 101 | 2,456 | 2,862 | 3,044 | 3,325 |

Source: Shared Research based on company data

Customers

Aeon Delight generates almost 70% of its sales from the Aeon group 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. The company's largest customer is Aeon Retail, which accounted for 33.7% of its facilities management services segment sales in FY02/14. Its share of Aeon Mall's business is about 60%, and its share of MaxValu's business is 60% to 70% as of FY02/13. Outside Japan, Aeon Delight seeks to reduce its reliance on the Aeon group to about 40%. Construction work accounted for the largest portion of segment sales at 49.9% (as of FY02/13).

Facilities Management Services

| | AEON RETAIL | Segment Sales | % of Segment Sales |
|-----------------------------|-------------|---------------|--------------------|
| Facilities Management | 12,642 | 42,050 | 30% |
| Security Services | 15,129 | 31,805 | 48% |
| Cleaning Services | 13,727 | 40,519 | 34% |
| Construction Work | 26,484 | 53,071 | 50% |
| Materials/Supplies Sourcing | 11,956 | 39,284 | 30% |
| Vending Machine Services | 5,609 | 31,200 | 18% |
| Support Services | 3,720 | 10,823 | 34% |
| Total | 89,270 | 248,756 | 36% |

Source: Shared Research based on company data

Competition

Aeon Delight's competitors include Secom Co., Ltd. (TSE1: 9735) and Alsok (TSE1: 2331) in security services. It competes with Azbil Corp. (TSE1: 6845), Nippon Kanzei Co. Ltd. (TSE1: 9728), and Tokyu Community Corp. (TSE1: 4711) and over 5,000 small local operators 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. In the energy-saving business, major rivals are NTT Facilities, Inc. (consolidated subsidiary of NTT (TSE1: 9432)) and Hitachi Ltd. (TSE1: 6501).

Barriers to entry

Property management for residential and small office buildings has relatively low barriers to entry. However, the barriers are high for large-scale facilities given the comprehensive services required. Smaller residential or office building owners are less concerned about having total package of services and usually focus on cleaning or security. However, large-scale facilities require comprehensive services such as maintenance, cleaning, and security, all-in-one. Instead of hiring a contractor for each service, large-scale building owners prefer to contract out these services to one company that is able to provide all of these services in package. Consequently, this enables Aeon Delight to enjoy a relatively high barrier of

entry in its market niche, namely servicing large-scale retail stores and office buildings, due to its expertise in providing an all-in-one package of services. The company knows the market, and has a foothold with the Aeon group. It is able to enjoy economies of scale, and offers comprehensive services (maintenance, cleaning, security, and repairs and renovations), while its competitors are specialized in one or two areas (i.e., security or cleaning). The company enjoys a high rate of retention (i.e., customers are reluctant to switch companies), with most of its contracts renewed.

Strategy

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

Aeon Delight's strategy is to grow existing business through expansion of comprehensive services to customers inside and outside of the Aeon Group. Over the medium term, the company aims to expand sales to non-Aeon group companies and lower this weighting to around 40%. It plans to do this by leveraging its main strength - the ability to take on comprehensive management contracts for large facilities - and by expanding into airports, factories, hospitals, and other retail facilities. Some of the specialty store operators also have outlets in non-Aeon shopping centers. SR Inc. expects the specialty store and services business to expand more quickly than the Aeon group's shopping centers.

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

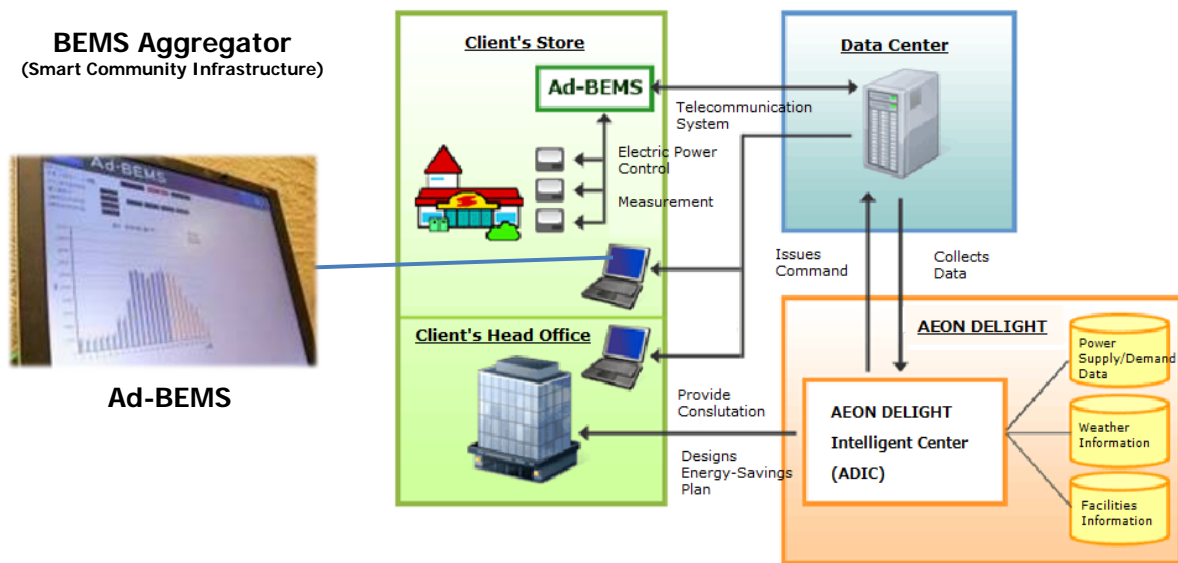
Aeon Delight adopted a growth-through-acquisition strategy as mentioned above. (Please refer to [M&A Activities](#) section). The company acquired businesses that strengthened its integrative capabilities, and intends to do the same going forward. In addition, the company is aiming to strengthen its comprehensive facilities maintenance services. Aeon Delight has targeted three markets: major urban area market, ecology and environmentally friendly market, and the Asian market.

Major urban area market

Small commercial facilities are expected to grow in major urban areas. Aeon Delight has been targeting this segment by pooling its core competencies of A to Z Service, which became a consolidated subsidiary in May 2011, and other companies in its group. In addition, it leveraged the strengths of housework support services provided by Kajitaku, which became a consolidated subsidiary in April 2011, and expanded services to residential market for which demand is expected to increase due to changing demographics.

Ecology and environmentally friendly market

Aeon Delight has provided environmental solutions, such as LEDs and other environmental products. The company's initiatives in this field was recognized by the Ministry of Economy, Trade and Industry (METI) and certified as a "BEMS Aggregator." METI is expected to introduce BEMS (building energy management system) to more than 60,000 buildings across Japan. The company would be in a good position to benefit from any regulatory or designation changes (i.e., facilities maintenance contracts awarded only to certified service operators). This is still in the works and no regulatory changes have been made yet.



Source: Shared Research based on company data

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

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



Source: Company website

Historical financial statements

Summary

1H FY02/16 results (announced October 7, 2015)

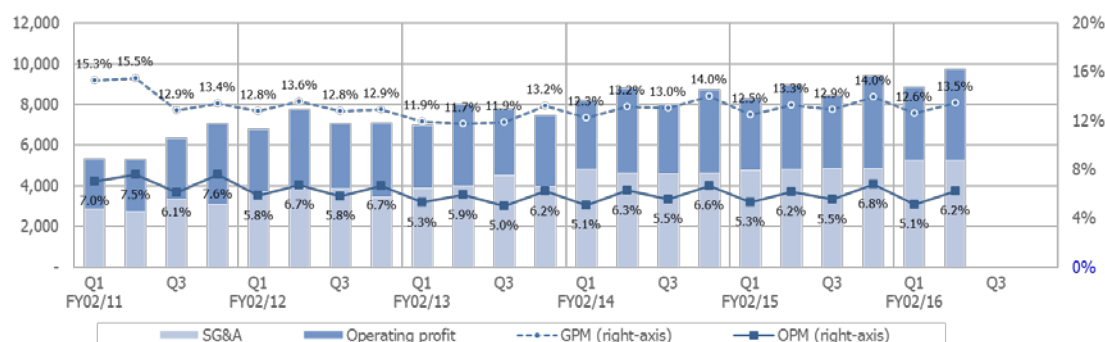
Earnings

Sales: JPY142.8bn (up 6.5% YoY)

Operating profit: JPY8.1bn (up 5.4%)

Sales were up year-on-year in six segments, and were 3.5% higher than company forecasts. Facilities Management (+14.2% YoY) and Support Services (+18.2%) saw double digit growth, pushing up overall earnings. Winning non-Aeon clients, brisk demand for new Aeon Group store openings and renovation of existing stores, as well as growth at subsidiary Kajitaku all contributed to earnings. The company kept its full-year forecasts unchanged.

Quarterly performance



Source: Shared Research based on company data

Winning non-Aeon clients, structuring Support Services and overseas business progressing

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

Sales to new non-group clients were up 42% YoY (JPY1.3bn) to JPY4.5bn. The company increased large-scale facility orders, including from hospitals for sanitary cleaning services, and appears likely to continue winning orders in 2H.

