



8 April 2014

For Immediate Release

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FY2014-16 Medium-term Business Plan

The PARCO group today announced its Medium-term Business Plan for FY2014-16. The details are as follows.

1. PARCO Group initiatives

The PARCO Group Medium-term Business Plan for FY2010-12 set forth the vision of becoming an “urban lifestyle producer,” a company that enriches the lifestyles of its customers, and toward this objective we have worked to innovate existing stores, expand commercial activities both in Japan and overseas, and advance other such elements of our business strategies.

With existing stores, we successfully optimized our product composition and operating methods with an approach centered on two categories—Urban Stores and Community Stores—and through this we have built a robust revenue base. With new stores, we opened Fukuoka PARCO in the Tenjin district of Fukuoka, marking our first entry into that major city, and have also opened three ZERO GATE stores, embodying a new business model centered on low- to medium-rise shopping complexes in urban locations.

2. Business environment

The domestic consumer environment is undergoing a dramatic structural change amid such developments as an increase in urban populations in step with globalization and a return to city centers, a shift in demographics, and an increasing diversity of customer needs brought about by advances in information & communication technology (ICT). Overseas, we are seeing a good number of new or expanding business opportunities within an increasingly mature China market and the rapidly growing urban centers of the ASEAN region.

3. Prospects for the PARCO Group looking ahead to 2020

We have prepared a medium-term business plan to guide our company through FY2016 and a long-term corporate vision to point the way to 2020. We anticipate that both will enhance our ability to identify and develop strategies for societal trends at home and abroad.

Under the PARCO Group 2020 Long-term Vision, we will strive to be *designers of unique offerings for 24/7 urban life* and *creative drivers of urban evolution* to achieve our goal of being *a business group that prospers in urban markets*.

We have formulated a management policy and three business strategies toward the realization of this long-term vision.

Management policy

The PARCO Group has revamped its business portfolio to better create new added value through “incubation,” “urban revitalization,” and “ability to communicate trends,” offering the goods and services required by urban consumers and commercial operators.

Three business strategies

We will endeavor to realize our long-term vision by advancing along three strategic axes: “cultivation of major urban areas,” “expansion of core targets,” and “innovative use of ICT.”

With regard to *cultivation of major urban areas*, we will work to offer more value to our customers by expanding our network of shopping facilities in urban areas and placing more emphasis on business expansion within those areas. With regard to the *expansion of core targets*, we will work to accommodate a demographic shift and an increasingly diverse set of lifestyles by broadening our core market to include all who seek to enjoy city life, from young people to older, more mature individuals who retain youthful sensitivities. With regard to the *innovative use of ICT*, we will work to create a new form of shopping pleasure based on the web use of stores.

Through this management policy and three business strategies, we have formulated a number of concrete measures toward the attainment of PARCO Group 2020 Long-term Vision and will implement them as outlined within our PARCO Group Medium-term Business Plan for FY2014-16.

4. PARCO Group Medium-term Business Plan for FY2014-16: business expansion overview

Over the three-year period FY2014 to FY2016, we will implement a growth strategy under which we will further develop our existing store operations, expand related businesses, and create new businesses. The plan is intended to open a path for growth toward 2020 and calls for considerable upfront investment to promote development, foster business creation, and rebuild overseas operations. Concurrently, we aim to support groupwide revenue and earnings growth by maintaining stable growth within the mainstay PARCO Stores Business through target expansion, tenant reconfiguration, web utilization, and operational reform.

We will also reinforce our emphasis on diversity management to set a stage for continual business growth into the future.

Business targets

Our targets for FY2016, the final year of the plan, center on consolidated net sales of ¥293.0 billion, operating income of ¥13.5 billion, net income of ¥7.5 billion, and EBITDA of ¥20.0 billion.

