Aeon Delight / 9787

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Research Coverage Report by Shared Research Inc.

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

Key financial indicators

Income statement (JPYmn)	FY02/08 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.	FY02/17 Cons.	FY02/18 Est.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**	**294,725**	**305,000**
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	3.5%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	18,000
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Recurring profit	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	18,000
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	3.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.9%
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**	**10,238**	**10,700**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	4.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%
Per share data											
Shares issued ('000, year end)	41,400	41,400	41,400	54,170	54,170	54,170	54,170	54,170	54,170	54,170	-
EPS	110	123	138	143	132	143	156	166	184	195	204
EPS (fully diluted)	-	123	138	142	132	143	155	166	183	194	-
Dividend per share	25	22	27	39	40	46	48	50	52	55	61
Book value per share	567	669	788	1,006	1,096	1,202	1,325	1,436	1,553	1,700	-
Balance sheet (JPYmn)											
Cash and cash equivalents	7,673	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386	31,717	
Total current assets	**28,764**	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**	**112,405**	
Tangible fixed assets	1,885	2,602	2,741	3,756	3,773	3,796	4,258	4,361	7,086	9,089	
Investment and total other fixed assets	3,411	3,658	3,977	4,766	4,276	5,257	5,829	6,268	8,190	8,915	
Intangible fixed assets	13,356	12,623	11,924	11,577	12,272	12,321	11,687	10,937	10,397	9,095	
Total assets	**47,418**	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**	**139,505**	
Accounts payable	10,293	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457	28,607	
Short-term debt	-	1,688	80	49	41	10	5	-	-	271	
Total current liabilities	**22,533**	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**	**44,065**	
Long-term debt	-	56	31	6	15	5	-	-	-	293	
Total fixed liabilities	**2,395**	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**	**3,350**	
Total liabilities	**24,929**	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**	**47,416**	
Total net assets	**22,488**	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**	**92,089**	
Cash flow statement (JPYmn)											
Cash flows from operating activities	6,472	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303	11,703	
Cash flows from investing activities	-2,190	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233	
Cash flows from financing activities	-6,094	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400	
Financial ratios											
Total interest-bearing debt	-	1,744	111	55	56	15	5	-	-	564	
Net cash	9,173	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748	35,384	
ROA (RP-based)	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%	12.8%	
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%	12.0%	
Equity ratio	47.4%	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%	64.0%	

Source: Shared Research based on company data

Recent updates

Highlights

On **January19, 2018**, Shared Research updated the report following interviews with AEON DELIGHT, Co., Ltd.

On **January 10, 2018,** the company announced earnings results for Q3 FY02/18; see the results section for details.

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	FY02/16				FY02/17				FY02/18			FY02/16	FY02/17	FY02/18	FY02/16	FY02/17	FY02/18
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Cml. Q3	Cml. Q3	Cml. Q3	Act.	Act.	Est.
Sales	70,529	72,254	67,906	70,352	75,472	75,928	71,472	71,853	75,514	76,287	72,041	210,689	222,872	223,842	281,041	294,725	305,000
YoY	6.1%	6.9%	4.1%	4.4%	7.0%	5.1%	5.3%	2.1%	0.1%	0.5%	0.8%	5.7%	5.8%	0.4%	5.4%	4.9%	3.5%
Gross profit	8,864	9,734	8,923	9,869	9,471	10,073	9,334	10,117	9,794	10,241	9,379	27,521	28,878	29,414	37,390	38,995	
YoY	6.7%	8.5%	5.9%	4.9%	6.8%	3.5%	4.6%	2.5%	3.4%	1.7%	0.5%	7.1%	4.9%	1.9%	6.5%	4.3%	
GPM	12.6%	13.5%	13.1%	14.0%	12.5%	13.3%	13.1%	14.1%	13.0%	13.4%	13.0%	13.1%	13.0%	13.1%	13.3%	13.2%	
SG&A expenses	5,239	5,237	5,076	5,130	5,560	5,479	5,384	5,315	5,711	5,517	5,527	15,552	16,423	16,755	20,682	21,738	
YoY	9.9%	8.9%	5.1%	5.7%	6.1%	4.6%	6.1%	3.6%	2.7%	0.7%	2.7%	8.0%	5.6%	2.0%	7.4%	5.1%	
SG&A ratio	7.4%	7.2%	7.5%	7.3%	7.4%	7.2%	7.5%	7.4%	7.6%	7.2%	7.7%	7.4%	7.4%	7.5%	7.4%	7.4%	
Operating profit	3,625	4,496	3,848	4,738	3,911	4,594	3,950	4,802	4,082	4,724	3,852	11,969	12,455	12,658	16,707	17,257	18,000
YoY	2.4%	8.0%	6.9%	3.9%	7.9%	2.2%	2.7%	1.4%	4.4%	2.8%	-2.5%	5.9%	4.1%	1.6%	5.3%	3.3%	4.3%
OPM	5.1%	6.2%	5.7%	6.7%	5.2%	6.1%	5.5%	6.7%	5.4%	6.2%	5.3%	5.7%	5.6%	5.7%	5.9%	5.9%	5.9%
Recurring profit	3,652	4,487	3,876	4,669	3,908	4,598	3,965	4,910	4,116	4,762	4,182	12,015	12,471	13,060	16,684	17,381	18,000
YoY	2.6%	7.7%	7.2%	1.4%	7.0%	2.5%	2.3%	5.2%	5.3%	3.6%	5.5%	6.0%	3.8%	4.7%	4.6%	4.2%	3.6%
RPM	5.2%	6.2%	5.7%	6.6%	5.2%	6.1%	5.5%	6.8%	5.5%	6.2%	5.8%	5.7%	5.6%	5.8%	5.9%	5.9%	5.9%
Net income	2,078	2,604	2,292	2,684	2,681	2,661	2,295	2,601	2,773	2,800	2,078	6,974	7,637	7,651	9,658	10,238	10,700
YoY	3.1%	10.1%	14.4%	14.6%	29.0%	2.2%	0.1%	-3.1%	3.4%	5.2%	-9.5%	9.3%	9.5%	0.2%	10.7%	6.0%	4.5%
Net margin	2.9%	3.6%	3.4%	3.8%	3.6%	3.5%	3.2%	3.6%	3.7%	3.7%	2.9%	3.3%	3.4%	3.4%	3.4%	3.5%	3.5%

Segments	FY02/16				FY02/17				FY02/18			FY02/16	FY02/17	FY02/18	FY02/16	FY02/17	FY02/18
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Cml. Q3	Cml. Q3	Cml. Q3	Act.	Act.	Est.
Sales	70,529	72,254	67,906	70,352	75,472	75,928	71,472	71,853	75,514	76,287	72,041	210,689	222,872	223,842	281,041	294,725	305,000
Facilities Management	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507	13,165	12,994	13,412	36,520	38,044	39,571	48,962	50,551	
Cleaning Services	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314	13,743	13,708	13,920	35,190	40,051	41,371	47,870	53,365	
Security Services	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580	11,001	10,798	10,712	28,122	30,488	32,511	38,456	41,068	
Construction Work	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193	11,724	12,396	8,617	35,902	36,621	32,737	43,855	45,814	
Materials and Supplies Sourcing	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102	12,638	12,502	12,696	37,515	38,638	37,836	50,516	50,740	
Vending Machine Services	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369	8,017	8,993	7,544	24,462	24,510	24,554	32,741	32,879	
Support Services	4,215	4,458	4,302	5,664	4,771	4,666	5,080	5,789	5,223	4,896	5,139	12,975	14,517	15,258	18,639	20,306	
YoY	6.1%	6.9%	4.1%	4.4%	7.0%	5.1%	5.3%	2.1%	0.1%	0.5%	0.8%	5.7%	5.8%	0.4%	5.4%	4.9%	3.5%
Facilities Management	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%	6.5%	6.2%	4.2%	4.0%	6.8%	3.2%	
Cleaning Services	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%	4.6%	6.5%	13.8%	3.3%	8.1%	11.5%	
Security Services	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%	6.3%	3.7%	8.4%	6.6%	5.0%	6.8%	
Construction Work	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%	-14.1%	11.0%	2.0%	-10.6%	4.5%	4.5%	
Materials and Supplies Sourcing	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%	-0.6%	5.7%	3.0%	-2.1%	6.1%	0.4%	
Vending Machine Services	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%	-0.7%	-5.2%	0.2%	0.2%	-6.0%	0.4%	
Support Services	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	2.2%	9.5%	4.9%	1.2%	17.3%	11.9%	5.1%	19.9%	8.9%	
Operating profit	3,625	4,496	3,848	4,738	3,911	4,594	3,950	4,802	4,082	4,724	3,852	11,969	12,455	12,658	16,707	17,257	18,000
Facilities Management	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091	1,121	1,142	1,251	3,234	3,259	3,514	4,206	4,350	
Cleaning Services	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481	1,570	1,525	1,554	4,616	4,531	4,649	6,031	6,012	
Security Services	696	731	782	823	721	697	736	956	773	708	637	2,209	2,154	2,118	3,032	3,110	
Construction Work	932	1,061	709	516	935	851	681	743	911	1,020	691	2,702	2,467	2,622	3,218	3,210	
Materials and Supplies Sourcing	568	664	670	904	708	635	716	715	710	687	719	1,902	2,059	2,116	2,806	2,774	
Vending Machine Services	450	775	372	1,249	455	963	432	962	421	862	217	1,597	1,850	1,500	2,846	2,812	
Support Services	355	556	510	551	575	579	595	628	639	685	692	1,421	1,749	2,016	1,972	2,377	
Elimination	-140	-165	-201	-130	-129	-109	-98	-121	-134	-220	-199	-506	-336	-553	-636	-457	
Amortization of goodwill	-285	-293	-292	-292	-228	-202	-200	-200	-200	-200	-199	-870	-630	-599	-1,162	-830	
Company-wide expenses	-1,478	-1,479	-1,381	-1,270	-1,617	-1,495	-1,538	-1,452	-1,730	-1,485	-1,512	-4,338	-4,650	-4,727	-5,608	-6,102	
YoY	2.4%	8.0%	6.9%	3.9%	7.9%	2.2%	2.7%	1.4%	4.4%	2.8%	-2.5%	5.9%	4.1%	1.6%	5.3%	3.3%	4.3%
Facilities Management	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%	13.5%	1.0%	0.8%	7.8%	-0.3%	3.4%	
Cleaning Services	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%	2.0%	0.1%	-1.8%	2.6%	-4.1%	-0.3%	
Security Services	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%	-13.5%	-1.2%	-2.5%	-1.7%	-2.3%	2.6%	
Construction Work	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%	1.5%	24.3%	-8.7%	6.3%	14.6%	-0.2%	
Materials and Supplies Sourcing	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%	0.4%	36.8%	8.3%	2.8%	32.9%	-1.1%	
Vending Machine Services	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%	-49.8%	-18.1%	15.8%	-18.9%	-4.0%	-1.2%	
Support Services	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%	16.3%	49.4%	23.1%	15.3%	41.7%	20.5%	
OPM	5.1%	6.2%	5.7%	6.7%	5.2%	6.1%	5.5%	6.7%	5.4%	6.2%	5.3%	5.7%	5.6%	5.7%	5.9%	5.9%	5.9%
Facilities Management	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%	9.3%	8.9%	8.6%	8.9%	8.6%	8.6%	
Cleaning Services	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	11.1%	11.4%	11.1%	11.2%	13.1%	11.3%	11.2%	12.6%	11.3%	
Security Services	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%	5.9%	7.9%	7.1%	6.5%	7.9%	7.6%	
Construction Work	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%	8.0%	7.5%	6.7%	8.0%	7.3%	7.0%	
Materials and Supplies Sourcing	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%	5.7%	5.1%	5.3%	5.6%	5.6%	5.5%	
Vending Machine Services	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%	2.9%	6.5%	7.5%	6.1%	8.7%	8.6%	
Support Services	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%	13.5%	11.0%	12.0%	13.2%	10.6%	11.7%	
OP composition																	
Facilities Management	18.9%	17.2%	18.9%	15.1%	17.1%	18.0%	19.0%	16.6%	18.2%	17.2%	21.7%	18.3%	18.0%	19.0%	17.4%	17.7%	
Security Services	12.6%	11.4%	13.7%	12.8%	12.3%	10.9%	12.7%	14.5%	12.6%	10.7%	11.1%	12.5%	11.9%	11.4%	12.6%	12.6%	
Cleaning Services	26.8%	23.9%	27.9%	22.0%	25.2%	23.8%	26.3%	22.5%	25.5%	23.0%	27.0%	26.1%	25.1%	25.1%	25.0%	24.4%	
Construction Work	16.9%	16.5%	12.4%	8.0%	15.9%	13.3%	11.8%	11.3%	14.8%	15.4%	12.0%	15.3%	13.7%	14.1%	13.3%	13.0%	
Materials and Supplies Sourcing	10.3%	10.3%	11.7%	14.1%	12.0%	9.9%	12.4%	10.9%	11.6%	10.4%	12.5%	10.8%	11.4%	11.4%	11.6%	11.3%	
Vending Machine Services	8.1%	12.1%	6.5%	19.4%	7.7%	15.0%	7.5%	14.6%	6.9%	13.0%	3.8%	9.0%	10.2%	8.1%	11.8%	11.4%	
Support Services	6.4%	8.6%	8.9%	8.6%	9.8%	9.0%	10.3%	9.5%	10.4%	10.3%	12.0%	8.0%	9.7%	10.9%	8.2%	9.6%	

Source: Shared Research based on company data
Note: The company changed its distribution method of SG&A expenses in FY02/16. The change pushes up profits at Materials and Supplies Sourcing Services and Vending Machines Services segments, while pulling down profits for all other segments, compared to the conventional method.

Full-year performance

(JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	305,000
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	3.5%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%	7.4%	5.1%	
SG&A-to-sales ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	18,000
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Recurring profit	8,186	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	18,000
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	3.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.9%
Net income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,700
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	4.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%

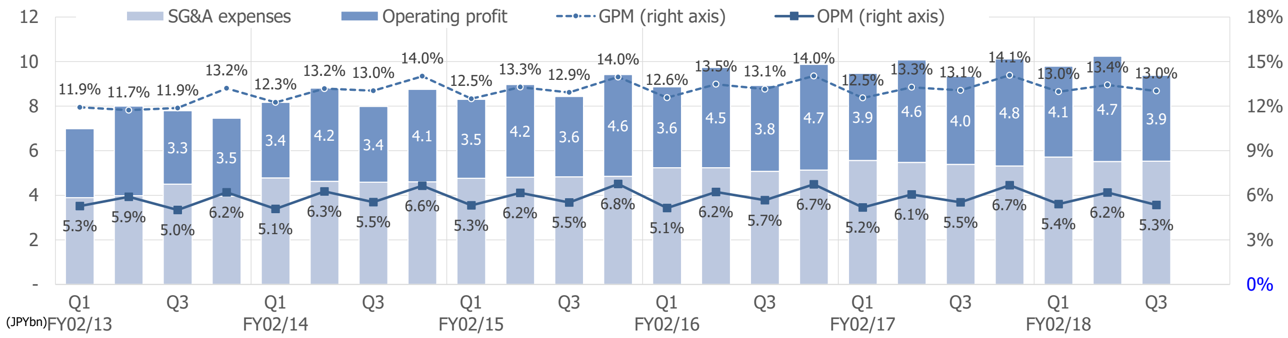
Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	305,000
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	50,516	50,740	
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	32,741	32,879	
Support Services	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306	
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	3.5%
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	
Support Services		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	
Operating profit	8,330	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	18,000
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	
Materials and Supplies Sourcing				627	1,234	1,462	2,333	2,111	2,806	2,774	
Vending Machine Services				1,480	2,330	2,396	3,068	2,965	2,846	2,812	
Support Services			748	590	312	741	1,160	1,297	1,972	2,377	
Elimination, other			-5,125	-5,698	-5,843	-6,180	-7,334	-6,929	-7,406	-7,389	
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	
Materials and Supplies Sourcing					96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	
Vending Machine Services					57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	
Support Services					-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	
Support Services				11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%	
OP composition											
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.0%	18.5%	17.4%	17.7%	
Security Services			18.1%	15.6%	14.4%	13.4%	12.8%	13.6%	12.6%	12.6%	
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.5%	27.6%	25.0%	24.4%	
Construction Work			8.8%	6.8%	9.9%	11.0%	11.5%	12.3%	13.3%	13.0%	
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.4%	9.3%	11.6%	11.3%	
Vending Machine Services				8.3%	11.9%	11.9%	13.7%	13.0%	11.8%	11.4%	
Support Services				3.3%	1.6%	3.7%	5.2%	5.7%	8.2%	9.6%	

Source: Shared Research based on company data

Q3 FY02/18 results (announced January 10, 2018)

- **Cumulative Q3:** Earnings hit new record high, but still slightly short of expectations due to slowdown at Construction Work, Security Services, and Vending Machine Services segments; making good progress on high priority initiatives under medium-term business plan
  - Earnings slowdown: Construction Work segment pinched by slowing demand for commercial facilities remodeling work; Security Services hit by higher personnel costs; Vending Machine Services hit by rising depreciations and one-time charges; company taking steps in all areas to turn around earnings in FY02/19
  - **Priority** initiatives**:** Roll out IFM (integrated facility management) services, utilize technology, and expand business in Asia. Company making good progress in all areas; construction demand stemming from tenant replacement also holding up well
- **IFM:** Opened Shanghai sales office (April), established global headquarters for promotion of IFM business (June), and performed consulting-based sales; a project is slated to start in FY02/19
- **Technology:** Established technology solution headquarters (June), introduced next-generation facilities management system in Japan and overseas, and tested cleaning robot
  - **Next-generation facilities management:** Open network system toward de facto standardization in Asia. Set to begin testing of labor-saving system that utilizes sensors and IoT in FY02/19
  - **Micro-markets (self-checkout kiosks):** Field testing an operation model that generates profit with daily sales of JPY100,000 (target: offices with 300–1,000 workers)
  - Robots: Field testing winding down, expect to begin phased rollout in stores from FY02/19; expected to contribute to reduction in labor
- **Expansion of Asia business:** In China, restructured business portfolio to shift to highly profitable business. Received contracts for facility management business in the Jiangsu redevelopment area
  - **Five primary markets:** medium- to high-end residential projects, medium- to high-end shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities
- FY02/19: Segments experiencing slowdown in 2H FY02/18 expected to see earnings turnaround with help from increased marketing, application of new technology; overseas, company sees businesses continue to expand steadily, including new IFM customers

Earnings (JPYbn)



Source: Shared Research based on company data

Earnings overview

Cumulative Q3: Earnings hit new record high, but still slightly short of expectations due to slowdown at Construction, Security Services, and Vending Machine Services businesses; made good progress on high priority initiatives under medium-term business plan

In Japan, the company increased orders from large-facilities and expanded its services to small- and medium-sized facilities through its domestic subsidiaries, and started offering services to hotels and non-Japanese furniture makers, as well as general real estate developers. Overseas, the company steadily expanded its business in each country, and continues to allocate management resources to the Asian market, which it views as a priority over the medium term. In the cumulative Q3 period, the company engaged in the following activities: 1) China: stepped up sales activities targeting the five primary markets (medium- to high-end residential projects, medium- to high-end shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities), and received orders for large commercial facilities and an office building that will serve as a landmark in the redevelopment area; 2) Malaysia: won orders for a newly opened commercial facility, and sought to increase contracts for its mainstay cleaning and materials business as well as for facility management, security, and construction work; and 3) Vietnam: started sales activities targeting businesses developing operations throughout Vietnam and in neighboring countries.

As a result, for the first nine month of FY02/18 Aeon Delight reported sales of JPY223.8bn (+0.8% YoY) and operating profit of JPY12.7bn (+1.6%), with operating profit, recurring profit, and net income all setting new record highs. Of the company's seven reporting segments, only the Construction Work segment and Materials and Supplies Sourcing segment saw sales decline during the nine-month period; the other five segments all saw positive top-line growth, though sales at one of these was down in Q3 on a standalone basis. Also of note, the Security Services segment recorded an extraordinary loss of JPY1.2bn.

Earnings slowdown: Construction Work segment pinched by slowing demand for commercial facilities remodeling work; Security Services hit by higher personnel costs; Vending Machine Services hit by rising depreciations and one-time charges; company taking steps in all areas to turnaround earnings in FY02/19

Record high earnings notwithstanding, earnings still came in a bit lower than expected. The company attributed the shortfall to a number of factors including a) at the Construction Works segment, delays in procuring orders for remodeling work at certain commercial facilities and also for planned maintenance/repair work at other facilities; b) at Securities Services, rising personnel costs stemming from expenditures needed to improve the work environment and create with new system at a time when labor market conditions were already tight; and c) at Vending Machine Services, rising depreciation charges stemming from the ongoing expansion of company-owned vending machine assets and increase in vending machines with digital signage, as well as some one-time charges.

Heading into FY02/19, the company is looking to turn things around at these segments. At the Construction Works segment, work orders stemming from tenant turnover and renovation work are said to be generally in line with expectations; having done some JPY27.0bn worth of LED lighting-related construction work back in FY02/13, the company anticipates a substantial amount of LED lighting replacement work, which at this point is already running a bit later than expected. At Securities Services, Aeon Delight is looking to strengthen its business model by reducing labor and decreasing its cost ratio (labor makes up the majority of the nearly 90% cost ratio). At Vending Machine Services, Aeon Delight is working to increase revenues per machine by buying more of its own machines and using models that can handle products from multiple vendors; by increasing the number of vending machines with digital signage, the company also expects to bring in additional revenues from advertising.

Progress on high priority initiatives under medium-term business plan

The company seems to be making good progress on the high priority initiatives under its medium-term business plan (integrated facility management services, greater use of technology, and expanding business in Asia). With respect to the integrated facility management (IFM) services, in Japan, the company has not won new IFM projects but its consulting-based sales approach bore fruit in the form of a comprehensive facility management project with a major company (project due to begin in April 2018); it also has out a substantial amount of other proposals, of which it is working to lock down at least 10 contracts during the three years of its medium-term business plan. In China, the company opened an IFM services sales office in Shanghai in April; subsidiaries in Suzhou and Wuhan are in the process of marketing. The domestic project with a major company, which the company won is not an IFM project in the strict sense; nonetheless it is a large-scale project that resulted from the company’s proposal for an IFM mandate, and the company expects it to open the door for an expanded assignment. The company is also making good progress toward expanding business with existing domestic clients, including additional projects in 2H that began contributing to sales and earnings in Q3.

On the technology utilization front, the company is currently in the process of field-testing cleaning robots with the aim of starting a phased rollout of the new equipment from the spring of 2018. With respect to its next-generation facilities management model, field-testing at commercial facilities (in Chiba, Japan, and Suzhou, China) showed the meaningful savings on energy costs, prompting the company to schedule further field-testing of the new model in Japan from the spring of 2018; with the use of new sensors and IoT technology, the company aims to bring down not only energy costs but labor costs as well. In the area of micro-markets (i.e., self-checkout kiosks), the company is in the process of field-testing the concept in Japan and is contemplating whether it should try to rollout micro-markets in China and, if so, whether it should find a local partner.

With regard to expanding business in Asia, the company noted that overseas sales as a whole had already topped JPY9.0bn and were up 7% from this time last year. In China, the company said it is in the process of restructuring its business portfolio and, while this was weighing on sales, the restructuring was already improving profitability, pushing up operating profit and putting its operating profit margin in China above its operating profit margin in Japan (5.9% in FY02/17). Having focused its marketing efforts on the five markets it prioritized in China, the company has already secured a facilities management contract for one commercial facility in the area being developed around the Suzhou North railway station. The company says this contract will begin contributing to sales and earnings from Q4, and that it is working to sign up more customers in this same area that will further expand its business in China in FY02/19 and subsequent years.

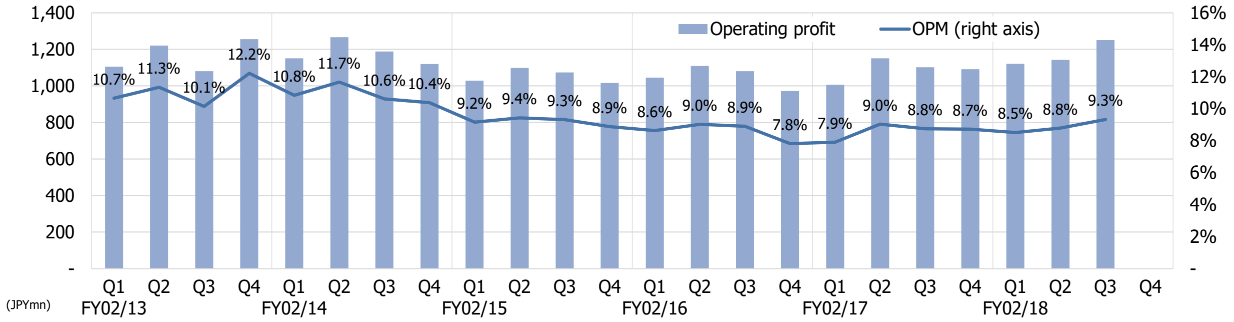
Looking ahead to Q4 and FY02/19

As mentioned previously, while sales and operating profit may finish a bit short of the company's forecast for FY02/18, the company appears to be making good progress on initiatives aimed at securing growth over the medium to longer term. As of the end of Q2, the company was projecting a JPY700mn YoY increase in gross profit in 2H based on the following assumptions. At the parent company, the company is looking to increase gross profits JPY300mn YoY by the following measures: 1) winning new contracts; 2) Construction work: focusing on estimate evaluations, remodeling/design construction work, and construction work needed after a change of tenant; 3) Materials and Supplies Sourcing Services: concentrate materials within each company in the Aeon Group and provide packaging materials for Top Valu. In domestic subsidiaries, the company is looking to increase gross profit JPY180mn YoY by the following measures: 1) Aeon Compass: focus on event business and business support services, including rental conference rooms; 2) Kajitaku: strengthen sales to major customers and expand sales of Kaji Cloud services; 3) AZS: expand contracts for small store construction work; 4) Hakuseisha: improve profitability targeting a JPY180mn increase in gross profit. Overseas, the company is looking to increase gross profit by JPY220mn by expanding contracts for medium to high-end facilities and redevelopment areas in China.

