PARCO

Develops and Operates fashion-focused shopping complexes centering around the PARCO stores; a J. Front Retailing Group company

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Business overview

Develops and runs fashion-focused shopping complexes (mainly PARCO-branded)

Launching Ikebukuro PARCO in 1969, the company stands out as Japan's pioneer in fashion-focused shopping complexes. It operates 13 "urban stores," notably Shibuya PARCO, and six outlying "community stores" including Tsudanuma PARCO. The community stores have been struggling. PARCO's main source of revenue is rental income (fixed-term leases with minimum rent guarantees and step-down commissions). Medium-term plan calls for the company to actively close unprofitable community stores and open urban stores. (Store counts are as of end-April 2019; Shibuya PARCO currently under reconstruction, and Kinshicho PARCO that opened in March 2019 are included.)

Earnings

FY02/20 forecast: Operating revenue +29.2% YoY and operating profit +34.1%, helped by new stores

FY02/19 performance: Operating revenue JPY90.0bn (-1.8% YoY), operating profit JPY5.4bn (-53.7% YoY). Despite contribution from newly developed properties, PARCO store business continued to deliver weak results.

FY02/20 company forecast: Operating revenue JPY116.2bn (+29.2% YoY), operating profit JPY12.7bn (+134.1% YoY). Expecting contribution from four new properties (Kinshicho PARCO, SAN-A Urasoe West Coast PARCO CITY, the new Shibuya PARCO, and Kawasaki ZERO GATE [tentative name]). Company projects growth in operating revenue and profit, helped by the rebound from losses on store closures recorded the previous year.

Medium-term plan

FY02/18–FY02/22 plan, focus on achieving long-term vision

Long term vision: The company's long-term vision has three aspects: prospering in urban markets, designing unique urban offerings, and driving urban evolution. As a group, PARCO aims to helps cities mature by fostering "personal fulfillment, new aspirations, and contentment." To do so, the company intends to augment existing businesses, expand into new domains, and revamp its business portfolio to generate more value.

Specific strategies are to: bolster market position of the urban stores (prioritize expansion of urban stores, closing others); produce commercial real estate (develop ZERO GATE and diversify into other formats); and expand soft content (meet more diverse demand).

Numeric targets: FY02/22 targets versus FY02/17 results (figures in parentheses exclude one-off factors, such as gain on sale of Shibuya ZERO GATE, gain on sale of Chiba parking area, and loss on closure of Otsu PARCO): Operating revenue +29% to JPY121.4bn (+29.1%), operating profit +3.5% to JPY14.7bn (+27.8%), profit +6.9% to JPY9.3bn (+32.9%)

Strengths and weaknesses

Strengths

Brand power and Shibuya PARCO that serves as the flagship store and brand symbol: The company expects the newly refurbished Shibuya PARCO (scheduled to open in fall 2019) will serve as a landmark next-generation global shopping center.

Collective strengths to meet diversifying needs for commercial real estate: The company develops commercial facilities to match the region.

Leasing capability based on long-term relationships with more than 2,000 tenants, as well as underlying incubation expertise: The company works with talented creators, provides them opportunities to open shops, and cultivates them as tenants.

Weaknesses

An aging customer base: Trend-conscious youth are a core customer base, but Japan faces fewer childbirths and an aging population.

Weak sales at community stores in outlying areas, delayed reaction: The company is being affected by regional influences and contracts.

Transaction volume in the apparel category down for six straight years: The company aims to turn these sales around.

Profit growth drivers

To date: Fashion-centered PARCO operations

Medium-term: Stores that respond actively to increasingly diverse demand, commercial real estate development

Indices	
Market capitalization	JPY107.1 bn
Stock price (May 23, 2019)	JPY1,056
Shares issued (incl. treasury shares; '000)	101,463 shares
Foreign stockholding ratio (Dec. 31, 2018)	4.10 %
Book value per share (FY02/19)	JPY1,255
PBR (FY02/19)	0.85 x
PER (FY02/20 Est.)	15.0 x
Dividend (FY02/20 Est.)	JPY26.00
Dividend yield (FY02/20 Est.)	2.44 %
ROE (FY02/19)	2.7 %

Earnings results and forecasts (IFRS from FY02/18)

		Sales/ Operating revenue		Operating profit		Recurring profit/ Pre-tax profit		Net income / Profit attributable to owners of the parent		EPS	BPS	ROA (based on RP / pre-tax profit)	ROE
		(JPYmn)	YoY	(JPYmn)	YoY	(JPYmn)	YoY	(JPYmn)	YoY	(JPY)	(JPY)		
FY02/10	Cons.	261,076	-7.6%	8,601	-8.1%	8,554	-6.7%	4,108	10.1%	49.87	954.52	4.5%	2.2%
FY02/11	Cons.	264,840	1.4%	9,218	7.2%	8,750	2.3%	4,400	7.1%	53.41	993.52	4.3%	3.3%
FY02/12	Cons.	259,789	-1.9%	9,168	-0.5%	8,966	2.5%	4,319	-1.8%	52.49	1,028.21	4.2%	5.0%
FY02/13	Cons.	264,779	1.9%	10,824	18.1%	10,329	15.2%	5,083	17.7%	54.44	1,020.92	5.0%	5.7%
FY02/14	Cons.	264,384	-0.1%	12,196	12.7%	12,013	16.3%	6,778	33.3%	66.81	1,072.57	5.6%	6.7%
FY02/15	Cons.	269,889	2.1%	12,508	2.6%	12,499	4.0%	6,294	-7.1%	62.04	1,115.83	5.6%	5.7%
FY02/16	Cons.	276,358	2.4%	12,772	2.1%	12,673	1.4%	6,061	-3.7%	59.75	1,148.00	5.5%	4.7%
FY02/17	IFRS	93,780	-	14,203	-	13,669	-	8,795	-	86.69	1,188.67	5.6%	7.4%
FY02/18	IFRS	91,621	-2.3%	11,713	-17.5%	11,455	-16.2%	7,809	-11.2%	79.97	1,244.97	4.5%	6.3%
FY02/19	IFRS	89,969	-1.8%	5,425	-53.7%	5,049	-55.9%	3,370	-56.8%	33.30	1,255.30	1.9%	2.7%
FY02/20 Est.	IFRS	116,200	29.2%	12,700	134.1%	10,500	108.0%	7,100	110.7%	70.23			

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods. Adopted IFRS from FY02/18. FY02/17 figures have been adjusted to reflect this change in accounting method. At the top of the table, accounting line items to the left of the slash are according to Japanese GAAP and items to the right are according to IFRS, with the exception of "Recurring profit/Pre-tax profit."