Support Services was up 18.2% YoY at JPY1.3bn, with subsidiary Kajitaku contributing JPY800mn of the growth. Kaji Cloud housework services for individual households centered in urban areas were expanding.

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

Many contracts for projects, such as orders for large facilities, begin in early spring (some orders begin in October), so 2H is when the company pushes sales negotiations to win these contracts from other companies. The company has many negotiations and expects to receive orders for additional services from existing projects. Shared Research will keep an eye on the company's progress winning orders as it seeks to increase FY02/17 earnings.

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

Overseas, business continued to expand, and sales were up 55% (JPY2.4bn) to JPY5.1bn. In China, strengthened local management meant earnings maintained solid growth due to government-related orders (not easily affected by real estate market conditions), and orders for new Aeon mall stores. In Malaysia, the company began business cleaning

partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015, and acquired the ability to take on orders for Aeon Group's stores, which is growing to be one of the largest retailers in Malaysia: the Aeon Group in Malaysia had 96 stores as of end Q2 FY02/16, 34 more stores than at end Q4 FY02/15. The company estimates the FMS market in Malaysia at JPY240–250bn, and anticipates gaining FMS market share through cleaning services.

Operating profit above plan despite investments to acquire strategic personnel and prepare for new projects

Gross profit was up 7.6% YoY, due to higher sales and improved cost-to-sales ratios. Operating profit was up 5.4% YoY and outperformed forecasts by 1.5%, despite strategic human resource investments pushing up personnel costs and increased SG&A expenses from investments due to the growth in new orders.

1H: new contracts with non-Aeon Group clients and profit growth at subsidiary businesses part of strategy to lift operating profit

Of the JPY3.0–4.0bn growth in FY02/16 operating profit, the company plans for JPY1.0–1.5bn from winning new non-Aeon Group clients; JPY1.0–1.5bn from improved margins at subsidiary businesses; JPY500mn from subsidiary growth; and JPY500mn from more transactions within the Aeon Group.

2H: contribution expected from increased transactions within the Aeon Group, stronger profitability at individual businesses

Among the methods mentioned above, efforts to increase transactions within the Aeon Group have lagged. However, since expenses for Aeon Mall Okinawa Rycom (April 2015 opening) were weighted in 1H and the opening of overseas Aeon Group stores concentrated in 2H rather than in 1H, the company expects to meet its full-year forecast. Further, the JPY200mn from improved margins at subsidiaries is expected to continue in 2H. Alongside an additional improvement of JPY500bn in 2H, the company expects its results to be largely in line with plan. Shared Research will continue to monitor the company's progress to meet its full-year forecast and the contribution from these factors from FY02/17 onward.

Measures to increase operating profit

| | YoY | 1H Act. | 2H Strategy |
|---|----------------------|-----------------|--|
| Total YoY growth of gross profit | JPY3bn-4bn | JPY1.3bn | |
| 1) Increase new customers outside group | JPY1bn-1.5bn | JPY0.5bn | Increase orders from hospitals, hotels, universities, and office buildings. |
| 2) Improve profit margins at each segment | JPY1bn-1.5bn | JPY0.2bn | Standardize Cleaning Services, reduce costs by revising materials logistics. Contribute to renovation and reform projects. |
| 3) Expand subsidiaries' businesses | JPY500mn | JPY0.5bn | Contribute to Kajitaku's mail-order business. |
| 4) Expand the Aeon group's market | JPY500mn | JPY0.1bn | Contribute to profits (1H<2H) with orders from new overseas stores. |
| Amount from higher SG&A expenses | ▲JPY2bn | ▲JPY0.9bn | |
| Operating profit YoY growth | JPY1bn-JPY2bn | JPY0.4bn | |

AEON Group overseas business

| Aeon Mall | | Name | Location | Lot area | Total floor space | Open date |
|--------------------|-------|--|----------------------|-------------------------------|-------------------------------|--------------------------|
| FY02/2016 | China | AEON MALL Suzhou Yuenqu Hudong | Suzhou, Jiangsu | 99,300m ² | 218,000m ² | May 2015 |
| | | AEON MALL Beijing Fengtai | Fengtai, Beijing | 63,800m ² | 150,000m ² | September 2015 |
| | | AEON MALL Guangzhou Hanyu Guangchang | Guangzhou, Guangdong | approx. 51,400m ² | approx. 172,900m ² | |
| | | AEON MALL Suzhou Xinqu | Suzhou, Jiangsu | approx. 153,000m ² | approx. 162,000m ² | |
| | | AEON MALL Hanzhou Liangzhu Xincheng | Hanzhou, Zhejiang | approx. 94,800m ² | approx. 176,000m ² | |
| | ASEAN | AEON MALL Wuhan Jingkai | Wuhan, Hubei | approx. 129,900m ² | approx. 274,600m ² | Scheduled end of 2015 |
| | | AEON MALL BSD CITY | Jakarta, Indonesia | approx. 100,000m ² | approx. 177,000m ² | May 2015 |
| | | AEON MALL Long Bien | Hanoi, Vietnam | approx. 96,000m ² | approx. 120,000m ² | October 2015 |
| | | AEON MALL Hebei Yangjiao (tentative) | Sanhe, Hebei | approx. 84,000m ² | approx. 175,000m ² | |
| | | AEON MALL Wuhan Shiqiao (tentative) | Wuhan, Hubei | approx. 46,200m ² | approx. 120,900m ² | |
| FY02/2017 | China | AEON MALL Guangzhou Jinshasu (tentative) | Guangzhou, Guangdong | approx. 84,500m ² | approx. 187,700m ² | |
| | | Other 2 more malls | | | | |
| | | AEON MALL Binh Tan | Ho Chi Minh, Vietnam | approx. 46,800m ² | approx. 114,000m ² | Scheduled summer of 2016 |
| | | AEON MALL Deltamas | Jakarta, Indonesia | approx. 200,000m ² | | Scheduled 2016 |
| | | AEON MALL Jakarta Garden City | Jakarta, Indonesia | approx. 85,000m ² | approx. 210,000m ² | Scheduled 2017 |
| | ASEAN | AEON MALL Cambodia | Cambodia, Phnom Penh | approx. 100,000m ² | approx. 151,000m ² | Scheduled summer of 2018 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| FY02/2018 or later | ASEAN | | | | | |
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| | ASEAN | | | | | |
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| FY02/16 1H | ASEAN | MVTJ Sukhumvit 64 Elio | Thailand | SM | 254m ² | May 2015 |
| | | MV Watcharapol Venice | Thailand | SM | 1,632m ² | July 2015 |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | China | Aeon ZhongShanShiDaiQingCheng | Zhongshan, Guangdong | GMS | 14,082m ² | TBC |
| | | MV Qianjinlu (tentative) | Guangzhou, Guangdong | SM | TBC | TBC |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| FY02/16 2H | ASEAN | AEON Ipoh Klebang | Malaysia | GMS | 20,475m ² | TBC |
| | | MV AEON Shiracha Shopping Center | Thailand | SM | 2,409m ² | TBC |
| | | | | | | |
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| | | | | | | |
| | China | | | | | |
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Source: Shared Research based on company data

Aeon retail overseas store count

| | | Name | FY02/14 | FY02/15 | FY02/16 1H |
|-------|-------------|--|---------|---------|---------------|
| ASEAN | Malaysia | AEON Co. (M) Bhd. | 31 | 33 | 68 |
| | | AEON BIG (M) SDN. BHD. | 28 | 28 | 28 |
| | Thailand | AEON (Thailand) CO., LTD. | 69 | 75 | 76 |
| | Vietnam | AEON VIETNAM Co., Ltd. | | 2 | 2 |
| | | DONG HUNG INVESTMENT DEVELOPMENT CONSULTANCY JOINT STOCK CO., LTD. | | | 29 |
| | | FIRST VIETNAM INVESTMENT JOINT STOCK COMPANY | | | 21 |
| | Cambodia | AEON (CAMBODIA) Co., Ltd. | | 1 | 1 |
| | Indonesia | PT.AEON INDONESIA | | | 1 |
| | ASEAN total | | | 139 | 226 |
| China | | AEON Stores (Hong Kong) Co., Limited. | 43 | 43 | 47 |
| | | Guangdong Aeon Team Co., Ltd. | 17 | 17 | 17 |
| | | Qingdao Aeon Dongtai Co., Ltd. | 9 | 10 | 9 |
| | | AEON South China Co., Ltd. | 11 | 10 | 10 |
| | | Beijing AEON Co., Ltd. | 4 | 5 | 5 |
| | | AEON EAST CHINA (SUZHOU) CO., LTD. | | 1 | 2 |
| | | AEON (HUBEI) CO., LTD. | | 1 | 1 |
| | | | | | |
| | China total | | 84 | 87 | 91 |

Source: Shared Research based on company data

Facilities Management

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

Source: Shared Research based on company data

In addition to new orders for maintenance and inspection, it expanded its contract fluorocarbon management services, its energy management system through BEMS, and introduced and developed its remote control system.