As of Q3, the company's Construction Work business was feeling the impact of lower-than-expected demand for maintenance and repair work at commercial facilities. Among its domestic subsidiaries, small-scale construction specialist AZS is still seeing strong growth in sales and earnings, Kajitaku and Aeon Compass are enjoying solid growth, and Hakuseisha is on its way to a JPY50mn YoY increase in gross profit in 2H. Among overseas subsidiaries, gross profit is also on the rise at subsidiaries in China.

In FY02/19, the company sees its Construction Work business benefiting from a rebound in demand for maintenance and repair work; there remains some concern as to whether the introduction of new technology and the application of other cost-cutting measures are enough to offset at least part of the rise in personnel costs at its Security Services and Cleanings Services. That said, Shared Research has high expectations in the progress the company is making toward expanding sales under the initiatives laid out in its medium-term business plan (i.e., expanding sales in Asia, new client wins from its IFM services marketing push, and construction work orders related to tenant changes and for facilities renovation).

Facilities Management



Facilities Management	FY02/15				FY02/16				FY02/17				FY02/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507	13,165	12,994	13,412	
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%	6.5%	
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091	1,121	1,142	1,251	
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%	13.5%	
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%	9.3%	

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

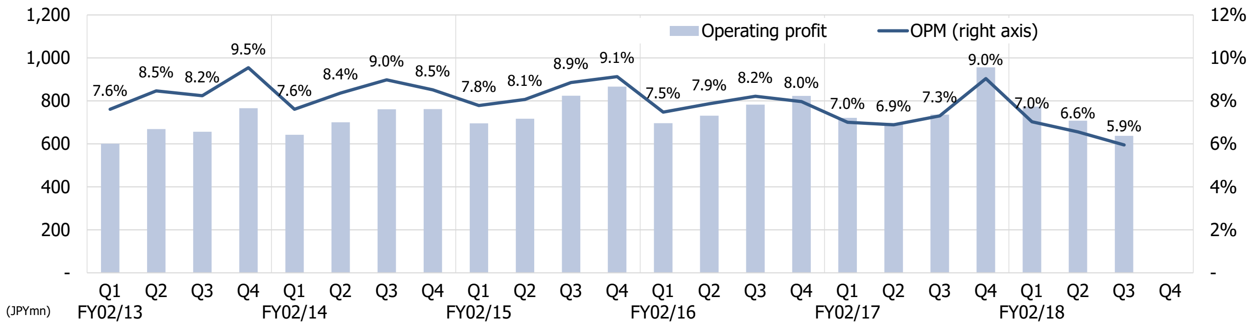
Source: Shared Research based on company data

Facilities Management: Won new contracts, orders kept rising for fire safety equipment testing to meet revised construction standards

In addition to receiving new orders for maintenance and inspection, the company continued to receive orders for regular fire safety equipment testing in order to meet the revised construction standards which came into effect in June 2016. Based on its strength in centralized management from managing over 120,000 pieces of equipment, the company promoted its management services for equipment that uses fluorocarbon, such as heat-generators for air conditioning and refrigeration/ freezing equipment, and won more contracts. The company also strove to lower the environmental burden based on the legal demands of the Fluorocarbon Emission Restriction Law. It is also developing a new facilities management model that leverages IoT technologies, various sensors, and cloud computing.

The company has begun designing a next-generation facility management model. This system would connect each facility through a network and make remote automatic control a possibility. By utilizing sensing technologies to conserve energy, minimize labor, and in turn create smart facilities, the company intends to reduce costs when replacing existing systems, which should lead to orders not just for new buildings, but also for existing buildings.

Security Services



Security Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580	11,001	10,798	10,712	
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%	6.3%	
Operating profit	695	717	824	866	696	731	782	823	721	697	736	956	773	708	637	
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%	-13.5%	
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%	5.9%	

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

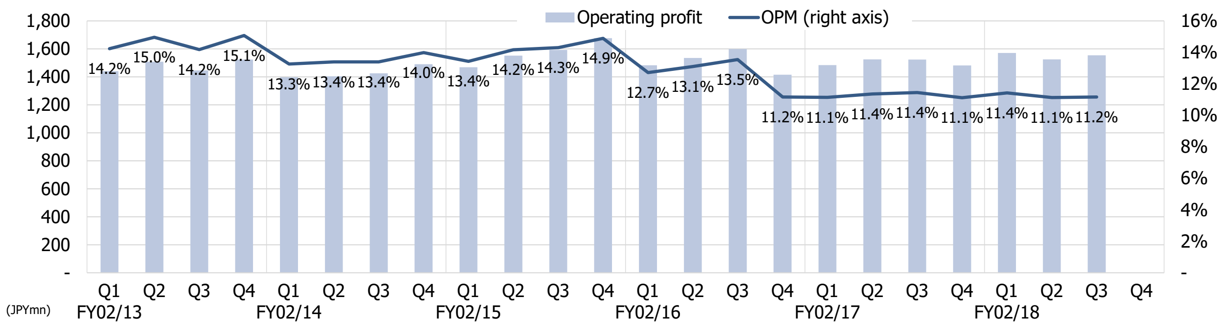
Source: Shared Research based on company data

Boosts sales to grow customer base; undertook initiatives to build a labor-saving system using IoT to eliminate labor shortages and raise quality

In addition to strengthening sales activities, the company has begun using a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. The company continues to systemize services such as entrance/exit management and security patrols. In addition to helping to improve the workplace environment to facilitate recruiting, the new system adds crisis management and is aimed at responding to the occurrence of crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety.

The company has also started implementing measures that will help it address the strain brought on by an increasingly tight labor market, including the creation of a new system and improving the work environment to assure that it can continue securing employees in the future. Although rising personnel costs put pressure on the operating profit margin in Q3, the company expects the use of new technology to help it reduce labor costs and lead to a higher gross margin in FY02/19. The increase in segment sales during the period was the result of the shift of some businesses between segments.

Cleaning Services



Cleaning Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314	13,743	13,708	13,920	
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%	4.6%	
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481	1,570	1,525	1,554	
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%	2.0%	
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	11.1%	11.4%	11.1%	11.2%	

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

Source: Shared Research based on company data

Cleaning Services: Set new cleaning standards for each facility. Promoted materials/equipment sales and eco materials/equipment

Hygienic cleaning system: Still small, but sales and earnings continue to rise

In addition to new contracts, the company worked to increase the number of contracts in the hospital and nursing home markets and has started to create cleaning quality standards based on the needs of each facility. It expects the result from its efforts in FY02/16 to ensure that each sales office is able to make hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, costs on orders received in early FY02/16 appear to have gradually improved in FY02/17 and this trend is continuing into FY02/18.

The company also promoted sales of cleaning materials and equipment as well as environmentally friendly materials and equipment. The company did not win any new service contracts in Q3, but was able to improve the cost structure of existing contracts and expects the impact of this and other measures come to fore in FY02/19.

Regular cleaning: Standardized models and small teams; now creating criteria for cleaning quality based on each facility
In regular cleaning services, the company continues standardization to attain a 20% GPM, while sustaining efforts to improve quality and profitability by forming small teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015 and this seems to have improved cleaning materials management and workflow. The company also established new criteria for cleaning quality based on the requirements of each facility, and worked to sell cleaning materials and equipment as well as develop and release environmentally friendly coating solutions and detergents.

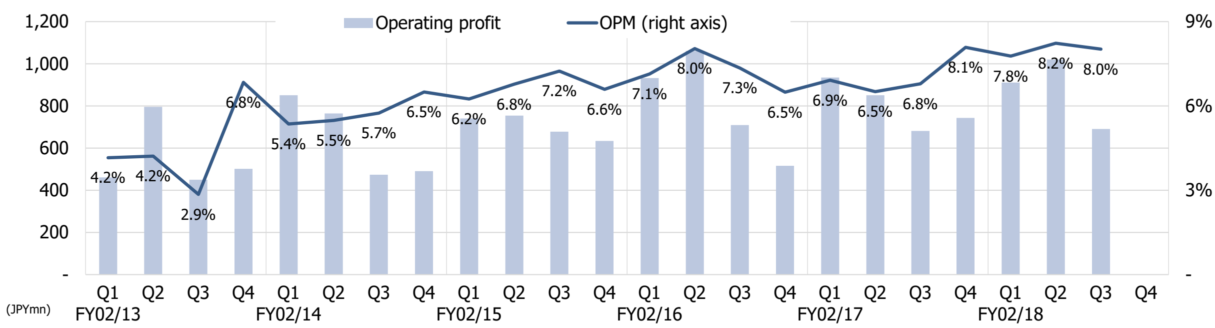
In cumulative Q3 FY02/18, the GPM for regular cleaning services remained unchanged YoY as the company compensated for the impact of increased personnel costs related to an increased social insurance premium burden. The greater social insurance premium burden caused a drop in profit of about JPY80mn in FY02/17, and the company forecasts a further negative impact of more than JPY100mn in FY02/18.

Synergies with Hakuseisha are finally taking shape. The shift from the conventional department store-style cleaning to Aeon Delight's methods is making progress and benefits started to emerge in 1H. Aeon Delight dispatched cleaning specialists and introduced its cleaning expertise into the services from April, and as a result expects profit growth of about JPY50mn in 2H. The company reports that both gross profit and operating profit rose in line with expectations in Q3.

Development underway as the company readies simplified cleaning robot for commercial use
In order to maintain its long-term competitiveness, the company is strengthening research to develop and commercialize cleaning robots, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis, with the aim to introduce the robot to multiple stores in FY02/18. At the April 2017 briefing, the company commented that the robot was approaching the completion stage. At the October 2017 briefing, the company also commented that the robot was almost completed and a test was in progress at a department store. As of Q3, the company was saying that would be done with field testing and would go ahead with a phased rollout of the new cleaning robots starting in the spring of 2018.

Previously the company had assumed that 400 robots would yield roughly JPY150mn in cost savings, though this remains to be seen. In addition to introducing the cleaning robot, the company seems to be exploring new business development opportunities using the robot as a launching pad.

Construction Work



Construction Work (JPYmn)	FY02/15				FY02/16				FY02/17				FY02/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193	11,724	12,396	8,617	
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%	-14.1%	
Operating profit	741	754	678	634	932	1,061	709	516	935	851	681	743	911	1,020	691	
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%	1.5%	
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%	8.0%	

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

Source: Shared Research based on company data

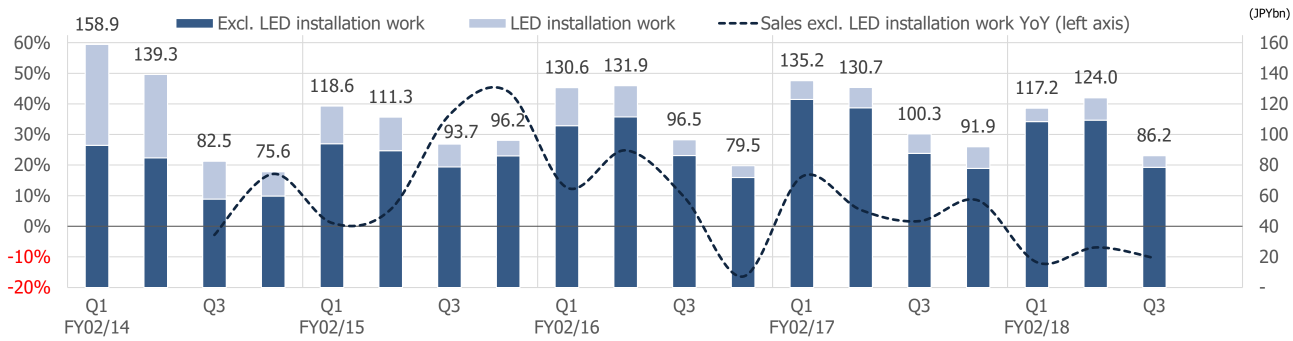
Construction Work: Sales fell on falloff after signage replacement in FY02/17. Pursuing large commercial facility renewals. Expanding orders for small store remodeling construction work

Sales fell JPY3.9bn YoY. This decline may be explained almost entirely by factors including a reactionary falloff of large orders for signage construction work after FY02/17. Factors contributing to the decline include 1) a decline in maintenance and repair work for commercial facilities, 2) the dropout of large sign replace orders received and demand stemming from the Kumamoto earthquake in FY02/17, and 3) the transfer of a business between segments. The drop in overall sales notwithstanding, the company reports that is still getting a steady stream of new orders for its mainstay facilities renovation work, as well as construction work stemming from tenant replacement.

In regard to local revitalization orders, the company strengthened its organizational structure with an aim to expand orders for various types of construction work, such as renovations, maintenance, repairs, and energy-saving remodeling for facilities. It developed all-in-one services, ranging from restoration work as part of repairs (primarily commercial facilities) to temporary enclosures, design, and interior management, and made aggressive sales proposals targeting large orders for renewals after tenant changes in store buildings. The company initially set a full-year sales target of JPY10.0bn or a JPY3.0bn increase YoY but now expects to finish up by roughly JPY2.0bn YoY.
The company reports that its marketing push for orders for construction work related to tenant replacement is also bearing fruit, and that it is also seeing greater contributions to sales and earnings from subsidiary AZS, the group's small-scale construction specialist. Orders also appear to be steadily growing in design and architecture fields. While working on orders for AEON Group stores, the company intends to leverage such experience to win orders from customers outside the AEON Group.

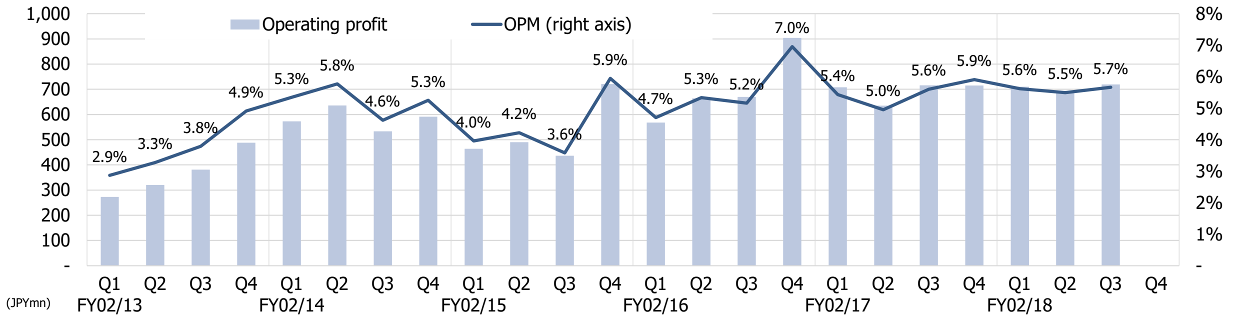
Margins are improving at Construction Work. It appears that accumulating experience in construction improves the company's capabilities to estimate costs, which leads to improved GPM.

Sales from work other than LED lighting installations (JPYbn)



Source: Shared Research based on company data

Materials and Supplies Sourcing Services



Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102	12,638	12,502	12,696	
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%	-0.6%	
Operating profit	464	490	436	721	568	664	670	904	708	635	716	715	710	687	719	
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%	0.4%	
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%	5.7%	

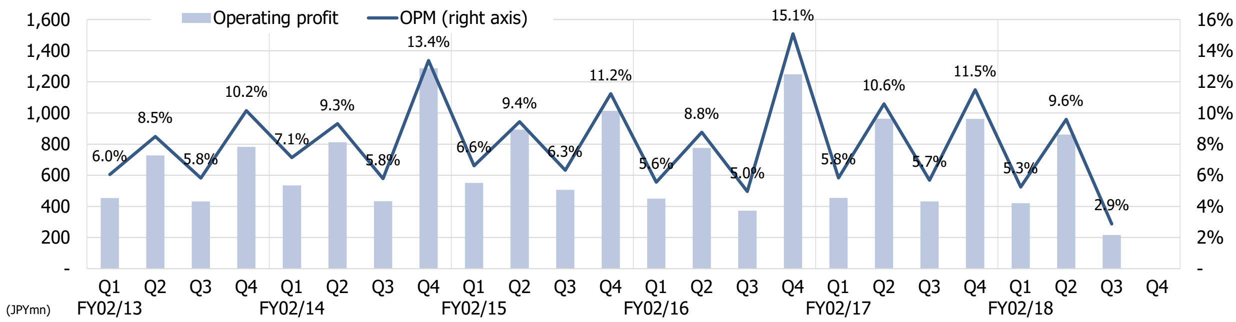
Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774
YoY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

Source: Shared Research based on company data

Materials and Supplies Sourcing: Reorganized to expand sales. Won orders to provide packaging materials for Aeon's private brands

The company reorganized the structure to boost sales, and expanded its contracts for packaging materials of Aeon's private brand, Top Valu. The company also began selling packaging materials for commissary kitchens (concentrated cooking facilities). Aeon also worked on increasing its profitability by reducing storage costs through improving accuracy of demand forecast systems and by cutting logistics costs.

Vending Machine Services



Source: Shared Research based on company data

Vending Machine Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369	8,017	8,993	7,544	
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%	-0.7%	
Operating profit	551	894	506	1,014	450	775	372	1,249	455	963	432	962	421	862	217	
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%	-49.8%	
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%	2.9%	

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

Source: Shared Research based on company data

Vending Machine: Developed and installed vending machines with new payment and service functions. Began testing micro-markets

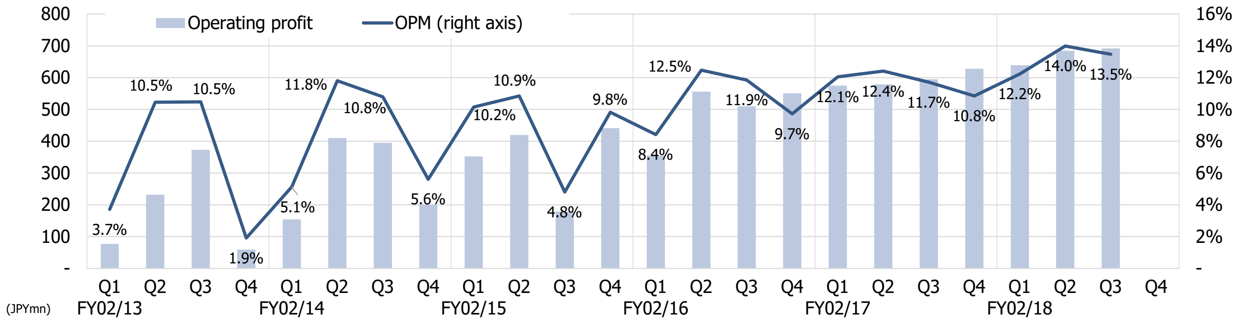
The company has a sense of urgency about the future of the Vending Machine Services business, and has implemented the following measures

- ▷ installed more vending machines, particularly those that stock a variety of popular products from different manufacturers
- ▷ to reform the income structure, expanded installations of value-added vending machines, such as those with digital signage displays, at large commercial facilities
- ▷ provided more space for video advertisements and options for users to select one of multiple languages.
- ▷ developed and tested augmented reality functions

In Q1 FY02/18, sales rose 2.6% YoY as the company installed more vending machines, primarily machines that stock a variety of popular products from different manufacturers. In Q2, the company developed a vending machine with new payment and service functions and installed these machines at more locations.

In Q3, operating profit finished down, but this was due largely to one-time charges and an increase in depreciation stemming from the expansion of the company's own vending machine portfolio and an increase in the number of these machines with digital signage. The company owned more than 2,100 vending machines with digital signage as of the end of Q3 (up more than 260 versus the end of Q2) and plans to have more than 2,500 vending machines with digital signage in place by the end of FY02/18. This will be short of the target set by the advertising business connected with vending machines with digital signage, but the company says it will take yet another look at its strategy in this area. Since August the company has been field testing micro-markets (unmanned stores) at Aeon Mall Funabashi for small commercial areas, aiming to reform its business model (this field testing continued through Q3 in anticipation of an eventual full-scale rollout).

Support Services



Support Services (JPYmn)	FY02/15				FY02/16				FY02/17				FY02/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666	5,080	5,789	5,223	4,896	5,139	
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	2.2%	9.5%	4.9%	1.2%	
Operating profit	352	420	179	441	355	556	510	551	575	579	595	628	639	685	692	
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%	16.3%	
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%	13.5%	

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%
Operating profit	748	590	312	741	1,160	1,297	1,972	2,377
YoY	-	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%
OPM	13.8%	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%

Source: Shared Research based on company data

Support Services: Growth of subsidiaries such as Kajitaku Co., Ltd. contributed to results

Key subsidiary Kajitaku’s housework support services and small business support services (expanded introduction of ID photo machines and next-generation multi-function copy machines) have been an earnings driver. Part of the contribution to this business came from contracts for IFM services received in FY02/17.

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

Full-year company forecasts

(JPYmn)	FY02/15 1H	2H	FY	FY02/16 1H	2H	FY	FY02/17 1H	2H	FY	FY02/18 1H	Est. 2H	FY	FY02/20 Targets (% figures are CAGR)
Sales	**134,049**	**132,656**	**266,705**	**142,783**	**138,258**	**281,041**	**151,400**	**143,325**	**294,725**	**151,801**	**153,199**	**305,000**	**360,000**
YoY	0.4%	7.2%	3.7%	6.5%	4.2%	5.4%	6.0%	3.7%	4.9%	0.3%	6.9%	3.5%	6.9%
CoGS	116,771	114,817	231,588	124,185	119,466	243,651	131,856	123,874	255,730	131,765			
Gross profit	**17,278**	**17,839**	**35,117**	**18,598**	**18,792**	**37,390**	**19,544**	**19,451**	**38,995**	**20,035**			
YoY	1.7%	6.6%	4.2%	7.6%	5.3%	6.5%	5.1%	3.5%	4.3%	2.5%			
GPM	12.9%	13.4%	13.2%	13.0%	13.6%	13.3%	12.9%	13.6%	13.2%	13.2%			
SG&A expenses	9,575	9,681	19,256	10,476	10,206	20,682	11,039	10,699	21,738	11,228			
SG&A-to-sales ratio	7.1%	7.3%	7.2%	7.3%	7.4%	7.4%	7.3%	7.5%	7.4%	7.4%			
Operating profit	**7,702**	**8,159**	**15,861**	**8,121**	**8,586**	**16,707**	**8,505**	**8,752**	**17,257**	**8,806**	**9,194**	**18,000**	**22,000**
YoY	1.7%	8.2%	4.9%	5.4%	5.2%	5.3%	4.7%	1.9%	3.3%	3.5%	5.1%	4.3%	8.4%
OPM	5.7%	6.2%	5.9%	5.7%	6.2%	5.9%	5.6%	6.1%	5.9%	5.8%	6.0%	5.9%	6.1%
Recurring profit	**7,725**	**8,218**	**15,943**	**8,139**	**8,545**	**16,684**	**8,506**	**8,875**	**17,381**	**8,878**	**9,122**	**18,000**	
YoY	2.0%	9.3%	5.6%	5.4%	4.0%	4.6%	4.5%	3.9%	4.2%	4.4%	2.8%	3.6%	
RPM	5.8%	6.2%	6.0%	5.7%	6.2%	5.9%	5.6%	6.2%	5.9%	5.8%	6.0%	5.9%	
Net income	**4,380**	**4,345**	**8,725**	**4,682**	**4,976**	**9,658**	**5,342**	**4,896**	**10,238**	**5,573**	**5,127**	**10,700**	**12,800**
YoY	5.6%	8.2%	6.9%	6.9%	14.5%	10.7%	14.1%	-1.6%	6.0%	4.3%	4.7%	4.5%	7.7%

Source: Shared Research based on company data

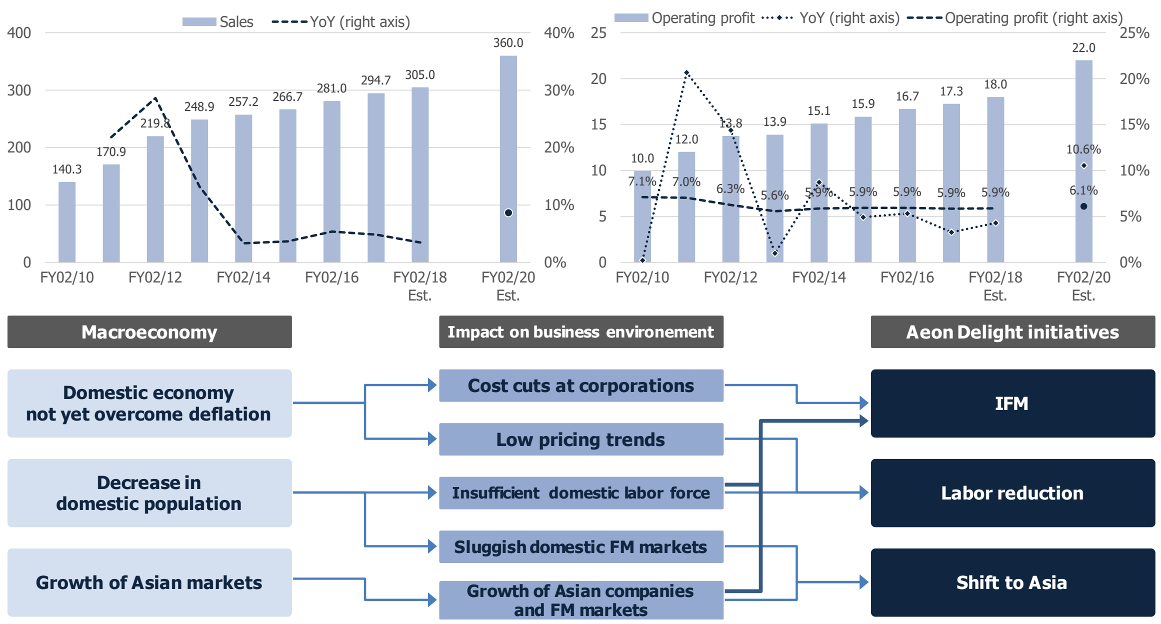
First year of medium-term business plan (FY02/18–FY02/20)

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

The medium-term plan's priority issues are 1) IFM, 2) Asia, and 3) technology, among which it is aiming for significant increases in IFM and Asia. The company will likely position FY02/18, the first year of the plan, as one in which to focus resources on high potential growth markets such as IFM and overseas, and transform its business model, while continuing to make initiatives taken in the previous medium-term plan profitable. A summary of the medium-term plan and FY02/18 initiatives follows.