Business overview

Comprehensive production of shopping complexes, centered on PARCO

Four business segments

- **Shopping Complex business:** (51.6% of operating revenue in FY02/19) The company's core segment; this business centers on the development and operation of PARCO complexes. (See "PARCO shopping center revenue structure.") This business follows a hybrid model of retail and commercial real estate development. In addition to PARCO, the company is developing other models, such as ZERO GATE, which specializes in low- to medium-rise shopping complexes in prime urban areas. Unlike PARCO, one or just a few tenants occupy the ZERO GATE complex, allowing tenants full scope to showcase their brands. This model facilitates operational efficiency, and the company does not incur marketing expenses. The Shopping Complex business is mainly operated by the parent company, PARCO CO., LTD.

ZERO GATE

The name ZERO GATE signifies "starting from the ground up" (zero) to provide new value that offers a "gateway to the city" (gate); a return to the basics for PARCO, which has promoted various urban lifestyles themes to date, including fashion and culture.

- **Retail business:** (19.9%) Group company NEUVE A CO., LTD. develops and manages specialty boutiques (called "select shops" in Japan) in four categories (wristwatches, eyeglasses, cosmetics, and men's personal items). It also develops business in other categories. Across Japan, the PARCO group operates 171 select shops that specializes in personal items. Shops located in properties other than the PARCO stores make up 71.3% of the total. The company is working to strengthen its existing business by adopting a scrap-and-build approach, focusing on original products, and improving profit margins. Also, the company is accelerating the digital strategy, promoting omni-channel development, and strengthening marketing efforts.

  Select shops featuring a wide selection of branded items handpicked by buyers/managers test a merchandiser's ability to choose precisely the products customers want. The company also develops and offers some of its own products for sale. Personnel costs and real estate rents are the main expenses. Achieving high profit margins is difficult under this model, but the company is attempting to boost margins by trying out new store formats and through further digitalization. In FY02/19, the company booked impairment losses on unprofitable stores it closed, pushing the Retail business into the red.

- **Space Engineering and Management business:** (22.1%) This business is handled by PARCO SPACE SYSTEMS CO., LTD., whose stated objective is to leverage the group's expertise to maintain or increase the value of client assets. PARCO SPACE SYSTEMS offers comprehensive solutions in areas covering interior design to facility operation to meet clients' diverse needs concerning space development and management. The company handles a range of properties, including shopping malls and other large commercial properties, specialty stores, showrooms, amusement facilities, museums, and hotels. This business generates stable profit of 2–4%.

- **Other businesses:** (6.4%) Within Other businesses, in the entertainment business the company operates in the fields of theater, music, and film, and also produces soft content. In the digital marketing business, the company facilitates PARCO's use of information and communication technologies and supports operations at around 300 commercial facilities and specialty stores.

Segment information

(JPYmn)		FY02/15 JGAAP	FY02/16 JGAAP	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS
Shopping Complex						
	Sales / Operating revenue	243,783	248,078	53,864	51,351	51,117
	Segment profit	11,317	11,549	13,179	10,964	5,142
	Segment profit margin	5%	5%	24%	21%	10%
Retail						
	Sales / Operating revenue	19,802	21,473	21,532	21,216	19,754
	Segment profit	647	694	205	75	-25
	Segment profit margin	3%	3%	1%	0%	-
Space Engineering and Management						
	Sales / Operating revenue	18,983	19,969	20,528	21,399	21,882
	Segment profit	328	433	773	652	662
	Segment profit margin	2%	2%	4%	3%	3%
Other						
	Sales / Operating revenue	6,891	6,850	6,137	6,158	6,327
	Segment profit	256	132	45	53	-297
	Segment profit margin	4%	2%	1%	1%	-

Source: Shared Research based on company data

Business model for PARCO stores (Shopping Complex business)

Basic source of revenue is fixed-term leases with minimum rent guarantees and step-down commissions.

Overall business flow

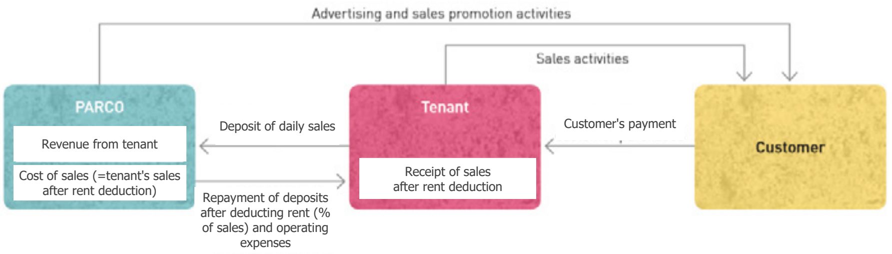
The company develops the overall flow of operations at PARCO shopping complexes. First, it creates a proposal and plan based on the characteristics of a store's location and environment, as well as potential customers' needs. It then selects tenants, designs the space, and prepares leasing contracts. Marketing (including advertising and promotional activities to attract customers) as well as maintenance are handled by the company, so that the tenants can focus on sales activities. The company considers tenants to be equal partners, emphasizing strong, win–win partnerships based on trust, common values, and mutual growth.

PARCO shopping complex revenue structure

After signing leasing contracts with tenants, the company assumes responsibility for marketing and advertising on their behalf. When a customer purchases items from a tenant's shop, the tenant passes these on to the company as daily sales deposits. After a certain period, the company pays sales deposits back to the tenant, net of fees and expenses due. Accordingly, the company has no inventory risk. Once tenant revenue exceeds a certain level, commission rates fall, incentivizing tenants to sell more.

The Shopping Complex business follows a hybrid model of retail and commercial real estate development, based on fixed-term leases with minimum rent guarantees and step-down commissions. This means that higher-than-expected tenant sales deliver an upside for PARCO, which earns commissions on sales above a certain level in addition to fixed rental income. Meanwhile, if tenant sales are weaker than expected, the fixed rent clause in its tenant agreements provides downside protection for PARCO. In addition, the company makes proposals for and operates new and existing shopping malls and other buildings. PARCO's capabilities are varied, and hence so are its revenue sources.

Example: A customer buys a shirt for JPY1,000 from a PARCO tenant. PARCO subtracts JPY200 in costs for rent, commissions, and operation, and pays the tenant the remaining JPY800. If the tenant has purchased the shirt for JPY500, it has earned an additional JPY300. PARCO has earned JPY200. From that amount, PARCO subtracts JPY140 in expenses (personnel expenses, rents, outsourcing costs, and depreciation), resulting in a JPY60 gain.



Source: Shared Research based on company data

Origin of the company name

The company takes its name for the Italian word for park, conveying the idea of a place where people come to share time and space with each other, relaxing and having fun. Under this scenario, the company serves as the venue (the "parco") for the key players: customers and tenant shops. PARCO sees its role as creating a place customers want to visit. Accordingly, the company says it is constantly working to build a place that inspires customers and makes them feel happy.

Shibuya and PARCO

Shibuya PARCO, which opened its doors in 1973, epitomizes the company and the PARCO brand. Located atop a hill 500 meters from Shibuya station, originally the location was not considered ideal for shopping. Even so, the company took on the challenge and worked to create an attractive commercial environment through efforts such as branding the road leading to PARCO "Koen-dori" (park street) and building a theater. Over time, this area evolved as Shibuya's fashion hub.