Contract fluorocarbon management services adding value to existing FM services

The company is looking at net increase of gross profit by having existing employees add contract fluorocarbon management services. There are indications that the Aeon Group will continue to increase stores with these services, and the company aims to expand outside the group using its track record. Elsewhere in the energy management system, the company is angling to beat its competitors by sharpening its energy solutions technology. The company received over 1,300 orders in 1H.

Security Services

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

Source: Shared Research based on company data

The company won new contracts for its “Attender” services, which combine security with customer information services, from multiple existing clients as well as for five new commercial facilities, bringing the total number of locations using its Attender services to 36. Attender services in multiple languages were adopted by the resort-style shopping mall AEON MALL Okinawa Rycom, which opened in April 2015. The company will keep promoting Attender-based improvement in security to its new and existing clients.

Cleaning Services

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

Source: Shared Research based on company data

In addition to new contracts, the company also increased the number of contracts in the hospital/nursing home market with the help of its new sanitary cleaning services devised especially for medical facilities. In regular cleaning services, the company will continue standardization to attain a 20% GPM, while it sustains concerted effort to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated last fall. This seems to be improving cleaning materials management and workflow.

Construction Work

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

Source: Shared Research based on company data

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

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings. The sudden growth stems from the company receiving an increasing number of orders to renovate aging general merchandise stores nationwide. Aeon Retail is renovating its existing stores to bolster its supermarket operations; sales are increasing as a result.

Aeon Retail may continue to open more large-scale stores

Aeon Retail wants to make store-renovation projects a regular part of its operations while expanding new outlets, and reported that from FY02/14 to FY02/15 there were a total of 28 stores that were part of large-scale renovation projects.

There were already 19 such stores in 1H FY02/16 and the company targets a total of 54 stores in FY02/16. The company plans to have 70 to 80 stores undergoing large-scale renovations in FY02/17, and plans to press on with investment in renovation. Demand related to large-scale renovation projects requires demand for renovation work itself and restoration projects after an existing tenant has vacated. In order to tap this kind of Group demand, qualified personnel is key, and the company is strengthening its sales foundation by acquiring specialized personnel in these growth areas.

Materials and Supplies Sourcing

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

Support Services

| Support Services (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|-----------------------------|---------|-------|-------|--------|---------|-------|--------|-------|---------|-------|----|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 3,002 | 3,473 | 3,660 | 3,583 | 3,466 | 3,870 | 3,726 | 4,470 | 4,215 | 4,458 | - | - |
| YoY | 44.7% | 56.6% | 2.8% | 16.0% | 15.5% | 11.4% | 1.8% | 24.8% | 21.6% | 15.2% | - | - |
| Operating profit | 154 | 410 | 395 | 201 | 352 | 420 | 179 | 252 | 355 | 556 | - | - |
| YoY | 100.0% | 76.7% | 5.9% | 240.7% | 128.6% | 2.4% | -54.7% | 25.4% | 0.9% | 32.4% | - | - |
| OPM | 5.1% | 11.8% | 10.8% | 5.6% | 10.2% | 10.9% | 4.8% | 5.6% | 8.4% | 12.5% | - | - |

Source: Shared Research based on company data

Subsidiaries continued to make significant contributions to growth in profits. The company focused on growing sales of Kajitaku's Kaji Cloud housework services, with the result that Kaji Cloud sales rose over 1.3x YoY, and so sales showed signs of steady growth. Despite a rise in advertising costs (TV commercials), Kajitaku generated higher YoY profits thanks to sales growth, with earnings remaining steady: Support Services segment made a significant contribution with higher operating profit of JPY13.9mn (+18% YoY).

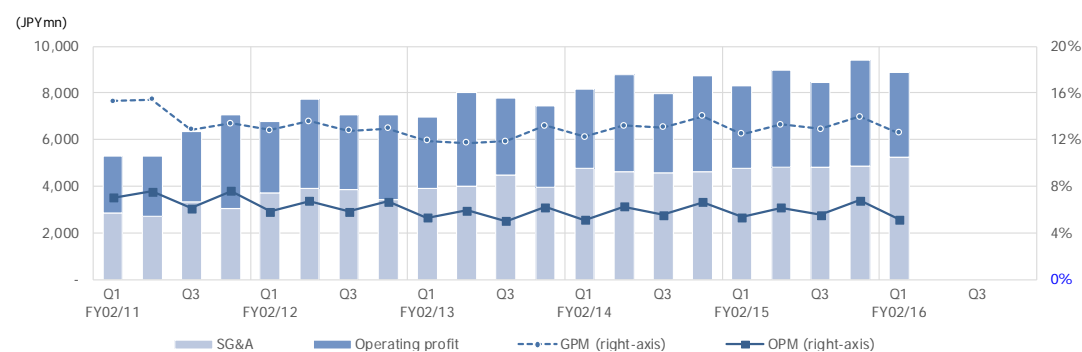
Q1 FY02/16 results (announced 8 July, 2015)

Earnings

Sales of JPY70.5bn (up 6.1% YoY)

Operating profit of JPY3.6bn (up 2.4%)

Quarterly performance



Source: Shared Research based on company data

Sales were slightly higher than forecast due to winning non-Aeon clients. Profits were in line with the projected growth despite the higher-than-expected initial investment costs due to an increase in new projects. The company further stated that it had spent JPY100mn-150mn in SG&A expenses although within the projected expenditure.

Favorable business environment, FY02/16 seen as rare opportunity for business expansion and growth

Aeon Delight regards the business environment of FY02/16 as promoting (1) concentration of the industry to a few major players due to adverse business conditions such as cost increase driven by inflation and the shortage of new hires; (2) tendency of large-scale facilities to consolidate and outsource all FM functions and the resulting increase in the number of outsourcing businesses consolidating FM services; (3) a stronger watchfulness about emergency response and security in reaction to the increased frequency of extreme weather and natural disasters; (4) desire to invest in store renovation in commercial facilities; and (5) competition revolving around facilities management in accordance with the international standard ISO41000 and imaginative renovation.

The company takes these trends as an opportunity for expansion and growth. It is poised to take larger shares in the domestic and Asian markets.

Q1 witnesses large-scale business deals and negotiations outside the Aeon Group

In Q1, the industry operating environment was characterized by (1) a pickup in negotiations with client companies for comprehensive contracts covering facilities management, cleaning, security services as well as repair work, as a number of large client companies, including medical institutions, universities, and manufacturers, started reviewing both the quality and cost of the facilities the management services they were currently using; and (2) continued strong demand for energy-saving equipment and services and, in conjunction with the start of new regulations governing the handling of fluorocarbon gases, increased demand for contract fluorocarbon management services, especially at commercial facilities. At the same time, tight conditions in the labor market increased the importance of hiring and training employees.

Top-line growth was underpinned by the launch of new services aimed at several new, large-scale commercial facilities, medical facilities, financial institutions, and large distribution facilities. Aeon Delight was particularly successful in the

hospital/nursing home market, where its dedicated sales team used a newly developed special service menu to win new contracts to service a total of 21 medical facilities (nearly doubling the floor space at medical facilities under management versus a year earlier). There are heavy demands on medical institutions to prevent the spread of disease between patients and cross-contamination. The company has been actively proposing to its clients the quality of its cleaning, supported by numerical evaluations.

Cinching deals on sanitary cleaning services at contract renewal, profitability expected to rise yearly

Contract renewal for sanitary cleaning services typically happens every year. However, only a limited number of companies replace the cleaning services provided by major groups servicing many medical facilities nationwide. Aeon Delight presents proposals capitalizing on its roughly 500 bases nationwide; its name recognition as a publicly traded company and as the Aeon Group; its track record with major medical institutions; and the visual improvement of its cleaning quality. If business continues to expand, the number of sickbeds under its management (approximately 14,000 as of Q1) is expected to increase further.

Profitability may decline in the first year on account of initial investments. However, Shared Research expects it to pick up from the second year on improved skills and expertise, as is the case with regular cleaning services.

Expanding client base outside group to drive growth this term and in the medium-term plan, accelerate negotiations

Labor shortage persists in the building maintenance sector. The company has the advantage of name recognition in drawing new hires; furthermore, it invests in employee education and development. This promotes negotiations with major manufacturers and switchovers from competitors with declining service quality. The industry seems to be working in the company's favor, accelerating negotiations with clients outside the group.

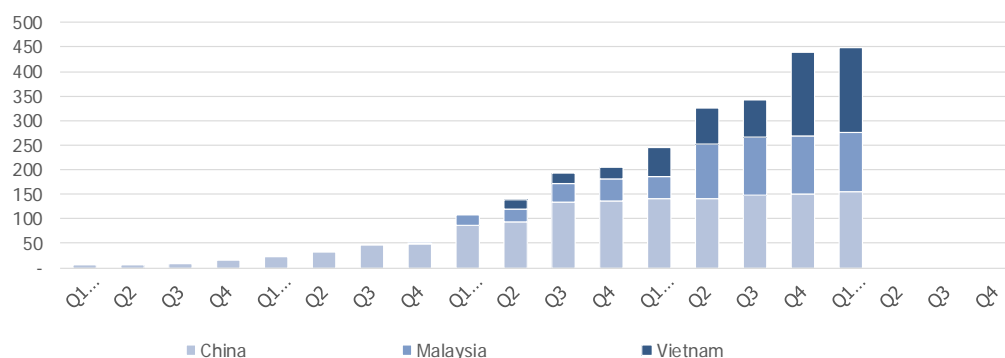
Sales outside of the group have been rising six quarters in a row from Q4 FY02/14 through Q1 FY02/16. Client base expansion outside the group is an important driver of growth this quarter and in the medium-term plan. Shared Research will keep an eye on developments.

