

PARCO

Quarterly Report
FY 2014 Q4

Performance Overview

Operating income reached record-high levels for the third consecutive period, and the medium-term business plan is proceeding on track. Revenue expanded on strong sales in the Shopping Complex Business led by PARCO, the Retail Business led by NEUVE A stores and PARCO's entertainment business.

- **In the Shopping Complex Business, tenant sales were 0.7% above those of the previous corresponding period, driven by strong inbound demand at Shibuya PARCO, Sapporo PARCO, as well as other urban stores. The Fukuoka PARCO New Building, opened in November 2014, introduced a new PARCO store style, resulting in brisk sales that exceeded projections. Furthermore, The opening of Nagoya ZERO GATE and the full-term operation of the three ZERO GATE stores, launched during the previous fiscal year, also contributed to the uptick in earnings.**
- **Both strong existing store performance and new store openings from NEUVE A CO., LTD., in the Retail Business, as well as PARCO entertainment business performance programs and successful projects, led to increased sales that contributed to earnings.**
- **Operating income rose 2.6% compared to the same period of the previous fiscal year to a record high of ¥12,508 million. Net income contracted 7.1% to ¥6,294 million due to the recognition of an impairment loss (extraordinary loss) on property and equipment at Chiba PARCO.**

Comments from the President

The major achievement of fiscal 2014's performance was the strong start to the medium-term management plan encompassing the entire PARCO Group. In the Shopping Complex Business, our efforts to create a new style of PARCO store brought in new consumers. In Retail Business, aggressive store openings by NEUVE A CO., LTD., led to favorable earnings.

We are making steady progress on the promotion of three business strategies outlined in our medium-term management plan—cultivation of major urban areas, expansion of core targets, and innovative use of information and communication technology (ICT) specifically tailored to our needs—and we believe ongoing growth can be realized through the steady execution of these three strategies.

Starting with the Fukuoka area, we established the foundation for a PARCO business backbone store and expanding Fukuoka PARCO to create the largest shopping center in Tenjin with the opening of the Fukuoka PARCO New Building in November 2014 and additional floor space in the main building in March 2015. In the Nagoya area, we expanded our presence with the opening of Nagoya ZERO GATE in October 2014 and additional floor space in March 2015 augmenting Nagoya PARCO. Going forward, we also have plans for area expansion at existing urban stores in Sapporo and Sendai.

The Fukuoka PARCO New Building presents a new style of commercial facility, with sales floors created for adult women, composed of shops offering lifestyle propositions and a reduced ratio of clothing compared to conventional PARCO Shopping Complexes. At Ikebukuro PARCO, we expanded the number of shops that respond to new consumption demands for animation and other interests among the “digital native” generation. At Shibuya PARCO, our flagship store, the strong sales performance of Japan Mode (featuring distinctive styles and brands by Japanese designers) is supported by customers visiting Japan. All the knowledge gained through the development of these stores will be applied to other urban stores.

Furthermore, we are engaged in expanding customers and upgrading tenant services through use of ICT. In conjunction with the launch of a service enabling the purchase of in-store items online, we released our official smartphone app providing customers with new shopping enjoyment and convenience. Both of these incorporate the use of the PARCO card in an aim to increase customers.

As described above, our medium-term management plan, launched in 2014, is moving steadily ahead and already bearing fruit. With PARCO's strengthened information transmission, store selection and coordination capabilities, we are moving forward with steady growth.

As the company's leader, my mission is to create new value. I will continue to enhance the “PARCO Way” and build up attractive stores that put smiles on the faces of customers from all over the world. Please stay tuned to PARCO's progress.