Shibuya PARCO Part 2, which opened in 1975, led in the development of the Japanese "DC" brand trend, bringing together such names as Comme des Garçons and Y's on a single floor. By the late 1980s, the DC brand boom died down and "select shops" started to emerge mainly around Harajuku. Shibuya became a center for street culture and the crowds grew younger.

In 1981, Shibuya PARCO Part 3 opened. This shopping facility catered to increasingly diverse consumer needs, focusing on lifestyle rather than fashion. Around that time, Shibuya PARCO began leading the change in Shibuya's image toward a creative and individualistic part of Tokyo.

Shibuya in the 1990s was marked by a boom in popularity of mini-theaters. Riding this wave, the company opened an independent movie theater in Shibuya PARCO Part 3 in 1999. At the height of the boom, this theater was known for its showing of Trainspotting, which became closely linked with mini-theaters. Since then, Part 3 has also housed art galleries and a bookstore, and served as a venue for disseminating cultural information.

In the 2000s, Shibuya Mark City, a joint redevelopment project by Tokyu Corporation, Keio Corporation, and Tokyo Metro, was launched. This facility added a flavor of Shibuya as a place for internet startups and IT companies. In 2002, PARCO opened Shibuya ZERO GATE to highlight Shibuya PARCO's overall gateway role and soliciting fast fashion tenants. Shibuya PARCO has also been instrumental in several mixed-culture projects. Shibuya Hikarie opened in 2012, again changing Shibuya's atmosphere into a city for internet companies and business. In 2015, the company decided to rebuild Shibuya PARCO.

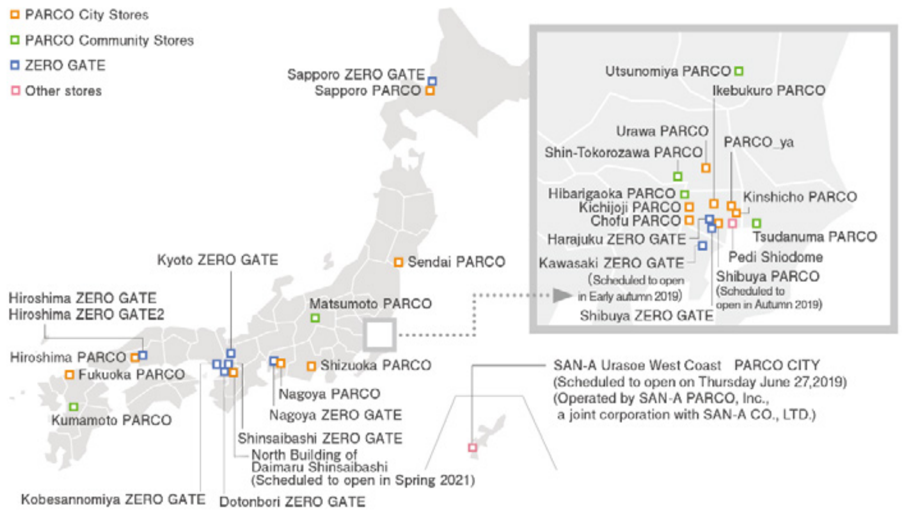
The new Shibuya PARCO will house offices on the upper floors, and the company plans to actively solicit tenants whose business is outside the scope of fashion (such as a NINTENDO shop). PARCO aims to house shops that meet demand from inbound tourists and attract a global audience.

PARCO stores

The company operates 19 PARCO stores* across Japan. As of end-February 2019, it had about 401,000sqm of floor space under operation, 820 companies under contract, 60 new tenant companies under consideration for contracts, and around 2,000 tenants.

(* The count excludes the Shibuya store, which is under construction, and Kinshicho PARCO that opened in March 2019.)

Store locations



Source: Company data

Information and list of each store

The table below indicates tenant transaction volume and YoY changes.

Tenant transaction volume

	FY02/15	YoY	FY02/16	YoY	FY02/17	YoY	FY02/18	YoY	FY02/19	YoY
Sapporo	11,891	4.1%	12,415	4.4%	11,897	-4.2%	13,421	-2.2%	13,200	-1.6%
Sendai	13,135	-1.3%	13,309	1.3%	17,015	27.8%	20,030	10.1%	20,197	0.8%
Ikebukuro	28,256	-0.5%	27,296	-3.4%	25,767	-5.6%	28,458	2.7%	28,134	-1.1%
Ueno							2,265		5,788	
Shibuya	14,666	8.9%	15,336	4.6%	7,615	-50.3%	1,138	-87.4%	1,413	24.2%
Shizuoka	10,096	-2.0%	10,339	2.4%	10,310	-0.3%	10,600	-1.6%	9,947	-6.2%
Nagoya	35,215	-1.1%	36,772	4.4%	36,287	-1.3%	34,671	-9.4%	34,245	-1.2%
Hiroshima	16,989	-1.6%	16,645	-2.0%	15,932	-4.3%	16,719	-1.6%	16,136	-3.5%
Fukuoka	14,827	22.9%	19,573	32.0%	19,417	-0.8%	22,243	2.6%	22,350	0.5%
Urban Store Group	145,078	2.3%	151,689	4.6%	144,245	-4.9%	149,549	-4.4%	151,415	1.2%
Utsunomiya	4,478	-6.1%	4,311	-3.7%	3,576	-17.0%	3,061	-17.8%	2,113	-31.0%
Urawa	17,441	3.0%	16,869	-3.3%	17,319	2.7%	24,618	1.3%	26,095	6.0%
Shin-Tokorozawa	9,051	1.9%	9,303	2.8%	9,385	0.9%	10,614	2.4%	10,126	-4.6%
Chiba	5,718	-10.4%	5,157	-9.8%	4,302	-17.6%				
Tsudanuma	8,811	-3.4%	8,526	-3.2%	8,106	-4.9%	10,682	7.8%	12,091	13.2%
Hibarigaoka	7,460	-1.5%	7,255	-2.7%	7,066	-2.6%	8,162	1.8%	7,071	-13.4%
Kichijoji	7,274	-4.0%	6,934	-4.7%	6,904	-0.4%	9,619	3.2%	9,668	0.5%
Chofu	16,915	-1.0%	17,064	0.9%	16,950	-0.7%	18,576	0.1%	17,994	-3.1%
Matsumoto	7,477	-0.7%	7,219	-3.5%	7,133	-1.2%	7,278	-9.2%	6,016	-17.3%
Otsu	4,276	-4.9%	3,613	-15.5%	3,500	-3.1%	2,297	-50.8%		
Kumamoto	5,173	-0.2%	5,135	-0.7%	5,482	6.8%	4,989	-20.1%	4,007	-19.3%
Community Store Group	94,078	-2.9%	91,389	-2.9%	89,727	-1.8%	99,901	-7.9%	95,185	-4.7%
Total	239,157	0.7%	243,079	1.6%	233,973	-3.7%	249,451	-5.8%	246,600	-1.1%

Source: Shared Research based on company data

Notes: Before the adoption of IFRS, transaction volume excluded rent, which is included thereafter. The same base is used for calculating YoY figures. In March 2019, the company reorganized the stores into 13 urban stores, including Kinshicho PARCO, and six community stores. Information in the above table is excerpted from the company's FACTBOOK 2019. Shibuya PARCO closed its Part 1 and Part 3 facilities in August 2016.

