

Quarterly Report FY 2018 Q1

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PARCO has adopted International Financial Reporting Standards (IFRS) from the first quarter of FY2017.

1 *Comments from the President*

In the first quarter of fiscal 2018, the second year of our Medium-term Business Plan for 2017-2021, consolidated revenue and profits declined overall due in part to the reversal of allowance from the closure of Otsu Parco recorded in the same period of the previous fiscal year, and despite an increase in revenue from our Shopping Complex Business stemming from contributions from PARCO_ya Ueno, which opened last fiscal year. We are forecasting an increase in operating profit for this fiscal year due to the opening of Sannomiya ZERO GATE *1 and other factors.

In our Medium-term Business Plan, we outlined our business portfolio innovation as the direction we will take to develop our business and achieve future growth. In line with this, we are continuing to advance choice and focus to bolster PARCO's business.

In line with one of our core tactics, "produce commercial real estate," we opened Harajuku ZERO GATE in March and announced that a new ZERO GATE store will open in Kawasaki city center in early fall of 2019. Of the twelve development projects targeted in the Medium-term Business Plan, three have already opened, and plans for six projects, including the redevelopment of new Shibuya PARCO, are progressing smoothly. Sannomiya ZERO GATE *1 is scheduled to open this fall.

As part of another tactic, "evolve the store brand," we are continuing to expand services for shops and customers through the use of ICT and PARCO's original CRM *2 strategy. "Amazon Alexa" voice search services were introduced at Ikebukuro PARCO in March to provide store information, and started a new service called "PARCO WALKING COIN" began in May, enabling customers to accumulate in-app currency for PARCO's smartphone app "POCKET PARCO" by walking around in any PARCO store. We are also pushing ahead with a revamp of our market proposal based on changes in consumer demand and the unique characteristics of each PARCO store, reinventing merchandise balance through the creation of new consumer themes including those that do not involve product sales.

Finally, as part of our tactic to "expand soft content," we are improving content creation in the entertainment business with a plan to reopen our two-screen mini-theater "CINE QUINTO" in Shibuya on July 6.

PARCO Group will continue to pursue these initiatives and is pursuing an aggressive forward-looking strategy while further strengthening trend communication and shop selection, and developing the captivating stores that customers from all over the world have come to associate with us. We ask for the continued support of the PARCO Group's many stakeholders in our activities moving forward.

*1 provisional name

*2 CRM:Customer Relationship Management

2 Performance Overview

Consolidated operating revenue declined due to the impact of various factors including large construction contracts in our Space Engineering and Management Business in the same period of the previous fiscal year, and despite an increase in revenue in the Shopping Complex Business. Operating profit and profit attributable to owners of parent (hereafter 'profit') decreased due to a large amount of "Other Profit" in the same period of the previous fiscal year.

- Operating revenue decreased due to the absence of major productions at PARCO's Entertainment Business and major construction contracts received by PARCO Space Systems in the same period of the previous fiscal year, and despite contributions from PARCO's PARCO_ya Ueno and Kyoto ZERO GATE, which opened in November, and Harajuku ZERO GATE, which opened in March.
- Operating profit and profit decreased, due in part to the reversal of allowance from the closure of Otsu Parco recorded in the same period of the previous fiscal year, and despite an increase in revenue from Nueve A in our Retail Business. Full-year forecasts for fiscal 2018 are unchanged.

3 New store openings and store closures

2018	2019	After 2019
Harajuku ZERO GATE (Opened in March,2018)	Scheduled opening of Kinshicho Ekimae property (Tokyo)	Scheduled opening of New store in the North Building of Daimaru Shinsaibashi (Osaka)
Scheduled opening of Sannomiya ZERO GATE (Kobe) * ₁	Scheduled completion of the Urasoe West Coast Development Project (Okinawa) * ₂	
	Kawasaki ZERO GATE (kawasaki)* ₁	
	Scheduled completion of the The new Shibuya PARCO (Udagawa-cho 15 Development Project)	

*1 provisional name

*2 PARCO and SAN-A establish a joint corporation for the operation of a new shopping complex business in Okinawa prefecture.

