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# Aiming to aggressively invest in line with the new medium-term management plan to accelerate our transformation into a sustainable business model

## The role of the CFO — Ensuring that capital is invested toward achieving our vision

As the CFO, my primary mission is to develop and implement plans for procuring, investing, and allocating funds in order to achieve sustainable growth as a company, including determining how to invest capital in order to achieve our vision.

At AEON delight, we aim to become an environmental value-creating company that addresses social issues by ensuring safety and security, resolving labor shortages, and addressing environmental issues in Asia through our facility management business.

In the new three-year medium-term management plan that we kicked off in FY2024, we positioned the three years until the end of FY2026 as a period for carrying out the transformation of our business model in preparation for future growth. As the CFO, I believe that I have a great responsibility to make major decisions with regard to growth investments.

I plan to fulfill my role by ensuring that investments are made in accordance with our financial policy and business plan, with the aim of enhancing our corporate value.

## Profits fell short of previous three-year medium-term management plan, but laid the foundation for business model transformation

As the CFO, I take seriously the fact that we were unable to achieve our profit growth targets in the previous three-year medium-term management plan (FY2021-2023), even though we were hindered by dramatic changes in the external environment. On the other hand, I believe our major achievements over the past three years can be seen in the fact that we have established a system for expanding our market share outside the AEON Group through enhanced account sales, and have produced results. In addition, we were able to build the foundations for a sustainable facility management model that addresses labor shortages by promoting DX, including by introducing area management*. If we had delayed our area management initiatives, our profitability would have suffered even more.

Although we were unable to deliver on the earnings targets we had set out in our plan due to cost of sales rising at a faster rate than previous years, I believe we were on the right track as a company.

*Area management: A new facility management model designed to efficiently manage multiple facilities in a given area by centralizing some operations at a customer support center equipped with remote monitoring functions and reducing the labor required for on-site operations through the use of digital devices.

## Making investments toward sustainable growth while maintaining financial soundness

Our basic financial policy is to maintain financial soundness while steadily investing in sustainable growth. We are able to generate stable cash flow, and have ample liquidity as well as a high equity ratio (64.3% at the end of February 2024). To maintain and improve our return on capital, we need to boost profits to a level commensurate with the cash and shareholders' equity we have accumulated. I believe it is important to steadily make investments to improve the profitability of our business and expand profits. We will decisively invest in growth and productivity improvements, and we have sufficient financial resources to support this.

## New medium-term three-year management plan calls for total investment of 20 billion yen, of which 12 billion yen will go toward growth investments

Under the new medium-term three-year management plan (FY2024-FY2026), we aim to build a sustainable business model by aggressively investing in growth. In total, we plan to invest 20 billion yen over the three-year period, with 12 billion yen of this allocated to growth investments under the three priority themes of improving productivity, developing new services, and strengthening human capital.

### Cash allocation

**Cash**

- **Operating CF: about 42 billion yen**
  Cash generated during the 2024 mid-term period (accumulated over 3 years)
- **Cash on hand**
- **External procurement**

**Allocation**

Investment
- **Maintenance and renewal investment: 8 billion yen**
  - Renewal and installation of existing systems
- **Growth oriented investments : 12 billion yen**
- **M&A**

Shareholder Returns
- **Dividends**
  Continue further consecutive dividend increases
- **Share buyback**
  - Consideration and implementation -

**Growth investment framework**

Improving productivity
- ✓ Further digitization for the overwhelming efficiency of facility management

Developing new services
- ✓ Establishment of a mechanism to create new services from data through strengthening of data management functions

Strengthening human capital
- ✓ Sophistication and diversification of human resources
- ✓ Acquisition of human resources in growth areas
- ✓ Enhance employee engagement, etc.

## Move forward with improving productivity, developing new services, and strengthening human capital

To improve productivity, we aim to transform facility management operations through drastic efficiency improvements and switching to a business model that leverages economies of scale through further digitization.

As for developing new services, we will build a system to create new services from the data we obtain as our business becomes more digitized. We already have a wealth of data accumulated within the Group thanks to the scale of our business, and we will use this as a foundation to create new services over the next three years.

In terms of strengthening our employees and human capital, our greatest management resource and the driving force behind improving productivity and developing new services, we will aim to enhance the sophistication and diversity of our human resources, acquire human resources in growth areas, and improve employee engagement. In particular, the shortage of qualified personnel and the aging of the workforce, which are essential to the facility management industry, are serious issues. Accordingly, we will promote the development and active involvement of human resources that support sustainable growth while cultivating our strengths in expertise and a culture that values expertise by providing a support system for acquiring certifications and improving employee treatment.