Apparel shops

Source: Company data

Store renovation

The company is renovating stores to proactively meet changing consumer demands (growth in experience-based consumption, foods and deli, and cosmetics categories), as well as to meet the demands specific to a store's location and environment. More than 10% of all leasing area of 401,000sqm is under renovation as of end-FY02/19. Renovation has a positive YoY impact on operating revenue.

Scale of renovation

	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Zones renovated	450	425	380	441	289	348
Area (approximate space; sqm)	44,000	46,000	40,000	55,000	35,000	37,000
Effect (sales by renovated zones; YoY)	11.0%	18.6%	16.6%	12.7%	26.7%	16.2%
New store openings	249	233	219	225	174	193

Source: Shared Research based on company data

MUJI's Wood-themed kids' corner offering space for families

Restaurant corner at Sumida Food Hall offering local specialties

Source: Company data (Kinshicho PARCO opened in March 2019.)

Sales by merchandise category

In FY02/19, clothing accounted for 36.3% of transaction volume (40.8% in FY02/15), personal effects for 17.7% (16.8%), sundries for 16.0% (15.4%), foods for 7.3% (6.1%), restaurants for 8.3% (7.3%), and other categories for 14.4% (13.6%). Compared with FY02/15 figures, sales of clothing were down as a percentage of transaction volume, while personal effects, sundries, foods, and restaurants accounted for a larger share. The company explains that this relative shift is partly due to a strategic focus on cosmetics and other personal effects, restaurants, and foods.

Paying customer count and average customer spend

(comparable stores)	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Paying customer count YoY	-0.6%	2.6%	-3.4%	-0.3%	3.2%
Avrage customer spend YoY	1.2%	1.1%	0.6%	-1.4%	-4.8%

Source: Shared Research based on company data

YoY change in transaction volume by merchandise category

		FY02/15	FY02/16	FY02/17	FY02/18	FY02/19
Clothing	Total	-2.3%	-2.5%	-6.8%	-11.0%	-6.0%
	Comparable stores	-2.9%	-4.0%	-4.0%	-6.4%	-5.9%
Personal effects	Total	3.6%	4.5%	-2.2%	-5.2%	0.5%
	Comparable stores	3.4%	4.1%	-2.1%	-3.4%	-1.1%
Sundries	Total	1.4%	4.2%	-2.7%	0.3%	-2.8%
	Comparable stores	0.8%	-0.1%	0.2%	4.9%	-2.3%
Foods	Total	-1.6%	-0.9%	1.4%	-4.0%	9.5%
	Comparable stores	-1.8%	-1.2%	-0.5%	0.3%	9.3%
Restaurants	Total	12.3%	8.7%	-2.2%	-0.4%	4.3%
	Comparable stores	9.1%	-0.9%	-3.9%	2.0%	-0.2%
Other	Total	5.8%	-3.4%	-5.3%	-1.6%	4.1%
	Comparable stores	5.8%	-3.5%	-3.4%	4.7%	4.2%

Source: Shared Research based on company data
Notes: YoY figures before FY02/17 are based on "integrated store sales," This category includes tenant sales, PARCO Theater sales, and fixed-lease tenant revenue. In figures from FY02/18, integrated store sales are replaced by tenant transaction volume calculated as sum of the tenant transaction volume of PARCO stores.

Retail apparel industry in Japan

According to the Ministry of Economy, Trade and Industry (METI) Current Survey of Commerce in March 2019, total sales by department and retail stores (5,222 stores) was down 5.2% YoY in calendar 2016, down 3% in 2017, and down 3.4% in 2018. On a same-store basis, the figures were minus 4.8% for 2016, minus 1.7% for 2017, and minus 2.3% for 2018.

Shared Research attributes these downward apparel industry trends to falling unit prices and a shift in sales channels from physical retail stores to online shopping. The role of bricks-and-mortar stores is changing as apparel companies develop their online presence. The apparel industry is being affected by the sharing economy and other consumer preferences.

Peer comparison

Shared Research understands the company has no direct competitors that handle the overall creation of fashion-oriented shopping complexes. That said, each PARCO store has comparable peers: neighboring department stores and specialty stores with which the company competes in certain business areas.

Meanwhile, Shared Research sees online stores as a strong competitor in the apparel industry targeting youths. Young consumers buy clothes online without hesitation. As long as the product is the same, they have no problem buying via the cheapest route. Accordingly, Shared Research thinks competitors include online retailers such as ZOZO (TSE 3092), which operates ZOZOTOWN. Although fashion retailing is in difficult straits overall, the online market is growing at around 10% per year. In Japan, online sales of apparel account for 10% of the total, while the figure is 15–20% in Europe and the US.

Peer companies

Ticker	Company	Fiscal year	Sales (JPYmn)	OP (JPYmn)	OPM	ROA (RP-based)	ROE	Equity ratio
3099	Mitsukoshi Isetan Holdings	FY03/19	1,196,803	29,229	2.4%	1.1%	2.3%	46.1%
8242	H2O Retailing	FY03/19	926,872	20,422	2.2%	0.3%	0.8%	42.0%
8233	Takashimaya	FY02/19	912,848	26,661	2.9%	1.5%	3.7%	42.0%
3086	J. Front Retailing	FY02/19	459,840	40,891	8.9%	2.7%	6.3%	45.0%
8252	Marui Group	FY03/19	251,415	41,184	16.4%	2.8%	8.9%	32.0%
3092	ZOZO	FY03/19	118,405	25,654	21.7%	20.2%	70.9%	28.6%
8905	Aeon Mall	FY02/19	312,976	52,987	16.9%	2.8%	8.7%	31.9%
	Average		644,364	30,674	9.1%	4.8%	15.5%	39.3%

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

Trends and outlook

FY02/19 results

Operating revenue was JPY90.0bn (-1.8%YoY), operating profit was JPY5.4bn (-53.7%YoY), and profit attributable to owners of parent was 3.4bn (-56.8%YoY). Operating revenue and profit fell YoY amid weak performance in the Shopping Complex and Retail businesses and the posting of losses from store closures.

The YoY decline in operating revenue came from a dip in comparable store sales hurt by competition and the sluggish performance of apparel tenants, which absorbed the contributions from new store openings in FY02/18 and FY02/19 and the performance of subsidiary PARCO SPACE SYSTEMS. That said, half of the YoY profit drop can be attributed to one-off factors such as store closures and decisions to end store operations. These included losses associated with the closure of Utsunomiya PARCO and Kumamoto PARCO stores, and the absence of the reversal of provision posted in the previous fiscal year in relation to the closure of the Otsu store. An increase in impairment losses recorded by existing PARCO stores also added to the YoY drop.

