

## Quarterly Report FY 2019 Q2

- 1 *Comments from the President*
- 2 *Performance Overview*
- 3 *Medium-term Business Plan store openings and closures*
- 4 *Consolidated Results*
- 5 *Non-consolidated Results*
- 6 *Review of PARCO Store Operations*
- 7 *Major Companies of PARCO Group*
- 8 *New Forecasts*

PARCO has adopted International Financial Reporting Standards (IFRS) from Q1 FY2017, and IFRS 16 Leases from Q1 FY2019.

## 1 *Comments from the President*

In the second quarter of fiscal 2019, the third year of our Medium-term Business Plan for 2017-2021, revenue declined overall due in part to sluggish sales performance at NEUVE A and despite an increase in revenue from PARCO due to contributions from store openings and the Entertainment business. The effect of the application of IFRS 16 and other factors meant that although operating profit increased, profit declined. Full-year profit forecasts have been revised in view of these second quarter financial results, in H2 we expect to see contributions from the opening of Shibuya PARCO in November, and we will strengthen NEUVE A stores and reform profit structures.

Of the twelve development projects targeted in the Medium-term Business Plan, seven have already opened, and plans for three projects, including the plan to open a new store in the North Building of Daimaru Shinsaibashi in spring 2021, are progressing smoothly. During the current fiscal year, we plan to open four properties in different business formats. We have already opened Kinshicho PARCO in March, SAN-A Urasoe West Coast PARCO CITY in June 27, and Kawasaki ZERO GATE in August, and we are seeing strong sales performance at each of these.

For Shibuya PARCO, which is scheduled to open in November, we are collaborating with business partners under the concept of providing new consumption proposals and values. It will have 193 shops that have been realized based on leading-edge planning as well as entertainment facilities that only PARCO can provide, including the new PARCO Theater that will have a seating capacity that is 1.5 times greater than the previous theater. We are also advancing building creation with an ESG perspective, including making it more environmentally friendly by reducing CO2 emissions and making contributions to the local community.

In view of the changing commercial environment, we made the decision to close two stores at the end of the previous fiscal year. Of these, Utsunomiya PARCO closed at the end of May 2019. Kumamoto PARCO is due to close at the end of February 2020 and we are working with the building owner to look into the possibility of redeveloping it as a new commercial facility.

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.

## 2 Performance Overview

Consolidated revenue declined due in part to sluggish sales performance at NEUVE A and despite an increase in revenue from PARCO due in part to contributions from store openings and the Entertainment business. The effect of the application of IFRS 16 and other factors meant that although an increase in consolidated operating profit was achieved, profit attributable to owners of parent (“profit”) declined.

- Operating revenue declined due in part to the effects of struggles at NEUVE A and despite an increase in revenue from PARCO, which received contributions from store openings, including the opening of Kinshicho PARCO in March, and theater and movie businesses.
- Operating profit increased due to contributions from the opening, and although the effect of the application of IFRS 16 increased the depreciation of right-of-use assets, this was more than offset by a decline in land and building lease fees.
- Profit declined due to an increase in interest expenses due to the effect of the application of IFRS 16 and despite an increase in operating profit.
- Full-year profit forecasts for fiscal 2019 have been revised in view of these second quarter financial results.

## 3 Medium-term Business Plan store openings and closures

FY2017	FY2018	FY2019	FY2021
<p><b>PARCO_ya (Ueno)</b> Opened in November, 2017</p>	<p><b>Harajuku ZERO GATE</b> Opened in March, 2018</p>	<p><b>Kinshicho PARCO</b> (Tokyo) Opened in March, 2019</p>	<p><b>New store in the North Building of Daimaru Shinsaibashi (Osaka)</b> Scheduled to open in spring 2021</p>
<p><b>Kyoto ZERO GATE</b> Opened in November, 2017</p>	<p><b>Sannomiya ZERO GATE</b> (Kobe) Opened in September, 2018</p>	<p><b>SAN-A Urasoe West Coast PARCO CITY*1 (Okinawa)</b> Opened in June, 2019</p>	
		<p><b>Kawasaki ZERO GATE</b> (kawasaki) Opened in August, 2019</p>	
		<p><b>Shibuya PARCO</b> Scheduled to open in November 2019</p>	
<p><b>Otsu PARCO</b> Closed in August, 2017</p>		<p><b>Utsunomiya PARCO</b> Closed in May, 2019</p>	
		<p><b>Kumamoto PARCO</b> Scheduled to Closed in February, 2020</p>	