Unit: Billion yen

	FY2016 Target	FY2013 Actual	FY2016 plan vs. FY2013 actual (Difference/growth rate)
Net sales	293.0	264.4	28.6 / +10.8%
Operating income	13.5	12.2	1.3 / +10.7%
Net income	7.5	6.8	0.7 / +10.7%
EBITDA*	20.0	18.1	1.9 / +10.8%

Note: EBITDA is calculated as operating income + depreciation/amortization expenses.

Total investments over the three years of the plan are targeted at ¥37.0 billion, breaking down as: ¥14.2 billion for recurring investments in store renovations, peripheral business development, and the like; and ¥22.8 billion for strategic investments in shopping complex development, new business development, and related matters.

5. Five strategic initiatives under the Medium-term Business Plan for FY2014-16

Strategy ① Prioritization of the PARCO Stores Business

Through a two-pronged advance led by Urban Stores and Community Stores, we will aim to make PARCO stores the leaders in urban retail.

Each of these two formats has its own special characteristics, and based on these we will establish a clear directionality for each with regard to such matters as core target market and tenant composition.

The core target of our urban stores extends up to "adults with youthful sensibilities who enjoy urban life." We will broaden this target as we reinforce our lifestyle propositions and adjust our tenant mix. Serving as models for this new conceptual approach are Shibuya PARCO and the Fukuoka PARCO stores, and it is from these stores that we intend to extend this approach on to other shopping complexes.

The core target of our Community Stores covers consumers who center their daily activities on suburban commuter stations. Here, the emphasis is on securing a diverse set of tenants. Toward this goal we are (1) intensifying our efforts to strengthen our lineup of restaurant tenants and attract tenants that are part of the community, and (2) seeking to increase customer traffic by introducing tenants such as purveyors of general merchandise or home appliances, fitness gyms, and service providers. Furthermore, to promote optimization through operational reconfiguration, we will continue to apply the multi-function shopping complex model and promotion of central operations—which has led to efficient operations of Urawa PARCO and Chofu PARCO—to Community Stores.

As for customer policy, we will utilize both a web-based approach and the PARCO Card to strengthen our service offerings and encourage potential customers to become loyal, VIP customers.

In addition, to raise the added-value proposition of our shopping facilities, we will propose a new consumption experience/environment combining the attractiveness of the web with the draw of physical stores. This will entail the configuration of a digital community environment, one offering consumption experiences through, for instance, tenant blogs carried on the PARCO website, expanded opportunities for customer interaction through collaboration with leading external companies, the PARCO Show Window (a corner of the PARCO website that leads viewers to tenant-operated electronic-commerce (EC) sites), measures to enable EC sales out of tenant inventory, personalized marketing through SNS and internally developed applications,

and active use of the P-WALL, an internally developed electronic signage system for in-store use.

Manifestations of this new conceptual approach at Fukuoka PARCO include the (1) installation of new “concept shops” containing an extended selection of items ranging from apparel to food and housing, (2) development of new applications and extension of Wi-Fi coverage throughout the store, (3) introduction of digital signage. It is through such initiatives that we will provide opportunities for new consumption experiences.

Strategy ② Development centered on areas around core urban stores and entry into new major cities in Japan

Here, we will promote a diverse set of developments centered on the PARCO and ZERO GATE categories while also considering the establishment of new formats different from either of those two.

As a three-year development goal, we intend to open four PARCO-type/new category (additional floor space, new annexes) facilities and seven ZERO GATE and property management facilities.

With regard to the PARCO format, development will center on major cities where we do not yet have a presence (particularly central Tokyo, Yokohama, and the Kyoto/Osaka/Kobe metropolitan area) and areas around our Urban Stores. Developments in the ZERO GATE category will center on prime districts in central Tokyo, areas around core PARCO stores, and urban communities. A diverse set of methods will be prepared to advance these developmental efforts, including format conversion of pre-existing commercial facilities, property management, and collaborative efforts with J Front Retailing.

