

Quarterly Report FY 2018 Q2

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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 half 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 sluggish sales performance at PARCO stores caused by increased competition, and despite an increase in revenue from contributions from PARCO_ya Ueno and Kyoto ZERO GATE, which opened last fiscal year, and Harajuku ZERO GATE, which opened in March. While full-year revenue and profit forecasts have been revised based on financial results for Q2, we expect the opening of Sannomiya ZERO GATE to contribute to revenue and profit and are pursuing improvement measures in recognition of current issues.

In our Medium-term Business Plan, 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, and Sannomiya ZERO GATE opened in September. Kyoto ZERO GATE also fully opened in August, following its partial opening in November 2017. Of the twelve development projects targeted in the Medium-term Business Plan, four have already opened, and plans for five projects, including the redevelopment of new Shibuya PARCO, are progressing smoothly.

In line with another tactic, “evolve the store brand,” we are 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. We are also continuing to expand services for shops and customers through the use of ICT and PARCO’s original CRM *2 strategy. This includes a renewed focus on promotional messaging capabilities for POCKET PARCO, our official smartphone app.

Finally, as part of our tactic to “expand soft content,” we are improving content creation in the entertainment business with the reopening of our two-screen mini-theater “CINE QUINTO” in Shibuya in July. In addition, PARCO Produce opened a Detective Conan Café in Bangkok for a limited-time (our fourth character-themed café overseas), strengthening ties with the local community. We have also made further improvements to NEUVE A’s retail business, advancing into a new style of e-commerce with the September launch of TiCTAC USED+.

Interim dividend amount is ¥12 per share, a ¥1 increase compared with fiscal 2017. The annual dividend for fiscal 2018 will be increased to ¥24.

PARCO Group will continue to pursue these initiatives and is pursuing an aggressive forward-looking strategy, focusing on the opening of four new stores in fiscal 2019, 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 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 sluggish sales performance at PARCO stores caused by increased competition, despite an increase in revenue from contributions from PARCO_ya Ueno and Kyoto ZERO GATE, which opened last fiscal year, and Harajuku ZERO GATE, which opened in March.

- Operating revenue decreased due to various factors including strong theater performances in our Entertainment business and large construction contracts in our Space Engineering and Management Business in the same period of the previous fiscal year and decreased sales at our NEUVE A Retail Business, despite strong contributions from PARCO_ya Ueno and Kyoto ZERO GATE, which opened last fiscal year, and Harajuku ZERO GATE, which opened in March, that maintained performance for our Shopping Center business amid struggling sales across PARCO stores.
- Operating profit and profit declined due to the reversal of allowance from the closure of Otsu Parco recorded in the same period of the previous fiscal year. Full-year revenue and profit forecasts for the fiscal year ending in February 2019 have been revised based on financial results for Q2.

3 New store openings and store closures

2018	2019	After 2021
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)
Sannomiya ZERO GATE (Kobe) (Opened in September, 2018)	Scheduled completion of the Urasoe West Coast Development Project (Okinawa) * ₁	
	Kawasaki ZERO GATE (kawasaki)* ₂	
	Scheduled completion of the The new Shibuya PARCO (Udagawa-cho 15 Development Project)	

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

*2 provisional name

Consolidated Results

	Millions of yen						
	FY 2018 2Q	FY 2017 2Q	Change	Change	Forecast	Difference from forecast	Difference from forecast
For the Period							
Operating revenue	¥ 44,184	¥ 45,230	¥ (1,045)	(2.3%)	¥ 46,400	(2,215)	(4.8%)
Operating cost	29,483	30,076	(592)	(2.0%)	-	-	-
Operating gross profit	14,700	15,153	(452)	(3.0%)	-	-	-
SG&A	9,657	9,424	233	2.5%	-	-	-
Operating profit	5,707	6,666	(958)	(14.4%)	6,400	(692)	(10.8%)
Profit	3,786	4,469	(682)	(15.3%)	4,250	(463)	(10.9%)
Operating cash flow	6,262	24,043	(17,780)	-	-	-	-
Investing cash flow	(4,153)	(4,462)	309	-	-	-	-
Financing cash flow	(6,700)	(11,821)	5,121	-	-	-	-
EBITDA *1	8,625	9,398	(773)	(8.2%)	-	-	-
At the Period End *2							
Total assets	257,686	-	(4,149)	-	-	-	261,835
Total equity	128,545	-	2,234	-	-	-	126,311
Interest-bearing debt	48,030	-	(4,790)	-	-	-	52,820
Per Share Data							
Profit	37.35	44.05	(6.70)	(15.2%)	-	-	-