SG&A expense increased due to a rise in upfront spending to open new PARCO stores and expenditure in the Entertainment business to open movie theaters. Advertising expenses, mainly for existing PARCO stores, fell YoY.

Asset increased JPY13.5bn YoY, while interest bearing debt increased JPY9.0bn, mainly for the purpose of funding the Shibuya redevelopment project. ROE fell to 2.7% due to lower profit. ROA fell to 1.9% given fall in profit and increase in asset. Company views this drop as temporary and expects a recovery in FY02/20 or later.

Quarterly results (cumulative)

Cumulative (IFRS)	FY02/18				FY02/19			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Operating revenue	**23,508**	**45,230**	**68,252**	**91,621**	**22,026**	**44,184**	**66,272**	**89,969**
YoY	-0.8%	-4.1%	-1.8%	-2.3%	-6.3%	-2.3%	-2.9%	-1.8%
Shopping Complex	12,850	25,513	38,235	51,351	12,872	25,490	38,176	51,117
YoY	-6.5%	-7.2%	-6.2%	-4.7%	0.2%	-0.1%	-0.2%	-0.5%
% of total	54.7%	56.4%	56.0%	56.0%	58.4%	57.7%	57.6%	56.8%
Retail	5,199	10,597	15,179	21,216	4,934	9,927	14,190	19,754
YoY	1.4%	1.9%	-0.1%	-1.5%	-5.1%	-6.3%	-6.5%	-6.9%
% of total	22.1%	23.4%	22.2%	23.2%	22.4%	22.5%	21.4%	22.0%
Space Engineering and Management	5,695	10,273	16,781	21,399	4,949	9,990	15,477	21,882
YoY	-0.1%	-3.3%	9.2%	4.2%	-13.1%	-2.8%	-7.8%	2.3%
% of total	24.2%	22.7%	24.6%	23.4%	22.5%	22.6%	23.4%	24.3%
Other	1,931	2,781	4,689	6,158	1,154	2,692	4,448	6,327
YoY	45.6%	-8.0%	1.9%	0.3%	-40.2%	-3.2%	-5.1%	2.7%
% of total	8.2%	6.1%	6.9%	6.7%	5.2%	6.1%	6.7%	7.0%
Operating profit	**3,497**	**6,666**	**9,660**	**11,713**	**2,750**	**5,707**	**8,139**	**8,723**
YoY	2.5%	-31.4%	-22.7%	-17.5%	-21.4%	-14.4%	-15.7%	-25.5%
Shopping Complex	3,245	6,617	9,465	10,964	2,767	5,764	8,213	5,142
YoY	6.1%	-28.5%	-21.3%	-16.8%	-14.7%	-12.9%	-13.2%	-53.1%
% of total	92.8%	99.3%	98.0%	93.6%	100.6%	101.0%	100.9%	58.9%
Segment profit margin	25.3%	25.9%	24.8%	21.4%	21.5%	22.6%	21.5%	10.1%
Retail	-18	-192	-305	75	32	-3	-180	-25
YoY				-63.4%	-277.8%	-98.4%	-41.0%	-133.3%
% of total	-0.5%	-2.9%	-3.2%	0.6%	1.2%	-0.1%	-2.2%	-0.3%
Segment profit margin	-0.3%	-1.8%	-2.0%	0.4%	0.6%	0.0%	-1.3%	-0.1%
Space Engineering and Management	323	299	693	652	83	165	405	662
YoY	10.3%	-23.8%	32.2%	-15.7%	-74.3%	-44.8%	-41.6%	1.5%
% of total	9.2%	4.5%	7.2%	5.6%	3.0%	2.9%	5.0%	7.6%
Segment profit margin	5.7%	2.9%	4.1%	3.0%	1.7%	1.7%	2.6%	3.0%
Other	-43	-55	-122	53	-119	-198	-250	-297
YoY				17.8%	176.7%	260.0%	104.9%	-660.4%
% of total	-1.2%	-0.8%	-1.3%	0.5%	-4.3%	-3.5%	-3.1%	-3.4%
Segment profit margin	-2.2%	-2.0%	-2.6%	0.9%	-10.3%	-7.4%	-5.6%	-4.7%

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

Outlook for FY02/20

For FY02/20, which is the third year of its medium-term plan, the company forecasts JPY116.2bn in operating revenue (+29.2% YoY) and JPY12.7bn in operating profit (+134% YoY). (The change in accounting practice from the adoption of IFRS 16 accounts for a JPY1.1bn increase in the forecast for operating profit; i.e. fees previously recorded as land and building lease fees declines as they are now recorded as depreciation and interest income.)

The company expects a significant recovery in operating profit, partly owing to the absence of store closure-related losses seen in FY02/19 (based on decisions to close Utsunomiya PARCO and Kumamoto PARCO). Key positive contributions reflected in the forecast are: +JPY1.6bn from existing PARCO stores, +JPY3.1bn from the reversal impact of store closures, and +JPY1.2bn from new stores slated to open during the year (Kinshicho PARCO, SAN-A Urasoe West Coast PARCO CITY, the new Shibuya PARCO, and Kawasaki ZERO GATE [tentative name]). Negative factors include costs related to new store openings such as reception fees and costs associated with the rollout of a point awards system, which come to a total of JPY817mn.

The company forecasts capital expenditure of JPY17.7bn, which includes costs associated with the Shibuya redevelopment project. It plans on a dividend payment of JPY26 per share (interim and year-end dividends of JPY13 each), including a special dividend of JPY2 commemorating PARCO's 50th anniversary.

Progress versus the medium-term plan

Five stores opened out of the 12 development projects in the pipeline; four are making steady progress.

The company budgets JPY66.8bn in total capital expenditure over the five-year period of the current medium-term plan, of which it has spent JPY27.3bn in FY02/18 and FY02/19 combined. In FY02/20, it forecasts an operating profit of JPY11.6bn (before adjustment based on IFRS 16), driven by new store openings and recovery in comparable store sales. In FY02/22, the company targets an operating profit of JPY14.7bn.

	Name	Opening schedule			
		FY2017	FY2018	FY2019	FY2021
PARCO	PARCO_ya UENO	November			
	Kinshicho PARCO			March	
	New Shibuya PARCO			Fall	
	North Building of Daimaru Shinsaibashi				Spring
New format	SAN-A Urasoe West Coast PARCO CITY			Summer	
ZERO GATE	Kyoto ZERO GATE	November			
	Harajuku ZERO GATE		March		
	Sannomiya ZERO GATE		September		
	Kawasaki ZERO GATE (tentative)			Early Fall	
TOTAL		9 (5 launched, 4 currently underway)			

Source: Shared Research based on company data

Medium-term business plan (FY02/18-FY02/22)

The company's long-term vision has three aspects: prospering in urban markets, designing unique urban offerings, and driving urban evolution.