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

# Consolidated Results

Millions of yen

	FY 2019 2Q	FY 2018 2Q	Change	Change	Forecast	Difference from forecast	Difference from forecast
<b>For the Period</b>							
Operating revenue	¥ 43,694	¥ 44,184	¥ (489)	(1.1%)	¥ 45,800	¥ (2,105)	(4.6%)
Operating cost	28,730	29,483	(753)	(2.6%)	-	-	-
Operating gross profit	14,964	14,700	263	1.8%	-	-	-
SG&A	9,582	9,657	(75)	(0.8%)	-	-	-
Operating profit	5,865	5,707	158	2.8%	6,200	(334)	(5.4%)
Profit	2,843	3,786	(943)	(24.9%)	3,500	(656)	(18.8%)
Operating cash flow	14,745	6,262	8,482	-	-	-	-
Investing cash flow	(4,358)	(4,153)	(205)	-	-	-	-
Financing cash flow	(9,883)	(6,700)	(3,182)	-	-	-	-
EBITDA *1	13,499	8,625	4,874	56.5%	-	-	-
<b>At the Period End *2</b>							
Total assets	359,993	-	84,624	-	-	-	275,369
Total equity	122,916	-	(3,992)	-	-	-	126,908
Interest-bearing debt <i>Lease liabilities not included</i>	57,650	-	(4,090)	-	-	-	61,740
<b>Per Share Data</b>							
Profit (yen)	28.12	37.35	(9.23)	(24.7%)	-	-	-

Millions of yen

	FY 2019 2Q	Change	Change
<b>Selling, general and administrative expenses</b>			
Total SG&A	¥ 9,582	¥ (75)	(0.8%)
Personnel	4,133	(13)	(0.3%)
Lease/rental	700	(770)	(52.6%)
Advertising	271	(18)	(6.4%)
Agency services	695	35	5.4%
Depreciation	1,232	814	194.6%
Taxes and dues	364	(25)	(6.6%)

	FY 2019 2Q	Effect	Without effect
<b>Effect of Application of IFRS 16</b>			
Operating cost	¥ 28,730	¥ (716)	29,447
Lease/rental etc.	201	(4,355)	4,557
Depreciation	6,400	3,638	2,762
Total SG&A	9,582	(121)	9,704
Lease/rental etc.	700	(848)	1,548
Depreciation	1,232	726	506
Operating profit	5,865	838	5,027
Finance costs <i>(Interest expenses)</i>	1,316	836	480
Profit	2,843	1	2,842

## Consolidated Results by Segment \*3

	Millions of yen		
	FY 2019 2Q	Change	Change
<b>Shopping Complex Business (PARCO, PARCO (Singapore) )</b>			
Operating revenue	¥ 25,680	¥ 190	0.7%
Segment profit	6,116	351	6.1%
<b>Retail Business (NEUVE A)</b>			
Operating revenue	8,938	▲988	(10.0%)
Segment loss	▲342	▲339	-
<b>Space Engineering and Management (PARCO SPACE SYSTEMS)</b>			
Operating revenue	9,586	▲403	(4.0%)
Segment profit	204	39	123.6%
<b>Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)</b>			
Operating revenue	3,081	388	14.4%
Segment loss	▲82	115	-
<b>Total</b>			
Operating revenue	47,287	▲813	(1.7%)
Segment profit	5,895	166	2.9%
<b>Consolidated (after adjustment)</b>			
Operating revenue	43,694	▲489	(1.1%)
Segment profit	5,865	158	23.9%

Millions of yen

	FY 2019 2Q	change	Main factors
<b>Other income and expense</b>			
Other income	¥ 1,274	¥ 132	
Compensation income	975	-	Compensation related to Shibuya redevelopment
Others	66	66	Reversal of impairment loss on closure of Utsunomiya PARCO, etc.
Other expense	790	313	
Loss on disposal of noncurrent assets	167	(135)	Renovation of PARCO stores
Impairment loss	573	459	Hiroshima ZERO GATE and NEUVE A, etc.

<b>Finance income and costs</b>		
Share of income & loss of entities accounted for using equity method		
Finance income (Interest income etc.)	¥ 90	¥ 8
Finance costs (Interest expenses)	1,316	1,058
Except for Effect of Application of IFRS 16 *4	480	221
Share of income & loss of entities accounted for using equity method	(1)	(4)

\*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 2018 4Q.

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

\*4 Primarily IAS17-applied lease interest expenses (Kinshicho building, etc.)