At Shared Research, we would like to focus in particular on the following (some of which have been discussed above): 1) IFM initiatives and expansion of overseas businesses; 2) at the Construction Work segment, expansion of business areas and increase in project work done for Aeon group companies; 3) improving the profitability of Cleaning Services; 4) buildup of advertising business to support Vending Machine Services business; 5) Support Services. Below is an overview of these growth strategies.

Medium-term management plan



Source: Shared Research based on company data

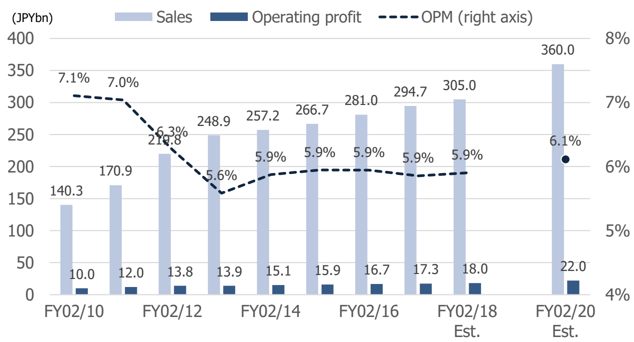
FY02/18 company forecasts (initial)

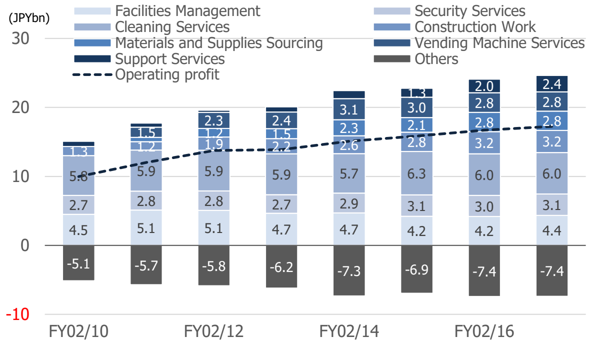
Targets

In FY02/18, the company forecasts sales of JPY305.0bn (+3.5% YoY, +JPY10.3bn YoY), operating profit of JPY18.0bn (+4.3%, +JPY700mn), OPM of 5.9%, net income of JPY10.7bn (+4.5%, +JPY500mn), and NPM of 3.5%. The YoY sales growth rate is low compared to the medium-term plan forecast (6.9% average annual increase) but that is because the company expected it would take time to get IFM projects, which are anticipated to bring in roughly JPY1.0bn each, up and running, and because related sales tend to increase only after IFM projects are in operation.

The company does not disclose forecasts per segment but is projecting sales and profits to increase in all of them. Driving forces include IFM-related business (reported in several segments), renovation work-related business (Construction Work segment), and hygienic cleaning (Cleaning Services segment). Regarding IFM, in addition to a full-year contribution from the project won in December of FY02/17, the company is aiming to capture additional demand from existing projects and to win new ones. The company appears to be forecasting a JPY3.0bn YoY increase in renovation work-related business, and a JPY1.0bn increase in hygienic cleaning. On the profit side, the company expects OPM to be about the same level as in FY02/17. It is likely the company will continue making frontloaded spending for growth, while also advancing cost reduction initiatives.

Sales and profit trends





Source: Shared Research based on company data

Priority initiatives

In FY02/18, the company plans to focus efforts on the following: 1) an early-stage establishment of the IFM business model, 2) initiatives to increase sales per region, 3) application of technology, 4) an increase in renovation work contracts, and 5) work-style reforms and strengthening of organizational capabilities. We provide a summary below (the increase in renovation work contracts is included in domestic business).

IFM

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

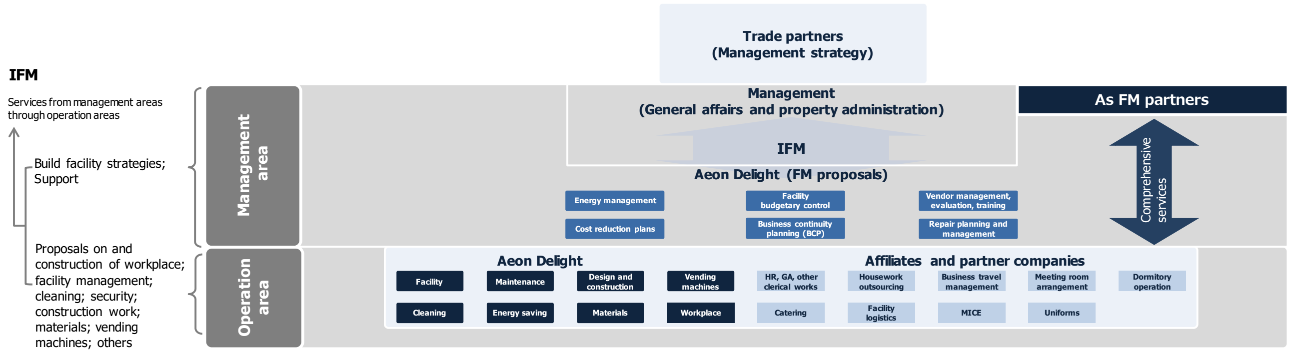
Provision of services which integrate management area on top of the company's conventional area of business

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

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

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

IFM



Source: Shared Research based on company data

Advancing multi-year, full-fledged IFM contracts

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

Launch of IFM sales in China

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

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

Aim for efficient horizontal expansion through platform development and establishment of a competitive advantage by improving customer satisfaction

Regarding the automation of IFM operations, the company is working on developing systems for the monitoring of each business and reporting to clients, as well as on the development of a facilities management platform. Specifically, systems include those which carry out real-time monitoring utilizing networks and devices, such as sensors, to those which carry out automatic controls and reporting. In addition to developing systems which make FM operations more efficient, the company also develops systems which contribute to enhancing the attractiveness of facilities, such as the sending of sales promotion information from tenant shops to the smartphones of customers at shopping malls based on location information. Through platform development of a series of systems and horizontal expansion, the company expects to optimize sales and operations, as well as to establish an advantage vis-a-vis competitors.

Aiming for sales of JPY700.0bn in FY02/28

As an IFM company that maximizes client profits through the use of technology, the company aims for sales of JPY700.0bn in FY02/28. In the first five years, the company will focus its efforts on areas such as a) after winning a facilities management contract, the division of services which Aeon Delight can handle in-house and those for which it will form an alliance, b) cost reductions and returns to clients, and c) strengthening its ability to estimate the costs of each business. In the latter five years, the company says it will further accelerate expansion based on the results of the first five years. The winning of ten IFM projects over three years under the current medium-term plan is just a first step. In an effort to expand further after that, the company plans to invest aggressively, especially in personnel.

Initiatives to increase sales per region

With the above-mentioned IFM in mind, the company seeks to also increase sales per region for existing FM business as follows: 1) Japan: strengthen sales structure by business line (such as hospitals, hotels, offices), expand construction work (such as revitalization of commercial facilities), 2) China: expand share of top five priority markets, 3) Malaysia: full-fledged launch of facilities management business, and 4) Vietnam: improve quality of each FM business and increase integrated management contracts.

In Japan, the company is focusing on capturing demand for revitalization of commercial facilities and hygienic cleaning, and aims to increase FY02/18 sales for each by JPY3.0bn and JPY1.0bn, respectively. Revitalization demand is high priority and holds a key place, along with IFM, in the company's target of a JPY15.0-20.0bn increase in non-Aeon Group sales under its medium-term plan.

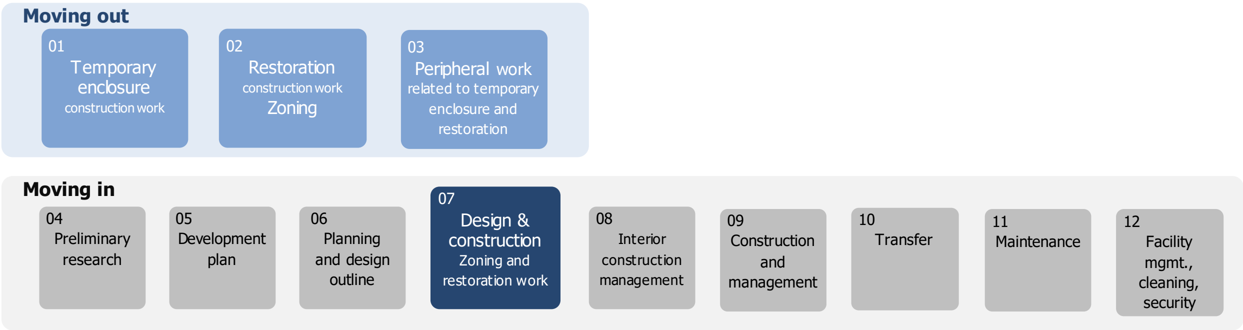
Japan: Expansion of renovation work, demand for revitalization of commercial facilities

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

Demand for construction work for replacement tenants

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

Construction work process for commercial facility tenant replacement



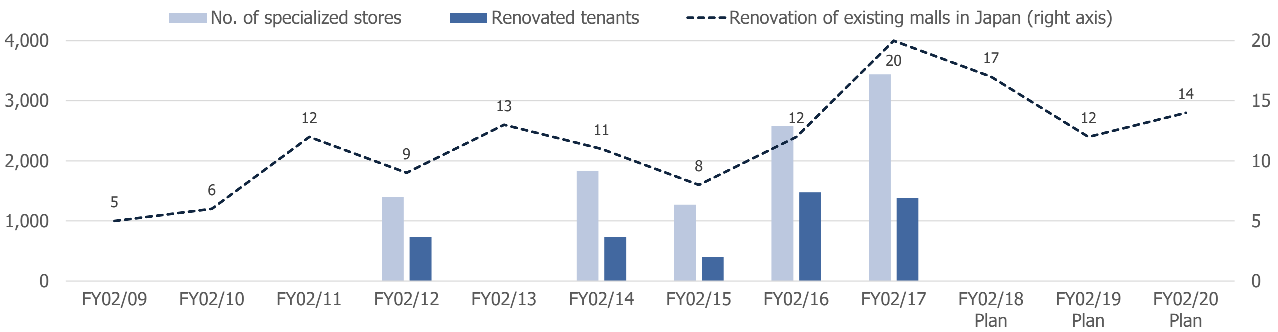
Source: Shared Research based on company data

Aeon Group-related demand

Projects for Aeon Group are expected to continue to expand. Over the three years thru FY02/20, Aeon Mall plans to invest JPY100.0bn in the revitalization of existing malls in Japan, of which JPY30.0bn is planned for FY02/18. Aeon Mall generally does major renovations of existing malls once every six years and is planning to renovate 15 malls and expand 2 in FY02/18. The mall expansion projects in FY02/18 will be done at top regional malls so the scale will be large. The company plans to handle 35 mall renovation projects and 8 mall expansion projects over the three years thru FY02/20.

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

Number of renovated Aeon Malls



Source: Shared Research based on company data

Japan: Hygienic cleaning

Hygienic cleaning business

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

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

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

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

Japanese hospitals and clinics

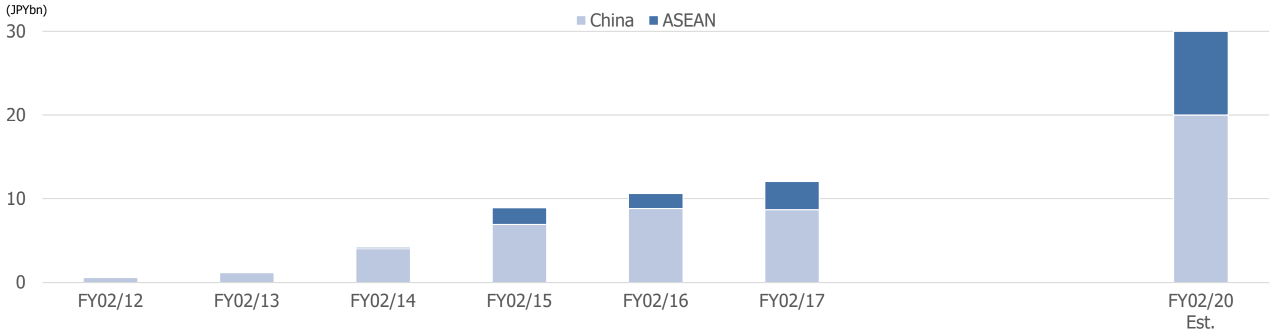
	Hospitals		Clinics	
As of January 1, 2017		Beds		Beds
Total	**8,439**	**1,559,948**	**101,505**	**102,145**
National	327	129,048	540	2,229
Public medical institutions	1,213	317,571	3,617	2,572
Social insurance-related organizations	53	16,006	483	9
Public service corporations	229	57,404	558	314
Medical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

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

Expansion of overseas businesses

Aeon Delight is targeting JPY30.0bn in total sales from overseas businesses in FY02/20. Of the JPY18.0bn increase over sales in FY02/17, the company is looking for JPY11.0bn from China (including IFM; representing an average annual growth rate of roughly 30%) and JPY7.0bn from ASEAN countries (where sales are expected to grow at 40-50% per annum). We believe this compares with estimated sales of roughly JPY12.0bn in FY02/17 (representing year-on-year growth of 10-20%), of which an estimated JPY8.0-9.0bn was from China and JPY3.0-4.0bn was from ASEAN. In FY02/18, with a focus on China, the company appears to be anticipating even higher continued growth from ASEAN. While the overseas business continues to see an increase in investments targeting growth, sales are expanding and profitability is improving. In FY02/18 as well, the company is projecting that an expansion in sales will contribute to an increase in profits.

Overseas sales trends



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

Business in China

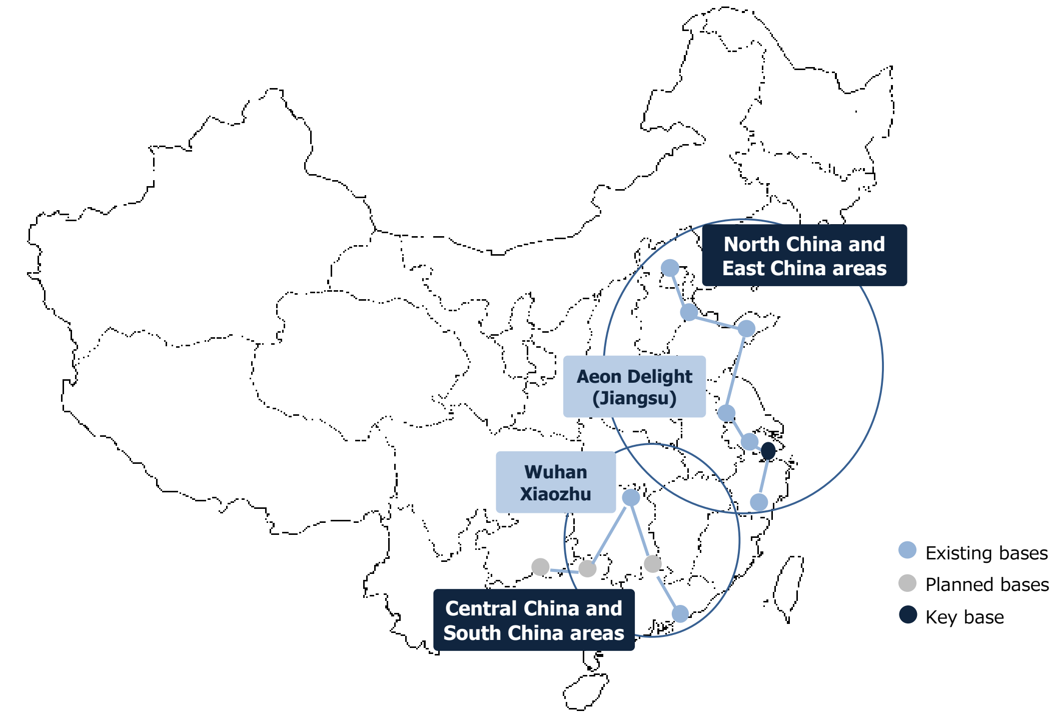
In China, the company is targeting JPY20.0bn in sales in FY02/20. This represents an average growth rate of roughly 30% per annum. Aeon Group companies currently account for about 25% of Aeon Delight's sales and operating profit in China versus 60%-70% in Japan and ASEAN countries. This means Aeon Delight's business in China derives a much higher proportion of sales and earnings from outside the Aeon Group and has a much more balanced client portfolio. The company plans to maintain this balance as its build up its business in China going forward.

In China, property owners are more sensitive to the value of the building than they are in Japan and Aeon Delight sees facilities management becoming an essential business infrastructure service, much like electric power or water. Since China is a growth market, the company continued to aggressively allocate management resources to China in FY02/17. At the same time, Aeon Delight worked to expand its facilities management service network throughout the entire country, extending its geographical reach with the possible help of acquisitions while strengthening its internal control systems for effective nationwide management.

In order to reach sales of JPY30.0bn and expand the IFM business, the company cites the necessity to set up a network of locations in each region of China; it is currently working to establish bases in areas it has not yet done so. Its efforts to establish bases in key areas in North China and East China are proceeding smoothly, and it plans to further expand into Central China and South China, with an eye to establishing a network in Northeast China including Dalian. In February 2017, Aeon Delight established a subsidiary in Shanghai which will oversee China operations and promote IFM sales. The subsidiary started sales from April.

As part of its strategy to win new clients, the company is focusing on medium- to high-end facilities that require quality services and redevelopment areas where much facility management demand can be expected. The former includes five primary markets: medium- to high-end residential projects, shopping centers, care facilities such as nursing homes and hospitals, high-end factories, and transport infrastructure facilities. Focusing on redevelopment areas with high demand entails the company's participation in large urban development projects to win orders. On a per region basis, it is expected that the Wuhan subsidiary will focus on the former initiative, while the Suzhou subsidiary on the latter. The Wuhan subsidiary will launch catering services, since such services have become common for facilities and to requests from local companies. Also, the company started to offer property management services at the Suzhou Yuenqu Hudong shopping mall. Aeon Delight installed a platform, which it developed and leads to energy savings of more than JPY10.0mn annually, and plans to deploy it horizontally going forward. The company is also apparently considering introducing a system which links to tenants' marketing.

Shifts to Asia

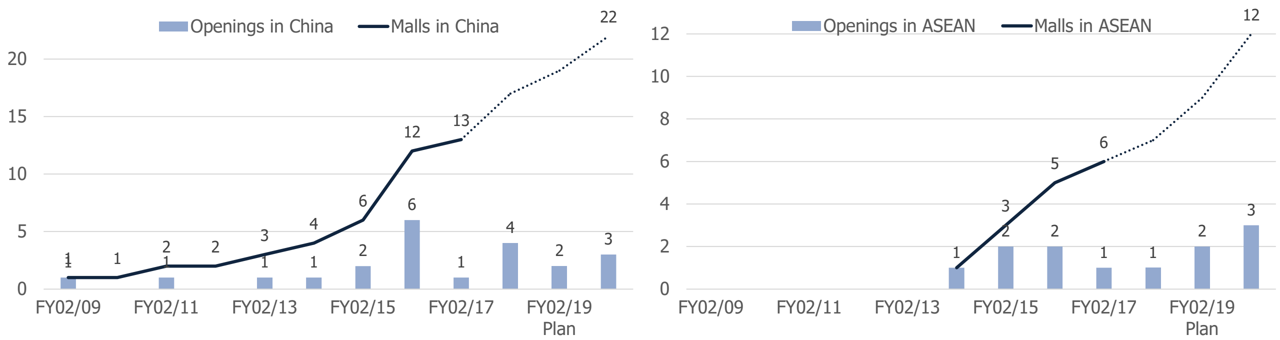


Source: Shared Research based on company data

With regard to business in China with Aeon Group companies, we note that Aeon Mall plans to open four new malls in China in FY02/18, versus one in FY02/17 and six in FY02/16. The Aeon Group accounts for about 25% of Aeon Delight's sales in China and Aeon Mall had a total of 13 malls in operation there at the end of FY02/17, so the denominator is expanding, and this is likely to become a factor which supports earnings.

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

Aeon Malls in China and ASEAN countries



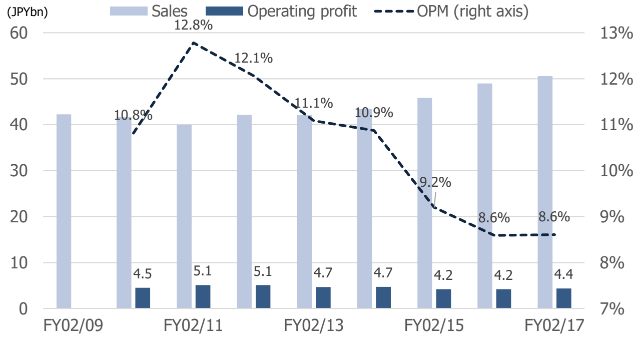
Note: Shared Research estimates for FY02/19 based on company plan as indicated in results presentation materials
Source: Shared Research, based on company data

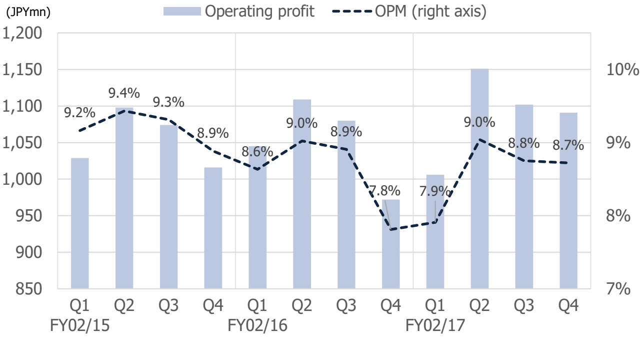
ASEAN business

In ASEAN countries, Aeon Delight aims for sales of JPY10.0bn in FY02/20. Unlike China, most of the company's sales in ASEAN countries come from Aeon Group companies as in Japan. In Malaysia, Aeon Delight began business cleaning partnerships with Malaysian Harvest Sdn. Bhd., a major local company, in October 2015 to put it on a faster track to get business from Aeon Group stores, and fully launched a facilities management business, for which there is an expanding market. In Vietnam, Aeon Delight is looking to improve the quality of facilities management services it provides and expand the IFM business. Growth like that seen in China is unlikely, though, as the regulations governing facilities differs significantly from country to country. Aeon Delight also intends to expand geographically through acquisitions and establish a foundation to become the largest industry player in the ASEAN region. Among new areas, the company is gearing up to expand into hygienic cleaning in Thailand, take on mall-related projects in Indonesia, and launch IFM sales in Singapore.

Forecast by segment

Facilities Management

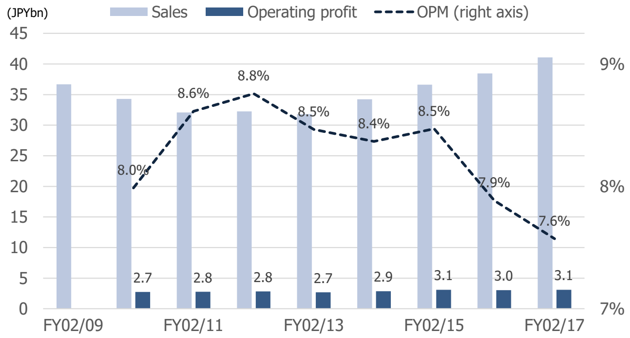


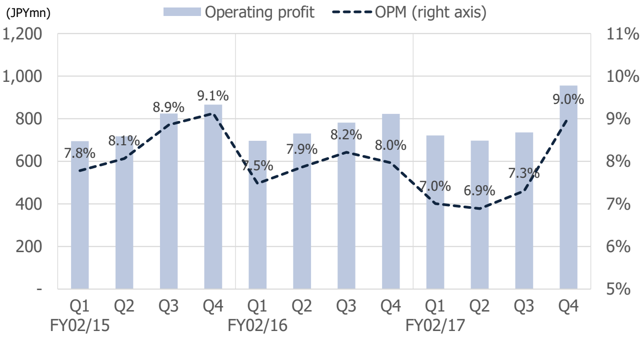


Source: Shared Research based on company data

This segment is mainly composed of IFM business and existing FM business. It is also developing a next-generation facilities management model that takes advantage of IoT technologies, various sensors and cloud computing.