For details on strengthening human capital, please refer to the special feature "Strengthening Human Capital" on pages 31-34.

Our investment plan for the next three years is far higher than previous levels, and the cost and financial burden will be in line with this.

In this uncertain environment, some may think that it would be better to curb investment and secure a stable foundation. However, we have positioned the next three years as a period for building a foundation for future sustainable growth through aggressive investment, rather than focusing on securing short-term profits, so we will carry out our plans with conviction.

Furthermore, we will also actively pursue M&A opportunities that we were unable to fully pursue under the previous medium-term plan. In the business areas of the AEON delight Group, demand is expected to remain firm, while the momentum for industry consolidation is also expected to increase in response to labor shortages and other factors. On the other hand, our goal is not simply to expand in scale. We will actively seek opportunities to enhance the corporate value of the AEON delight Group through measures such as expanding our business areas and geographical coverage and boosting efficiency through integration.

We believe that we will be able to fully cover our growth investments with operating cash flow during the medium-term plan period. In the event that we need to fund M&A opportunities that exceed this, we will look into drawing down on our cash reserves or raising external funds by issuing corporate bonds.

## Aiming to improve capital efficiency and ROE from a medium- to long-term perspective

With regard to our cost of capital, we estimate it at around 5% based on current interest rates, the expected rate of return in the market, and the rate of change in stock prices. Our ROE for FY2023 was 10.6%, which we believe represents a reasonable equity spread, but it did not reach the 12% level that we have set as a benchmark for capital efficiency.

Given our plans to aggressively invest in growth, we understand that it will not be easy to achieve a ROE of 12% within the next three years, as profit growth during the medium-term plan period will be limited. However, we will work to boost our ROE in the future by improving productivity, developing new services, and strengthening our human capital through investments during this period, thereby enhancing our competitiveness and achieving economies of scale in order to ensure subsequent growth.

## Continue to increase dividends while striking a balance with growth investments

At AEON delight, we have increased our dividend for 19 consecutive fiscal years, and we plan to continue increasing it going forward.

As mentioned above, we expect profit growth to be limited during the medium-term plan period owing to the challenging business environment and the cost of growth investments, but we are planning to continue increasing dividends, considering raising the current dividend payout ratio from 40% to 50%, backed by our stable cash flow and financial base.

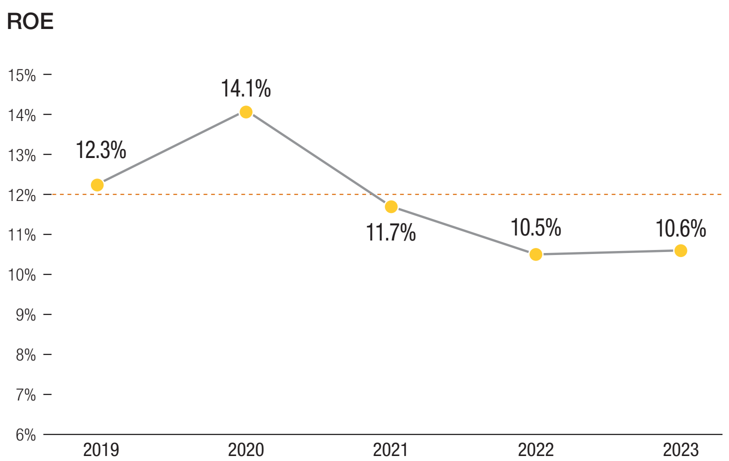
## To stakeholders

As the CFO, I would like to present you with a future where our competitive advantage is firmly established by ensuring that we carry out the ambitious investments we have planned for the next three years.

We will continue to take on ambitious challenges to meet the expectations of our investors, customers, business partners, local communities, employees and all other stakeholders involved in our company.

### Recognizing the current situation (cost-of-capital and ROE level)

- Recognized that our cost of capital is around 5%
- ROE 10.6% in FY2/24
- Although ROE is higher than the cost of capital, it does not reach the 12% level that we are aware of as a guideline for capital efficiency.




### Principle of capital strategy

- Improve business profitability by investing in growth
- Enhance shareholder returns
  - Dividends have increased for 19 consecutive terms, and we aim to continue this trend.
  - Taking into consideration consolidated dividend payout ratio raise from 40% to 50% within the period of Medium-Term 3-Year Management Plan
  - Share buybacks are considered flexibly within certain limits.