Kozo Makiyama

President and Representative Executive Officer

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Store-Opening Plans and Major Initiatives

2015 (spring)

Increase in floor space at Fukuoka PARCO, and opening of Nagoya PARCO midi

2016 (spring)

Scheduled opening of Sapporo ZERO GATE (provisional name) in the spring

2016 (early summer)

Scheduled opening of Sendai PARCO New Building (provisional name) in early summer

2017 (autumn)

Planned opening of the new store in Ueno

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Financial Highlights

Millions of yen

FY 2014 FY 2013

For the Period			
Net sales		¥ 269,889	¥264,384
Operating income		12,508	12,196
Operating margin		4.6	4.6
Net income		6,294	6,778
EBITDA		18,402	18,052
At the Period End			
Total assets		¥226,830	¥220,757
Net assets		113,211	108,823
Per Share Data			
Net income (yen)		¥ 62.04	¥ 66.81

Results by Segment (before adjustment)

	Millions of yen		
	FY 2014	Y/Y change	Y/Y change
	¥	¥	%
Shopping Complex Business			
Sales	¥243,783	¥ 2,102	0.9%
Segment income	11,317	(119)	(1.0%)
Retail Business			
Sales	19,802	1,457	7.9%
Segment income	647	82	14.6%
Space Engineering and Management Business			
Sales	18,983	1,340	7.6%
Segment income	328	73	28.9%
Other Business			
Sales	6,891	1,267	22.5%
Segment income	256	277	—
Consolidated			
Sales	274,212	5,919	2.2%
Segment income	12,508	311	2.6%

Credit Card

	Millions of yen	
	FY 2014	FY 2013
Credit card sales amount	¥114,555	¥107,747
PARCO Card sales amount	56,478	52,465
Number of PARCO Card members (thousands)	1,754	1,643

Nonconsolidated Tenant Sales by Store

	Millions of yen	
	FY 2014	Change
		%
Urban store group		
Sapporo PARCO	¥ 11,891	4.1%
Sendai PARCO	13,135	(1.3%)
Ikebukuro PARCO	28,256	(0.5%)
Shibuya PARCO	14,666	8.9%
Shizuoka PARCO	10,096	(2.0%)
Nagoya PARCO	35,215	(1.1%)
Hiroshima PARCO	16,989	(1.6%)
Fukuoka PARCO	13,202	9.5%
8 store total	143,454	1.1%
Community store group		
Utsunomiya PARCO	¥ 4,478	(6.1%)
Urawa PARCO	17,441	3.0%
Shin-Tokorozawa PARCO	9,051	1.9%
Chiba PARCO	5,718	(10.4%)
Tsudanuma PARCO	8,811	(3.4%)
Hibarigaoka PARCO	7,460	(1.5%)
Kichijoji PARCO	7,274	(4.0%)
Chofu PARCO	16,915	(1.0%)
Matsumoto PARCO	7,477	0.7%
Otsu PARCO	4,276	(4.9%)
Kumamoto PARCO	5,173	0.2%
11 store total	¥94,078	(1.5%)
Existing store total	237,532	0.1%
Fukuoka PARCO New Building	1,624	—
Total	¥239,157	0.7%

Operating Environment

During the fiscal year under review, amid a moderate economic recovery, the environment for domestic consumption benefited from a rise in visitors from overseas, especially those from Asia, which caused consumption to bottom out. However, personal consumption remained unstable due to a rise in demand ahead of the consumption tax hike and a subsequent decline, as well as to the impact of bad weather.

In these conditions, the PARCO Group moved forward in line with its medium-term business plan, which covers the three years from March 2014 to February 2017. The current fiscal year is the first year of the plan.

During the fiscal year, we moved forward with the expansion of shopping complexes in urban areas. In October, we opened Nagoya ZERO GATE, our largest ZERO GATE store with multiple tenants, and in November we opened the Fukuoka PARCO New Building. Both of these new shopping complexes garnered a great deal of favorable attention. Along with the opening of the expanded floor space at Fukuoka PARCO in March 2015, we will enhance the appeal of the Fukuoka Tenjin district, Kyushu's commercial center, by continuing to strengthen the synergy between the main and new buildings.