Security Services

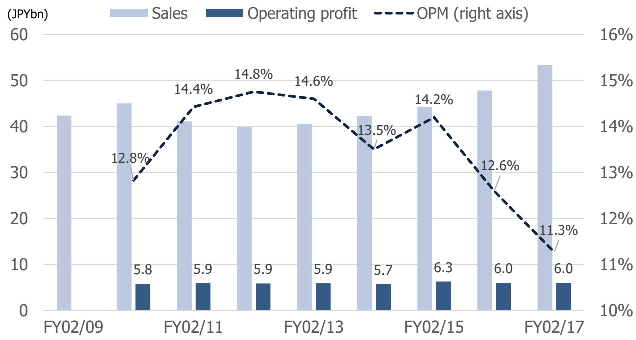


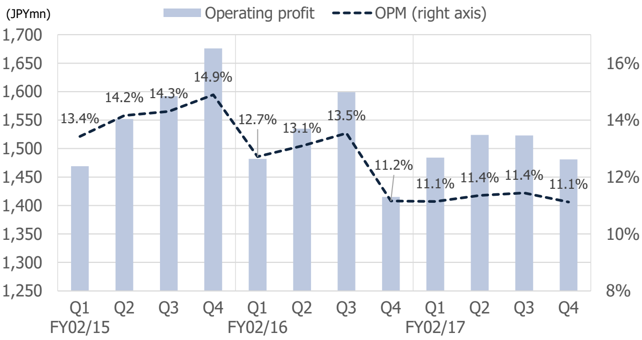


Source: Shared Research based on company data

The company advanced a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. One of the causes of the drop in profitability since Q3 FY02/16 was the consolidation of Hakuseisha (out of annual sales of roughly JPY10.0bn, security services account for about 30%), but the company anticipates an improvement in profitability in FY02/18. Meanwhile, although higher personnel costs stemming from the expansion of eligibility for social insurance had a five-month impact in FY02/17 (starting from October 2016), it should be noted that there will be a full-year impact in FY02/18.

Cleaning Services





Source: Shared Research based on company data

In Cleaning Services, the company is making efforts in the following areas: 1) expansion due to IFM, 2) hygienic cleaning (expecting a roughly JPY1.0bn YoY increase in sales), 3) improving the cost ratio of regular cleaning services, and 4) improving the profitability of Hakuseisha. IFM and hygienic cleaning are as discussed earlier in the report. In regular cleaning services, the company will continue standardization to improve GPM (Phase III), while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company plans to advance stepped up efforts on this front, such as establishing criteria for cleaning quality based on the requirements of each facility. Further, the company says it will also advance the same type of initiatives in Asia in FY02/18.

Hakuseisha

The drop in profitability has been in part attributed to the consolidation of Hakuseisha (out of annual sales of roughly JPY10.0bn, cleaning services account for about 50%) since Q3 FY02/16, but the company is anticipating improvement in FY02/18. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is an important point. In FY02/17, Aeon Delight conducted reforms carefully so that it did not affect clients. Shared Research expected benefits from these reforms to gradually emerge toward the end of FY02/17. However, full-year FY02/17 results showed delayed progress, partly because the company had not yet fully reformed its income structure. Aeon Delight is aware of the issue regarding the delayed improvement and is set to actively improve its business structure and profitability in FY02/18. The company has already been investing in personnel since FY02/17 and is planning for a recovery in GPM. It is looking for an improvement in GPM of at least 2pp. Further, J-Front Retailing accounted for approximately one-third of the company's sales in FY03/15 and an increase in related sales is expected as a synergy effect, but it appears that in FY02/18 the company will first focus on improving profitability.

Hakuseisha: Trends in sales and earnings

(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%						
Security services	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 expenses	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

Labor reduction

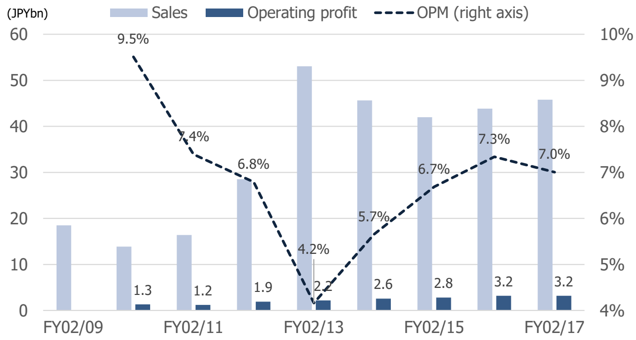
Like Security Services, labor costs are substantial in this segment and it is impacted by the expansion of eligibility for social insurance. The company has, from earlier, been putting effort into the introduction of cleaning robots as a way to establish a long-term competitive advantage and as a measure for dealing with issues such as labor costs and the securing of personnel.
In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. Testing in preparation of introducing the robot to multiple stores in FY02/18 was on track. At the April 2017 briefing, the company commented that the robot was close to perfection. It is likely to continue testing until the full-fledged introduction of the cleaning robot, but expects positive results.

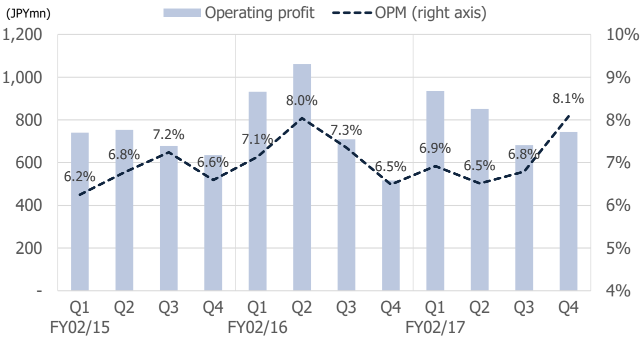
At this time the company is uncertain about just how much it will invest in cleaning robots or whether it would be better off to lease robots rather than buy and then depreciate them over time. Based on the expectation that the biggest boost to efficiency will come from using cleaning robots at large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

Contribution to profit growth and GPM improvement from sales of materials

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

Construction Work

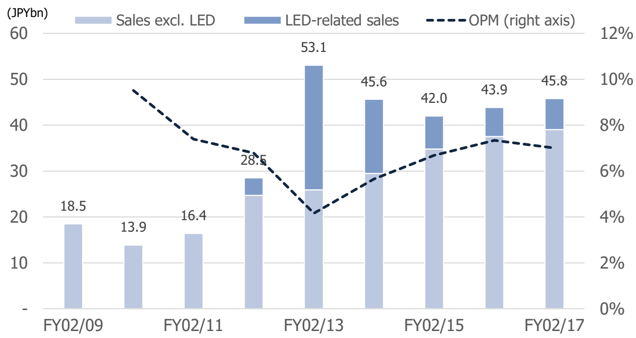


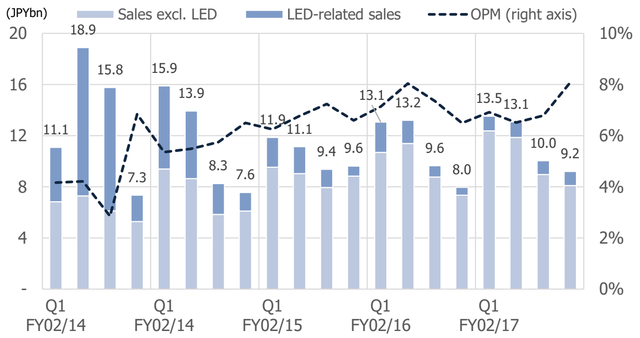


Source: Shared Research based on company data

As discussed earlier in the report, the company is focusing on capturing demand for revitalization of commercial facilities from clients within the Aeon Group, and on winning construction work for replacement tenants from clients outside the Group. We will be paying attention to renewal demand for LED lighting installations, which had record high sales of roughly JPY27.0bn in FY02/13. As there are many parts purchased from external parties, profitability is less than for other offerings, but the level of contribution to earnings is large. We will be paying attention to this aspect as well.

LED-related sales





Source: Shared Research based on company data

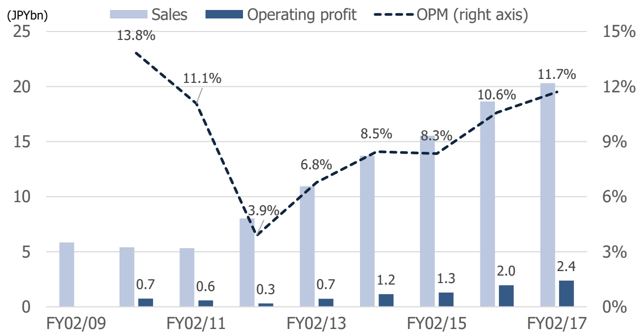
Overseas businesses of the Aeon Group

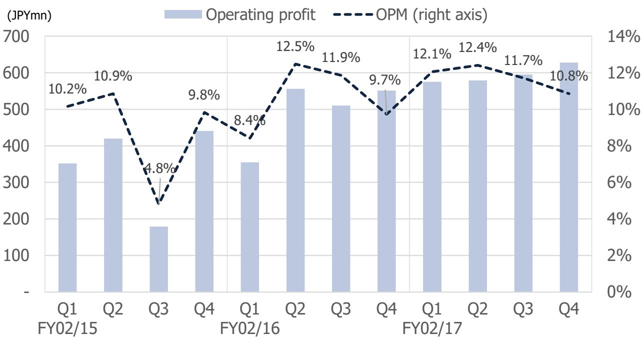
Overseas stores: Aeon Mall			FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18 Est.	FY02/19 Est.	FY02/20 Est.
Store count	China		2	3	4	6	12	13	17	19	22
	ASEAN		-	-	1	3	5	6	7	9	12
		Vietnam			1	2	3	4	4	4	5
		Cambodia				1	1	1	1	2	2
		Indonesia					1	1	2	3	4
		Other									1
	Total		**2**	**3**	**5**	**9**	**17**	**19**	**24**	**28**	**34**
Openings	China			1	1	2	6	1	4	2	3
	ASEAN								1	2	3
		Vietnam									1
		Cambodia								1	
		Indonesia							1	1	1
		Other									1
	Total		**-**	**1**	**1**	**2**	**6**	**1**	**5**	**4**	**6**

Overseas stores: Aeon Retail		Name	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17
ASEAN	Malaysia	AEON Malaysia	28	30	31	33	73	84
		AEON BIG Malaysia	-	27	28	28	26	25
	Thailand	AEON Thailand	29	58	69	75	76	77
	Vietnam	AEON Vietnam				2	3	4
		AEON Citymart					30	30
		AEON Fivimart Supermarket					23	27
	Cambodia	AEON Cambodia				1	1	1
	Indonesia	AEON Indonesia					1	1
	Myanmar	AEON Orange						14
	ASEAN total		57	115	128	139	233	263
China		AEON Stores Hong Kong	38	42	43	43	49	55
		Guangdong AEON	12	15	17	17	18	19
		Quingdao AEON	7	8	9	10	9	6
		AEON South China	8	9	11	10	10	10
		Beijing AEON	3	4	4	5	6	7
		AEON Suzhou				1	3	4
		AEON Hubei				1	2	2
	China total		68	78	84	87	97	103

Source: Shared Research, based on company data

Support Services business: Full-scale launch of B2B Kaji Cloud services





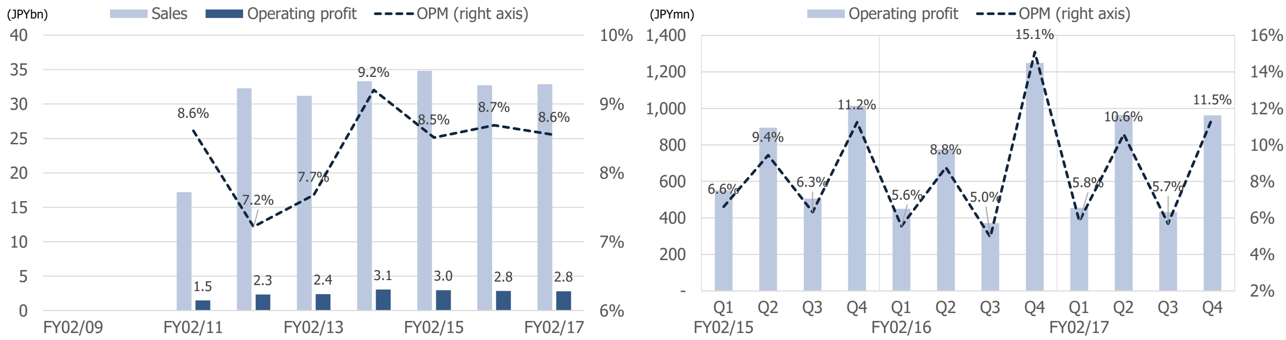
Note: Kajitaku sales figures are Shared Research estimates based on company results presentation materials
Source: Shared Research, based on company data

As shown in the accompanying figure, earnings at Support Services have been rising steadily, and, combined with its high profitability, the proportion of consolidated operating profit accounted for by this segment has been increasing. Subsidiaries Kajitaku and Aeon Compass have been the main drivers of growth thus far. The driver at Kajitaku to date has been Kaji Cloud services, but, going forward, it is expected to be in the small business support services (expanded introduction of ID photo machines and next-generation multi-function copy machines). At Aeon Compass, the company anticipates the drivers to be B2B businesses such as Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), which have continued to perform strongly. Further, as announced in December 2016, the company plans to strengthen online sales of Kaji Cloud through its business alliance with VOYAGE GROUP, Inc. (TSE: 3688).

Business alliance with VOYAGE GROUP:
On December 6, 2016, VOYAGE GROUP, Inc. (TSE: 3688) announced that it is entering a comprehensive operational tie-up for online sales of housework support services with Kajitaku Co., Ltd., an Aeon Delight subsidiary (97.7% stake) that operates the Aeon Group's housework support operations. VOYAGE also announced that on December 8, 2016 it will establish a wholly owned subsidiary, Voyage Nexus, to manage the online sales of housework support services. The service is planned for launch in the middle of 2017.

Operational tie-up:
According to a presentation by the Ministry of Economy, Trade and Industry, the market size for home support services will be roughly JPY600bn. In the midst of a growing market, Kajitaku bundled and sold its housework support services primarily to retailers, boosting its earnings.
Through the operational tie-up, Kajitaku will focus on developing housework support services and managing those services. Voyage Nexus will be responsible for features on Kajitaku.com and the Members Personal Page, features that Kajitaku used to run. Voyage Nexus will also improve customer relations and online sales by redesigning the website, making it smartphone compatible, and creating an app for the site. The company will assist in the development of a housework support services system for the staff. The tie-up plans to leverage Voyage Group's user base of roughly 8.4mn to promote and market its housework support services. Voyage Group's user base is primarily women in their 30s and 40s on the Group's websites such as EC Navi, a point navigation site, and PeX, a point exchange platform.

Vending Machine Services



Source: Shared Research based on company data

In Vending Machine Services, we will continue to focus on the advertising business. Although it missed targets in FY02/17, it is expected to expand from FY02/18 as progress is made with the introduction of equipped vending machines.

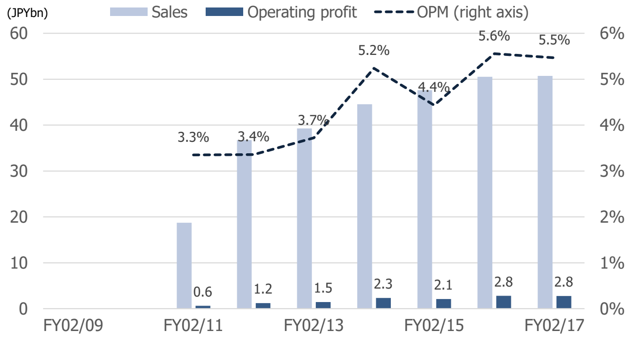
Addition of advertising business will alter business model of Vending Machine Services business

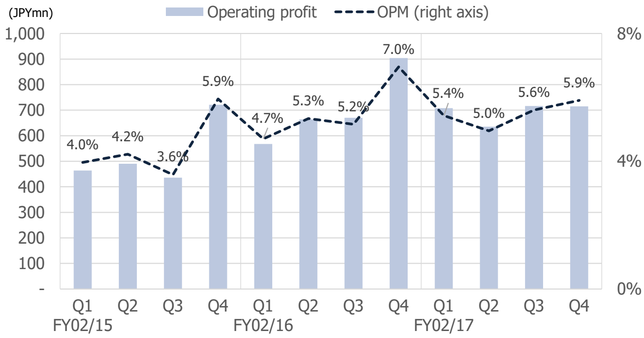
As of the end of FY02/16, Aeon Delight owned more than 40,000 vending machines. Up until last year, the company has been busy expanding the selection of private brand goods offered in its vending machines and has also began installing new vending machines with digital signage (hereafter referred to as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

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

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

Materials and Supplies Sourcing Services





Source: Shared Research based on company data

Reference: Previous medium-term plan (released April 2014)

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

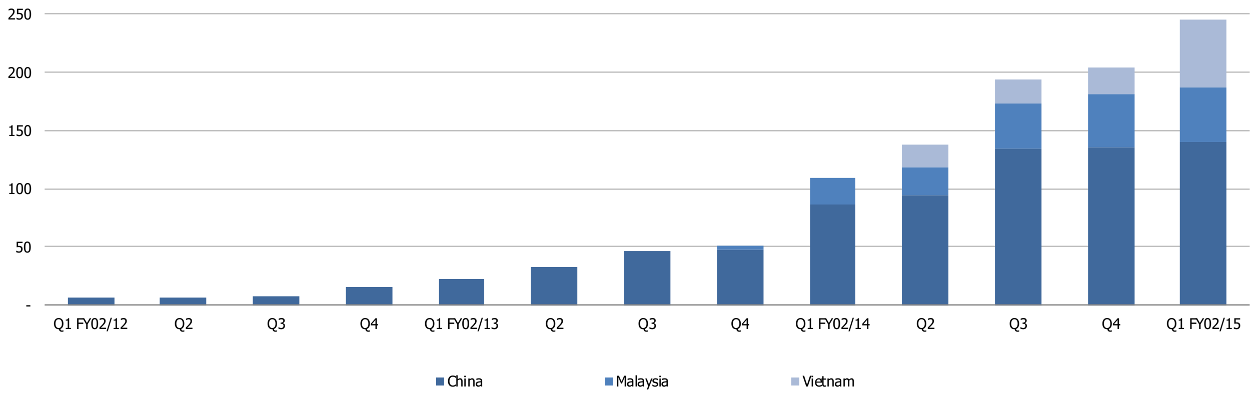
Although specific figures have not been disclosed, Aeon Delight expects approximately 1/3 of the increase in sales to come from sales toward the domestic Aeon Group, 1/3 to come from overseas (including overseas Aeon Group companies), and the remaining 1/3 to come from domestic sales, excluding Aeon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



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 numbers 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 shopping centers (SCs) in Asian countries such as China, Vietnam, and Indonesia. Aeon Delight is aiming to capture opportunities for its integrated 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 an integrated 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 is establishing a federalized management structure in China, and an integrated 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 integrated FMS 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 integrated FMS (Creating competitive advantages)

One of the focal points of the medium-term plan is establishing integrated 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 integrated 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 integrated 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 cost of sales 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 60-70% of sales from Aeon Retail Co., Ltd. and other Aeon group companies.

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

M&A activities

Aeon Delight has pursued growth through acquisitions. Some of the significant M&A activities in recent years are as follows:

- October 2008 – Acquired a 40% stake in Kankyouseibi Co., Ltd., operator of maintenance services for large buildings
- April 2009 – Acquired a 40% stake in Do Service Co., Ltd., a building maintenance services operator in western Japan
- September 2010 – Acquired Certo Corp., a provider of office supplies and operator of soft drink beverage vending machines in and its subsidiary in Beijing, renamed the entity Aeon Delight (Beijing) Commerce Co., Ltd.
- April 2011 – Acquired 90% of Kajitaku Co., Ltd., a provider of house cleaning and condominium concierge services
- May 2011– Made A to Z Service Co., Ltd. a subsidiary. 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 JPY5bn in sales, but operating profit margin is low at around 3%.
- October 2012– Acquired a 55% stake in a domestic travel services company and renamed it Aeon Compass Co., Ltd.
- January 2016 – Made Hakuseisha a wholly owned subsidiary. Hakuseisha derives about one-third of its sales from the J. Front Retailing Group

Business overview

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

(JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	305,000
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	3.5%
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995	
YoY	18.1%	11.3%	0.8%	13.6%	19.4%	5.6%	11.5%	4.2%	6.5%	4.3%	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	
YoY	1.2%	4.9%	1.3%	7.3%	24.3%	9.8%	13.9%	3.5%	7.4%	5.1%	
SG&A-to-sales ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	18,000
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Recurring profit	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684	17,381	18,000
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	3.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.9%
Net income	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238	10,700
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	4.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%

Segment results (JPYmn)	FY02/08 Act.	FY02/09 Act.	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.	FY02/18 Est.
Sales	137,519	145,690	140,299	170,905	219,797	248,876	257,243	266,705	281,041	294,725	305,000
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	
Materials and Supplies Sourcing				18,718	36,730	39,284	44,543	47,618	50,516	50,740	
Vending Machine Services				17,188	32,280	31,200	33,329	34,825	32,741	32,879	
Support Services	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306	
YoY	23.7%	5.9%	-3.7%	21.8%	28.6%	13.2%	3.4%	3.7%	5.4%	4.9%	3.5%
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	
Materials and Supplies Sourcing					96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	
Vending Machine Services					87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	
Support Services		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257	18,000
Facilities Management			4,507	5,115	5,084	4,661	4,725	4,217	4,206	4,350	
Security Services			2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110	
Cleaning Services			5,780	5,937	5,882	5,918	5,716	6,289	6,031	6,012	
Construction Work			1,321	1,214	1,936	2,209	2,580	2,807	3,218	3,210	
Materials and Supplies Sourcing				627	1,234	1,462	2,333	2,111	2,806	2,774	
Vending Machine Services				1,480	2,330	2,396	3,068	2,965	2,846	2,812	
Support Services			748	590	312	741	1,160	1,297	1,972	2,377	
Elimination, other			-5,125	-5,698	-5,843	-6,180	-7,334	-6,929	-7,406	-7,389	
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
Facilities Management				13.5%	-0.6%	-8.3%	1.4%	-10.8%	-0.3%	3.4%	
Security Services				0.9%	2.1%	-4.6%	6.4%	8.3%	-2.3%	2.6%	
Cleaning Services				2.7%	-0.9%	0.6%	-3.4%	10.0%	-4.1%	-0.3%	
Construction Work				-8.1%	59.5%	14.1%	16.8%	8.8%	14.6%	-0.2%	
Materials and Supplies Sourcing					96.8%	18.5%	59.6%	-9.5%	32.9%	-1.1%	
Vending Machine Services					57.4%	2.8%	28.0%	-3.4%	-4.0%	-1.2%	
Support Services					-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%	
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Facilities Management			10.8%	12.8%	12.1%	11.1%	10.9%	9.2%	8.6%	8.6%	
Security Services			8.0%	8.6%	8.8%	8.5%	8.4%	8.5%	7.9%	7.6%	
Cleaning Services			12.8%	14.4%	14.8%	14.6%	13.5%	14.2%	12.6%	11.3%	
Construction Work			9.5%	7.4%	6.8%	4.2%	5.7%	6.7%	7.3%	7.0%	
Materials and Supplies Sourcing				3.3%	3.4%	3.7%	5.2%	4.4%	5.6%	5.5%	
Vending Machine Services				8.6%	7.2%	7.7%	9.2%	8.5%	8.7%	8.6%	
Support Services				11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%	
OP composition											
Facilities Management			29.9%	28.9%	25.9%	23.2%	21.0%	18.5%	17.4%	17.7%	
Security Services			18.1%	15.6%	14.4%	13.4%	12.8%	13.6%	12.6%	12.6%	
Cleaning Services			38.3%	33.5%	30.0%	29.5%	25.5%	27.6%	25.0%	24.4%	
Construction Work			8.8%	6.8%	9.9%	11.0%	11.5%	12.3%	13.3%	13.0%	
Materials and Supplies Sourcing				3.5%	6.3%	7.3%	10.4%	9.3%	11.6%	11.3%	
Vending Machine Services				8.3%	11.9%	11.9%	13.7%	13.0%	11.8%	11.4%	
Support Services				3.3%	1.6%	3.7%	5.2%	5.7%	8.2%	9.6%	

Source: Shared Research based on company data

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

Facilities Management

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

Source: Shared Research based on company data

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

Security Services

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

Source: Shared Research based on company data

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

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

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

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

Cleaning Services

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

Source: Shared Research based on company data

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

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

Construction Work

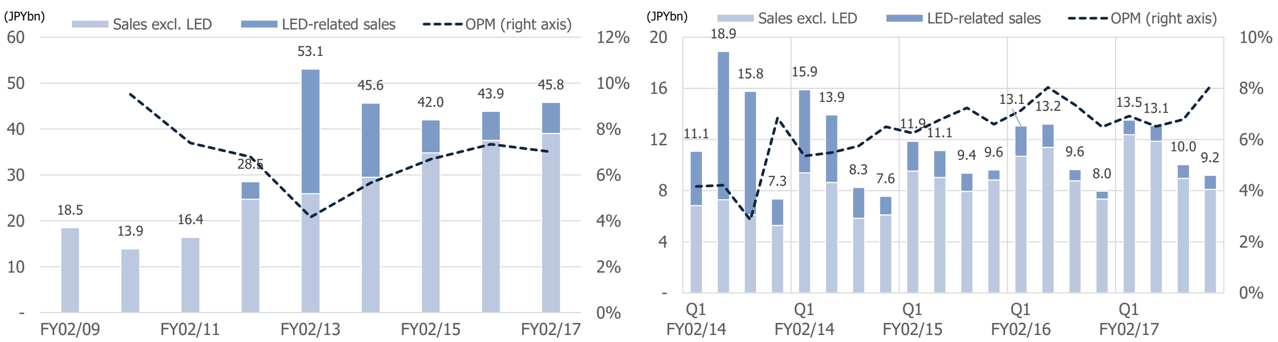
Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218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

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 CO_2 emissions and environmental burdens, ultimately yielding longer building life.