Consolidated Results

	Millions of yen				
	FY 2018	FY 2017	Change	Change	FY 2017
	1Q	1Q			4Q
For the Period					
Operating revenue	¥ 22,026	¥ 23,508	¥ (1,482)	(6.3%)	¥ 91,621
Operating cost	14,881	15,914	(1,033)	(6.5%)	62,357
Operating gross profit	7,144	7,594	(449)	(5.9%)	29,263
Selling, general and administrative expenses	4,861	4,786	74	1.6%	18,979
Operating profit	2,750	3,497	(747)	(21.4%)	11,713
Profit	1,784	2,301	(517)	(22.5%)	7,809
Cash flows from operating activities	2,598	6,503	(3,904)	-	21,386
Cash flows from investing activities	(3,112)	(2,478)	(634)	-	(11,552)
Cash flows from financing activities	(5,895)	(5,557)	(338)	-	(7,897)
EBITDA *1	4,200	4,858	(657)	(13.5%)	17,372
At the Period End *2					
Total assets	258,647	-	(3,187)	-	261,835
Total equity	126,979	-	668	-	126,311
Interest-bearing debt	48,240	-	(4,580)	-	52,820
Per Share Data					
Profit	17.59	22.68	(5.10)	(22.5%)	76.97

	Millions of yen		
	FY 2018 1Q	Change	Change
Consolidated Results by Segment *3			
Shopping Complex Business (PARCO, PARCO (Singapore))			
Operating revenue	¥ 12,872	¥ 22	0.2%
Segment profit	2,767	(477)	(14.7%)
Retail Business (NEUVE A)			
Operating revenue	4,934	(265)	(5.1%)
Segment profit	32	50	-
Space Engineering and Management (PARCO SPACE SYSTEMS)			
Operating revenue	4,949	(745)	(13.1%)
Segment profit	83	(240)	(74.2%)
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)			
Operating revenue	1,154	(776)	(40.2%)
Segment loss	(119)	(75)	-
Total			
Operating revenue	23,911	(1,765)	(6.9%)
Segment profit	2,764	(741)	(21.2%)
Consolidated (after adjustment)			
Operating revenue	22,026	(1,482)	(6.3%)
Segment profit	2,750	(747)	(21.4%)

	Millions of yen		Main factors
	FY 2018 1Q	change	
Other income and expense			
Other income	¥ 558	¥(370)	
Compensation income	487	-	Compensation related to Shibuya redevelopment
Others	70	(370)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other expense	91	(147)	
Loss on disposal of noncurrent assets	75	(144)	Renovation of PARCO stores

Millions of yen		
	FY 2018 1Q	change
Finance income and costs		
Share of income & loss of entities accounted for using equity method		
Finance income	¥ 39	¥ 14
Interest income	38	14
Finance costs (Interest expenses)	130	42
Share of income & loss of entities accounted for using equity method	4	15

*1 EBITDA in the table above refers to operating income plus depreciation and amortization (the depreciation and amortization expenses listed in the consolidated statements of cash flows).

*2 Change in total assets, total equity, and interest-bearing debt was calculated in comparison with figures for FY 2017 4Q.

*3 PARCO's Entertainment Business earnings are included in Other Business.

Non-consolidated Results

	Millions of yen				
	FY 2018	FY 2017	Change	Change	FY 2017
	1Q	1Q			4Q
For the Period					
Operating revenue	¥13,729	¥14,555	¥(826)	(5.7%)	¥56,462
Operating gross profit	4,437	4,659	(221)	(4.8%)	17,766
Operating profit	2,618	3,202	(584)	(18.2%)	11,016
Profit	1,940	2,398	(457)	(19.1%)	7,680
At the Period End *1					
Total assets	255,018	-	(3,543)	-	258,562
Total equity	125,911	-	822	-	125,089

	Millions of yen		
	FY 2018 1Q	change	Change
Operating cost			
Total Operating cost	¥9,291	¥ (604)	(6.1%)
Personnel	559	(29)	(5.1%)
Lease/rental	2,337	90	4.0%
Advertising	1,451	(85)	(5.6%)
Agency services	1,095	(37)	(3.3%)
Depreciation	1,250	101	8.8%
Utilities	833	(13)	(1.6%)
Building and repairs	392	21	5.8
Other sales and marketing costs	647	(664)	(50.6%)

	Millions of yen		
	FY 2018 1Q	change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 2,280	¥ 161	7.6%
Personnel	1,006	88	9.7%
Lease/rental	154	30	24.3%
Advertising	47	(59)	(55.5%)
Agency services	291	67	29.8%
Depreciation	105	7	8.0%
Tax and dues	145	7	5.1%

	Millions of yen		Main factors
	FY 2018 1Q	change	
Other income and expense			
Other income	¥ 556	¥ (361)	
Compensation income	487	-	Compensation related to Shibuya redevelopment
Others	68	(361)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other income and expense	95	(160)	
Loss on disposal of noncurrent assets	80	(158)	Renovation of PARCO stores

	Millions of yen	
	FY 2018 1Q	change
Finance income and costs		
Finance income	¥ 287	¥ (20)
Interest income	38	14
Dividend income *2	248	(35)
Finance costs	132	42