# Non-consolidated Results

Millions of yen

	FY 2019 2Q	FY 2018 2Q	Change	Change	forecast 2Q	Difference from forecast	Difference from forecast
<b>For the Period</b>							
Operating revenue	¥ 28,199	¥ 27,597	¥ 601	2.2%	¥ 29,402	¥ (1,202)	(4.1%)
Operating gross profit	9,937	9,278	658	7.1%	-	-	-
Operating profit	6,002	5,519	482	8.7%	5,994	8	0.1%
Profit	3,526	3,900	(373)	(9.4%)	3,542	(15)	(0.4%)
<b>At the Period End *1</b>							
Total assets	354,804	-	82,894	-	-	-	271,909
Total equity	122,601	-	(2,995)	-	-	-	125,596

	Millions of yen		
	FY 2019 2Q	Change	Change
<b>Operating cost</b>			
Total Operating cost	¥ 18,261	¥ (57)	(0.3%)
Personnel	871	(42)	(4.7%)
Lease/rental	609	(4,079)	(87.0%)
Advertising	2,357	62	2.7%
Agency services	2,213	3	0.2%
Depreciation	6,310	3,803	151.7%
Utilities	1,943	83	4.5%
Building and repairs	816	43	5.6%
Other sales and marketing costs	1,730	153	9.8%

	Millions of yen		
	FY 2019 2Q	Change	Change
<b>Selling, general and administrative expenses</b>			
Total SG&A	¥ 4,655	¥ 153	3.4%
Personnel	2,004	5	0.3%
Lease/rental	80	(239)	(74.8%)
Advertising	121	5	5.0%
Agency services	587	27	4.9%
Depreciation	605	385	175.0%
Taxes and dues	254	(23)	(8.4%)

	Effect
Effect of Application of IFRS 16	
Lease/rental etc.	¥ (4,531)
Depreciation	3,830
Interest expenses	827

	Millions of yen		Main factors
	FY 2019 2Q	Change	
<b>Other income and expense</b>			
Other income	¥ 1,252	¥ 141	
Compensation income	975	-	Compensation related to Shibuya redevelopment
Others	47	47	Reversal of impairment loss on closure of Utsunomiya PARCO, etc.
Other income and expense	532	164	
Loss on disposal of noncurrent assets	171	(135)	Renovation of PARCO stores
Impairment loss	323	314	Hiroshima ZERO GATE, etc.

	Millions of yen	
	FY 2019 2Q	Change
<b>Finance income and costs</b>		
Finance income (Dividend income*2 etc.)	¥ 350	¥ 20
Finance costs (Interest expenses)	1,312	1,048
Except for Effect of Application of IFRS 16 *3	485	221

	Millions of yen	
	FY 2019 2Q	Change
<b>PARCO Tenant Transaction Volume by Store *3</b>		
Sapporo PARCO	¥ 6,385	(2.2%)
Sendai PARCO	10,086	3.1%
Urawa PARCO	13,837	5.8%
Ikebukuro PARCO	13,551	(2.1%)
PARCO_ya Ueno	2,952	2.9%
Kichijoji PARCO	5,047	2.7%
Shibuya PARCO	714	1.9%
Kinshicho PARCO *5	4,596	-
Chofu PARCO	9,222	3.6%
Shizuoka PARCO	5,001	(0.5%)
Nagoya PARCO	16,867	1.2%
Hiroshima PARCO	7,447	(5.8%)
Fukuoka PARCO	11,291	2.6%
Urban store group 13 store total	107,003	5.7%
Utsunomiya PARCO *5	612	45.9%
Shin-Tokorozawa PARCO	5,172	2.5%
Tsudanuma PARCO	6,075	(0.3%)
Hibarigaoka PARCO	3,939	17.4%
Matsumoto PARCO	2,591	(13.7%)
Kumamoto PARCO	1,797	(11.9%)
Community store group 6 store total	20,190	(2.3%)
Total	127,194	4.4%
Existing store total *6	121,984	1.0%
Forecast of total, FYI		6.8%
Forecast of Existing store total, FYI *6		2.5%

\*1 Change in total assets, total equity was calculated in comparison with figures for FY 2018 4Q.

\*2 Dividend income from subsidiaries was 266 millions of yen.

\*3 Primarily IAS17-applied lease interest expenses (Kinshicho building, etc.)

\*4 Tenant transaction volume is a measure of the total number of transactions conducted by tenants at PARCO stores.

\*5 Kinshicho PARCO was opened on March 16, 2019, Utsunomiya PARCO was closed on May 31, 2019.