Materials and Supplies Sourcing Services

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

Source: Shared Research based on company data

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

Vending Machine Services

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

Source: Shared Research based on company data

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

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

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

Support Services

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%
Operating profit	748	590	312	741	1,160	1,297	1,972	2,377
YoY	-	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%
OPM	13.8%	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%

Source: Shared Research based on company data

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

The main subsidiaries in the segment are 1) Aeon Compass: mainly B2B services including Business Travel Management (domestic business trips, support for overseas assignments) and MICE (planning and management of meetings, seminars, trainings), and 2) Kajitaku: mainly small business support services, such as sales of copy machines, and household support services. Together, these two subsidiaries are the main growth drivers of the Support Services segment. Sales for "Kaji Cloud," a housework services package, contributed to strong growth up until FY02/17 (sales decreased YoY in FY02/17 due to a difficult comparison period).

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

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

Overseas business

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

Business model

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

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

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

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

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.

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

Weaknesses

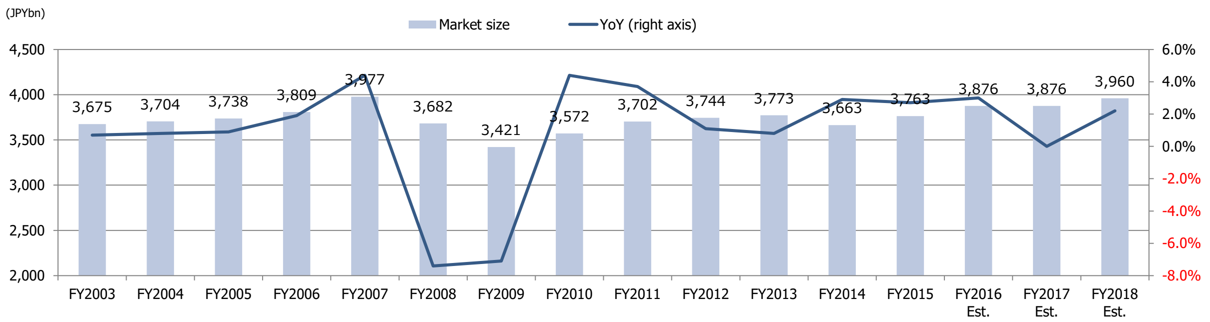
- **Organic growth challenging:** Aeon Delight has grown through acquisitions. Therefore, organic growth may be a challenge because the market is relatively mature. There is limited domestic growth and overseas offers one avenue of expansion. M&A activities could dry up, and this could have an impact on earnings. The company has been able to buy growth using its strong financial position.
- **Overly dependent on the Aeon group:** Aeon Delight is a consolidated subsidiary of Aeon, and derives almost 70% of its sales from the Aeon group. A drawback from such a strong relationship is that the parent company may ask for support in pursuing its agenda. Recently, Aeon acquired 50% of Tesco Japan, the U.K. supermarket chain operator's Japan retail business. A joint venture company, Aeon Every Co., Ltd. is in charge of supermarket operations. The parent Aeon could ask the company for support in future acquisitions.
- **Mature property management market:** The property management market is relatively mature. However, small retail stores in urban areas offer growth opportunities given the greater number of customer volume. Many small retailers are renovating their stores and upgrading facilities. Aeon Delight's expertise has been in large facilities, mainly supporting the Aeon group retail stores such as shopping centers and supermarkets. As smaller commercial facilities emerge in large urban areas, the question remains whether the company can successfully adapt its facilities maintenance know-how to this segment of the market. The company may need to look at this segment for growth.

Market and value chain

Market overview

Japan's building maintenance market was worth JPY3.8tn in FY03/15 (April 1, 2015 to March 31, 2016), up 2.7% YoY, according to Yano Research Institute Ltd.

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



Source: Shared Research based on Yano Research Institute Ltd., (October 13, 2016)

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

Analysis of potential market

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

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

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

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

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

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

AEON Group stores by format (domestic and overseas)

	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
GMS	603	601	590	590	598	617	618	625
Supermarket	1,231	1,267	1,307	1,537	1,708	1,977	2,038	2,121
Discount store	41	52	72	105	152	353	381	530
DIY store	127	125	127	122	123	122	121	120
Supercenter	31	33	32	29	26	26	29	28
Department store	1	1	1	1	1	1	1	1
Convenience store	3,270	3,514	3,811	4,121	4,462	4,581	4,683	5,061
Specialty store	4,746	4,475	3,305	3,424	3,664	3,853	3,932	4,331
Drugstore and pharmacy							3,347	3,765
Other retail formats	87	180	268	418	562	756	884	803
Financial service	395	386	401	460	527	641	698	701
Services	1,621	1,549	1,410	1,383	1,394	1,519	1,640	1,934
Total	12,153	12,183	11,324	12,190	13,217	14,440	18,382	20,020
Aeon Mall	51	53	56	59	62	137	148	161
Aeon Town	42	44	45	107	115	122	130	134
Total	93	97	101	166	177	259	278	295

Source: Shared Research based on company data

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

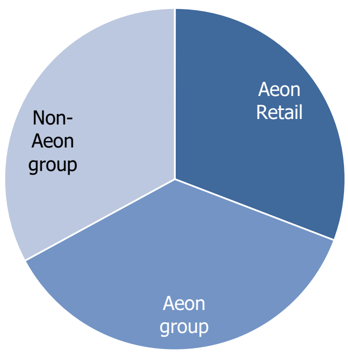
	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16
GMS	42	46	52	54	61	69	77	84
Supermarket	18	19	25	44	81	95	101	115
Discount store	-	-	-	-	22	23	24	24
Convenience store	-	-	-	2,033	2,294	2,370	2,532	2,840
Specialty store	-	-	-	37	55	61	42	44
Other retail formats	18	21	24	27	29	29	30	77
Financial service	-	-	-	236	279	302	339	339
Services	-	-	-	25	41	95	180	282
Total	78	86	101	2,456	2,862	3,044	3,325	3,845

Source: Shared Research based on company data

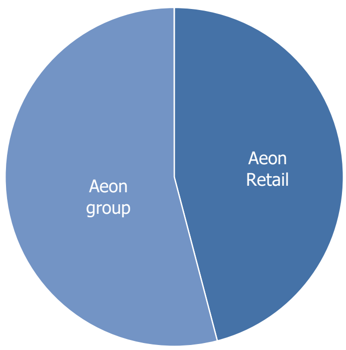
Customers

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

Sales composition by customer



Aeon Retail versus Aeon group



Source: Shared Research based on company data

Competition

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

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

Barriers to entry

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

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

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

Financial Statements

Income statement

Income statement (JPYmn)	FY02/08 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.	FY02/17 Cons.	FY02/18 Est.
Total sales	**137,519**	**145,690**	**140,299**	**170,905**	**219,797**	**248,876**	**257,243**	**266,705**	**281,041**	**294,725**	**305,000**
Facilities Management	40,202	42,253	41,666	40,019	42,147	42,050	43,458	45,839	48,962	50,551	
Security Services	35,848	36,670	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068	
Cleaning Services	41,098	42,403	45,050	41,142	39,852	40,519	42,320	44,287	47,870	53,365	
Construction Work	16,777	18,515	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814	
Materials and Supplies Sourcing		-	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740	
Vending Machine Services		-	-	17,188	32,280	31,200	33,329	34,825	32,741	32,879	
Support Services, and Other	3,591	5,846	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306	
YoY	**23.7%**	**5.9%**	**-3.7%**	**21.8%**	**28.6%**	**13.2%**	**3.4%**	**3.7%**	**5.4%**	**4.9%**	**3.5%**
Facilities Management		5.1%	-1.4%	-4.0%	5.3%	-0.2%	3.3%	5.5%	6.8%	3.2%	
Security Services		2.3%	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%	
Cleaning Services		3.2%	6.2%	-8.7%	-3.1%	1.7%	4.4%	4.6%	8.1%	11.5%	
Construction Work		10.4%	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%	
Materials and Supplies Sourcing		-	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%	
Vending Machine Services		-	-	-	87.8%	-3.3%	6.8%	4.5%	-6.0%	0.4%	
Support Services, and Other		62.8%	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%	
Cost of sales	118,692	124,735	119,180	146,916	191,166	218,648	223,528	231,588	243,651	255,729	
Gross profit	**18,827**	**20,955**	**21,118**	**23,989**	**28,631**	**30,227**	**33,714**	**35,117**	**37,390**	**38,995**	
YoY	**18.1%**	**11.3%**	**0.8%**	**13.6%**	**19.4%**	**5.6%**	**11.5%**	**4.2%**	**6.5%**	**4.3%**	
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%	
SG&A expenses	10,496	11,008	11,148	11,957	14,868	16,326	18,599	19,256	20,682	21,738	
SG&A-to-sales ratio	7.6%	7.6%	7.9%	7.0%	6.8%	6.6%	7.2%	7.2%	7.4%	7.4%	
Operating profit	**8,331**	**9,946**	**9,970**	**12,031**	**13,762**	**13,901**	**15,115**	**15,861**	**16,707**	**17,257**	**18,000**
YoY	49.4%	19.4%	0.2%	20.7%	14.4%	1.0%	8.7%	4.9%	5.3%	3.3%	4.3%
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%	5.9%
Non-operating income (expenses)	-144	-134	-58	58	22	-9	-23	82	-23	124	
Non-operating income	129	108	88	208	281	213	163	228	253	434	
Non-operating expenses	-273	-241	-147	-149	-260	-221	-186	-145	-275	-309	
Recurring profit	**8,187**	**9,812**	**9,912**	**12,089**	**13,784**	**13,892**	**15,092**	**15,943**	**16,684**	**17,381**	**18,000**
YoY	49.2%	19.9%	1.0%	22.0%	14.0%	0.8%	8.6%	5.6%	4.6%	4.2%	3.6%
RPM	6.0%	6.7%	7.1%	7.1%	6.3%	5.6%	5.9%	6.0%	5.9%	5.9%	5.9%
Extraordinary gains (losses)	-105	-830	223	-980	-807	27	-501	-342	-158	-132	
Extraordinary gains	58	110	457	5	73	80	28	15	816	525	
Extraordinary losses	-163	-940	-234	-985	-880	-53	-529	-357	-974	-657	
Income taxes	3,702	4,026	4,618	4,613	5,932	6,306	6,192	6,530	6,469	6,463	
Implied tax rate	44.0%	37.1%	43.6%	35.3%	40.3%	45.0%	39.6%	40.0%	35.0%	34.8%	
Minority interests	-	80	50	-	132	104	237	344	398	547	
Net income	**4,379**	**4,876**	**5,466**	**6,495**	**6,912**	**7,509**	**8,161**	**8,725**	**9,658**	**10,238**	**10,700**
YoY	46.1%	11.3%	12.1%	18.8%	6.4%	8.6%	8.7%	6.9%	10.7%	6.0%	4.5%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%	3.5%

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 and Supplies Sourcing Services and Vending Machine Services, which had been operated by Certo, were also added as separate categories.

Profitability and financial ratios

Profit margins (JPYmn)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17
Gross profit	18,827	20,955	21,118	23,989	28,631	30,227	33,714	35,117	37,390	38,995
GPM	13.7%	14.4%	15.1%	14.0%	13.0%	12.1%	13.1%	13.2%	13.3%	13.2%
Operating profit	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707	17,257
OPM	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%
EBITDA	9,712	11,441	11,563	13,818	16,107	16,138	17,547	18,327	19,568	20,191
EBITDA margin	7.1%	7.9%	8.2%	8.1%	7.3%	6.5%	6.8%	6.9%	7.0%	6.9%
Net margin	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%
Financial ratios										
ROA (RP-based)	17.1%	20.3%	20.3%	18.1%	15.5%	14.4%	14.2%	13.4%	13.0%	12.8%
ROE	21.0%	19.9%	18.9%	15.5%	12.5%	12.5%	12.3%	12.0%	12.3%	12.0%
Total asset turnover	2.9	3.0	2.9	2.6	2.5	2.6	2.4	2.2	2.2	2.2
Working capital	7,394	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952	11,401
Current ratio	127.7%	149.8%	184.4%	210.0%	215.5%	226.9%	229.9%	224.0%	235.8%	255.1%
Quick ratio	123.6%	135.8%	166.6%	195.4%	201.0%	207.6%	208.9%	207.5%	216.2%	165.0%
OCF / Current liabilities	29.4%	31.3%	38.6%	29.0%	30.0%	-12.7%	57.5%	40.1%	22.5%	26.3%
Net debt / Equity	40.8%	27.6%	34.6%	60.4%	63.5%	43.4%	63.1%	73.4%	68.7%	38.4%
OCF / Total liabilities	26.0%	31.8%	40.6%	21.5%	27.8%	-12.1%	52.3%	35.5%	21.8%	24.7%
Cash cycle (days)	14.0	14.3	14.8	10.4	8.2	18.5	20.3	11.7	11.3	10.9
Changes in working capital	968	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181	-2,551

Source: Shared Research based on company data

Historical forecast accuracy

Results vs. Initial Est. (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 Est.)	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	281,041
Results vs. Initial Est.	**14.6%**	**0.5%**	**-6.5%**	**-5.6%**	**3.2%**	**-4.3%**	**-1.1%**	**-1.2%**	**0.4%**
Operating profit (Initial Est.)	-	9,100	10,100	12,050	14,300	16,600	15,500	16,000	17,000
Operating profit (Results)	8,331	9,946	9,970	12,031	13,762	13,901	15,115	15,861	16,707
Results vs. Initial Est.	**-**	**9.3%**	**-1.3%**	**-0.2%**	**-3.8%**	**-16.3%**	**-2.5%**	**-0.9%**	**-1.7%**
Recurring profit (Initial Est.)	6,800	9,000	9,900	12,105	14,300	16,600	15,500	16,000	17,000
Recurring profit (Results)	8,187	9,812	9,912	12,089	13,784	13,892	15,092	15,943	16,684
Results vs. Initial Est.	**20.4%**	**9.0%**	**0.1%**	**-0.1%**	**-3.6%**	**-16.3%**	**-2.6%**	**-0.4%**	**-1.9%**
Net income (Initial Est.)	3,600	4,600	5,200	6,470	7,600	8,700	8,300	8,600	9,400
Net income (Results)	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658
Results vs. Initial Est.	**21.7%**	**6.0%**	**5.1%**	**0.4%**	**-9.1%**	**-13.7%**	**-1.7%**	**1.5%**	**2.7%**

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

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

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

Balance sheet

(JPYmn)	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17
ASSETS									
Cash and deposits	6,991	7,964	13,098	9,707	10,014	12,565	15,580	20,386	31,717
Accounts receivable	18,025	16,284	28,246	31,240	44,673	37,420	40,055	39,512	36,958
Allowance for doubtful accounts	-188	-122	-226	-657	-144	-290	-168	-360	-202
Inventories	28	20	1,476	1,527	2,237	2,504	2,618	2,897	3,050
Deposits for consumption from associates	2,500	3,000	18,920	27,320	18,020	32,420	41,326	37,362	4,231
Other current assets	2,794	2,880	3,010	3,349	4,523	5,728	5,066	5,877	36,651
Total current assets	**30,150**	**30,026**	**64,524**	**72,486**	**79,323**	**90,347**	**104,477**	**105,674**	**112,405**
Buildings	762	1,185	1,234	1,217	1,089	1,046	1,009	1,642	1,644
Facilities and equipment for area management	343	305	265	246	274	238	211	190	175
Tools, furniture, and fixtures	-	-	1,791	1,918	2,079	2,487	2,516	2,663	3,319
Land	475	284	284	284	282	278	278	1,978	1,975
Construction in progress	13	15	-	-	-	-	-	-	-
Other fixed assets	1,009	952	182	108	72	209	345	610	1,974
Total tangible fixed assets	**2,602**	**2,741**	**3,756**	**3,773**	**3,796**	**4,258**	**4,361**	**7,086**	**9,089**
Goodwill	11,974	11,295	10,546	11,249	10,801	10,078	9,069	7,989	7,038
Other	649	629	1,031	1,023	1,520	1,609	1,867	2,408	2,056
Total intangible fixed assets	**12,623**	**11,924**	**11,577**	**12,272**	**12,321**	**11,687**	**10,937**	**10,397**	**9,095**
Investment securities	1,730	2,050	2,983	2,577	2,973	3,897	3,768	4,463	4,546
Deferred tax assets	534	289	278	406	288	254	284	310	551
Other	1,566	1,779	1,701	1,517	2,196	1,877	2,750	3,911	4,353
Allowance for doubtful accounts	-172	-141	-196	-224	-200	-199	-535	-494	-536
Investment and other assets	**3,658**	**3,977**	**4,766**	**4,276**	**5,257**	**5,829**	**6,268**	**8,190**	**8,915**
Total fixed assets	**18,885**	**18,644**	**20,100**	**20,322**	**21,375**	**21,775**	**21,567**	**25,674**	**27,099**
Total assets	**49,035**	**48,670**	**84,624**	**92,809**	**100,699**	**112,122**	**126,044**	**131,349**	**139,505**
LIABILITIES	-	-	-	-	-	-	-	-	-
Accounts payable	10,551	8,974	22,424	23,720	24,544	26,701	30,902	28,457	28,607
Short-term debt	1,688	80	49	41	10	5	-	-	271
Other	7,892	7,227	8,251	9,882	10,401	12,600	15,738	16,364	15,187
Total current liabilities	**20,131**	**16,281**	**30,724**	**33,643**	**34,955**	**39,306**	**46,640**	**44,821**	**44,065**
Long-term debt	56	31	6	15	5	-	-	-	293
Other	768	993	1,006	968	1,190	1,500	1,908	2,527	3,057
Total fixed liabilities	**824**	**1,024**	**1,012**	**983**	**1,195**	**1,500**	**1,908**	**2,527**	**3,350**
Total liabilities	**20,956**	**17,306**	**31,737**	**34,626**	**36,151**	**40,806**	**48,549**	**47,348**	**47,416**
Capital stock	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238	3,238
Capital surplus	2,963	2,964	18,741	18,753	18,770	18,818	18,850	18,862	18,949
Retained earnings	20,852	25,366	30,575	35,285	40,539	46,235	52,388	59,393	66,795
Treasury stock	-461	-461	-461	-460	-458	-449	-443	-441	-436
Other comprehensive income	-42	145	645	647	992	1,711	1,373	525	799
Share subscription rights	72	110	149	173	205	165	166	221	263
Minority interests	1,456	-	-	545	1,260	1,597	1,922	2,200	2,480
Total net assets	**28,079**	**31,364**	**52,887**	**58,182**	**64,547**	**71,316**	**77,495**	**84,000**	**92,089**
Working capital	7,502	7,330	7,298	9,047	22,366	13,223	11,771	13,952	11,401
Total interest-bearing debt	1,744	111	55	56	15	5	-	-	564
Net debt (net cash)	7,747	10,853	31,963	36,971	28,019	44,980	56,906	57,748	35,384
Equity ratio	54.1%	64.2%	62.3%	61.9%	62.6%	62.0%	59.8%	62.1%	64.0%

Source: Shared Research based on company data
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 JPY31.5bn and liabilities of JPY15.3bn.

Liabilities

Aeon Delight was basically debt free, with a mere several million of interest-bearing debt at the end of FY02/14. Cash and deposits exceeded interest-bearing debt. Receivables account for a significant portion of liabilities (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.

Shareholders' equity

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

Shareholder returns

Aeon Delight aims to provide dividends that correspond to its financial performance in a stable and continuous manner. It aims to provide a 20% dividend payout ratio, while keeping a close watch on its net asset ratio. 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	FY02/16	FY02/17
Cash flows from operating activities (1)	6,668	7,031	6,808	9,639	-4,358	21,359	17,234	10,303	11,703
Cash flows from investing activities (2)	-2,087	-1,966	-3,000	-10,051	7,086	-16,632	-11,365	-3,255	2,233
Free cash flow (1+2)	**4,581**	**5,065**	**3,808**	**-412**	**2,728**	**4,727**	**5,869**	**7,048**	**13,936**
Cash flows from financing activities	-5,255	-4,169	-1,321	-2,722	-2,257	-2,475	-2,594	-2,821	-2,400
Depreciation and amortization (A)	1,495	1,593	1,787	2,345	2,237	2,432	2,466	2,861	2,934
Capital expenditures (B)	-707	-912	-792	-1,184	-1,607	-1,999	-1,903	-2,414	-4,113
Working capital changes (C)	108	-172	-32	1,749	13,319	-9,143	-1,452	2,181	-2,551
Simple FCF (NI + A + B - C)	**5,556**	**6,319**	**7,522**	**6,324**	**-5,180**	**17,737**	**10,740**	**7,924**	**11,372**

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

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

Simple free cash flow

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

Cash conversion cycle (days)	FY02/08	FY02/09	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17
Accounts receivable turnover	8.0	8.2	8.2	7.7	7.4	6.6	6.3	6.9	7.1	7.7
Accounts receivable days	**45.7**	**44.7**	**44.6**	**47.6**	**49.4**	**55.7**	**58.2**	**53.0**	**51.7**	**47.4**
Inventory turnover	6,247.0	6,565.0	4,965.8	196.4	127.3	116.2	94.3	90.4	88.4	86.0
Days in inventory	**0.1**	**0.1**	**0.1**	**1.9**	**2.9**	**3.1**	**3.9**	**4.0**	**4.1**	**4.2**
Accounts payable turnover	11.5	12.0	12.2	9.4	8.3	9.1	8.7	8.0	8.2	9.0
Accounts payable days	**31.7**	**30.5**	**29.9**	**39.0**	**44.1**	**40.3**	**41.8**	**45.4**	**44.5**	**40.7**
Cash conversion cycle (days)	**14.0**	**14.3**	**14.8**	**10.4**	**8.2**	**18.5**	**20.3**	**11.7**	**11.3**	**10.9**

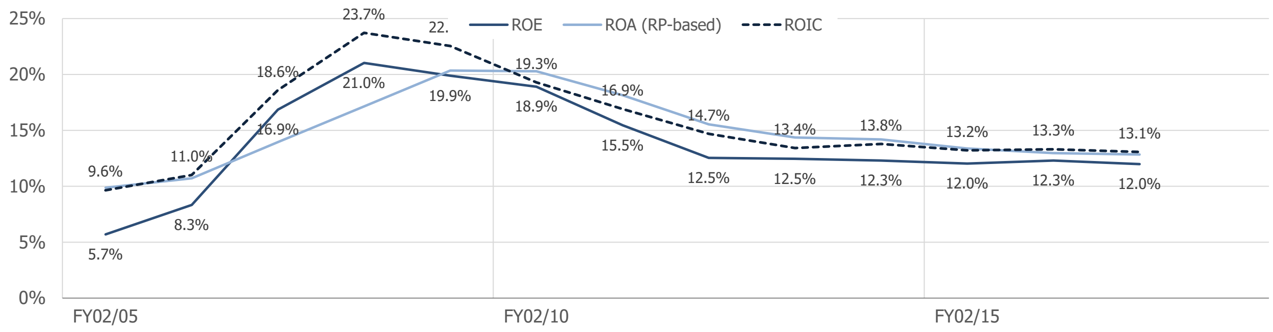
Source: Shared Research based on company data
Figures may differ from company materials due to differences in rounding methods.