At existing PARCO complexes, we carried out renovations tailored to the specific features of each complex, as well as proactive sales promotions and measures to increase store traffic centered on the PARCO Card. We also promoted the opening of new stores and development of new business formats in the Retail Business, the cultivation of new customers in the Space Engineering and Management and Other businesses, and content development in the entertainment business.

As a result of these initiatives, for the year under review the Group posted consolidated net sales of ¥269,889 million, up 2.1% from the previous corresponding period. Operating income increased 2.6%, to a record-high ¥12,508 million. However, net income decreased 7.1%, to ¥6,294 million, due to the recognition of an impairment loss (extraordinary loss) on property and equipment at Chiba PARCO.

Shopping Complex Business

In this segment, sales rose 0.9%, to ¥243,783 million, while operating income fell 1.0%, to ¥11,317 million.

With respect to existing PARCO stores, we continued to focus on developing them as both Urban stores (Note 1) and Community stores (Note 2).

We also actively renovated existing stores, mainly Urban stores, to expand our core target market, strengthen our promotion of lifestyles and respond to inbound demand.

During the fiscal year under review, we renovated about 46,000 square meters of tenant floor space, and sales from newly renovated zones jumped 18.6% compared to the same period of the previous fiscal year. The main store renovations are summarized below.

Fukuoka PARCO

Aiming to establish Fukuoka PARCO as a Tenjin landmark, we remodeled in spring and autumn, featuring the first-time-ever rollout of cafés in Kyushu, as well as the rollout of luxury fashion select shops. The new building, based on the concept of creating a place for adults, opened in November 2014. Tenant shops include food shops—some of which were a first-time Kyushu offering, as well as sundry goods, select shops, a café complex and a gallery store introducing Kyushu arts and crafts.

In addition, we rolled out a new PARCO style with the introduction of free indoor Wi-Fi and digital signage coinciding with the release of a proprietary smartphone app as a new way to use ICT (Note 3).

Shibuya PARCO

During the period, we actively introduced trend-setting stores that fuse fashion and culture and embrace the theme of global communications. During our spring 2014 renovation, we introduced trendy fashion brands and leading select shops in PART 1. We also opened a café based on the motif of a popular character produced in-house. During our autumn 2014 renovation, we introduced new types of leading mode fashion shops in PART 1.

Ikebukuro PARCO

At P'PARCO, which celebrated its 20th anniversary, we conducted large-scale autumn renovations based on an urban entertainment theme. We introduced a number of shops that respond to new consumer demand from the "digital native" generation, including an online distribution studio for one of Japan's largest video websites and shops selling anime goods. We also renovated the main building, introducing a popular large-scale sundry goods shop and shops offering lifestyle proposals.

With respect to sales strategies, in March 2014 we enhanced incentives for PARCO Card members in response to the last-minute surge in demand ahead of the consumption tax hike. We succeeded in acquiring new members and increasing the number of Class S members (customers in good standing with a high degree of loyalty). As a result, total PARCO Card sales amounts in the year under review increased 7.6% year on year. In addition, we began handling gift certificates accepted at department stores all over Japan, enhancing customer service. We also scored a hit with an event project held at PARCO Museum in Shibuya PARCO. This project was rolled out at other PARCO stores, contributing to an increased number of customers.

Furthermore, as part of our efforts to respond to the rising number of tourists from overseas, we introduced shops popular with foreign customers, mainly in urban areas. We promoted shopping experiences aimed at improving customer service by expanding the number of duty-free shops and providing free Wi-Fi indoors.

As in the previous fiscal year, we actively promoted unique ICT initiatives. We launched PARCO tenant shop blogs and added Kaeru PARCO, a new service that enables customers to purchase in-store items online. We also released POCKET PARCO, our official smartphone app, which works with Kaeru PARCO services. This app provides PARCO tenant blog content and store event information tailored for each customer. It also enables users to accumulate virtual coins for PARCO store visits and items purchased with a registered credit card. These coins can then be exchanged for complementary merchandise coupons.