\*6 Existing store total does not include sales from Kinshicho PARCO

## Review of PARCO Store Operations

Sales by item	Change
Womenswear	(7.9%)
Menswear	(7.3%)
General clothing	1.1%
Clothing	(4.6%)
Shoes	(2.3%)
Bags	(9.8%)
Accessories	(0.2%)
Cosmetics	5.3%
Personal items	(0.3%)
Sundry goods	1.5%
Foods	14.3%
Restaurants	7.7%
Other (service, etc.)	5.1%

Paying customers, Average spend per customer	Change
Paying customers	6.4%
Average spend per customer	(5.1%)

Millions of yen  
Change Share in sales

Credit card sales amount			
Credit card	¥ 52,874	(0.6%)	43.3%
PARCO Card	22,271	(11.7%)	18.3%

Renovation *1			
Number of sections			139
Of which are new store sections			63
Renovated area	Approx.		15,000m <sup>2</sup>
Zone sale YoY comparison *2			(5.5%)

Total tenant transaction volume results(Change)	Mar.	Apr.	May	Jun.	Jul.	Aug.
Total stores	4.8%	7.8%	6.3%	4.8%	(1.9%)	5.0%
Existing stores *1	1.4%	3.4%	2.4%	1.7%	(4.5%)	2.3%

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing stores *1
Ref: Purchases by inbound customers in main stores *3					
YoY change in purchases	(10.6%)	(6.8%)	15.7%	(3.0%)	(2.9)%
Share of total sales of each store accounted	12.8%	3.8%	3.8%	2.0%	2.1%
YoY change in share of total sales of each store accounted	(1.1%)	(0.2%)	0.4%	(0.1%)	(0.1%)

\* Existing stores totals do not include sales from Kinshicho PARCO.

\*1 Renovation does not include Utsunomiya PARCO and Kumamoto PARCO as they are not undergoing regular renovations

\*2 Adjusting the zone sale YoY comparison to exclude the effects of renovations to include service shops, which are not recorded in zone sales, makes it 7.5%

\*3 Includes purchases by Chinese mobile payment systems and foreign-issued credit cards.

## Major Companies of PARCO Group

	Million yen		
	FY 2019 2Q	Change	
<b>PARCO CO., LTD.</b>			
Operating Revenue	¥ 28,199	601	Revenue and profit increased due to due in part to contributions from Kinshicho PARCO, which opened in March, and the Entertainment business. Scrap & build policy was advanced through the closure of Utsunomiya PARCO in May, etc.
Operating profit	6,002	482	
Profit	3,526	(373)	
<b>NEUVE A CO., LTD.</b>			
Operating Revenue	8,938	(988)	Revenue and profit decreased due in part to sluggish sales performance at existing stores and a decrease in the number of stores compared to the previous fiscal year, despite contributions from new stores.
Operating profit	(342)	(339)	
Profit	(562)	(556)	
<b>PARCO SPACE SYSTEMS CO., LTD.</b>			
Operating Revenue	9,586	(403)	Revenue declined due to the absence of gains from large-scale projects in the same period of the previous fiscal year and despite construction orders for construction related to Shibuya PARCO and external commercial facilities. However, profit increased due to the strong performance of highly profitable construction divisions.
Operating profit	204	39	
Profit	147	27	
<b>PARCO Digital Marketing CO., LTD.</b>			
Operating Revenue	529	25	Revenue increased due to the growth of Store Digital business, Web Consulting business, and projects from external clients
Operating profit	33	(9)	
Profit	22	(6)	
<b>PARCO (Singapore) Pte Ltd</b>			
Operating Revenue	22	(63)	While the performance of the Japanese restaurant zone concept was solid, revenue and profit declined due to the absence of commercial facility design consulting fees from Ho Chi Minh, Vietnam, received in the same period of the previous fiscal year.
Operating profit	(1)	(6)	
Profit	(1)	(6)	

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

# New Forecasts

	Millions of yen					
	FY 2019	FY 2018	Change	Change	FY 2019	Change
	4Q	4Q			4Q	
<b>Consolidated FY 2018</b>	Revised forecast				Initial forecast	
Operating revenue	114,100	¥ 89,969	¥ 24,1302	26.8%	¥ 116,200	¥ (2,100)
Operating profit	12,500	5,425	7,074	130.4%	12,700	(200)
Profit attributable to owners of parent	6,600	3,370	3,229	95.8%	7,100	(500)
Basic earnings per share	65.28	33.30	-	-	70.23	-

	Millions of yen					
	FY 2019	FY 2018	Change	Change	FY 2019	Change
	4Q	4Q			4Q	
<b>Non-Consolidated FY 2018</b>	Revised forecast				Initial forecast	
Operating revenue	¥ 80,350	¥ 56,288	24,061	42.7%	¥ 81,553	¥ (1,203)
Operating profit	11,890	4,792	7,097	148.1%	11,783	107
Profit	6,829	3,237	3,591	110.9%	6,745	84

**PARCO**  
[www.parco.co.jp](http://www.parco.co.jp)