Medium-term plan strategies

Bolster market position of the urban stores (prioritize expansion of urban stores, closing others)

- The company intends to concentrate its management resources on the development of urban stores. Of the 12 development projects, five stores have opened, and four projects are underway; the remaining three are also being developed (as of FY02/19). It will aim to make visiting brick-and-mortar stores attractive for the consumers by creating space for experience-oriented activities and adding unique value to store visits. It will also cultivate new tenants, and focus on proposing lifestyles along themes such as personal fulfillment and sharing, with a view to providing enjoyment that transcends the conventional retail experience.
- The company plans to aggressively invest in stores from which it can expect sufficient return, notably the new Shibuya PARCO opening in the fall of 2019. The company positions Shibuya PARCO as the starting point of the brand's unique qualities, and intends to develop the new and revamped Shibuya PARCO into a next-generation commercial space showcasing untapped concepts. It also plans to share some of the concepts employed at Shibuya PARCO more broadly throughout its urban stores and seeks to elevate the PARCO brand as a whole to the next level. By developing multi-purpose commercial complexes, the company will also work to expand touchpoints with companies outside of the fashion industry. Collaboration with the Shibuya district to create an "Entertainment City," development of soft content, and enhancement of brand awareness on a global scale leveraging the revamped PARCO stores (the next-generation commercial properties) are also among the company's strategies. Meanwhile, it will also continue to implement store closures and format changes, keeping abreast of individual store performances and regional market conditions.

New Shibuya PARCO's image

Source: Company data

Introduce tenant services aligned with advancement in e-commerce

- On the information and communication technologies front, the company plans on introducing a proprietary platform through which tenants can maximize communication with consumers and expand their fan base. It also hopes to step up its customer strategies utilizing this platform; for example, online, it will accumulate purchase data and analyze customer activities monitoring around-the-clock online customer transactions, and offline, it will work to improve storefront operations by developing a system where tenants can manage inventory data. Fintech, house cards, and diversifying payment methods are additional areas the company plans to address. PARCO will also step up online efforts to attract more customers using its original smartphone app, social media, and tenant blogs.

- POCKET PARCO: a specific initiative in this area is the use of original app POCKET PARCO. The company will provide lifestyle proposals, entertainment information, and promote brick-and-mortar stores around the clock via the app, encouraging customers to come visit the stores and enjoy shopping as well as other activities.

Produce commercial real estate, expanding into diverse development formats

- The company intends to steadily generate profit by addressing development needs in uncultivated locations. It aims to increase the share of profit derived from commercial real estate production to 24% of the total by the end of the current medium-term plan. The company will be involved in development projects of diverse properties in a wide range of roles from the planning and design phase to tenant selection and property operation.
- As another area of focus, the company plans to offer solutions to business operators (such as commercial facilities and museums), leveraging the know-hows of subsidiaries PARCO SPACE SYSTEMS and PARCO Digital Marketing. It will utilize the collective expertise and knowledge acquired through the group's experience in the PARCO store business. The company's strength lies in its ability to provide individualized solutions that suit the needs of its business partners.

Expand soft content (meet more diverse demand)

- PARCO believes needs that cannot be met with the conventional PARCO store approach emerge as cities mature. While being mindful of the group's values– "personal fulfilment," "new inspirations," and "contentment", the company will respond to the diversifying needs of maturing cities. Specifically, it plans to develop soft content. In the Entertainment business, it targets the enhancement of original live entertainment and create a new entertainment space centering on the new Shibuya PARCO theater.
- In the Retail business (NEUVE A), the company will focus on the specialty boutiques in the existing four categories and develop new categories. It will also push forward digital strategies including the use of online sales channels.
- Regarding overseas initiatives, the company plans to raise brand recognition in Asia. It will also consider introducing soft content of the PARCO group and opportunities for collaboration with overseas shopping centers and business operators.

Collaboration with the J. Front Retailing Group (JFR)

PARCO is making progress collaborating with the J. Front Retailing Group, which has department stores Daimaru and Matsuzakaya under its umbrella. For example, PARCO_ya, the company's store format targeting adults, became a key tenant in Ueno Matsuzakaya's newly opened South Wing. The company plans to open another shop in the North Wing of Daimaru Shinsaibashi (Osaka) in the spring of 2021. Projects are not limited to those that use JFR's assets. The two companies have joined hands in regional projects (in Nagoya, Kyoto, and Kobe) opening ZERO GATE stores in the vicinity of Daimaru and Matsuzakaya stores, and have launched joint promotion activities among existing PARCO stores and JFR's department stores in the same regions. We understand the partnership is highly synergistic for JFR, which shares a similar urban-store focus. PARCO's strengths in store development and tenant incubation are an asset for JFR, and as such, we expect to see more collaborations down the road.

Numeric targets

The company adopted IFRS starting FY02/18. Targets for FY02/22, the final year of the current medium-term plan, versus FY02/17 results (figures in parentheses exclude one-off factors, such as gain on sale of Shibuya ZERO GATE, gain on sale of Chiba parking area, and loss on closure of Otsu PARCO): Operating revenue +29% to JPY121.4bn (+29.1%), operating profit +3.5% to JPY14.7bn (+27.8%), profit attributable to owners of parent +6.9% to JPY9.3bn (+32.9%)

(JPYmn) (* adjusted for one-off factors in FY2016)	FY2016 Act.*	FY2021 Targets	Change	CAGR
Sales / Operating revenue	94,000	121,400	27,400	7%
Operating profit	14,200	14,700	500	1%
OPM	15%	12%		
Net income (Profit) attributable to owners of the parent	7,000	9,300	2,300	7%
ROE	6.1%	6.5% or higher		

Source: Shared Research based on company data
Note: One-off factors include gain on sale of Shibuya ZERO GATE, gain on sale of Chiba parking area, and loss on closure of Otsu PARCO

The Company aims to shift the OP weighting of its PARCO store business (87% of total operating profit) to other growth businesses, and revamp the business portfolio. In its plan for FY02/22, PARCO estimates 65% of total operating profit to come from the PARCO store business, 24% from the development of commercial real estate, and 11% from entertainment and other businesses. The current medium-term plan consists of 12 development projects including opportunities to create multi-purpose complex and properties adopting other formats. There are many needs to upgrade properties in urban areas, and the demand is high. The company sees this as an opportunity to increase real estate-related profit.

Operating profit by breakdown by business category

FY2016 results (excluding one-off factors)	
Store business	87%
Development projects	6%
Other	7%

FY2021 plan	
PARCO Store business	65%
Commercial Real Estate Production business	**24%**
Neuve A, Entertainment business, other	11%

Source: Shared Research based on company data

Capital expenditure plan

Over the five years, the company targets total capital expenditure of JPY66.8bn, of which JPY40.4bn (around 60%) will be for strategic investment aimed at future growth and JPY26.4bn for recurring investment. As for cash flow, it expects to provide over JPY77.3bn in net operating cash flow over the five-year period.