In terms of store development, we are committed to expanding the number of shopping complexes in urban areas. We have already established Nagoya PARCO midi (opened in March 2015) adjacent to the west and east buildings at Nagoya PARCO and will open a new commercial facility in front of the Sendai Station west exit (scheduled to open in early summer 2016).

Aiming to cultivate the talents of the next-generation, we launched Booster, the first crowd funding service in Japan run by a Shopping Complex Business developer. This initiative enables regular people to support the development of new talent in fashion, music, art and a variety of other areas.

Note 1: Urban stores consist of Sapporo PARCO, Sendai PARCO, Ikebukuro PARCO, Shibuya PARCO, Shizuoka PARCO, Nagoya PARCO, Hiroshima PARCO, and Fukuoka PARCO.

Note 2: Community stores consist of Utsunomiya PARCO, Urawa PARCO, Shin-Tokorozawa PARCO, Chiba PARCO, Tsudanuma PARCO, Hibarigaoka PARCO, Kichijoji PARCO, Chofu PARCO, Matsumoto PARCO, Otsu PARCO, and Kumamoto PARCO.

Note 3: ICT refers to information and communication technology, which includes technologies and services in fields related to data processing and information transmission.

Retail Business

Sales of NEUVE A CO., LTD., in this segment rose 7.9%, to ¥19,802 million, and operating income soared 14.6%, to ¥647 million.

Aggressive store openings by the TicTAC business (wristwatch specialty stores) operated by NEUVE A CO., LTD., drove company-wide earnings, with net sales and operating income surpassing those in the previous fiscal year. As of the end of the period, 18 new stores were opened, bringing the total to 182.

Space Engineering and Management Business

In this segment, sales by PARCO SPACE SYSTEMS CO., LTD., rose 7.6%, to ¥18,983 million, while operating income expanded 28.9%, to ¥328 million.

Despite a drop in orders from the existing large clients, both net sales and operating income grew from the previous fiscal year. This reflected our attraction of new clients for interior construction and electrical construction and the expansion of our building maintenance businesses at hotels, among other factors.

Other Business

In the Other Business segment, sales grew 22.5%, to ¥6,891 million, and operating income reached ¥256 million (compared to an operating loss of ¥20 million in the previous fiscal year).

In the entertainment business of PARCO CO., LTD., the immense popularity of "SINGIN' IN THE RAIN," a musical performance invited from overseas, drew record crowds, generated a huge buzz and received outstanding reviews. Furthermore, a popular character-themed cafe also proved popular. These factors led to year-on-year increases in net sales and operating income.

PARCO-CITY CO., LTD., boosted sales to outside customers in its Web-based consulting business. However, compared to the previous fiscal year, when we received large-scale orders, net sales and operating income declined.

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Financial Position

Balance Sheet

Total assets as of the end of the fiscal year under review expanded ¥6,073 million from the end of the previous fiscal year, to ¥226,830 million, mainly due to increases in notes and operating accounts receivable, and property and equipment accompanied by new construction at Fukuoka PARCO New Building. Liabilities increased ¥1,685 million compared to the end of the previous fiscal year, to ¥113,618 million. This principally reflected a rise in notes and operating accounts payable. Total net assets increased ¥4,387 million, to ¥113,211 million.

Cash Flows

Cash and cash equivalents totaled ¥4,059 million, up ¥530 million from the previous fiscal year-end.

Net cash provided by operating activities amounted to ¥15,281 million, after accounting for income before income taxes and minority interests and non-asset-related items, such as depreciation and extraordinary income/losses.

Net cash used in investing activities totaled ¥7,612 million. Outflows were allocated mainly to purchase property and equipment for construction of Fukuoka PARCO New Building.

Net cash used in financing activities was ¥7,206 million, mainly reflecting repayment of interest-bearing debt and cash dividends paid.