	Millions of yen		
	FY 2018 2Q	Change	Change
Consolidated Results by Segment *3			
Shopping Complex Business (PARCO, PARCO (Singapore))			
Operating revenue	¥ 25,490	¥ (22)	(0.1%)
Segment profit	5,764	(853)	(12.9%)
Retail Business (NEUVE A)			
Operating revenue	9,927	(670)	(6.3%)
Segment profit	(3)	189	-
Space Engineering and Management (PARCO SPACE SYSTEMS)			
Operating revenue	9,990	(283)	(2.8%)
Segment profit	165	(133)	(44.7%)
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)			
Operating revenue	2,692	(88)	(3.2%)
Segment loss	(198)	(142)	-
Total			
Operating revenue	48,100	(1,065)	(2.2%)
Segment profit	5,728	(940)	(14.1%)
Consolidated (after adjustment)			
Operating revenue	44,184	(1,045)	(2.3%)
Segment profit	5,707	(958)	(14.4%)

	Millions of yen		Main factors
	FY 2018 2Q	change	
Other income and expense			
Other income	¥ 1,141	¥ (436)	
Compensation income	975	-	Compensation related to Shibuya redevelopment
Others	165	(436)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other expense	477	(163)	
Loss on disposal of noncurrent assets	302	(32)	Renovation of PARCO stores
Impairment loss	113	(127)	Impairment of Utsunomiya PARCO last year

Finance income and costs		
Share of income & loss of entities accounted for using equity method		
Finance income	¥ 82	¥ 19
Interest income	81	20
Finance costs (Interest expenses)	258	100
Share of income & loss of entities accounted for using equity method	3	21

*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 2Q	FY 2017 2Q	Change	Change	forecast 2Q	Difference from forecast	Difference from forecast
For the Period							
Operating revenue	¥ 27,597	¥ 27,828	¥ (230)	(0.8%)	¥ 28,843	¥ (1,245)	(4.3%)
Operating gross profit	9,278	9,547	(268)	(2.8%)	-	-	-
Operating profit	5,519	6,522	(1,002)	(15.4%)	6,174	(654)	(10.6%)
Profit	3,900	4,682	(781)	(16.7%)	4,261	(360)	(8.5%)
At the Period End *1							
Total assets	254,319	-	(4,242)	-	-	-	258,562
Total equity	127,444	-	2,355	-	-	-	125,089

	Millions of yen		
	FY 2018 2Q	change	Change
Operating cost			
Total Operating cost	¥ 18,318	¥ 37	0.2%
Personnel	1,091	(101)	(8.5%)
Lease/rental	4,689	205	4.6%
Advertising	2,295	(102)	(4.3%)
Agency services	2,209	(56)	(2.5%)
Depreciation	2,507	197	8.5%
Utilities	1,859	(20)	(1.1%)
Building and repairs	772	(10)	(1.3%)
Other sales and marketing costs	1,577	(73)	(4.4%)

	Millions of yen		
	FY 2018 2Q	change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 4,501	¥ 346	8.3%
Personnel	1,998	153	8.3%
Lease/rental	319	50	18.7%
Advertising	115	(26)	(18.9%)
Agency services	560	76	15.9%
Depreciation	220	22	11.6%
Tax and dues	277	0	0.1%

	Millions of yen		
	FY 2018 2Q	change	Main factors
Other income and expense			
Other income	¥ 1,110	¥ (457)	
Compensation income	975	-	Compensation related to Shibuya redevelopment
Others	134	(457)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other income and expense	368	(68)	
Loss on disposal of noncurrent assets	307	(26)	Renovation of PARCO stores
Impairment loss	8	(27)	Impairment of Utsunomiya PARCO last year

	Millions of yen	
	FY 2018 2Q	change
Finance income and costs		
Finance income	¥ 329	¥ (16)
Interest income	81	19
Dividend income *1	248	(36)
Finance costs	263	102

PARCO Tenant Transaction Volume by Store *2		
	Millions of yen	
	FY 2018 2Q	Change
Urban store group		
Sapporo PARCO	¥ 6,529	(1.0%)
Sendai PARCO	9,783	(1.0%)
Ikebukuro PARCO	13,835	(2.1%)
Shibuya PARCO	701	39.2%
Shizuoka PARCO	5,024	(5.5%)
Nagoya PARCO	16,675	(0.3%)
Hiroshima PARCO	7,901	1.1%
Fukuoka PARCO	11,007	0.4%
PARCO_ya Ueno	2,869	-
9 store total	74,329	3.3%
Community store group		
Utsunomiya PARCO	1,133	(26.6%)
Urawa PARCO	13,080	3.7%
Shin-Tokorozawa PARCO	5,048	(5.5%)
Tsudanuma PARCO	6,093	20.9%
Hibarigaoka PARCO	3,355	(19.1%)
Kichijoji PARCO	4,914	0.7%
Chofu PARCO	8,903	(5.9%)
Matsumoto PARCO	2,992	(22.6%)
Kumamoto PARCO	2,039	(25.3%)
9 store total *3	47,562	(8.4%)
Total *3	121,891	(1.6%)
Existing store total *4	119,021	(2.1%)

*1 Dividend income from subsidiaries.