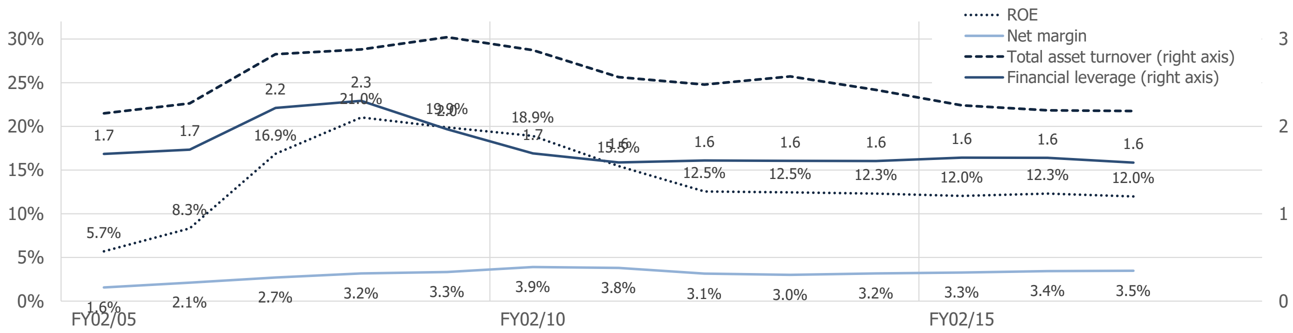
Inventory turnover rate deteriorated over the past three years due to increased inventories from acquired companies. Accounts receivable are mainly from Aeon group companies, while accounts payable are with various suppliers, such as soft drink beverage suppliers. In FY02/13, its cash-conversion cycle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

ROE and dividends

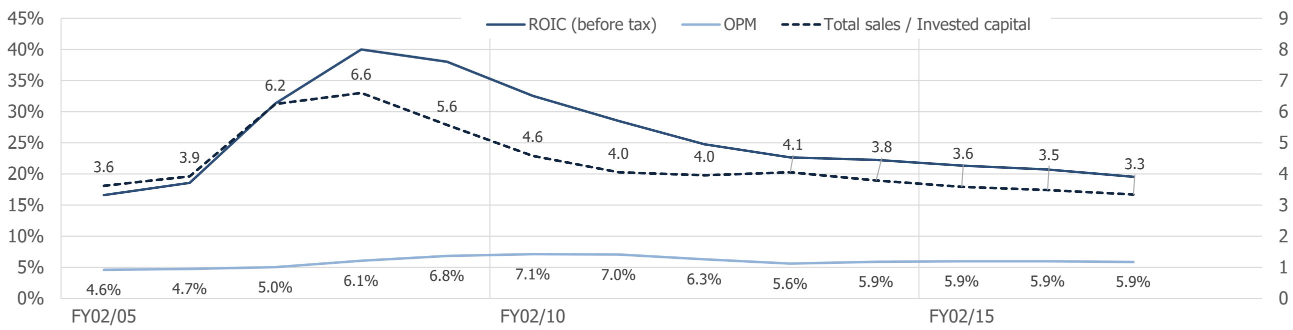
(JPYmn)		FY02/05 Cons.	FY02/06 Cons.	FY02/07 Cons.	FY02/08 Cons.	FY02/09 Cons.	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 Cons.
ROE		**5.7%**	**8.3%**	**16.9%**	**21.0%**	**19.9%**	**18.9%**	**15.5%**	**12.5%**	**12.5%**	**12.3%**	**12.0%**	**12.3%**	**12.0%**
	Net margin	1.6%	2.1%	2.7%	3.2%	3.3%	3.9%	3.8%	3.1%	3.0%	3.2%	3.3%	3.4%	3.5%
	Total asset turnover	2.15	2.26	2.83	2.88	3.02	2.87	2.56	2.48	2.57	2.42	2.24	2.18	2.18
	Financial leverage	1.68	1.73	2.21	2.29	1.97	1.69	1.59	1.61	1.61	1.60	1.64	1.64	1.58
ROA (RP-based)		**9.9%**	**10.7%**	**13.9%**	**17.1%**	**20.3%**	**20.3%**	**18.1%**	**15.5%**	**14.4%**	**14.2%**	**13.4%**	**13.0%**	**12.8%**
ROIC		**9.6%**	**11.0%**	**18.6%**	**23.7%**	**22.6%**	**19.3%**	**16.9%**	**14.7%**	**13.4%**	**13.8%**	**13.2%**	**13.3%**	**13.1%**
	NOPAT	1,457	1,749	3,307	4,941	5,899	5,913	7,136	8,162	8,245	9,370	9,832	10,753	11,551
	Interest-bearing debt + Net assets	15,104	15,893	17,791	20,829	26,156	30,649	42,209	55,590	61,400	67,942	74,408	80,748	88,327
ROIC (before tax)		16.6%	18.6%	31.3%	40.0%	38.0%	32.5%	28.5%	24.8%	22.6%	22.2%	21.3%	20.7%	19.5%
	OPM	4.6%	4.7%	5.0%	6.1%	6.8%	7.1%	7.0%	6.3%	5.6%	5.9%	5.9%	5.9%	5.9%
	Total sales / Invested capital	3.62	3.92	6.25	6.60	5.57	4.58	4.05	3.95	4.05	3.79	3.58	3.48	3.34

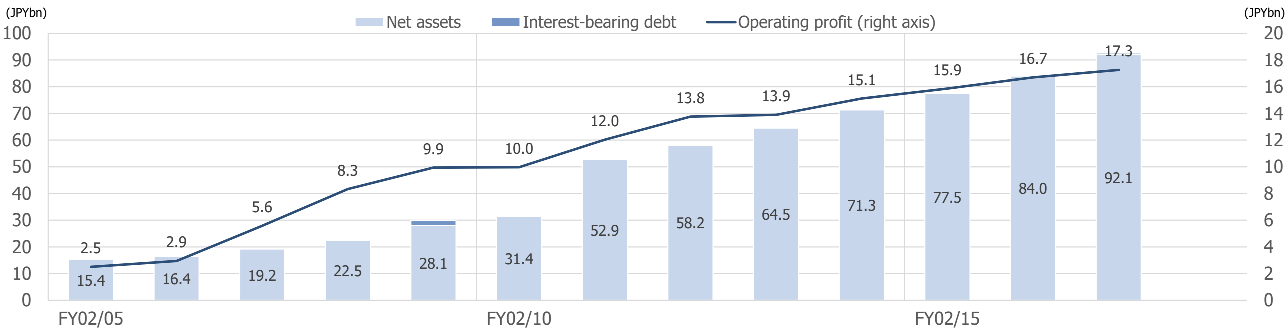
ROE





ROIC

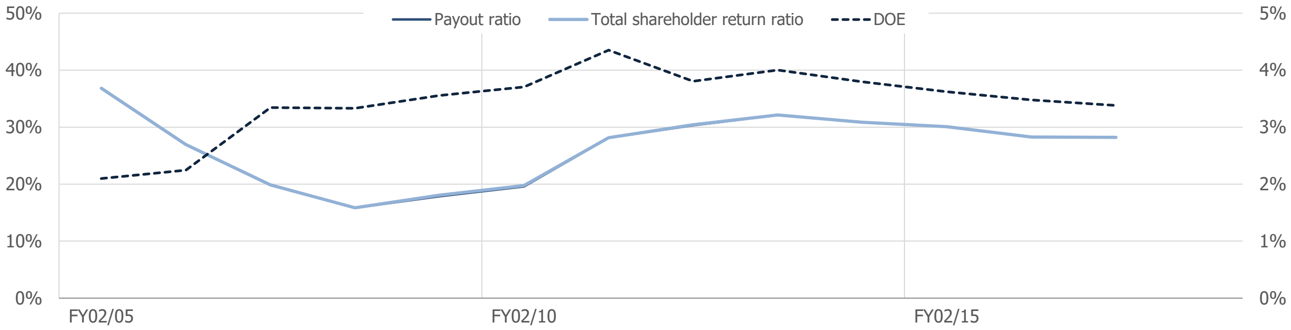




Source: Shared Research based on company data

Dividends

(JPYmn)		FY02/06 Cons.	FY02/07 Cons.	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.	FY02/17 Cons.
Total dividends	a)	357	595	694	872	1,071	1,828	2,097	2,413	2,519	2,625	2,731	2,890
Total treasury stock acquired	b)	-	1	-	9	8	1	6	1	1	1	-	-
Total returns to shareholders	c) = a) + b)	357	596	694	881	1,079	1,829	2,103	2,414	2,520	2,626	2,731	2,890
Net income attributable to parent company shareholders	d)	1,324	2,999	4,379	4,876	5,466	6,495	6,912	7,509	8,161	8,725	9,658	10,238
Dividend payout ratio	a) / d)	27.0%	19.8%	15.8%	17.9%	19.6%	28.1%	30.3%	32.1%	30.9%	30.1%	28.3%	28.2%
Total shareholder return ratio	c) / d)	27.0%	19.9%	15.8%	18.1%	19.7%	28.2%	30.4%	32.1%	30.9%	30.1%	28.3%	28.2%
Net assets available to common shareholders		16,413	19,169	22,488	26,551	31,254	52,738	57,464	63,082	69,554	75,407	81,579	89,346
Average of beginning and end of year	f)	15,893	17,791	20,829	24,520	28,903	41,996	55,101	60,273	66,318	72,481	78,493	85,463
Before deducting assets available to holders of Class A preferred shares		16,413	19,169	22,488	26,551	31,254	52,738	57,464	63,082	69,554	75,407	81,579	89,346
EPS	(JPY)	64.3	151.2	110.4	122.9	137.8	142.6	131.8	143.2	155.5	166.2	183.9	194.8
DPS	(JPY)	18.0	30.0	25.0	22.0	27.0	39.0	40.0	46.0	48.0	50.0	52.0	55.0
DOE	a) / f)	2.2%	3.3%	3.3%	3.6%	3.7%	4.4%	3.8%	4.0%	3.8%	3.6%	3.5%	3.4%



Source: Shared Research based on company data

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. 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.

Major shareholders

Aeon group companies own about 60% of the company.

Top shareholders	Amount held
Aeon Retail Co., Ltd.	30.57%
Aeon Co., Ltd.	11.27%
Reform Studio Co., Ltd.	7.37%
ORIGIN TOSHU Co., Ltd.	3.42%
Goldman Sachs & Co. Regular Account	3.42%
The Master Trust Bank of Japan, Ltd. (Trust Account)	2.63%
Aeon Delight Business Partners Stockholding Association	1.78%
Japan Trustee Services Bank, Ltd. (Trust Account)	1.68%
BNP Paribas Sec Services Luxembourg/Jasdec/Aberdeen Global Client Assets	1.61%
Aeon Ryukyu Co., Ltd.	1.58%

Source: Shared Research based on company data
(As of February 28, 2017)

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 Heath, 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 12,558 employees and an average of 6,791 temporary employees on a consolidated basis as of FY02/17. At the parent level, there were 4,004 employees and 2,398 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 2 months
- ▷ Average length of employment: 10.5 years
- ▷ Average annual salary: JPY4.8mn

Investor relations

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

By the way

Corporate Social Responsibility (CSR) Activities

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

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

Promotion of energy-saving lighting equipment

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

Proposal for environmentally friendly packaging

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

Introduction of environmentally friendly vending machines

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

Participation in Aeon 1% Club

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

Tree planting through Aeon Environmental Foundation

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

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

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

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

Volunteering at social welfare facilities

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

Shopping basket cleaning outsourced to vocational aid facilities

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

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

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

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

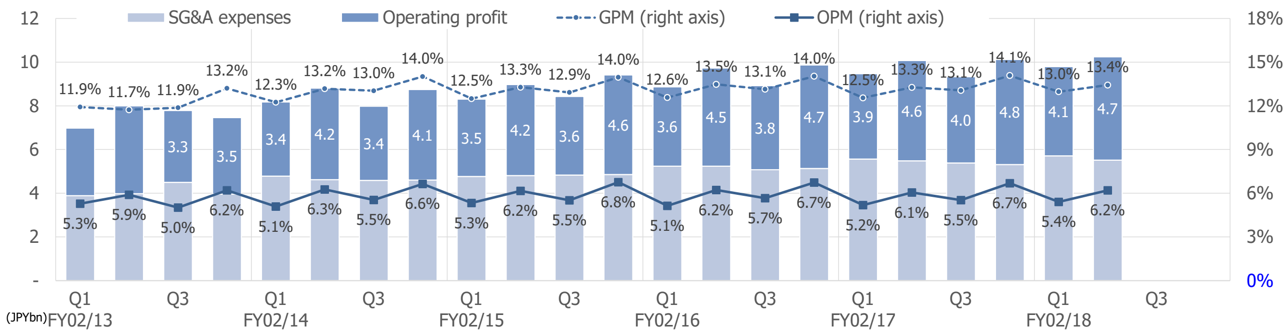
Historical financial statements and news

Historical financial statements

1H FY02/18 results (announced October 4, 2017)

- **1H:** Domestic and overseas subsidiaries drove sales and profit growth due to group-wide management. Profits reached new record highs. Actively worked on priority issues noted in medium-term plan
  - **Priority issues:** Roll out IFM (integrated facility management) services in Asia, utilize technology, and expand business in Asia. Saw progress for each in 1H
- **IFM:** Opened Shanghai sales office (April), established global headquarters for promotion of IFM business (June), and performed consulting-based sales
- **Technology:** Established technology solution headquarters (June), introduced next-generation facilities management system in Japan and overseas, and tested cleaning robot
  - **Next-generation facilities management:** Open network system toward de facto standardization in Asia. Focused on acquiring market share mainly at commercial facilities
  - **Micro-markets (self-checkout kiosks):** Started demonstrations with a model that generates profit with daily sales of JPY100,000 at offices with 300–1,000 workers
- **Expansion of Asia business:** OPM 6.7% (2.3x YoY). In China, OPM of 8.1% as the company restructured business portfolio to shift to highly profitable business
- **By segment**: Sales increased in five segments excluding Construction Work and Materials segment and Supplies Sourcing Services segment. Some segments were rearranged
- **2H:** By conducting initiatives in important business areas, the company forecasts results to improve for domestic businesses (+JPY300mn YoY in gross profits), domestic subsidiaries (+JPY180mn), and overseas businesses (+JPY220mn).

Earnings trend (JPYbn)



Source: Shared Research based on company data

Earnings overview

1H: Group management led to domestic and overseas subsidiaries driving higher sales and profits. Profits reached new record highs. Actively worked on priority issues in medium-term plan

- Sales: JPY151.8bn (+0.3% YoY)
- Operating profit: JPY8.8bn (+3.5%)

Operating profit, recurring profit, and net income all reached new record highs. Sales rose in five segments, except for the Construction Work segment and the Materials and Supplies Sourcing Services segment. Results in Construction Work were affected by a partial reorganization of the segment. In Japan, the company increased orders from large-facilities and expanded its services to small- and medium-sized facilities through its domestic subsidiaries. Overseas, the company steadily expanded its business in each country.

The company aims to be an integrated facility management (IFM) company that maximizes customer profits through technology by 2025. This goal reaches beyond the medium-term plan, which ends in FY02/20. This is against a backdrop of a labor shortage in Japan, meaning fewer new workers in the cleaning and security businesses, and technological advancement. Particularly regarding the latter, the company's market share in 2025 is likely to be determined by the success of introducing new technology into facilities management. As such, the company is proactively promoting technology in its business structure reform.

The medium-term plan also lists measures for achieving the 2025 vision. Priorities are rolling out IFM services in Asia, utilization of technology, and business expansion in Asia. While steadily carrying out these measures in 1H FY02/18, the company started restructuring its business to further utilize technology, such as developing the next-generation facilities management model and micro-markets.

Utilization of technology: Next-generation facilities management model

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

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

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

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

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

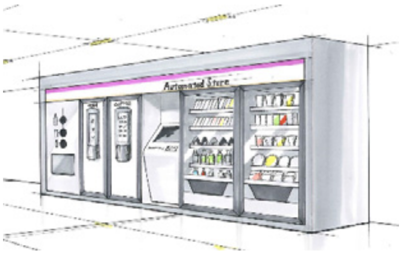
Source: Shared Research based on company data

Utilization of technology: Micro-markets (unmanned stores)

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

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

Example of installed micro-market



Source: Shared Research based on company data

Expansion of integrated facility management (IFM) in Asia

The company is steadily expanding customers using its conventional facilities management services in Japan and overseas. In Japan, Aeon Delight started to provide services to large commercial facilities, medical facilities, hotels, universities, and multipurpose facilities, and the conversion of Hakuseisha to a wholly owned subsidiary in FY02/16 means it now also provides services to department stores. The company continues to market proposals (and receive orders) for integrated facility management (IFM) for entire buildings or all facilities of corporate groups such as main offices and factories. In Q3 FY02/17, the company started offering IFM to major pharmaceutical manufacturers from December, which led to multiple orders in 1H beyond initial contracts, and progress was favorable.

Establishment of an IFM sales structure

Providing IFM services to a major pharmaceutical manufacturer is the company's first substantive IFM project (the first of its kind in Japan, according to the company's estimate). This project is based on a new form of a multi-year contract, which guarantees cost reduction and quality. While the investment costs slightly exceeded the forecast, the company is aiming to ride on this order receipt to acquire similar large IFM orders. Indeed, it established a dedicated sales team (sales head office) for the promotion of its IFM business in October 2016 to start winning orders, working closely with subsidiary GSI that conducts consulting-based sales. In April 2017, the company opened a sales office in Shanghai. In June 2017, the company also established global sales head office to promote the IFM business, and is proceeding to bring in experts from outside the company. Aeon Delight's name recognition in the IFM market is steadily improving, and the company appears to be leveraging the networks of personnel it has already hired from outside.

Expansion of demand for IFM services

Out of the targeted JPY65.3bn increase in sales over three years under the medium-term plan, JPY15.0–20.0bn is expected to come from an increase in IFM sales in Japan and overseas (see the long-term strategy section for details). The global sales head office and Shanghai sales office assume two important roles: conducting proprietary sales activities to win IFM orders from domestic and overseas global companies operating in Asia, and partnering with other companies to win IFM orders in Asia. It uses partner companies because in many cases when global IFM companies receive orders from global companies, these IFM companies outsource Asian operations to Aeon Delight. Aeon Delight has also received requests from companies with IFM orders to undertake IFM services for the whole Asia region.

Business expansion in Asia

Sales at overseas businesses were about JPY5.9bn (+4.1% YoY). Operating profit rose about 2.3x to about JPY400mn. The main factors are improved profitability due to business portfolio restructuring in China and increased orders from the company's main target customers (medium- to high-end facilities) owing to the strengthening of the sales structure for IFM services in China.

Sales in China were nearly on par with the previous year (slight growth) due to business portfolio restructuring. OPM rose 2pp YoY to 8.1%. This is attributable to a shift to highly profitable businesses by selling the elevator installation/maintenance business (FY02/17) and actively switching in higher-margin customers. The company intends to win highly profitable contracts to pursue not only sales growth but also an increase in profits. It also saw higher sales and profits in Malaysia and Vietnam, which contributed to the solid results of the overseas businesses.

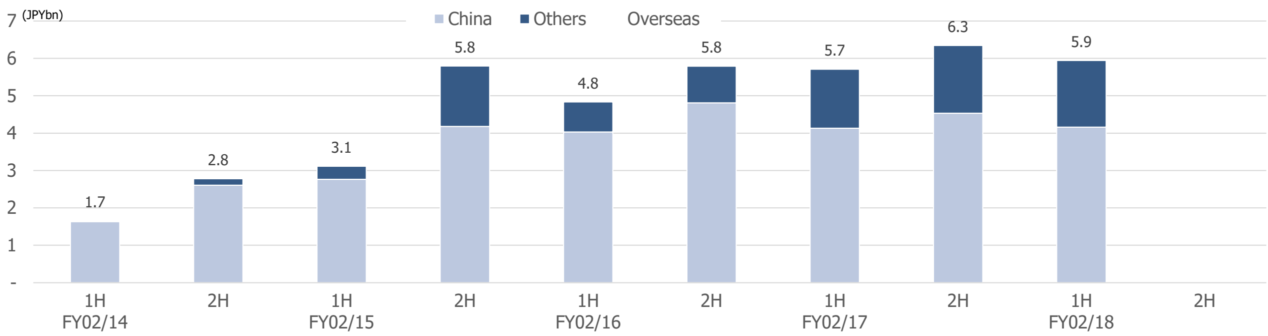
In addition to IMF, the company is carrying out the following initiatives:

- ▷ Wuhan, China: established subsidiary to provide catering business because many universities and companies are located in this region and the demand for cafeteria operating services is high
- ▷ Increased orders for medium- to high-end facilities, an area of focus for the company
- ▷ Malaysia: in addition to winning contracts for renewal construction work and newly opening commercial facilities, the company sought to increase contracts for cleaning and materials businesses
- ▷ Vietnam: expanded customer base and expanded new orders from large commercial facilities and locations such as the Japanese embassy in Hanoi

Large contracts that the company acquired include facilities management in a redevelopment area around Suzhou North Railway Station in China. The company jointly established with the Suzhou Municipal Government a company for facilities management in the 25 sq km redevelopment area around the station. For 2H, it acquired a contract for managing offices and commercial facilities covering 310,000sqm.

The company is targeting growth in China and the ASEAN region (growth markets) and is allocating management resources to these regions.

Overseas sales (JPYbn)

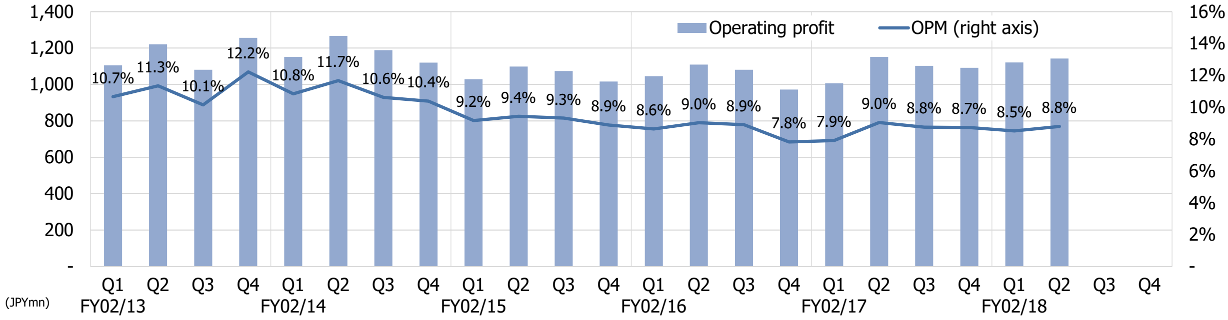


Source: Shared Research based on company data

Toward 2H

In the parent company, the company aims to increase gross profits JPY300mn YoY by the following measures: 1) winning new contracts; 2) Construction work: focusing on estimate evaluations, remodeling/design construction work, and construction work needed after a change of tenant; 3) Materials and Supplies Sourcing Services: concentrate materials within each company in the Aeon Group and provide packaging materials for Top Valu. In domestic subsidiaries, the company aims to increase gross profit JPY180mn YoY by the following measures: 1) Aeon Compass: focus on event business and business support services, including rental conference rooms; 2) Kajitaku: strengthen sales to major customers and expand sales of Kaji Cloud services; 3) AZS: expand contracts for small store construction work; 4) Hakuseisha: improve profitability. Overseas, the company aims to increase gross profit by JPY220mn by expanding contracts for medium to high-end facilities and redevelopment areas in China.

Facilities Management



Facilities Management (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507	13,165	12,994		
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%	3.5%	2.1%		
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091	1,121	1,142		
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%	11.4%	-0.8%		
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%	8.5%	8.8%		

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

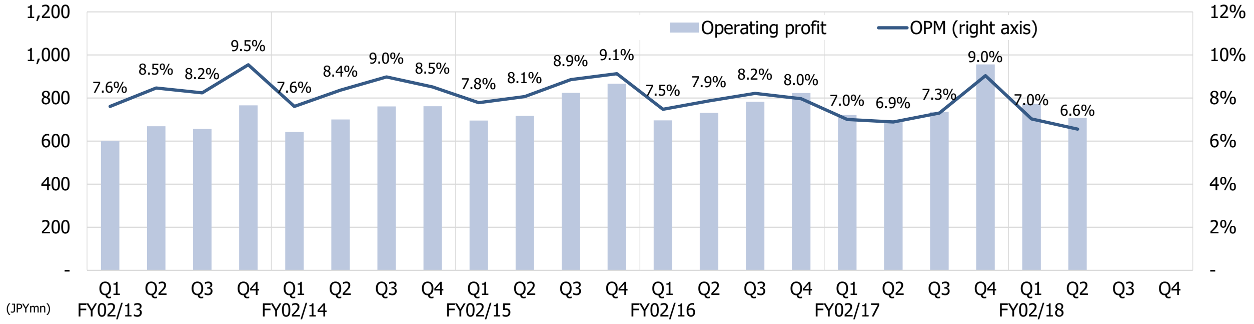
Source: Shared Research based on company data

Facilities Management: Won new contracts, orders kept rising for fire safety equipment testing to meet revised construction standards

In addition to receiving new orders for maintenance and inspection, the company continued to receive orders for regular fire safety equipment testing in order to meet the revised construction standards which came into effect in June 2016. Based on its strength in centralized management from managing over 120,000 pieces of equipment, the company promoted its management services for equipment that uses fluorocarbon, such as heat-generators for air conditioning and refrigeration/ freezing equipment. The company also strove to lower the environmental burden based on the legal demands of the Fluorocarbon Emission Restriction Law. It is also developing a new facilities management model that leverages IoT technologies, various sensors, and cloud computing.

The company has begun designing a next-generation facility management model. This system would connect each facility through a network and make remote automatic control a possibility. The company intends to promote cost reductions through replacing existing systems, which should lead to orders not just for new buildings, but also for existing buildings.