Previously announced development projects

PARCO		ZERO GATE	
To open autumn 2014	New annex, Fukuoka PARCO (provisional name)	To open autumn 2014	Nagoya ZERO GATE (provisional name)
To open spring 2015	Additional floor space, Fukuoka PARCO	To open spring 2016	Sapporo ZERO GATE (provisional name)
To open spring 2016	New store, Sendai		

The Building Management Business and the Web Consulting Business for shopping centers, among others, are to accumulate know-how through the promotion of such projects and apply this knowledge to further the growth of group companies.

Strategy ③ Expansion of related businesses and creation of new businesses

We will create and develop a third revenue pillar to follow on from our PARCO Stores Business and development business. It will be comprised of such new and/or related businesses as the Retail Business, the Space Engineering and Management Business, the Web Consulting Business, the Entertainment Business, and the PARCO-operated Shops Business.

The Retail Business will aggressively expand stores centered on its key TiCTAC business. It will also revitalize its existing business categories and develop new ones by emphasizing the planning & development of original merchandise.

The Entertainment Business will develop high-quality content and seek to diversify its earnings base by utilizing such content in multiple forums. It will also aim to develop new business opportunities through collaboration with overseas agents.

The PARCO-operated Shops Business will open stores in non-PARCO shopping complexes and also work to develop original products.

The Space Engineering and Management Business will expand its external client base by establishing a combined order-receiving system and expand its business realm by leveraging its comprehensive facility-related capabilities.

The Web Consulting Business will continue in its efforts to develop the SC Concierge, a shopping center operational support system, and market it to external operators.

Strategy ④ Rebuilding overseas business

In overseas markets, we will establish a foundation for a globalized PARCO business and utilize both our domestic tenant network and our shopping center operational know-how as we build that business.

We have identified major urban areas of Southeast Asia and East Asia as locations where we will apply this know-how. Over the three-year period from FY2014 through FY2016, we intend to deploy special restaurant zones in support of the overseas advances of Japanese restaurants and other tenants.

We will concurrently select business schemes that align with regional characteristics and develop our business in line with an "investment-based business model" in collaboration with local partners.

Strategy ⑤ Strengthen management foundations to support further business advances

We are strengthening four management foundations to achieve our long-term vision: Promotion of diversity, development of innovative CSR activities, promotion of ICT, and strengthening of our financial base.

The first, reinforcing our management foundation by promoting diversity, is to be advanced by establishing a Diversity Committee, which will facilitate internal communication on related issues in support of new business development. Efforts in this regard are to include (1) active appointments of talented managers and other leaders toward a minimum goal of 15% female representation in managerial posts and (2) internal efforts to promote a suitable work-life balance.

The second, innovative CSR activities, refers primarily to the promotion of an "incubator" system to provide talented young individuals with a forum for expression and an opportunity to connect with consumers and develop as creators. This support includes expanding crowd funding for young fashion designers and other talented creators.

The third, promotion of ICT, relates to efforts to utilize information and communications technology to enhance work efficiency and quality. We will place particular effort on opportunities for business growth by utilizing ICT to strengthen communications with tenants.

The fourth, strengthening our financial base, refers to efforts to reinforce our financial stature, primarily through an emphasis on cash flow. Targets here include ROA (return on invested assets) of 5.7% in FY2016. We will also examine "a business model based on self-sustaining reinvestment," to prepare for future funding needs. We are moving toward the future introduction of IFRS accounting standards and are currently working to enhance our corporate valuation in preparation for this.

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Strengthen collaboration with J Front Retailing: expanded urban expansion

We will work to enhance our urban appeal by linking the marketing assets of the J Front Retailing group to the comprehensive capabilities of our group. Currently, we have decided to open a store in the South Wing of the Matsuzakaya Ueno department store, slated to open in autumn 2017.

We will also work to promote groupwide growth through joint tenant development, expansion of PARCO-operated Stores, and collaboration in related businesses.

Medium-term Business Plan for FY2014-16

Additional information is available on the IR section of our website:

<http://www.parco.co.jp/ir/plan/>