China as the driver of overseas business development

Overseas, to expand the comprehensive FMS business, the company worked to create networks in each country and region, as well as develop product quality maintenance and environmental technologies. By country, in China the company began offering services related to the construction of large-scale facilities; strengthened its structure to expand its market share in Malaysia; and expanded its operating area in Vietnam by opening a branch in Hanoi. As a result, it increased its services, as shown in the following tables, resulting in sales increase over 50% YoY.

AEON MALL Co., Ltd. plans to open six new stores in FY02/16 in China, an increase of four YoY. The company seems to be promoting its business to consolidate its facilities management services. We understand that it successfully pursued that objective in Q1. Outside the Aeon Group, it plans to develop and expand its client base by leveraging the network of acquired local companies. The company opened a branch in Hanoi, Vietnam. Shared Research regards this move as preparation for its planned opening of AEON MALL Long Bien in fall 2015.

Number of projects overseas



Source: Shared Research based on company data

AEON Mall overseas business

| | | Name | Location | Lot area | Total floor space |
|------|-------|--|----------------------|------------------------------|------------------------------|
| 2015 | China | AEON MALL Suzhou Yuenqu Hudong | Suzhou, Jiangsu | 99,300m ² | 218,000m ² |
| | | AEON MALL Beijing Fengtai | Fengtai, Beijing | 63,800m ² | approx.153,300m ² |
| | | AEON MALL Guangzhou Hanyu Guangchang | Guangzhou, Guangdong | 51,400m ² | approx.172,900m ² |
| | | AEON MALL Suzhou Xinqu | Suzhou, Jiangsu | approx.153,000m ² | approx.162,000m ² |
| | | AEON MALL Hanzhou Liangzhu Xincheng | Hanzhou, Zhejiang | approx.94,800m ² | approx.176,000m ² |
| | | AEON MALL Wuhan Jingkai | Wuhan, Hubei | approx.129,900m ² | approx.274,600m ² |
| | ASEAN | AEON MALL Long Bien | Hanoi, Vietnam | approx.96,000m ² | approx.110,000m ² |
| | | AEON MALL Binh Tan | Ho Chi Minh, Vietnam | approx.46,800m ² | approx.114,000m ² |
| 2016 | China | AEON MALL Hebei Yangjiso (tentative) | Sanhe, Hebei | approx.84,000m ² | approx.175,000m ² |
| | | AEON MALL Wuhan Shiqiao (tentative) | Wuhan, Hubei | approx.46,200m ² | approx.120,900m ² |
| | | AEON MALL Guangzhou Jinshasu (tentative) | Guangzhou, Guangdong | approx.84,500m ² | approx.187,700m ² |
| | ASEAN | Other 2 more malls | | | |

Source: Shared Research based on company data

Progress under medium-term plan

In Q1, one of the company's goals was to strengthen its capabilities in the areas of sanitary cleaning services and energy solutions, core growth areas under its medium-term business plan. As mentioned above, its sanitary cleaning business has been on a steady growth track. Furthermore, the company started working toward a visible improvement in cleaning quality and, towards this end, began putting in place evaluation standards that would prevent cross-contamination in hospitals and other medical facilities. By quantifying the quality of its cleaning work, the company aims to establish an organizational structure that will allow it to provide an even higher level of hygienic management services.

At its energy solutions business, the company began rolling out its own remote control system utilizing its building energy management system (BEMS) and cloud computing, and also continued working towards creating a comprehensive remote control system that would not only help reduce energy usage, but would also serve as a management system for various networked devices and predict equipment breakdowns with greater accuracy.

Responding to international FM standards; strengthening its medium to long term competitiveness in M&A

Aeon Delight has been actively adjusting to the international standard of the facilities management industry, ISO41000 (see Outlook section), thus bolstering its competitiveness in the medium to long term. Likewise in M&A, the company seems to be taking proactive steps to attain its medium-term plan by reinforcing its special sales team.

Facilities Management

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

Source: Shared Research based on company data

As mentioned above, in addition to new orders for maintenance and inspection, it expanded its contract fluorocarbon management services, its energy management system through BEMS, and introduced and developed its remote control system.

Contract fluorocarbon management services adding value to existing FM services

The company is looking at net increase of gross profit by having existing employees add contract fluorocarbon management services. There are indications that the Aeon Group will continue to increase stores with these services, and the company aims to expand outside the group using its track record. Elsewhere in the energy management system, the company is angling to beat its competitors by sharpening its energy solutions technology.

Security Services

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

Source: Shared Research based on company data

In addition to on-site security services at new facilities, expanding in contract temporary security services

The company won new contracts for its “Attender” services, which combine security with customer information services, from multiple existing clients as well as for five new commercial facilities, bringing the total number of locations using its Attender services to 35. Attender services were adopted by the resort-style shopping mall AEON MALL Okinawa Rycom, which opened in April 2015. The company will keep promoting Attender-based improvement in security to its new and existing clients.

Cleaning Services

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

Source: Shared Research based on company data

In addition to new contracts, the company also increased the number of contracts in the hospital/nursing home market with the help of its new sanitary cleaning services devised especially for medical facilities. In regular cleaning services, the company will continue standardization to attain a 20% GPM, while it sustains concerted effort to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated last fall. This seems to be improving cleaning materials management and workflow.

Construction Work

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

Source: Shared Research based on company data

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

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings.

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

Aeon Retail may continue to open more large-scale stores

Sales at Aeon Retail's 13 large-scale renovated stores rose 3.3% YoY during the first three quarters of FY02/15. In contrast, average comparable store sales fell 3.8% YoY. The company, which wants to make store-renovation projects a regular part of its operations while expanding new outlets, has announced that it would increase investments in renovation projects by 20% in FY02/16. It reported that in Q1, 33 out of the 43 stores that were part of large-scale renovations since FY02/14 attained increase in sales and profits YoY (14 out of 15 in Q1 FY02/15), and plans to press on with investment in renovation. Aeon Delight considers this an opportunity to expand its own business.

Materials and Supplies Sourcing

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

Support Services

| Support Services (JPYmn) | FY02/14 | | | | FY02/15 | | | | FY02/16 | | | |
|-----------------------------|---------|-------|-------|--------|---------|-------|--------|-------|---------|----|----|----|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Sales | 3,002 | 3,473 | 3,660 | 3,583 | 3,466 | 3,870 | 3,726 | 4,470 | 4,215 | - | - | - |
| YoY | 44.7% | 56.6% | 2.8% | 16.0% | 15.5% | 11.4% | 1.8% | 24.8% | 21.6% | - | - | - |
| Operating profit | 154 | 410 | 395 | 201 | 352 | 420 | 179 | 252 | 355 | - | - | - |
| YoY | 100.0% | 76.7% | 5.9% | 240.7% | 128.6% | 2.4% | -54.7% | 25.4% | 0.9% | - | - | - |
| OPM | 5.1% | 11.8% | 10.8% | 5.6% | 10.2% | 10.9% | 4.8% | 5.6% | 8.4% | - | - | - |

Source: Shared Research based on company data

Subsidiaries continued to make significant contributions to growth in profits. Aeon Compass logged a decrease in profits YoY due to the fact that large-scale projects were carried over to Q2, while its performance was consistently sanguine throughout the preceding quarter. The company focused on growing sales of Kajitaku's Kaji Cloud housework services, with the result that Kaji Cloud sales rose 48.2% YoY, and so sales showed signs of steady growth. The advertising and PR portion of SG&A expenses expanded, but was offset by increased sales, resulting to growth in operating profit. The combined operating profit of the two companies seem to have been up year-on-year.

Shared Research expects the business to continue its successful streak in Q2 as Aeon Compass actively pursues large-scale projects while Kajitaku will likely reduce its advertising and PR expenses.

Full-year FY02/15 results (out April 9, 2015)

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

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

Source: Shared Research based on company data

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

Earnings overview

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

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

profits to date.