Strengths and weaknesses

Strengths

- **Brand power and Shibuya PARCO that serves as the flagship store and brand symbol:** PARCO has high brand recognition in Japan, and Shibuya PARCO acts as the company's flagship store and brand symbol. In recent years, Shibuya has gained global recognition for its youth culture and as the part of Tokyo where new fashions and cultural trends are born. In addition to Shibuya fashion, since the 1970s Shibuya PARCO has been instrumental in the development of Shibuya's culture and the area itself. As such, the company positions the store as the starting point of PARCO's unique qualities. In autumn of 2019, the refurbished Shibuya PARCO will reopen as a new Shibuya landmark. This next-generation global shopping center will provide office space, educational facilities, an entrepreneurial center, and cultural spaces, including a theater. The company intends to share some of the concepts employed at Shibuya PARCO more broadly throughout its urban stores and seeks to elevate the PARCO brand to the next level. For these reasons, Shibuya PARCO is an invaluable asset for the company.
- **Collective strengths to meet diversifying needs for commercial real estate:** The group has a demonstrated ability to create and maintain appealing store spaces through analysis, planning, tenant selection, advertising, marketing, and refurbishment. Every year, the company refurbishes about 10–15% of its total leased space, replacing half with new stores. The company focuses on creating retail spaces that are fresh and attractive. By contrast, other shopping mall operators typically build shopping malls that are similar regardless of location and other needs, selecting similar sets of tenants. PARCO stores are also different from each other. One example of producing a mall that matches the needs of the area is the company's biggest shopping mall, SAN-A Urasoe West Coast PARCO CITY, which is set to open in Okinawa in June 2019. In this project, PARCO used its tenant network to solicit tenants that best fit the property and worked to create stores that can attract locals, as well as customers from other parts of Japan and overseas. The company sees its collective strengths reflected in its ability to create commercial facilities that match the individual needs of the area.
- **Leasing capability based on long-term relationships with more than 2,000 tenants, as well as underlying incubation expertise:** PARCO has worked with tenants since the 1960s, cultivating them as demand has changed with the times and emphasizing relationships based on equal partnership. The company currently has more than 2,000 tenants and exhibits strength in selecting tenants that match the times and can meet local needs. PARCO also focuses on incubating new brands. It has often been the first to introduce up-and-coming tenants, with whom it developed new formats, and jointly supported new talents (designers and creators). The company has helped such Japanese brands as MUJI, FrancFranc, and Samantha Thavasa to grow and succeed. From the beginning, the company provided prime shopping spaces, giving creative talent a chance to open stores and become successful tenants. Such support has paved the way for long-term win–win relationships. Incubated brands become an asset for PARCO, as they help to increase customer traffic and satisfaction and bolster its leasing capability.

Weaknesses

- **An aging customer base:** PARCO's customer base is aging, along with the general Japanese population, but new fashion and lifestyle ideas remain PARCO's key focus. Young people thus remain the company's most important customer group and biggest fans. However, women aged 29 and under now make up just 25% of the customer base (down from 31% a decade ago), whereas women aged 50 and older account for 24% (up from 13%). (This information is based on data from more than 2mn PARCO card members as of FY02/19. PARCO card use accounted for 20.7% of total transaction volume). Shared Research believes the company will need to address this issue carefully, as appealing to an older customer base would create the risk of growing out of touch with the needs of younger customers.

- **Weak sales at stores in outlying areas, delayed reaction:** Sales at "community" stores, located in outlying areas, have been struggling as the Japanese population ages and decreases. Although the company is responding to these changing demographics and regional characteristics through its scrap-and-build and refurbishment policy, making decisions on closing tenant shops and changing business formats become time-consuming as the company needs to review the existing contracts and consider the impact of changes on local communities.
- **Transaction volume in the apparel category down for six straight years:** Although clothing has also declined as a percentage of total transaction volume, it remains the largest category, at 36%. Although it has been refurbishing and changing store formats in response to the growth in experience-based consumption, this percentage is still high, in light of the prolonged sluggish performance of the apparel industry. PARCO's transaction volume in the apparel category has fallen every year since FY02/14. However, the company is not resigned to the prospect of falling clothing sales. The PARCO image is still supported by fashionable merchandise and stores. The company recognizes the need to both improve its product mix and strengthen clothing sales, and hopes the newly refurbished Shibuya PARCO will provide the spark.

Income statement

(JPYmn)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS	FY02/20 IFRS Est.
Sales / Operating revenue	261,076	264,840	259,789	264,779	264,384	269,889	276,358	93,780	91,621	89,969	116,200
YoY	-7.6%	1.4%	-1.9%	1.9%	-0.1%	2.1%	2.4%	-66.1%	-2.3%	-1.8%	29.2%
Gross profit	39,412	39,199	38,927	42,567	43,776	45,269	46,655	31,302	29,263	28,108	
YoY	-7.0%	-0.5%	-0.7%	9.4%	2.8%	3.4%	3.1%	-32.9%	-6.5%	-3.9%	-
GPM	15.1%	14.8%	15.0%	16.1%	16.6%	16.8%	16.9%	33.4%	31.9%	31.2%	-
Operating profit	8,601	9,218	9,168	10,824	12,196	12,508	12,772	14,203	11,713	5,425	12,700
YoY	-8.1%	7.2%	-0.5%	18.1%	12.7%	2.6%	2.1%	11.2%	-17.5%	-53.7%	134.1%
OPM	3.3%	3.5%	3.5%	4.1%	4.6%	4.6%	4.6%	15.1%	12.8%	6.0%	10.9%
Recurring / Pre-tax profit	8,554	8,750	8,966	10,329	12,013	12,499	12,673	13,669	11,455	5,049	
YoY	-6.7%	2.3%	2.5%	15.2%	16.3%	4.0%	1.4%	7.9%	-16.2%	-55.9%	
RPM / Pre-tax profit margin	3.3%	3.3%	3.5%	3.9%	4.5%	4.6%	4.6%	14.6%	12.5%	5.6%	
Net income / Profit attributable to owners of the parent	4,108	4,400	4,319	5,083	6,778	6,294	6,061	8,795	7,809	3,370	7,100
YoY	10.1%	7.1%	-1.8%	17.7%	33.3%	-7.1%	-3.7%	45.1%	-11.2%	-56.8%	110.7%
Net margin / Profit margin	1.6%	1.7%	1.7%	1.9%	2.6%	2.3%	2.2%	9.4%	8.5%	3.7%	6.1%

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.
Under IFRS, operating revenue includes tenant rent, theater sales and tenant expenses. Under Japanese GAAP, sales include transaction volume of tenants with commission contracts and theater sales.
Under IFRS, operating expense indicates store-related expense. For Japanese GAAP, CoGS includes tenant transaction volume after deducting tenant rents, as well as CoGS for theater.
Under Japan GAAP, operating profit does not include extraordinary profit/loss or non-operating income/loss. Under IFRS, these are included, but net financial income/loss are excluded.
Due to the adoption of IFRS 16, operating leases are included in assets from end-FY02/19, causing total assets to increase. This change had a JPY91.3bn impact.