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

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

*4 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	(11.1%)
Menswear	(9.2%)
General clothing	0.3%
Clothing	(6.5%)
Shoes	(4.3%)
Bags	(9.7%)
Accessories	(12.1%)
Cosmetics	6.7%
Personal items	(1.5%)
Sundry goods	(1.3%)
Foods	7.7%
Restaurants	(2.8%)
Other (service, etc.)	3.8%

Paying customers, Average spend per customer *1	Change
Paying customers	2.4%
Average spend per customer	(4.4%)

	Millions of yen		
		Change	Share in sales
Credit card sales amount *1			
Credit card	¥ 52,021	(3.2%)	43.7%
PARCO Card	25,000	(9.0%)	21.0%

Renovation			
Number of sections			150
Of which are new store sections			84
Renovated area	Approx.		14,000m ²
Zone sale YoY comparison			16.3%

Total tenant transaction volume results(Change)	Mar.	Apr.	May	Jun.	Jul.	Aug.
Total stores	0.6%	(1.4%)	(5.6%)	3.8%	(6.0%)	0.3%
Existing stores *1	(0.1%)	(1.9%)	(6.1%)	3.3%	(6.6%)	0.2%

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing stores *1
Ref: Purchases by inbound customers in main stores*					
YoY change in purchases	19.0%	6.2%	35.8%	74.2%	22.9%
Share of total sales of each store accounted	14.0%	4.0%	3.3%	2.1%	2.1%
YoY change in share of total sales of each store accounted	+2.4%	+0.3%	+0.9%	+0.9%	+0.4%

*Includes purchases by Chinese mobile payment systems and foreign-issued credit cards.

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

Major Companies of PARCO Group

	Million yen		
	FY 2018 Q2	Change	
PARCO CO., LTD.			
Operating Revenue	¥ 27,597	¥ (230)	
Operating Income	5,519	(1,002)	
Profit	3,900	(781)	
NEUVE A CO., LTD.			
Operating Revenue	9,927	(670)	Revenue declined as a result of the closure of unprofitable stores in the current period and the previous period. Curtailment of losses.
Operating Income	(3)	189	
Profit	(6)	122	
PARCO SPACE SYSTEMS CO., LTD.			
Operating Revenue	9,990	(283)	Revenue declined mostly due to the impact of large construction
Operating Income	165	(133)	
Profit	119	(87)	
PARCO Digital Marketing CO., LTD.			
Operating Revenue	504	105	The successful implementation of proposals for the usage of ICT in commercial facilities contributed to an increase in revenue and profit.
Operating Income	42	2	
Profit	29	5	
PARCO (Singapore) Pte Ltd			
Operating Revenue	85	12	Strong performance by "itadakimasu by PARCO", the Japanese-restaurant zone concept, contributed to an increase in revenue and profit.
Operating Income	4	35	
Profit	4	35	

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

New Forecasts

	Millions of yen					
	FY 2018	FY 2017	Change	Change	FY 2018	Change
	4Q	4Q			4Q	
Consolidated FY 2018	Revised forecast			Initial forecast		
Operating revenue	¥ 93,700	¥ 91,621	2.3%	¥ 2,078	¥ 96,000	¥ (2,300)
Operating profit	10,800	11,713	(7.8%)	(913)	11,750	(950)
Profit attributable to owners of parent	7,100	7,809	(9.1%)	(709)	7,700	(600)
Basic earnings per share	70.04	76.97	-	-	75.89	-

	Millions of yen					
	FY 2018	FY 2017	Change	Change	FY 2018	Change
	4Q	4Q			4Q	
Non-Consolidated FY 2018	Revised forecast			Initial forecast		
Operating revenue	¥ 58,129	¥ 56,462	3.0%	¥ 1,666	¥ 59,375	¥ (1,245)
Operating profit	9,927	11,016	(9.9%)	(1,089)	10,782	(854)
Profit	6,770	7,680	(11.8%)	(909)	7,272	(501)

PARCO
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