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

FY02/15 highlights

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

Expansion outside the group

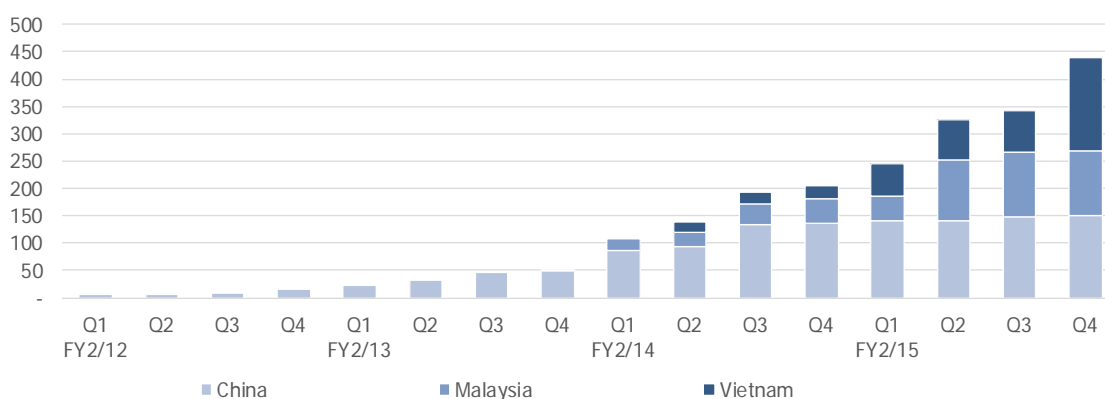
Aeon Delight, the largest facility-management company in Japan, has been expanding by leveraging its marketing clout. During 2H, the company won a large-scale order from a major corporation with nationwide operations. For FY02/16, the company will also seek to increase businesses focusing on large-scale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

Expansion in Asia: more orders for facility management services overseas

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

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

Number of projects overseas



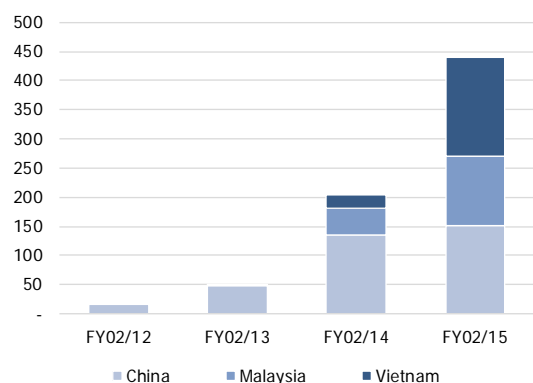
Source: Shared Research based on company data

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

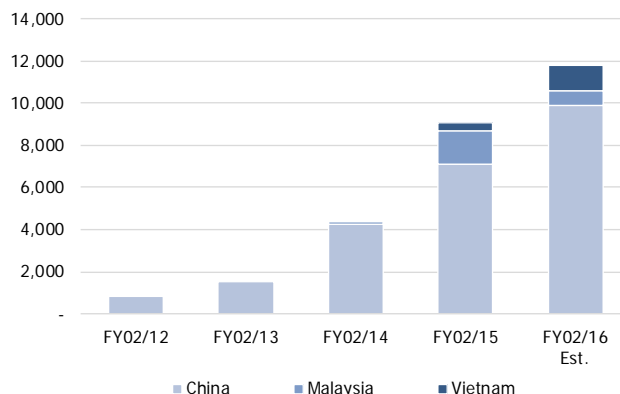
Aeon Delight has been increasing sales (including through acquisitions). For the past two years, sales have increased by

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

Overseas orders



Overseas sales (JPY mn)



Source: Shared Research based on company data

Facilities Management

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

Source: Shared Research based on company data

Focusing on energy-saving services and preparing new businesses

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

Adding more value to CFC operations starting in FY02/16

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

Sales continue to grow, as OPM continues to decline

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

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

Gross profit margin is declining for the following reasons: The company installed new computer-related equipment, a

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

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

Security Services

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

Source: Shared Research based on company data

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

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

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

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

Adding value with multilingual store attendants

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

Cleaning Services

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

Source: Shared Research based on company data

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

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

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

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

Winning orders from hospitals

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

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

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

Construction Work

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

Source: Shared Research based on company data

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

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

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

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

Aeon Retail may continue to open more large-scale stores

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

Materials and Supplies Sourcing

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

Support Services

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

Source: Shared Research based on company data

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

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

Q3 FY02/15 results (out January 9, 2015)

Sales: JPY199.3bn (+2.3% YoY)

Operating profit: JPY11.3bn (+3.0% YoY)

Recurring profit: JPY11.3bn (+3.2% YoY)

Net income: JPY6.4bn (+10.0% YoY).

Earnings overview

Sales/profits up for the fifth consecutive year with record profits; FY OP may miss target

Demand for facilities management service companies with significant, well-qualified human resources increased as labor shortages in the building maintenance industry became increasingly pronounced. Buildings also became larger and more multi-purposed. As a result, Aeon Delight marked its fifth consecutive year of cumulative Q3 sales and profit growth, booking its highest profits to date.

However, the company seems to be struggling to meet its full-year operating profit forecast. During Q3, operating profit reached 70.6% of the company's annual target. In comparison, the ratios were 72.6% and 76.6% for Q3 FY02/14 and Q3 FY02/13, respectively. (The company benefitted from increased demand during Q4 FY02/14, prior to the consumption tax increase.) Operating profit progress may be slow because gross profit margins at the Facilities Management and the Cleaning Services segments may struggle to meet annual targets. (Facilities Management comprised 21.0% of the company's overall operating profit for FY02/14; Cleaning Services, 25.5%).

Cumulative Q3 sales rise 7.1% YoY excluding the impact of LED installation

In the Construction Work segment, sales fell as LED installation projects wound down. But sales were up year-on-year in the company's other six segments. Cumulative Q3 sales would have risen 7.1% YoY if there had not been a decline from LED installation. For the latest three-month period (Q3), sales would have risen 8.4% YoY.

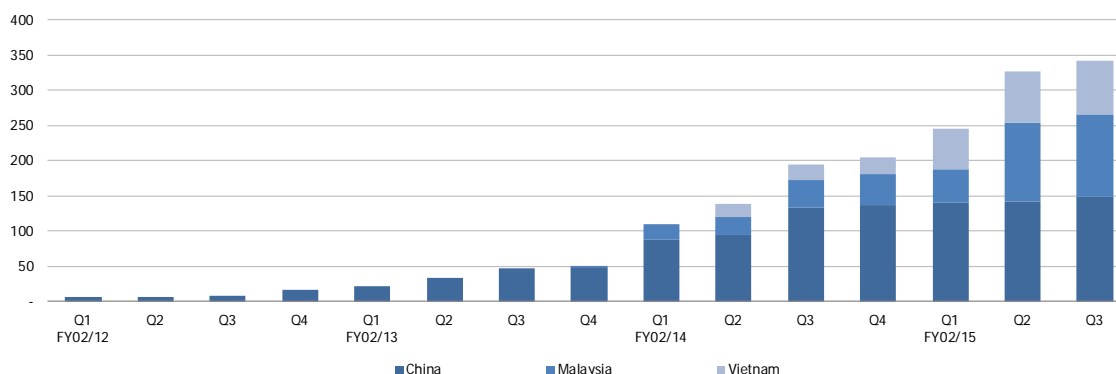
The company expects to win more orders for facility management services overseas

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

operators of large facilities.

As a result, there was a steady stream of FMS orders for large domestic facilities from outside the Aeon Group. Overseas, the company continued acquiring contracts, taking the total to 148 in China, 118 in Malaysia, and 76 in Vietnam.

Number of project overseas



Source: Shared Research based on company data

Major developments related to Q3 FY02/15 earnings

The Facilities Management segment to launch a new CFC-related service in FY02/16

Gross profit margin continued to decline in Q3 at the Facilities Management segment because 1) The company installed new computer-related equipment, a move that temporarily reduced profitability. 2) The sales composition ratio for projects aimed at large-scale shopping malls (generally less profitable) rose. 3) The company has been under increasing pressure to reduce prices.

Aeon Delight plans to add more value by introducing new services. The company, for example, will start operations related to chlorofluorocarbon (CFC) in FY02/16. The company will train technicians dealing with CFC refrigerants—it now has over 400 technicians nationwide—as it looks to centralize refrigeration and air-conditioning facilities management ahead of the Act for Rationalized Use and Proper Management of Fluorocarbons, scheduled for April 2015. The company plans to increase gross profit by assigning additional duties to existing employees.

In addition, the company will also expand its ESCO and energy management operations to enhance the quality of its services in areas other than facility management.

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

The company is standardizing its cleaning services. Gross profit margin increased in the Cleaning Services segment as the company standardized cleaning procedures at directly managed cleaning centers. The company also shared its expertise with partner companies. These and other measures may produce cost savings of about JPY400mn, JPY100mn short of the initial target. However, gross profit margin has been improving every quarter in this segment. Thus, profitability may continue to increase in Q4. Efforts to improve profitability in FY02/15 may benefit the company throughout FY02/16.

Renovation of aging general merchandise stores may contribute to FY02/16 earnings

The Construction Work segment may benefit from renovation projects in the next fiscal year. For cumulative Q3, sales from renovation services including revitalization construction reached JPY3.3bn, far exceeding the company's full-year target of JPY1.5bn. The company is receiving an increasing number of orders to renovate aging general merchandise

stores nationwide.

Aeon Retail, Aeon Delight's biggest customer, is renovating its large-scale stores because such revamped outlets have improved its performance. It wants to make store renovation a regular part of its operations while expanding to new outlets. Aeon Retail may renovate more stores in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Medium-term plan may be revised; the company might miss its FY02/15 target

Aeon Delight may miss its FY02/15 operating profit target. The company has not ruled out the possibility of revising its medium-term management plan released in 2014. A new medium-term plan may have targets that can be more easily achieved, in preparation for the next medium-term plan that will call for more challenging goals.