Security Services



Security Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580	11,001	10,798		
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%	6.9%	6.7%		
Operating profit	695	717	824	866	696	731	782	823	721	697	736	956	773	708		
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%	7.2%	1.6%		
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%	7.0%	6.6%		

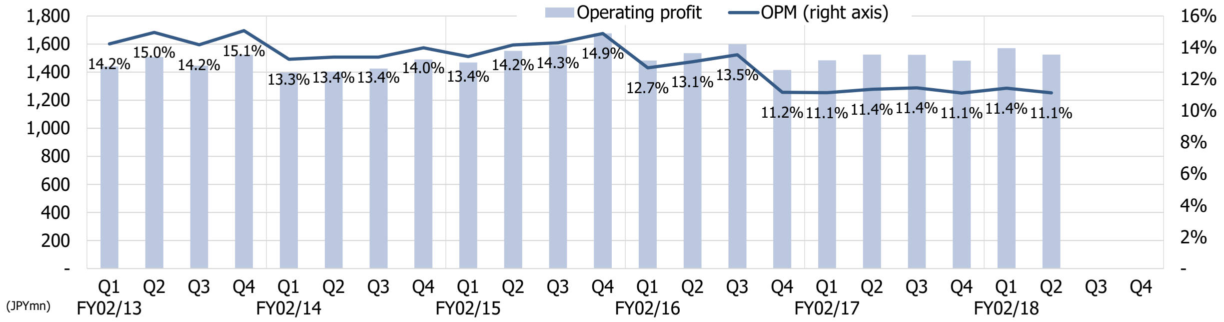
Security Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	34,281	32,088	32,235	31,805	34,242	36,622	38,456	41,068
YoY	-6.5%	-6.4%	0.5%	-1.3%	7.7%	7.0%	5.0%	6.8%
Operating profit	2,738	2,764	2,823	2,692	2,865	3,102	3,032	3,110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

Source: Shared Research based on company data

Boosts sales to grow customer base; starts building a labor-saving system using IoT to eliminate labor shortages and raise quality

In addition to strengthening sales activities, the company has begun using a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. The company continues to attempt to systemize services such as entrance/exit management and security patrols. The new system adds crisis management and is aimed at responding to the occurrence of crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety. There was an increase in segment sales for Security Services in Q1 as some business was shifted between segments.

Cleaning Services



Cleaning Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314	13,743	13,708		
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%	3.2%	2.1%		
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481	1,570	1,525		
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%	5.8%	0.1%		
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	11.1%	11.4%	11.1%		

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

Source: Shared Research based on company data

Cleaning Services: Set new cleaning standards for each facility. Promoted materials/equipment sales and eco materials/equipment

Hygienic cleaning system: New orders though scale is small

In addition to new contracts, the company worked to increase the number of contracts in the hospital and nursing home markets and has started to create cleaning quality standards based on the needs of each facility. It expects the result from its efforts in FY02/16 to ensure that each sales office is able to make hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, costs on orders received in early FY02/16 appear to have gradually improved in FY02/17 and this trend is continuing into FY02/18. The company also promoted sales of cleaning materials and equipment as well as environmentally friendly materials and equipment.

Regular cleaning: Standardized models and small teams; now creating criteria for cleaning quality based on each facility

In regular cleaning services, the company continues standardization to attain a 20% GPM, while sustaining efforts to improve quality and profitability by forming small teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015 and this seems to have improved cleaning materials management and workflow. The company also established new criteria for cleaning quality based on the requirements of each facility, and worked to sell cleaning materials and equipment as well as develop and release environmentally friendly coating solutions and detergents.

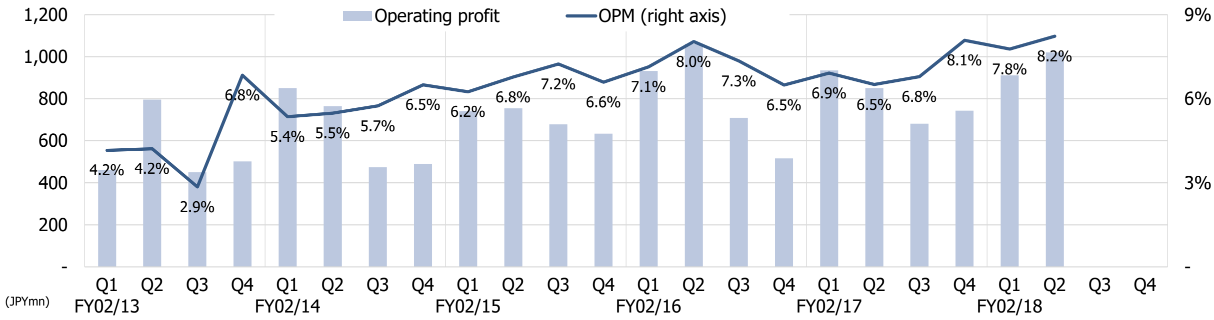
In 1H FY02/18, the GPM for regular cleaning services remained unchanged YoY—if excluding extraordinary factors (transfer of business between segments)—as the company compensated for the impact of increased personnel costs related to an increased social insurance premium burden. The greater social insurance premium burden caused a drop in profit of about JPY80mn in FY02/17, and the company forecasts a further negative impact of more than JPY100mn in FY02/18.

The synergies with Hakuseisha is at last leading to a shift from the conventional department store-style cleaning to the company's methods. It incorporated cleaning specialists and its cleaning know-how into its services from April, and as a result the company to expect profits growth of about JPY50mn in 2H.

Development underway as the company readies simplified cleaning robot for commercial use

In order to maintain its long-term competitiveness, the company is strengthening research to develop and commercialize cleaning robots, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis, with the aim to introduce the robot to multiple stores in FY02/18. At the April 2017 briefing, the company commented that the robot was approaching the completion stage. At the October 2017 briefing, it also commented that the robot was almost completed and a test was in progress at a department store. The company is likely to continue testing and make adjustments until the full-fledged introduction of the cleaning robot, but assuming introducing 400 robots could lead to roughly JPY150mn in cost savings. In addition to introducing the cleaning robot, the company seems to be exploring new business development opportunities using the robot as a launching pad.

Construction Work



Construction Work	FY02/15				FY02/16				FY02/17				FY02/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193	11,724	12,396		
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%	-13.3%	-5.2%		
Operating profit	741	754	678	634	932	1,061	709	516	935	851	681	743	911	1,020		
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%	-2.6%	19.9%		
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%	7.8%	8.2%		

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

Source: Shared Research based on company data

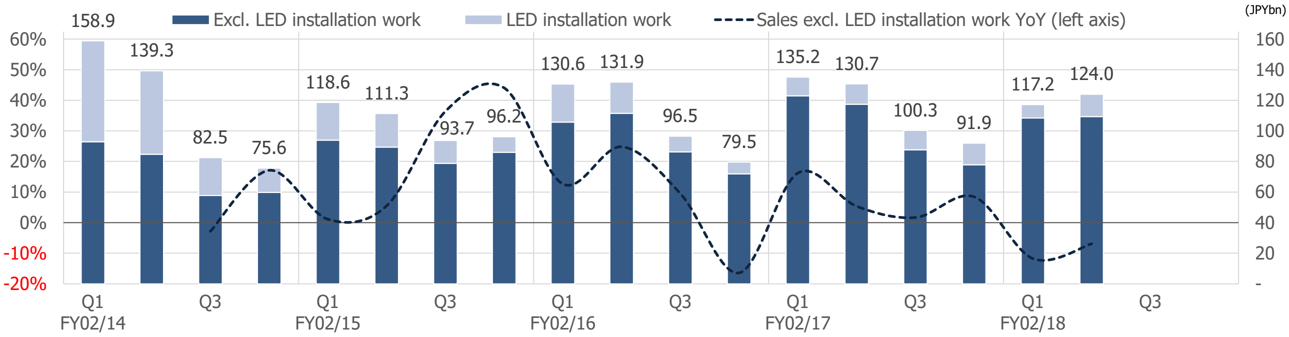
Construction Work: Sales fell on falloff after signage replacement in FY02/17. Pursuing large commercial facility renewals. Expanding orders for small store remodeling construction work

Sales fell JPY2.4bn YoY. This decline may be explained almost entirely by factors including a reactionary falloff of large orders for signage construction work after FY02/17, demand related to the Kumamoto earthquakes, and a decline in sales due to the transfer of a business between segments.

In regard to local revitalization orders, the company strengthened its organizational structure with an aim to expand orders for various types of construction work, such as renovations, maintenance, repairs, and energy-saving remodeling for facilities. It developed all-in-one services, ranging from restoration work as part of repairs (primarily commercial facilities) to temporary enclosures, design, and interior management, and made aggressive sales proposals targeting large orders for renewals after tenant changes in store buildings. As a result, the company in 1H achieved slightly less than 50% of the full-year target of JPY10.0bn (+JPY3.0bn YoY), in line with plan. Orders were steadily growing in design and architecture fields. While working on orders for AEON Group stores, the company intends to leverage such experience to win orders from customers outside the AEON Group.

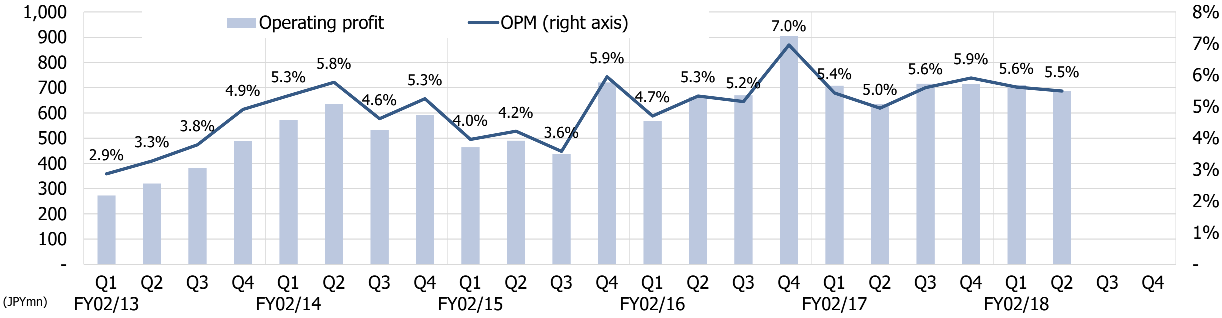
Margins are improving at Construction Work. It appears that accumulating experience in construction improves the company's capabilities to estimate costs, which leads to improved GPM.

Sales from work other than LED lighting installations (JPYbn)



Source: Shared Research based on company data

Materials and Supplies Sourcing Services



Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102	12,638	12,502		
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%	-3.1%	-2.5%		
Operating profit	464	490	436	721	568	664	670	904	708	635	716	715	710	687		
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%	0.3%	8.2%		
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%	5.6%	5.5%		

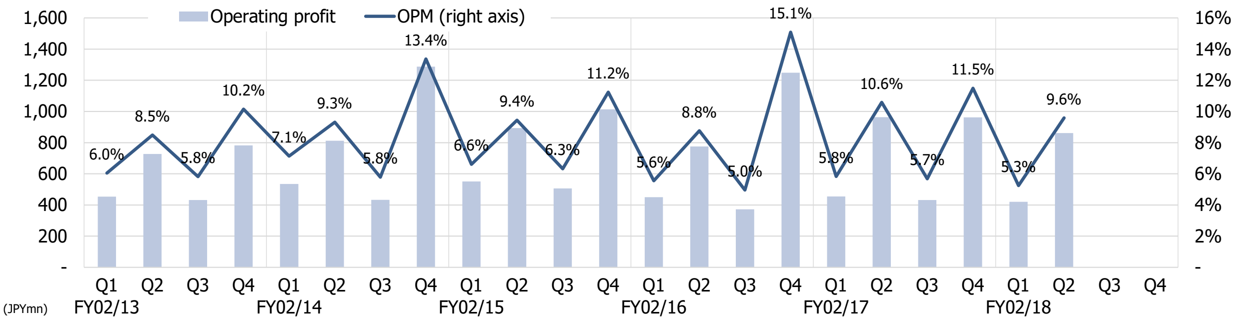
Materials and Supplies Sourcing (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	-	18,718	36,730	39,284	44,543	47,618	50,516	50,740
YoY	-	-	96.2%	7.0%	13.4%	6.9%	6.1%	0.4%
Operating profit	-	627	1,234	1,462	2,333	2,111	2,806	2,774
YoY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

Source: Shared Research based on company data

Materials and Supplies Sourcing: Reorganized to expand sales. Won orders to provide packaging materials for Aeon's private brands

The company reorganized the structure to boost sales, and expanded its contracts for packaging materials of Aeon's private brand, Top Valu. The company also began selling packaging materials for commissary kitchens (concentrated cooking facilities).

Vending Machine Services



Source: Shared Research based on company data

Vending Machine Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369	8,017	8,993		
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%	2.7%	-1.2%		
Operating profit	551	894	506	1,014	450	775	372	1,249	455	963	432	962	421	862		
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%	-7.5%	-10.5%		
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%	5.3%	9.6%		

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

Source: Shared Research based on company data

Vending Machine: Developed and installed vending machines with new payment and service functions. Began testing micro-markets

The company has a sense of urgency about the future of the Vending Machine Services business, and has implemented the following measures

- ▷ installed more vending machines, particularly those that stock a variety of popular products from different manufacturers

- ▷ to reform the income structure, expanded installations of value-added vending machines, such as those with digital signage displays, at large commercial facilities
- ▷ provided more space for video advertisements and options for users to select one of multiple languages.
- ▷ developed and tested augmented reality functions

In Q1 FY02/18, sales rose 2.6% YoY as the company installed more vending machines, primarily machines that stock a variety of popular products from different manufacturers.

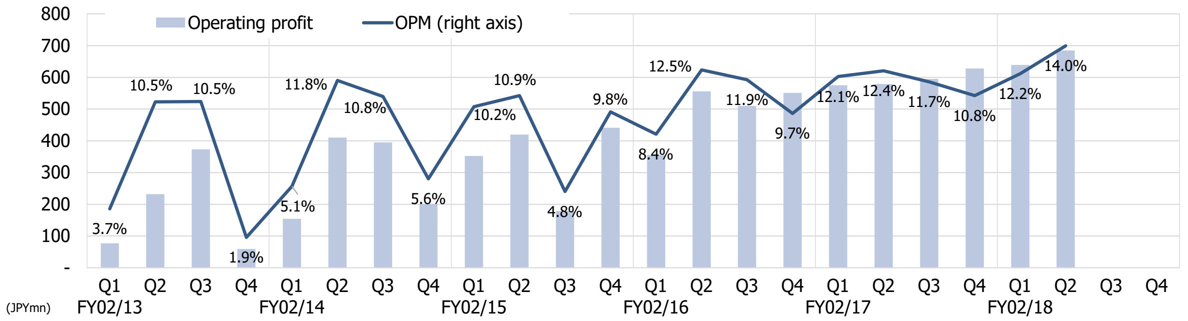
In Q2, the company developed a vending machine with new payment and service functions and installed these machines at more locations. From August, the company began testing micro-markets (unmanned stores) at Aeon Mall Funabashi for small commercial areas, aiming to reform its business model. In addition, the company expects a large order for several hundred conventional vending machines without digital signage displays to contribute to sales in 2H.

Generate new added value through vending machines with digital signage displays

For vending machines with digital signage displays, the company has developed a new business model of offering video advertisement slots on top of the conventional sales of drinks. Their full-scale contribution is likely to begin from FY02/18 onward, and this may become a new revenue source. As of 1H, however, it was running behind schedule. According to the company, it expects high profitability from this business even taking into account fees paid to advertising firms and higher depreciation costs that result from shifting to the new vending machines.

The company installed around 700 machines with digital signage displays as of end FY02/16 and just under 1,500 machines as of end FY02/17. It targets 2,500 units in FY02/18. Although it installed just 350 units in 1H, it plans to install 650 units in 2H.

Support Services



Support Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4	FY02/18 Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666	5,080	5,789	5,223	4,896		
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	2.2%	9.5%	4.9%		
Operating profit	352	420	179	441	355	556	510	551	575	579	595	628	639	685		
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	14.0%	11.1%	18.3%		
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	10.8%	12.2%	14.0%		

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%
Operating profit	748	590	312	741	1,160	1,297	1,972	2,377
YoY	-	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%
OPM	13.8%	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%

Source: Shared Research based on company data

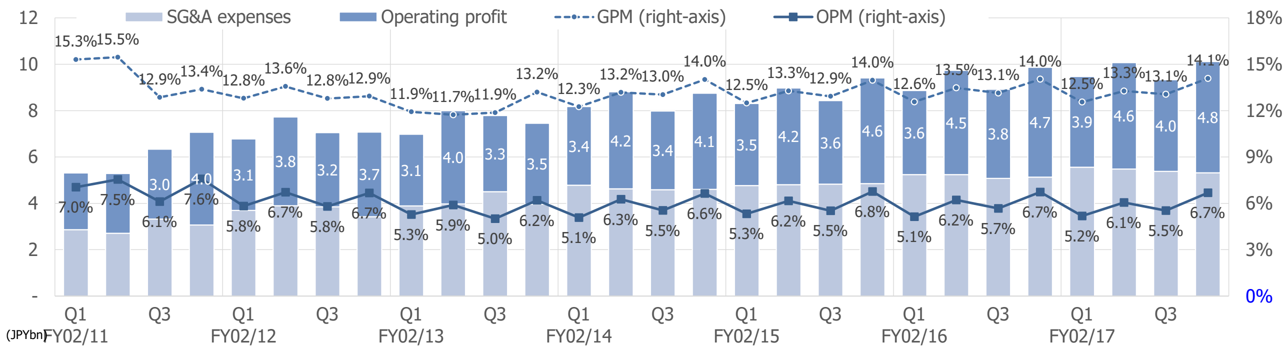
Support Services: Growth of subsidiaries such as Kajitaku Co., Ltd. contributed to results

Key subsidiary Kajitaku's housework support services and small business support services (expanded introduction of ID photo machines and next-generation multi-function copy machines) have been an earnings driver.
r signage replacement work.

FY02/17 results (announced April 12, 2017)

- **FY02/17:** Received the first substantive integrated facility management (IFM) order in December; increase in orders from domestic and overseas clients other than commercial facilities resulted in higher sales and profits. Profits reached new record highs
  - **Progress versus forecast:** Profits landed more or less in line with forecast despite downward push from investment costs of multiple large projects, e.g., IFM and revitalization of commercial facilities
- **FY02/18:** First year of medium-term management plan. Forecasts 3.5% YoY increase in sales and 5.9% YoY increase in operating profits. Accelerated growth of both sales and profits from FY02/19
- **Medium-term management plan:** FY02/20 targets: JPY360bn in sales (6.9% yearly average growth), JPY22.0bn in operating profits (8.4%), and JPY12.8bn in net income (7.7%)
  - FY02/28 Long-term vision: Aim for JPY700bn in sales; Utilize technology for IFM business to maximize profits for customers
- **Priority issues**: IFM, Asia, and technology; Aim to expand IFM business in Japan and overseas
  - **IFM**: Closed multiple-year contract with a domestic global enterprise and started provision of integrated services. Began drive to implement IFM in earnest by strengthening company organization
  - **Asia:** Accelerated M&A transactions and acquisition of personnel and management capability. Focused on Japanese and foreign companies in China for IFM business, with full-fledged sales operation from FY02/18
  - **Technology:** Strategy to lower unit cost and improve added value. Facility management with more efficiency. Platform development as a key initiative

Earnings trend (JPYbn)



Source: Shared Research based on company data

Earnings overview

FY02/17: Received the first substantive integrated facility management (IFM) order in December; increase in orders from domestic and overseas clients other than commercial facilities resulted in higher sales and profits. Profits reached new record highs

- Sales: JPY294.7bn (+4.9% YoY)
- Operating profit: JPY17.3bn (+3.3%)

Sales rose at all seven segments, led by a double-digit increase at Cleaning Services. Operating profit, recurring profit, and net income all reached new record highs. Both sales and profits slightly missed forecasts. The company views sales to non-Aeon Group clients as somewhat less than sufficient, and notes that profits may have been dragged down by investment costs for large projects such as IFM and revitalization of commercial facilities. The company had forecast JPY1.0bn for investment in growth initiatives (mainly personnel costs) for full-year FY02/17, but progress was slow, with only JPY300mn invested as of Q2 and JPY400mn as of Q3. It appears that progress toward hitting the target was also slow for the full year.

From Q4 FY02/16, the company changed its method for distributing SG&A expenses between segments. The change pushes up operating profit at Materials and Supplies Sourcing Services and Vending Machines Services segments, while pulls down operating profit for all other segments.

Broader customer base

Domestic businesses: Proposals on and order receipts for integrated facility management (IFM) progressing

The company expanded customers in Japan and overseas. In Japan, Aeon Delight started to provide services to large commercial facilities, medical facilities, hotels, universities, and multipurpose facilities, and the conversion of Hakuseisha to a wholly owned subsidiary in FY02/16 means it now also provides services to department stores. We will pay attention as the company continues to market proposals (and receive orders) for integrated facility management (IFM) for entire buildings or all facilities of corporate groups such as main offices and factories. Aeon Delight continues to steadily acquire customers. In Q3, the company started offering IFM to major pharmaceutical manufacturers from December. The company will also start providing services to domestic laboratories of foreign IT companies in Q4 from January.

Order receipt for the first substantive IFM project, aiming for a JPY15.0-20.0bn increase in IFM sales under medium-term plan

IFM services to a major pharmaceutical manufacturer represent the company's first substantive IFM project (the first of its kind in Japan, according to the company's estimate). This project is based on a new form of a multi-year contract, which guarantees cost reduction and quality. While the investment costs slightly exceeded the forecast, the company is aiming to ride on this order receipt to acquire similar large IFM orders. Indeed, it established a headquarters for promotion of its IFM business in October 2016 to start winning orders, working closely with subsidiary GSI. Out of the targeted JPY65.3bn increase in sales over three years under the medium-term plan, JPY15.0-20.0bn is expected to come from an increase in IFM sales in Japan and overseas. Please see the section on long-term strategy for a summary. The IFM project launched in Q4 FY02/16 was developed into the IFM contract format starting from hygienic cleaning services. This underscores the business potential of cultivating existing projects.

Sales grew over 20% in overseas businesses barring the sale of a subsidiary, with operating profit growth of JPY200–300mn YoY

The company has also expanded its overseas customers:

- ▷ China: expanded services to include embassies, Chinese commercial facilities and government facilities
- ▷ Wuhan, China: started catering business because many universities and companies are located in this region and the demand for cafeteria operating services is high
- ▷ Malaysia: expanded services to include cleaning work for commercial facilities as well as initiatives to acquire facilities management contracts
- ▷ Vietnam: expanded customer base and services to various types of facilities, including local Japanese commercial facilities
- ▷ Other: started a survey examining possible expansion to new areas including Indonesia and Thailand

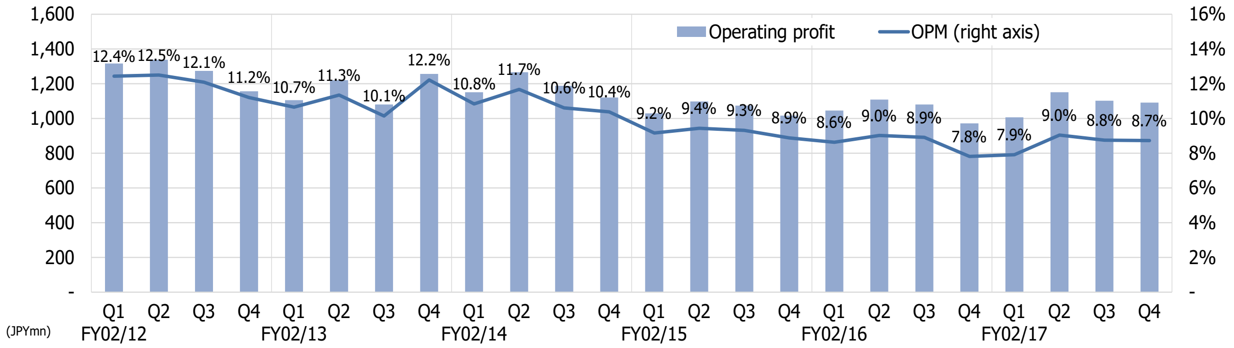
As a result, overseas sales maintained double-digit growth.

In China, the company began to work on a plan to participate in a major urban development project being undertaken by the municipal government of Suzhou City in Jiangsu Province, and established a joint venture with a real estate investment development company led by the municipal government in the aim of facilitating its participation in the project. Aeon Delight intends to provide services for various facilities that are being constructed in this province. The company is targeting growth in China and the ASEAN region (growth markets) and is allocating management resources to these regions.

Medium-term management plan

The previous medium-term management plan has ended. In April, 2017, the company announced the new medium-term management plan will be in effect until end FY02/20 (refer to the section on long-term strategy for a summary).