	Millions of yen	
	FY 2018 1Q	Change
PARCO Tenant Transaction Volume by Store *3		
Urban store group		
Sapporo PARCO	¥ 3,248	(1.9%)
Sendai PARCO	4,957	(0.4%)
Ikebukuro PARCO	6,884	(2.7%)
Shibuya PARCO	360	3.3%
Shizuoka PARCO	2,538	(3.9%)
Nagoya PARCO	8,553	(0.7%)
Hiroshima PARCO	4,320	5.3%
Fukuoka PARCO	5,532	0.3%
PARCO_ya Ueno	1,452	-
9 store total	37,847	3.5%
Community store group		
Utsunomiya PARCO	595	(26.5%)
Urawa PARCO	6,630	1.3%
Shin-Tokorozawa PARCO	2,624	(6.6%)
Tsudanuma PARCO	3,108	20.3%
Hibarigaoka PARCO	1,577	(26.2%)
Kichijoji PARCO	2,393	2.5%
Chofu PARCO	4,569	(6.5%)
Matsumoto PARCO	1,519	(24.0%)
Kumamoto PARCO	1,041	(27.0%)
9 store total *4	24,059	(9.7%)
Total *4	61,907	(2.1%)
Existing store total *5	60,454	(2.7%)

*1 Change in total assets, and total equity was calculated in comparison with figures for FY 2017 4Q.

*2 Dividend income from subsidiaries.

*3 Tenant transaction volume is a measure of the total number of transactions conducted by tenants at PARCO stores.

*4 Previous-year figures used to calculate year-on-year change include Otsu PARCO (closed Aug. 31, 2017)

*5 Existing store total does not include sales from PARCO_ya Ueno (opened Nov. 4, 2017).

Review of PARCO Store Operations

Sales by item *1	Change
Womenswear	(10.8%)
Menswear	(8.6%)
General clothing	(1.1%)
Clothing	(6.9%)
Shoes	(3.0%)
Bags	(11.7%)
Accessories	(11.2%)
Cosmetics	4.5%
Personal items	(2.0%)
Sundry goods	(1.0%)
Foods	0.4%
Restaurants	(0.5%)
Other (service, etc.)	3.5%

Paying customers, Average spend per customer *1	Change
Paying customers	1.4%
Average spend per customer	(4.0%)

	Millions of yen		
		Change	Share in sales
Credit card sales amount *1			
Credit card	¥27,748	(3.7%)	45.9%
PARCO Card	14,252	(8.7%)	23.6%

Renovation *1			
Number of sections			110
Of which are new store sections			64
Renovated area	Approx.		9,000m ²
Zone sale YoY comparison			13.2%

Total tenant transaction volume results (Change)	Mar.	Apr.	May
Total stores	0.6%	(1.4%)	(5.6%)
Existing stores *1	(0.1%)	(1.9%)	(6.1%)

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing stores *1
Ref: Purchases by foreign-issued credit cards in main stores					
YoY change in purchases	20.1%	15.6%	36.0%	101.8%	27.2%
Share of total sales of each store accounted	11.9%	4.1%	3.2%	2.3%	2.0%
YoY change in share of total sales of each store accounted	+2.2%	+0.7%	+0.8%	+1.2%	+0.5%

*1 Existing stores totals do not include sales from PARCO_ya Ueno.

Major Companies of PARCO Group

	Million yen		
	FY 2018 Q1	Change	
PARCO CO., LTD.			
Operating Revenue	¥13,729	¥(826)	
Operating Income	2,618	(584)	
Profit	1,940	(457)	
NEUVE A CO., LTD.			
Operating Revenue	4,934	(265)	Operating revenue declined as progress in scrap policies in the previous fiscal year reduced the number of stores. However, operating profit increased due to fewer unprofitable stores.
Operating Income	32	50	
Profit	18	28	
PARCO SPACE SYSTEMS CO., LTD.			
Operating Revenue	4,949	(745)	Revenue declined mostly due to the impact of large construction contracts in the same period of the previous fiscal year.
Operating Income	83	(240)	
Profit	58	(164)	
PARCO Digital Marketing CO., LTD.			
Operating Revenue	250	62	The successful implementation of proposals for the usage of ICT in commercial facilities contributed to an increase in revenue and profit.
Operating Income	24	9	
Profit	16	7	
PARCO (Singapore) Pte Ltd			
Operating Revenue	46	5	The commercial facility design consulting business in Ho Chi Minh, Vietnam, contributed to an increase in revenue and profit.
Operating Income	5	22	
Profit	5	22	

* For the four companies excluding PARCO, the ownership ratio by PARCO is 100%.

PARCO
www.parco.co.jp