Facilities Management

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

Source: Shared Research based on company data

Sales continue to rise; operating profit margin remains low

Aeon Delight secured a steady stream of new large FMS contracts, and made efforts to grow building energy management system (BEMS) sales. Sales for cumulative Q3 rose 5.3% YoY. However, operating profit fell 11.2% YoY because of a decline in gross profit margin, as mentioned above.

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

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

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

Adding more value to CFC operations starting in FY02/16

The company will train technicians dealing with CFC refrigerants—it now has over 400 technicians nationwide—as it looks to centralize refrigeration and air conditioning facilities management ahead of the Act for Rationalized Use and Proper Management of Fluorocarbons, scheduled for April 2015. The company plans to increase gross profit by assigning additional duties to existing employees.

In addition, the company will also expand its ESCO and energy management operations to enhance the quality of its services in areas other than facility management businesses.

Securities Services

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

Source: Shared Research based on company data

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

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

Cumulative Q3 sales rose 7.3% YoY, with operating profit increasing 6.3% YoY. Operating profit margin declined slightly, but Shared Research believes that this decline was temporary. In the past, the company did not have enough experienced employees to keep up with store expansion, and gross profit suffered as a result. Recently, the company has been reducing its employee turnover.

For FY02/15, this decrease in employee turnover led to improved profitability. However, an increase in store count meant higher expenses involving store openings. (It usually takes between one and two months to prepare for the opening of a new store.) These expenses may have pushed down the company’s operating profit margin.

Adding value with multilingual store attendants

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

Cleaning Services

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

Source: Shared Research based on company data

The company is standardizing and introducing a manual for its cleaning services, in a bid to gain a competitive edge and increase margins. Per its “Campaign for Ease of Work,” the company established small teams for on-site work as it focused on increasing quality and productivity. Gross profit margin also increased as the company standardized operations at directly managed cleaning centers, resulting in higher productivity. The company also shared its expertise with partner companies.

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

Aeon Delight had planned to reduce annual expenses by about JPY500mn. As of cumulative Q3, the company was short of this target by about JPY100mn because of the delay in implementing cost-cutting measures. However, gross profit

margin has been improving every quarter in this segment. Thus, profitability may continue to increase in Q4. Efforts to improve profitability in FY02/15 may benefit the company throughout FY02/16.

Construction Work

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

Source: Shared Research based on company data

LED installation projects within the Aeon Group wound down, resulting in a 15.0% fall year-on-year in segment sales for cumulative Q3. However, sales would have risen 11.3% YoY if there had not been an LED-installation decline. Still, operating profit margin improved as the number of less profitable LED projects fell, raising operating profit by 4.0% YoY.

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

The number of large-scale renovation projects significantly increased. The company also won more orders for maintenance work due to its sales efforts. In particular, renovation services remained strong and contributed to overall earnings. Sales from renovation services including revitalization construction reached JPY3.3bn, far exceeding the company's full-year target of JPY1.5bn.

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

Aeon Retail may continue to open more large-scale stores

Sales at Aeon Retail's 13 large-scale renovated stores rose 3.3% YoY. In contrast, average comparable store sales fell 3.8% YoY. The company wants to make store-renovation projects a regular part of its operations while expanding new outlets, so it is highly likely that it may renovate more stores in FY02/16. Aeon Delight considers this as an opportunity to expand its own business.

Materials and Supplies Sourcing

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

Source: Shared Research based on company data

Results in this segment were robust, due to new clients and more orders from existing clients. The company continued to focus on increasing margins by revising logistics costs, and cutting procurement costs with the use of electronic negotiation tools.

Vending Machine Services

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

Source: Shared Research based on company data

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

Support Services

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

Source: Shared Research based on company data

Subsidiaries continued to make significant contributions to growth in profits. The company focused on growing sales of Aeon Compass' events and Kajitaku's Kaji Cloud housework services, with the result that Kaji Cloud sales rose 51.2% YoY.

Kajitaku Cloud operations remain strong; investments to increase in FY02/15

Aeon Compass and Kajitaku are the main subsidiaries in this segment. For cumulative Q3, Aeon Compass posted sales that were slightly higher year-on-year, and had a double-digit increase in operating profit. Kajitaku had a double-digit increase in sales and a slight decline in operating profit.

Aeon Compass had an increase in operating profit in reaction to weak performance in Q1 FY02/14. Kajitaku had a slight decline in operating profit because it made investments in computer systems.

Kajitaku appears to be struggling. However, Aeon Delight executives stated that Kajitaku would expand sales and profits in FY02/16 following the current round of investments.

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

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

Sales: JPY257.2bn (+3.4% YoY)

Operating profit: JPY15.1bn (+8.7%)

Recurring profit: JPY15.1bn (+8.6%)

Net income: JPY8.2bn (+8.7%)

Overall

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

An overview of each segment is as follows:

Facilities Management

Sales: JPY43.5bn (+3.3 YoY)

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

Securities Service

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

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

Cleaning Services

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

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

Construction Work

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

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

Materials and Supplies Sourcing

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

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

Vending Machine Services

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

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

Support Services

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

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

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

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

Develop the Asian market

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

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

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

FY02/13 Results

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

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

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

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

Income statement

| Income Statement (JPYmn) | FY02/08 Cons. | FY02/09 Cons. | FY02/10 Cons. | FY02/11 Cons. | FY02/12 Cons. | FY02/13 Cons. | FY02/14 Cons. | FY02/15 Cons. |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Sales | 137,519 | 145,690 | 140,299 | 170,905 | 219,797 | 248,876 | 257,243 | 266,705 |
| Facilities Management | 40,202 | 42,253 | 41,666 | 40,019 | 42,147 | 42,050 | 43,458 | 45,839 |
| Security Services | 35,848 | 36,670 | 34,281 | 32,088 | 32,235 | 31,805 | 34,242 | 36,622 |
| Cleaning Services | 41,098 | 42,403 | 45,050 | 41,142 | 39,852 | 40,519 | 42,320 | 44,287 |
| Construction Work | 16,777 | 18,515 | 13,889 | 16,420 | 28,513 | 53,071 | 45,630 | 41,972 |
| Materials/Supplies Sourcing Services | | | | 18,718 | 36,730 | 39,284 | 44,543 | 47,618 |
| Vending Machine Services | | | | 17,188 | 32,280 | 31,200 | 33,329 | 34,825 |
| Support Services | 3,591 | 5,846 | 5,412 | 5,271 | 7,980 | 10,823 | 13,551 | 15,522 |
| Other | | | | 56 | 57 | 119 | 167 | 17 |
| YoY | 23.7% | 5.9% | -3.7% | 21.8% | 28.6% | 13.2% | 3.4% | 3.7% |
| Facilities Management | | 5.1% | -1.4% | -4.0% | 5.3% | -0.2% | 3.3% | 5.5% |
| Security Services | | 2.3% | -6.5% | -6.4% | 0.5% | -1.3% | 7.7% | 7.0% |
| Cleaning Services | | 3.2% | 6.2% | -8.7% | -3.1% | 1.7% | 4.4% | 4.6% |
| Construction Work | | 10.4% | -25.0% | 18.2% | 73.6% | 86.1% | -14.0% | -8.0% |
| Materials/Supplies Sourcing Services | | | | | 96.2% | 7.0% | 13.4% | 6.9% |
| Vending Machine Services | | | | | 87.8% | -3.3% | 6.8% | 4.5% |
| Support Services | | 62.8% | -7.4% | -2.6% | 51.4% | 35.6% | 25.2% | 14.5% |
| Other | | | | | 1.8% | 108.8% | 40.3% | -89.8% |
| CoGS | 118,692 | 124,735 | 119,180 | 146,916 | 191,166 | 218,648 | 223,528 | 231,588 |
| Gross Profit | 18,827 | 20,955 | 21,118 | 23,989 | 28,631 | 30,227 | 33,714 | 35,117 |
| YoY | 18.1% | 11.3% | 0.8% | 13.6% | 19.4% | 5.6% | 11.5% | 4.2% |
| GPM | 13.7% | 14.4% | 15.1% | 14.0% | 13.0% | 12.1% | 13.1% | 13.2% |
| SG&A | 10,496 | 11,008 | 11,148 | 11,957 | 14,868 | 16,326 | 18,599 | 19,256 |
| SG&A / Sales | 7.6% | 7.6% | 7.9% | 7.0% | 6.8% | 6.6% | 7.2% | 7.2% |
| Operating Profit | 8,330 | 9,946 | 9,970 | 12,031 | 13,762 | 13,901 | 15,115 | 15,861 |
| YoY | 49.4% | 19.4% | 0.2% | 20.7% | 14.4% | 1.0% | 8.7% | 4.9% |
| OPM | 6.1% | 6.8% | 7.1% | 7.0% | 6.3% | 5.6% | 5.9% | 5.9% |
| Non-Operating Income & expenses | | -134 | -58 | 58 | 22 | -9 | -23 | 82 |
| Non-Operating Income | 128 | 108 | 88 | 208 | 281 | 213 | 163 | 228 |
| Non-Operating Expenses | 272 | 241 | 147 | 149 | 260 | 221 | 186 | 145 |
| Recurring Profit | 8,186 | 9,812 | 9,912 | 12,089 | 13,784 | 13,892 | 15,092 | 15,943 |
| YoY | 49.2% | 19.9% | 1.0% | 22.0% | 14.0% | 0.8% | 8.6% | 5.6% |
| RPM | 6.0% | 6.7% | 7.1% | 7.1% | 6.3% | 5.6% | 5.9% | 6.0% |
| Extraordinary Gains and losses | | -830 | 223 | -980 | -807 | 27 | -501 | -342 |
| Extraordinary Gains | 57 | 110 | 457 | 5 | 73 | 80 | 28 | 15 |
| Extraordinary Losses | 162 | 940 | 234 | 985 | 880 | 53 | 529 | 357 |
| Tax Charges | 3,702 | 4,026 | 4,618 | 4,613 | 5,932 | 6,306 | 6,192 | 6,530 |
| Implied Tax Rate | 45.8% | 44.8% | 45.6% | 41.5% | 45.7% | 45.3% | 42.4% | 41.9% |
| Minority Interests | | 80 | 50 | | 132 | 104 | 237 | 344 |
| Net Income | 4,379 | 4,876 | 5,466 | 6,495 | 6,912 | 7,509 | 8,161 | 8,725 |
| YoY | 46.1% | 11.3% | 12.1% | 18.8% | 6.4% | 8.6% | 8.7% | 6.9% |
| Net Margin | 3.2% | 3.3% | 3.9% | 3.8% | 3.1% | 3.0% | 3.2% | 3.3% |