Facilities Management



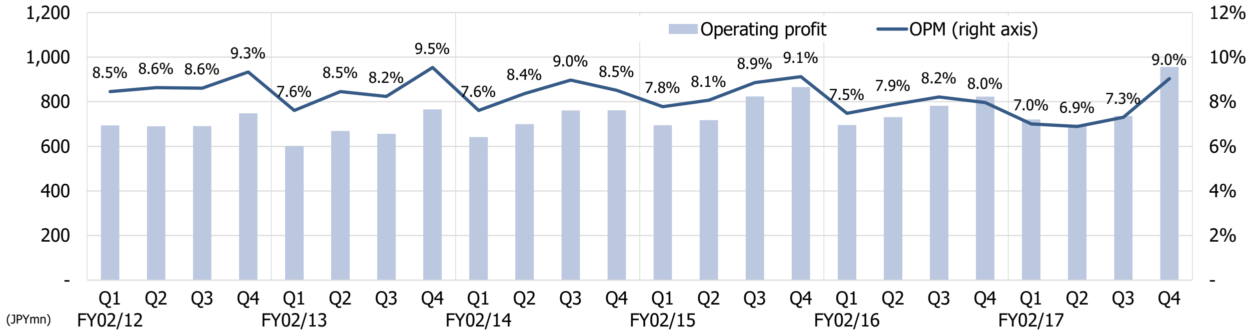
Facilities Management (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,228	11,642	11,532	11,437	12,103	12,291	12,126	12,442	12,719	12,732	12,593	12,507
YoY	5.7%	7.3%	3.0%	6.0%	7.8%	5.6%	5.2%	8.8%	5.1%	3.6%	3.9%	0.5%
Operating profit	1,029	1,098	1,074	1,016	1,045	1,109	1,080	972	1,006	1,151	1,102	1,091
YoY	-10.6%	-13.3%	-9.6%	-9.3%	1.6%	1.0%	0.6%	-4.3%	-3.7%	3.8%	2.0%	12.2%
OPM	9.2%	9.4%	9.3%	8.9%	8.6%	9.0%	8.9%	7.8%	7.9%	9.0%	8.8%	8.7%

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

Source: Shared Research based on company data

In addition to receiving new orders for maintenance and inspection, it continued to build up its system for contract fluorocarbon management services, targeted toward facilities with equipment that uses fluorocarbon refrigerant, such as air conditioning equipment for heat, and refrigeration and freezing equipment. As a result, the company was receiving more orders for fluorocarbon management services. It is also developing a new facilities management model that takes advantage of IoT technologies, various sensors and cloud computing. The company helped clients prevent fluorocarbon leaks by conducting simple inspections and periodic inspections of equipment and offering to collect certain equipment using the resulting data obtained. Overseas, the company has begun testing a next generation facility management model at a commercial facility in Suzhou, China. This system would connect each facility through a network and make remote control or automatic control a possibility.

Security Services



Security Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	8,935	8,891	9,305	9,491	9,306	9,294	9,522	10,334	10,292	10,116	10,080	10,580
YoY	5.9%	6.3%	9.7%	6.0%	4.2%	4.5%	2.3%	8.9%	10.6%	8.8%	5.9%	2.4%
Operating profit	695	717	824	866	696	731	782	823	721	697	736	956
YoY	8.3%	2.4%	8.3%	13.6%	0.1%	2.0%	-5.1%	-5.0%	3.6%	-4.7%	-5.9%	16.2%
OPM	7.8%	8.1%	8.9%	9.1%	7.5%	7.9%	8.2%	8.0%	7.0%	6.9%	7.3%	9.0%

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

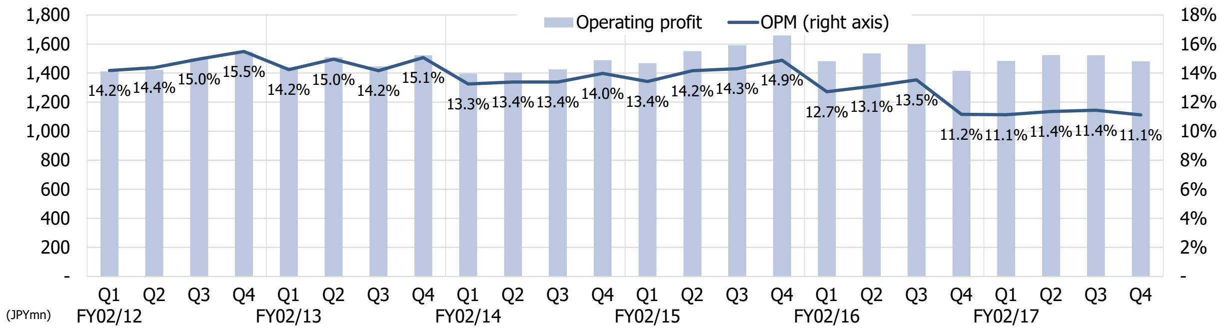
Source: Shared Research based on company data

Strengthens management to expand the customer base; starts building a labor-saving system that utilizes IoT to eliminate labor shortages and improve quality

In addition to on-site security guards at new facilities, Aeon Delight also provided more temporary security services as needed for the opening of new businesses.

The company has also started a security system based on remote monitoring, which aims to reduce the required security personnel and further expand the client base. The new system adds crisis management and is aimed at responding to the occurrence of violent crimes in shopping malls. While the system is a long-term measure, it is also noteworthy as an investment in security and safety. Shared Research also notes that changes in the distribution method of SG&A expenses may affect results.

Cleaning Services



Source: Shared Research based on company data

Cleaning Services (JPYmn)	FY02/15				FY02/16				FY02/17			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	10,942	10,960	11,129	11,256	11,656	11,723	11,811	12,680	13,323	13,420	13,308	13,314
YoY	3.8%	4.5%	4.6%	5.7%	6.5%	7.0%	6.1%	12.7%	14.3%	14.5%	12.7%	5.0%
Operating profit	1,469	1,552	1,592	1,676	1,482	1,535	1,599	1,415	1,484	1,524	1,523	1,481
YoY	5.2%	10.5%	11.7%	12.5%	0.9%	-1.1%	0.4%	-15.6%	0.1%	-0.7%	-4.8%	4.7%
OPM	13.4%	14.2%	14.3%	14.9%	12.7%	13.1%	13.5%	11.2%	11.1%	11.4%	11.4%	11.1%

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

Source: Shared Research based on company data

Hygienic cleaning system: New orders though scale is small; developed hygienic cleaning services into an IFM project

In addition to new contracts, the company worked to actively increase the number of contracts in the hospital and nursing home market, and has started to create cleaning quality standards based on the needs of each facility. In Q1, the company received orders for specialized hygienic cleaning for medical institutions in the Tohoku and Hokkaido regions. As mentioned, the company has succeeded in developing hygienic cleaning services into an IFM project. This was the result of efforts by the company in FY02/16 to ensure that each business is able conduct hygienic cleaning proposals. A hygienic cleaning project has a cost structure that requires heavy spending in the initial year, with profitability improving from the second year onward. Accordingly, the cost structure of orders received in early FY02/16 has gradually improved.

Regular cleaning: Standardization models and small group activities; create criteria for cleaning quality based on each facility

In regular cleaning services, the company will continue standardization to attain a 20% GPM (Phase III), while it sustains efforts to improve quality and profitability by forming small size teams and facilitating an easy-to-work environment. The small teams were initiated in fall 2015. This seemed to be improving cleaning materials management and workflow. The company has stepped up efforts on this front, such as establishing criteria for cleaning quality based on the requirements of each facility.

2H sees expansion of eligibility for social insurance, offsetting improved cost of sales

In 2H, higher personnel costs stemming from the expansion of eligibility for social insurance starting in October 2016 offset the positive effects of improved cost of sales. Moreover, as it remains a challenge to improve profitability at outsourcing partners, the company will continue working on improving its income structure.

Hakuseisha: Improved earnings and synergies expected to emerge from FY02/18 onward

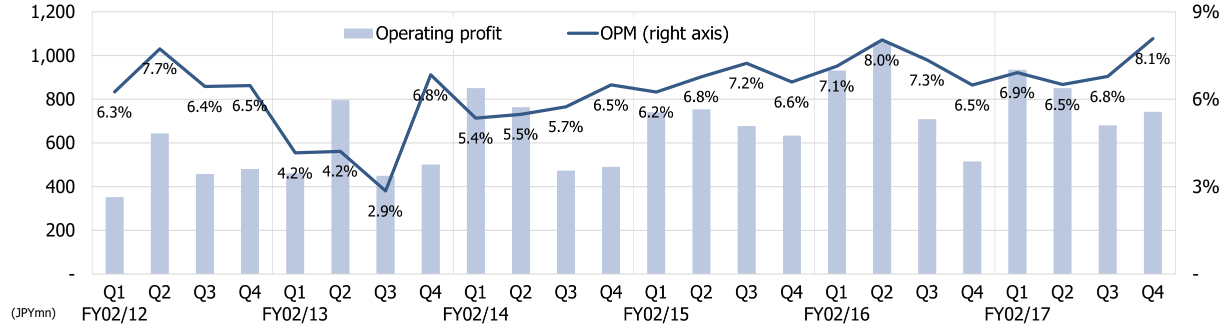
Consolidating Hakuseisha (from Q4 FY02/16) led to the Cleaning Services business posting a double-digit YoY sales increase. As GPM in Hakuseisha's cleaning services differs from Aeon Delight's cleaning services by over 10pp, reform of Hakuseisha's income structure is one of the expected synergies. However, Aeon Delight appears to be conducting reforms carefully so that it does not affect clients. Shared Research expected benefits from these reforms to gradually emerge toward the end of FY02/17. However, full-year FY02/17 results showed progress to be delayed, partly because the company had not yet fully reformed its income structure. Aeon Delight is aware of the issue regarding the delayed improvement and is set to actively improve its business structure and profitability in FY02/18.

Of Hakuseisha's sales (about JPY2.3bn in Q1, JPY4.6bn in 1H FY02/17, JPY7.2bn in cumulative Q3, and JPY9.5bn for the full year), cleaning services accounted for about 50%, security services accounted for about 30%, and facilities management services accounted for about 20%.

Development underway as company readies simplified cleaning robot for commercial use

In order to maintain its long-term competitiveness, the company is strengthening research to develop cleaning robots for commercialization, and hopes to deliver to market a simplified cleaning robot sometime this fiscal year. In a bid to introduce better robots, the company has been collaborating with several manufacturers both in Japan and abroad. In October 2016, the company introduced several units of a simplified cleaning robot, developed by a European maker, in Japan on a trial basis. Testing in preparation of introducing the robot to multiple stores in FY02/18 is progressing. At the April 2017 briefing, the company commented that the robot was close to perfection. It is likely to continue testing until the full-fledged introduction of the cleaning robot but if, for the time being, it introduces 400 of them, a roughly JPY150mn cost reduction is expected. In addition to introducing the cleaning robot, the company seems to be exploring new business development opportunities using the robot as a launching pad.

Construction Work



Construction Work (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,858	11,133	9,366	9,615	13,059	13,194	9,649	7,953	13,518	13,070	10,033	9,193
YoY	-25.4%	-20.1%	13.5%	27.2%	10.1%	18.5%	3.0%	-17.3%	3.5%	-0.9%	4.0%	15.6%
Operating profit	741	754	678	634	932	1,061	709	516	935	851	681	743
YoY	-12.9%	-1.3%	43.0%	29.1%	25.8%	40.7%	4.6%	-18.6%	0.3%	-19.8%	-3.9%	44.0%
OPM	6.2%	6.8%	7.2%	6.6%	7.1%	8.0%	7.3%	6.5%	6.9%	6.5%	6.8%	8.1%

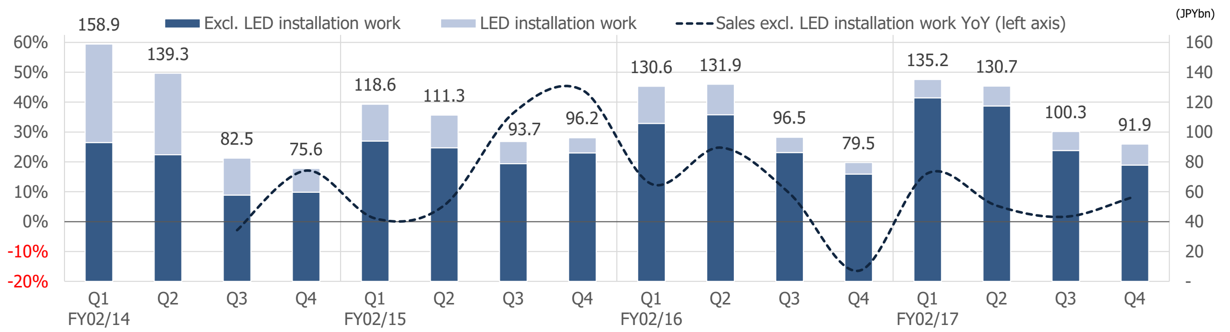
Construction Work (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	13,889	16,420	28,513	53,071	45,630	41,972	43,855	45,814
YoY	-25.0%	18.2%	73.6%	86.1%	-14.0%	-8.0%	4.5%	4.5%
Operating profit	1,321	1,214	1,936	2,209	2,580	2,807	3,218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

Source: Shared Research based on company data

Orders for revitalizing commercial facilities increase

In addition to construction projects to improve safety, the company made efforts in 1H to strengthen its architecture and design framework, which should allow it to enhance the attractiveness of facilities. The company has developed all-in-one services, ranging from restoration work as part of repairs (primarily from commercial facilities) to temporary enclosures, construction, and interior management, and through its ongoing sales activities has continued to win various projects including for the repair, maintenance and revitalization of commercial facilities. It has also steadily acquired contracts for energy-saving repairs. The company also improved profitability by closely examining estimate calculations for each type of construction project.

Sales from work other than LED lighting installations (JPYbn)



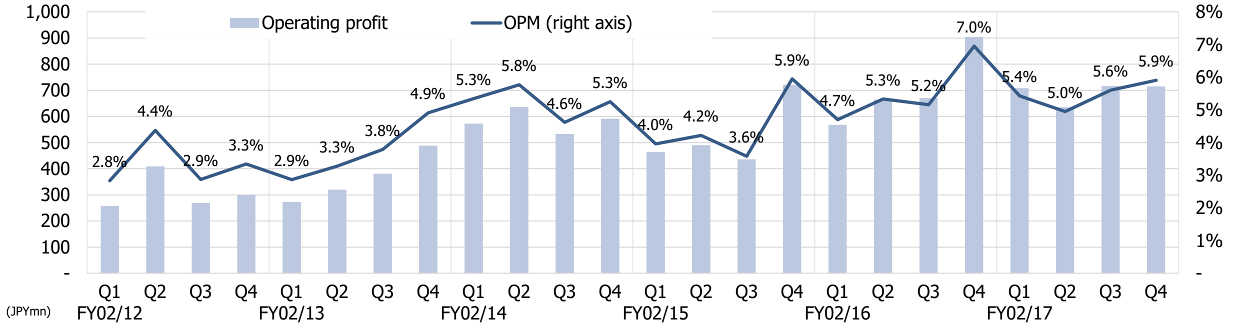
Source: Shared Research based on company data

Construction Work expected to be earnings driver again in FY02/18

For FY02/17, the company planned to offset the fall in LED lighting installations mainly with work for revitalizing facilities. The company won more orders for maintenance work due to its sales efforts in FY02/16. FY02/17 orders were again in line with full-year company forecasts (full-year order projection: about JPY7bn) but were up significantly YoY. The sudden growth partly stems from an increasing number of orders to renovate aging general merchandise stores nationwide. Another factor is that shopping malls renovate their stores whenever necessary and generally conduct a comprehensive renovation once every six years.

Moreover, as LED lighting installations grew significantly in FY02/13 (by an estimated JPY25–30bn), these may create demand for renewal down the line.

Materials and Supplies Sourcing Services



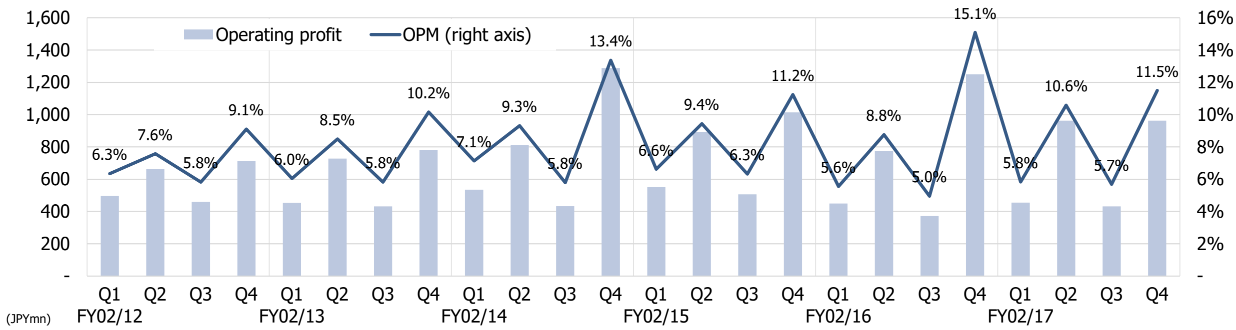
Materials and Supplies Sourcing (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	11,713	11,609	12,175	12,121	12,080	12,445	12,990	13,001	13,037	12,822	12,779	12,102
YoY	9.3%	5.3%	5.5%	7.7%	3.1%	7.2%	6.7%	7.3%	7.9%	3.0%	-1.6%	-6.9%
Operating profit	464	490	436	721	568	664	670	904	708	635	716	715
YoY	-19.0%	-23.0%	-18.2%	22.0%	22.4%	35.5%	53.7%	25.4%	24.6%	-4.4%	6.9%	-20.9%
OPM	4.0%	4.2%	3.6%	5.9%	4.7%	5.3%	5.2%	7.0%	5.4%	5.0%	5.6%	5.9%

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

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 continued to focus on increasing its profitability by reducing storage costs by improving the accuracy of demand forecasts and cutting logistics costs.

Vending Machine Services



Vending Machine Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	8,330	9,471	8,003	9,021	8,107	8,848	7,507	8,279	7,810	9,101	7,599	8,369
YoY	11.1%	8.7%	7.0%	-6.4%	-2.7%	-6.6%	-6.2%	-8.2%	-3.7%	2.9%	1.2%	1.1%
Operating profit	551	894	506	1,014	450	775	372	1,249	455	963	432	962
YoY	3.0%	10.1%	16.9%	-21.3%	-18.3%	-13.3%	-26.5%	23.2%	1.1%	24.3%	16.1%	-23.0%
OPM	6.6%	9.4%	6.3%	11.2%	5.6%	8.8%	5.0%	15.1%	5.8%	10.6%	5.7%	11.5%

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

Source: Shared Research based on company data

FY02/16 saw a 6.0% decrease in sales, compared to FY02/15, when sales increased with new vending machine installations. The reactionary fall in sales continued in 1H FY02/17 as there were still many new vending machine installations in Q1 FY02/16. Even though sales fell 3.7% YoY in Q1, sales bounced back since Q2 and the company maintained sales growth for the full-year FY02/17.

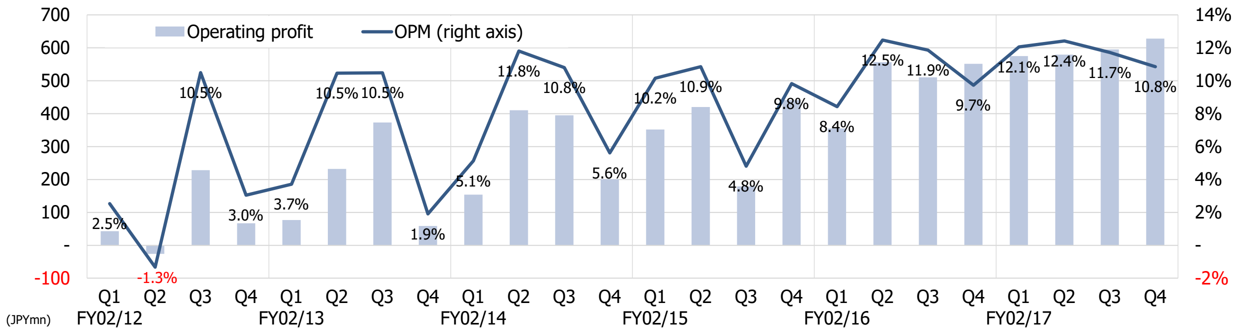
As the company has a sense of crisis about the future of the Vending machine services business, it has implemented the following measures: 1) The company has been working to install more vending machines, particularly those that stock a variety of popular products from different manufacturers; 2) In a bid to reform the income structure, it has expanded installations of value-added vending machines, such as those with digital signage displays, at large commercial facilities; and 3) It has also worked on providing more space for video advertisements and options for users to select a language from among multiple languages. 4) The company also strived to develop and test augmented reality functionality. At the beginning of FY02/17 (in March 2016), 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. Development targeting private brand drinks has been steady for 2H.

Focus on developing advertising business for vending machines with digital signage displays

For vending machines with digital signage displays, the company has developed a new business model, including offering video advertisements in addition to existing drinks. This may become a new revenue source but the full-scale contribution is likely to begin in FY02/18. According to the company, it expects high profitability from this business model even taking into account fees paid to advertising firms and an increase in depreciation due to installing vending machines with digital signage displays.

In 1H, the company focused on installing vending machines with digital displays. The company had installed around 700 machines as of the end of FY02/16 and nearly 800 as of the end of Q1. As of Q1, the company was behind its target of installing 1,700 units by the end of FY02/17, but its total installation amount of just under 1,200 units in Q2 brought it back on target. However, in Q3, the company fell behind the target again with a total installation amount of just over 1,200 units. It appears that a little under 1,500 units were installed as of end-Q4. Delays in installation seem to have caused advertising revenue to miss its target. In FY02/18, the company aims to install 2,500 units and plans to also increase advertising revenue.

Support Services



Support Services (JPYmn)	FY02/15 Q1	Q2	Q3	Q4	FY02/16 Q1	Q2	Q3	Q4	FY02/17 Q1	Q2	Q3	Q4
Sales	3,466	3,870	3,726	4,488	4,215	4,458	4,302	5,664	4,771	4,666	5,080	5,789
YoY	15.5%	11.4%	1.8%	25.3%	21.6%	15.2%	15.5%	26.2%	13.2%	4.7%	18.1%	2.2%
Operating profit	352	420	179	441	355	556	510	551	575	579	595	628
YoY	128.6%	2.4%	-54.7%	119.4%	0.9%	32.4%	184.9%	24.9%	62.0%	4.1%	16.7%	14.0%
OPM	10.2%	10.9%	4.8%	9.8%	8.4%	12.5%	11.9%	9.7%	12.1%	12.4%	11.7%	10.8%

Support Services (JPYmn)	FY02/10 Act.	FY02/11 Act.	FY02/12 Act.	FY02/13 Act.	FY02/14 Act.	FY02/15 Act.	FY02/16 Act.	FY02/17 Act.
Sales	5,412	5,327	8,037	10,942	13,718	15,540	18,639	20,306
YoY	-7.4%	-1.6%	50.9%	36.1%	25.4%	13.3%	19.9%	8.9%
Operating profit	748	590	312	741	1,160	1,297	1,972	2,377
YoY	-	-21.1%	-47.1%	137.5%	56.5%	11.8%	52.0%	20.5%
OPM	13.8%	11.1%	3.9%	6.8%	8.5%	8.3%	10.6%	11.7%

Source: Shared Research based on company data

Subsidiary Aeon Compass Co., Ltd. (travel agency) expands earnings, Kajitaku makes a sudden recovery from Q3, contributing to rise in consolidated profits

Growth at consolidated subsidiaries made a significant contribution to earnings and profitability. Support Services accounted for JPY405mn of the consolidated operating profit growth of JPY550mn. Corporate businesses including small business support services (copy machine sales, etc.) at Kajitaku, and Business Travel Management (domestic business trips, support for overseas assignments) at Aeon Compass continued to see strong sales.

Business alliance with VOYAGE GROUP

On December 6, 2016, VOYAGE GROUP, Inc. (TSE: 3688) announced that it is entering a comprehensive operational tie-up for online sales of housework support services with Kajitaku Co., Ltd., an Aeon Delight subsidiary (97.7% stake) that operates the Aeon Group's housework support operations. VOYAGE also announced that on December 8, 2016 it will establish a wholly owned subsidiary, Voyage Nexus, to manage the online sales of housework support services. The service is planned for launch in the middle of 2017.

Operational tie-up

According to a presentation by the Ministry of Economy, Trade and Industry, the market size for home support services will be roughly JPY600bn. In the midst of a growing market, Kajitaku bundled and sold its housework support services primarily to retailers, boosting its earnings.

Through the operational tie-up, Kajitaku will focus on developing housework support services and managing those services. Voyage Nexus will be responsible for features on Kajitaku.com and the Members Personal Page, features that Kajitaku used to run. Voyage Nexus will also improve customer relations and online sales by redesigning the website, making it smartphone compatible, and creating an app for the site. The company will assist in the development of a housework support services system for the staff. The tie-up plans to leverage Voyage Group's user base of roughly 8.4mn to promote and market its housework support services. Voyage Group's user base is primarily women in their 30s and 40s on the Group's websites such as EC Navi, a point navigation site, and PeX, a point exchange platform.

Source: Shared Research based on company data

News & topics

December 2016

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January 2016

On **January 26, 2016**, the company 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).

Company profile

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+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/

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GCA Corporation
Grandy House Corporation
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Intelligent Wave, Inc.
istyle Inc.
Itochu Enex Co., Ltd.
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JINS Inc.
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Sanrio Company, Ltd.
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SHIP HEALTHCARE HOLDINGS, INC.
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SOURCENEXT Corporation
Star Mica Co., Ltd.
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TEAR Corporation
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
VOYAGE GROUP, INC.
WirelessGate, Inc.
YELLOW HAT LTD.
YUMESHIN HOLDINGS CO., LTD.
Yume no Machi Souzou Iinkai Co., Ltd.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

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