Per share data

(split-adjusted; JPY)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS
Shares issued (year-end; '000)	82,476	82,476	82,476	101,463	101,463	101,463	101,463	101,463	101,463	101,463
EPS	49.87	53.41	52.49	54.44	66.81	62.04	59.75	86.69	79.97	33.30
Dividend per share	16.00	17.00	17.00	18.00	18.00	18.00	20.00	23.00	23.00	24.00
Book value per share	954.52	993.52	1,028.21	1,020.92	1,072.57	1,115.83	1,148.00	1,188.67	1,244.97	1,255.30

Source: Shared Research based on company data

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

Balance sheet

(JPYmn)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS
Current assets	26,146	28,241	23,317	28,991	22,396	27,410	23,894	33,547	39,245	42,749
Cash and deposits	9,023	12,253	7,437	10,463	3,529	4,333	6,840	10,522	12,464	8,690
Fixed assets	160,947	193,894	185,380	177,251	198,360	158,636	172,215	215,258	222,590	232,620
Tangible fixed assets	96,451	130,642	126,490	123,698	154,590	158,636	172,215	179,843	186,791	195,617
Intangible fixed assets	11,779	11,676	11,738	11,844	11,847	12,011	11,641	1,570	1,494	1,696
Investments and other assets	52,716	51,574	47,152	41,708	31,921	28,771	28,564	1,356	721	510
Total assets	187,093	222,135	208,697	206,243	220,757	226,830	236,315	248,806	261,835	275,369
Current liabilities	40,389	46,961	49,687	36,375	41,030	47,472	50,732	54,636	52,514	53,798
Fixed liabilities	68,046	93,306	74,432	66,295	70,902	66,146	69,108	73,568	83,010	94,662
Total liabilities	108,435	140,267	124,120	102,670	111,933	113,618	119,841	128,205	135,524	148,460
Interest-bearing debt	38,487	73,447	59,536	37,375	50,424	45,229	54,518	58,099	52,820	61,740
Total net assets	78,657	81,868	84,577	103,573	108,823	113,211	116,474	120,600	126,311	126,908

Source: Shared Research based on company data

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

Cash flow statement

(JPYmn)	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS
Cash flows from operating activities	8,921	12,025	11,274	13,938	9,864	15,281	14,652	7,690	21,386	4,529
Cash flows from investing activities	-7,405	-42,290	-584	-2,139	-27,886	-7,612	-19,325	-4,961	-11,552	-13,909
Cash flows from financing activities	-3,617	33,536	-15,483	-8,826	11,049	-7,206	7,203	1,210	-7,897	5,610

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

Financial indicators

	FY02/10 Cons.	FY02/11 Cons.	FY02/12 Cons.	FY02/13 Cons.	FY02/14 Cons.	FY02/15 Cons.	FY02/16 Cons.	FY02/17 IFRS	FY02/18 IFRS	FY02/19 IFRS
ROA (based on RP / pre-tax profit)	4.5%	4.3%	4.2%	5.0%	5.6%	5.6%	5.5%	5.6%	4.5%	1.9%
ROE	5.3%	5.5%	5.2%	5.4%	6.4%	5.7%	5.3%	7.5%	6.3%	2.7%
Equity ratio	42.0%	36.8%	40.5%	50.2%	49.3%	49.9%	49.3%	48.5%	48.2%	46.1%
Total asset turnover	137.9%	129.4%	120.6%	127.6%	123.8%	120.6%	119.3%	38.7%	35.9%	33.5%
Net margin / Profit margin	1.6%	1.7%	1.6%	1.9%	2.6%	2.3%	2.2%	9.4%	8.5%	3.7%

Source: Shared Research based on company data

Dividend policy

The company's policy is to maintain stable dividends, while ensuring sufficient internal reserves for future business investment. For FY02/20, the company's dividend forecasts is JPY26, resulting in a dividend payout ratio of 37%. JPY2 is an extraordinary dividend to commemorate the company's 50th anniversary.

(JPY)	FY02/10	FY02/11	FY02/12	FY02/13	FY02/14	FY02/15	FY02/16	FY02/17	FY02/18	FY02/19	FY02/20 Est.
Dividend per share	16.0	17.0	17.0	18.0	18.0	18.0	20.0	23.0	23.0	24.0	26.0
Payout ratio	32.1%	31.8%	32.4%	33.1%	26.9%	29.0%	33.5%	31.0%	29.9%	72.1%	37.0%

Source: Shared Research based on company data

Shareholders

Top shareholders	Shares held ('000)	Shareholding ratio
J. Front Retailing Co., Ltd.	65,922	64.98%
Aeon Co., Ltd.	8,272	8.15%
Credit Saison Co., Ltd.	7,771	7.66%
Japan Trustee Services Bank, Ltd. (Trust account)	3,571	3.52%
MUFG Bank, Ltd.	930	0.92%
BARCLAYS BANK PLC A/C CLIENT SEGREGATED	906	0.89%
Japan Trustee Services Bank, Ltd. (Trust account 9)	758	0.75%
UBS AG LONDON ASIA EQUITIES	631	0.62%
The Master Trust Bank of Japan, Ltd. (Trust account)	614	0.61%
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	589	0.58%
Sum	89,204	88.68%
Total shares issued		100.00%

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

In 1969, the company's predecessor Tokyo Marubutsu became part of the Seibu Department group. After the dissolution of the Saison group, the Mori Trust group became the company's largest shareholder, under which the company focused on refurbishing stores and clarifying concepts and themes for its retail space. Thereafter, it entered into a capital alliance with the Development Bank of Japan and issued convertible bonds, which made Mori Trust the second-largest shareholder. In 2011, the Aeon group got involved. With Aeon, PARCO worked to strengthen urban shopping malls and develop business overseas. However, such trials and talks were not successful, and the business alliance failed.

In March 2012, J. Front Retailing acquired the shares held by the Mori Trust group, thus becoming the largest shareholder. Moreover, via a takeover bid capital alliance, J. Front Retailing became PARCO's parent company, with a 65% stake.

Corporate governance

Form of organization and capital structure	
Form of organization	Company with nominating and other committees
Controlling shareholder and parent company	J. Front Retailing (3086)
Directors and Audit & Supervisory Board members	
Number of directors under Articles of Incorporation	15
Number of directors	8
Directors' terms under Articles of Incorporation (years)	2
Chairman of the Board of Directors	President
Number of outside directors	4
Number of independent outside directors	4
Number of outside members of Audit & Supervisory Board	4
Number of independent outside members of Audit & Supervisory Board	4

Source: Shared Research based on company data.
Note: As of May 26, 2018

The company became a company with nominating and other committees in 2003 to accelerate the decision-making process and ensure proper execution of operations with a view to strengthen its governance structure.

History

Established as Ikebukuro Station Building Co., Ltd. in 1953. With the capital participation of Marubutsu Co., Ltd., the company made a shift from managing station buildings to operating department stores. It opened Ikebukuro PARCO in 1969. In 1970, the company changed its name to PARCO. Following new store openings and closures, the company currently operates 19 PARCO stores.

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