Source: Shared Research based on company data

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

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

Historical forecast accuracy

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

Source: Shared Research based on company data

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

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

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

Balance sheet

| (JPYmn) | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|--|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| ASSETS | | | | | | | |
| Cash and Equivalents | 6,991 | 7,964 | 13,098 | 9,707 | 10,014 | 12,565 | 15,580 |
| Accounts Receivable | 18,025 | 16,284 | 28,246 | 31,240 | 44,673 | 37,420 | 40,055 |
| Allowance for Doubtful | -188 | -122 | -226 | -657 | -144 | -290 | -168 |
| Inventories | 28 | 20 | 1,476 | 1,527 | 2,237 | 2,504 | 3,381 |
| Deposit of Subsidiaries and Affiliates | 2,500 | 3,000 | 18,920 | 27,320 | 18,020 | 32,420 | 41,326 |
| Other Current Assets | 2,794 | 2,880 | 3,010 | 3,349 | 4,523 | 5,728 | 4,303 |
| Total Current Assets | 30,150 | 30,026 | 64,524 | 72,486 | 79,323 | 90,347 | 104,477 |
| Buildings | 762 | 1,185 | 1,234 | 1,217 | 1,089 | 1,046 | 1,009 |
| Machinery for Area Control, net | 343 | 305 | 265 | 246 | 274 | 238 | 211 |
| Tools, Furniture, and Fixtures, net | - | - | 1,791 | 1,918 | 2,079 | 2,487 | 2,516 |
| Land | 475 | 284 | 284 | 284 | 282 | 278 | 278 |
| Construction in Progress | 13 | 15 | - | - | - | - | - |
| Other Fixed | 1,009 | 952 | 182 | 108 | 72 | 209 | 345 |
| Total Tangible Fixed Assets | 2,602 | 2,741 | 3,756 | 3,773 | 3,796 | 4,258 | 4,361 |
| Goodwill | 11,974 | 11,295 | 10,546 | 11,249 | 10,801 | 10,078 | 9,069 |
| Other | 649 | 629 | 1,031 | 1,023 | 1,520 | 1,609 | 1,867 |
| Total Intangible Assets | 12,623 | 11,924 | 11,577 | 12,272 | 12,321 | 11,687 | 10,937 |
| Investment Securities | 1,730 | 2,050 | 2,983 | 2,577 | 2,973 | 3,897 | 3,768 |
| Deferred Tax Assets | 534 | 289 | 278 | 406 | 288 | 254 | 284 |
| Other | 1,566 | 1,779 | 1,701 | 1,517 | 2,196 | 1,877 | 2,750 |
| Allowance for Doubtful | -172 | -141 | -196 | -224 | -200 | -199 | -535 |
| Total Other Fixed Assets | 3,658 | 3,977 | 4,766 | 4,276 | 5,257 | 5,829 | 6,268 |
| Total Fixed Assets | 18,885 | 18,644 | 20,100 | 20,322 | 21,375 | 21,775 | 21,567 |
| Total Assets | 49,035 | 48,670 | 84,624 | 92,809 | 100,699 | 112,122 | 126,044 |
| LIABILITIES | | | | | | | |
| Accounts Payable | 10,551 | 8,974 | 22,424 | 23,720 | 24,544 | 26,701 | 30,902 |
| Short-Term Debt | 1,688 | 80 | 49 | 41 | 10 | 5 | - |
| Other Current Liabilities | 7,892 | 7,227 | 8,251 | 9,882 | 10,401 | 12,600 | 15,738 |
| Total Current Liabilities | 20,131 | 16,281 | 30,724 | 33,643 | 34,955 | 39,306 | 46,640 |
| Long-Term Debt | 56 | 31 | 6 | 15 | 5 | - | - |
| Other Fixed Liabilities | 768 | 993 | 1,006 | 968 | 1,190 | 1,500 | 1,908 |
| Total Long-Term Liabilities | 824 | 1,024 | 1,012 | 983 | 1,195 | 1,500 | 1,908 |
| Total Liabilities | 20,956 | 17,306 | 31,737 | 34,626 | 36,151 | 40,806 | 48,549 |
| Issued Capital | 3,238 | 3,238 | 3,238 | 3,238 | 3,238 | 3,238 | 3,238 |
| Reserves | 2,963 | 2,964 | 18,741 | 18,753 | 18,770 | 18,818 | 18,850 |
| Retained Earnings | 20,852 | 25,366 | 30,575 | 35,285 | 40,539 | 46,235 | 52,388 |
| Treasury Stock | -461 | -461 | -461 | -460 | -458 | -449 | -443 |
| Total Accumulated Other Comprehensive Income | -42 | 145 | 645 | 647 | 992 | 1,711 | 1,373 |
| Share Warrants | 72 | 110 | 149 | 173 | 205 | 165 | 166 |
| Minority Interests | 1,456 | - | - | 545 | 1,260 | 1,597 | 1,922 |
| Total Shareholder Equity (Net Assets) | 28,079 | 31,364 | 52,887 | 58,182 | 64,547 | 71,316 | 77,495 |
| Working Capital | 7,502 | 7,330 | 7,298 | 9,047 | 22,366 | 13,223 | 12,534 |
| Interest-Bearing Debt | 1,744 | 111 | 55 | 56 | 15 | 5 | - |
| Net Debt (Net Cash) | 7,747 | 10,853 | 31,963 | 36,971 | 28,019 | 44,980 | 56,906 |
| | 54.1% | 64.2% | 62.3% | 61.9% | 62.6% | 62.0% | 59.8% |

Source: Shared Research based on company data

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

JPY1.5bn raised from securitization of future receivables in FY02/09 is booked as short-term interest bearing debt.

Assets

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

Aeon Delight's assets and liabilities swelled in FY02/11 due to its merger with Certo Corp. It took on assets of 31.5 billion yen and liabilities of 15.3 billion yen.

Liabilities

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

Equity Capital

Equity capital 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, SR Inc. believes that the company could use financial leverage (i.e., use of debt to acquire additional assets) to expand business and its equity.

Shareholder Rewards

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

Statement of cash flows

| (JPYmn) | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|------------------------------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
| Operating Cash Flow (1) | 6,668 | 7,031 | 6,808 | 9,639 | -4,358 | 21,359 | 17,234 |
| Investment Cash Flow (2) | -2,087 | -1,966 | -3,000 | -10,051 | 7,086 | -16,632 | -11,365 |
| Free Cash Flow (1 + 2) | 4,581 | 5,065 | 3,808 | -412 | 2,728 | 4,727 | 5,869 |
| Financial Cash Flow | -5,255 | -4,169 | -1,321 | -2,722 | -2,257 | -2,475 | -2,594 |
| Depreciation & Amortization (A) | 1,495 | 1,593 | 1,787 | 2,345 | 2,237 | 2,432 | 2,466 |
| Capital Expenditures (B) | -707 | -912 | -792 | -1,184 | -1,607 | -1,999 | -1,903 |
| Working Capital Changes (C) | 108 | -172 | -32 | 1,749 | 13,319 | -9,143 | -689 |
| Simple FCF (NI + A + B - C) | 5,556 | 6,319 | 7,522 | 6,324 | -5,180 | 17,737 | 9,977 |

Source: Shared Research based on company data

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

Operating cash flow

In FY02/13, net cash used in operations was 4.4 billion yen (net cash provided by operations was 9.6 billion yen in FY02/12), attributed to a 12.6 billion yen increase in accounts receivables related rise in LED construction work for the Aeon group, and 6.6 billion yen paid in corporate income taxes. Prior to FY02/13, cash flow from operations ranged from 6.5 billion in FY02/08 to 9.6 billion in FY02/13.

Investment cash flow

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

Financial cash flow

In FY02/13, net cash used in financing activities were dividend payments of 2.3 billion yen. 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 13.3 billion yen YoY (13.4 billion yen increase in accounts receivables and 710 million yen increase in inventories minus 820 million yen increase in accounts payables). Depreciation and amortization of goodwill totaled 2.2 billion yen and capital expenditures were 1.6 billion yen. Net income totaled 7.5 billion yen. Simple free cash flow was negative 5.2 billion yen at the end of FY02/13.

| Cash Conversion Cycle | FY02/09 | FY02/10 | FY02/11 | FY02/12 | FY02/13 | FY02/14 | FY02/15 |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Accounts Receivable Turnover | 8.2 | 8.2 | 7.7 | 7.4 | 6.6 | 6.3 | 6.9 |
| Days in Accounts Receivable | 44.7 | 44.6 | 47.6 | 49.4 | 55.7 | 58.2 | 53.0 |
| Inventory Turnover | 6,565.0 | 4,965.8 | 196.4 | 127.3 | 116.2 | 94.3 | 78.7 |
| Days in Inventory | 0.1 | 0.1 | 1.9 | 2.9 | 3.1 | 3.9 | 4.6 |
| Payables Turnover | 12.0 | 12.2 | 9.4 | 8.3 | 9.1 | 8.7 | 8.0 |
| Days in Payables | 30.5 | 29.9 | 39.0 | 44.1 | 40.3 | 41.8 | 45.4 |
| Cash Conversion Cycle (days) | 14.3 | 14.8 | 10.4 | 8.2 | 18.5 | 20.3 | 12.3 |

Source: Shared Research based on company data

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

Inventory turnover rate deteriorated over the past three years due to increased inventories from acquired companies. Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers. In FY02/13, its cash-conversion cycle increased due to increased LED installation work for Aeon group companies.

Other information

History

Japan Maintenance

In 1972, Nichii Co., Ltd. (renamed Mycal Corp. in 1996) established Nichii Maintenance Co., Ltd., to undertake maintenance at Mycal stores (Aeon Retail acquired Mycal in March 2011). In 1976, Nichii Maintenance changed its name to Japan Maintenance Co., Ltd. The company listed its shares on the Second Section of the Osaka Securities Exchange in 1995, and on the Second Section of the Tokyo Stock Exchange in 1999. In 2000, it listed its shares on the First Section of the Tokyo Stock Exchange.

Aeon Techno Service

In 1987, Jusco Maintenance was established after Jusco Kosan Co., Ltd. (currently Aeon Mall) created a subsidiary from its building maintenance division. The company handled facilities maintenance, cleaning, and security services for retail stores for the Aeon group companies. In 1997, Jusco Maintenance changed its name to Aeon Techno Service Co., Ltd.

Merger

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

Aeon Delight

Prior to the merger, Japan Maintenance generated 40% of its sales from Mycal group companies, while Aeon Techno Service depended mostly on Aeon group companies for its business. The company derived 65% of total sales from Aeon group companies as of end of FY02/13, and made several acquisitions to expand its business.

News & topics

In FY02/12, Aeon Delight developed recirculating, water-saving plastic urinals. These urinals reduce water consumption by 90%. According to Aeon Delight, a train station in which 500 people use the restroom daily could save at least 160,000 yen a year with one urinal (500 people x 1.8 liters x 365 x 0.55 yen x 90%). This calculation is based on the assumption that water and sewage cost 550 yen per 1,000 liters, and that conventional urinals require 1.8 liters of water per use. Aeon Delight plans to sell these urinals for 120,000 yen per unit. However, after testing in stores, there was room for improvement, and although experiments continue, it is still not at a stage where it can be implemented en masse.



Source: Shared Research based on company data

Aeon Delight also developed a water-based coating agent as an alternative to conventional resin wax. "Aeon Delight Coat" has a high-luster finish without organic solvents or the removal of older wax coatings. Another product, "AD Hard Coat," which is under development, eliminates the need for buffing.



Source: Shared Research based on company data

November 2013

On **November 28, 2013**, the company announced the launch of a solar power business.

Aeon Delight, Recycle One, Inc., etc. will jointly invest to establish Kikugawa Ishiyama Solar Ltd. and Kikugawa Horinouchiya Solar Ltd. The 9.4-megawatt facilities of Kikugawa Ishiyama Solar and the 7.5-megawatt facilities of Kikugawa Horinouchiya Solar will have a total annual output of 20.84 megawatt-hours, equivalent to the annual power consumption of about 5,000 typical households. Construction is scheduled to begin in December 2013, and electricity sale is slated to begin in February 2015.

Major shareholders

Aeon group companies own over 60% of the company.

| Top Shareholders | Amount Held |
|--|-------------|
| Aeon Retail Co., Ltd. | 42.94% |
| Aeon Co., Ltd. | 16.81% |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 1.98% |
| Aeon Delight Business Partners | 1.61% |
| BNP Paribas Sec Services Luxembourg/Jasdec/Aberdeen Global Client Assets | 1.41% |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1.27% |
| Goldman Sachs & Co Regular Account | 1.20% |
| Aeon Delight Employees | 1.11% |
| Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. | 1.01% |
| HSBC Fund Services Clients Account 006 | 0.93% |

Source: Shared Research based on company data
(As of February 28, 2015)

Top management

President Ippei Nakayama (born in 1954) joined Jusco in 1971 and developed his career in store operations, management, and human resources before being seconded to the Ministry of Labor (currently, Ministry of Health, Labor and Welfare) in 1985. After returning to Aeon, he continued his career in human resources, and was later involved in establishing Talbot, Inc. in Japan. He became a director at Aeon Techno Service Co., Ltd. in 2002, and was promoted to

executive managing director in 2006. Furthermore, Mr. Nakayama became a managing director of the newly formed Aeon Delight Co., Ltd., following the merger of Japan Maintenance Co., Ltd. and Aeon Techno Service in September 2006. He became senior vice president in 2012, and was promoted president of Aeon Delight in 2013.

Employees

Aeon Delight had 12,087 employees and an average of 5,703 temporary employees on a consolidated basis as of FY02/15. At the parent level, there were 3,899 employees and 2,268 temporary employees. The average age, average length of employment, and average annual salary on a parent basis are as follows:

Average age: 46 years and 7 months

Average length of employment: 10.4 years

Average annual salary: JPY4.7mn

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

Aeon 1% Club supports projects to protect the environment, boost international cultural and human exchange, promote

regional cultural and social activities, and donate to welfare projects. It is an initiative under which group companies contribute 1% of their pretax profits so that these activities can be maintained regardless of the companies' business performances.

Tree planting through Aeon Environmental Foundation

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

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

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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



Company profile

| Company Name | Head Office |
|---|---|
| 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 |
| http://www.aeondelight.co.jp/english/ | February |
| IR Contact | IR Web |
| | http://www.aeondelight.co.jp/english/ir/ |
| IR Mail | IR Phone |
| | |

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| Bell-Park Co., Ltd. | istyle Inc. | SATO Holdings Corp. |
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| Canon Marketing Japan Inc. | ITO EN, Ltd. | Ship Healthcare Holdings Inc. |
| Carna Biosciences, Inc. | J Trust Co., Ltd | SMS Co., Ltd. |
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| Chugoku Marine Paints, Ltd. | JIN Co., Ltd. | Star Mica Co., Ltd. |
| Cocokara Fine, Inc. | Kameda Seika Co., Ltd. | SymBio Pharmaceuticals Limited |
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| CRE, Inc. | KLab Inc. | Takihyo Co., Ltd. |
| Creek & River Co., Ltd. | LAC Co., Ltd. | Tamagawa Holdings Co., Ltd |
| Daiseki Corp. | Lasertec Corp. | TEAR Corporation |
| DIC Corporation | MAC-HOUSE Co. | 3-D Matrix, Ltd. |
| Digital Garage Inc. | Matsui Securities Co., Ltd. | TOKAI Holdings Corp. |
| Don Ojote Holdings Co., Ltd. | Medinet Co., Ltd. | Verite Co., Ltd. |
| Dream Incubator Inc. | Megane Super Co., Ltd. | WirelessGate, Inc. |
| Elecom Co. | Milbon. Co., Ltd. | Yellow Hat Ltd. |
| EMERGENCY ASSISTANCE JAPAN Co. | MIRAIT Holdings Corp. | Yumeshin Holdings |
| en-Japan Inc. | MONEY SQUARE HOLDINGS, INC. | VOYAGE GROUP, Inc. |
| FerroTec Corp. | NAGASE & CO., LTD | ZAPPALLAS, INC. |
| Fields Corp. | NAIGAI TRANS LINE LTD. | ZIGEXN Co., Ltd. |
| FreeBit Co., Ltd. | NanoCarrier Ltd. | |

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