

私は裸になれない。

PARCO



PARCO CO., LTD.
FY2018 First Half Results
Investor Presentation

TSE 1st Section 8251

*As of 2017, PARCO has adopted IFRS

FY2018 H1 results summary

- Revenue and profits declined in FY2018 H1 due to sluggish performance by PARCO stores and the absence of reversal of allowance from the closure of Otsu Parco recorded in the same period of the previous fiscal year. This was despite contributions from PARCO_ya and Kyoto ZERO GATE, which opened last fiscal year and Harajuku ZERO GATE, which opened in March.
- 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.
- In the PARCO Stores Business, recognizing current issues, we are seeking to drive improvements in item selection through the creation of new styles of consumerism like experiential consumption.
- We expanded the lineup of services for tenants and customers with CRM* policies that incorporate ICT and a unique PARCO perspective, focusing on the development of our official smartphone app, POCKET PARCO, as a platform for the distribution of promotional articles and blog posts.
- In the Entertainment Business, in July, we reopened Cine Quinto, a two-screen mini theatre in Shibuya.
- In new building developments, Harajuku ZERO GATE opened in March and Sannomiya ZEROGATE opened in September, while Kyoto ZERO GATE fully opened in August, following its partial opening in November 2017. We also announced the tenants for a new ZERO GATE store in central Kawasaki, scheduled to open in early autumn 2019.
- Four of the 12 building developments targeted in the medium-term plan have now opened for business and planning for five others is in progress.

* Customer relationship management

Overview of FY2018 H1 results and FY2018 full-year forecasts

Current issues and future policies

Development projects and other topics

Revenue and profit declined due to sluggish performance at PARCO stores and despite contributions from stores opening in previous quarters.

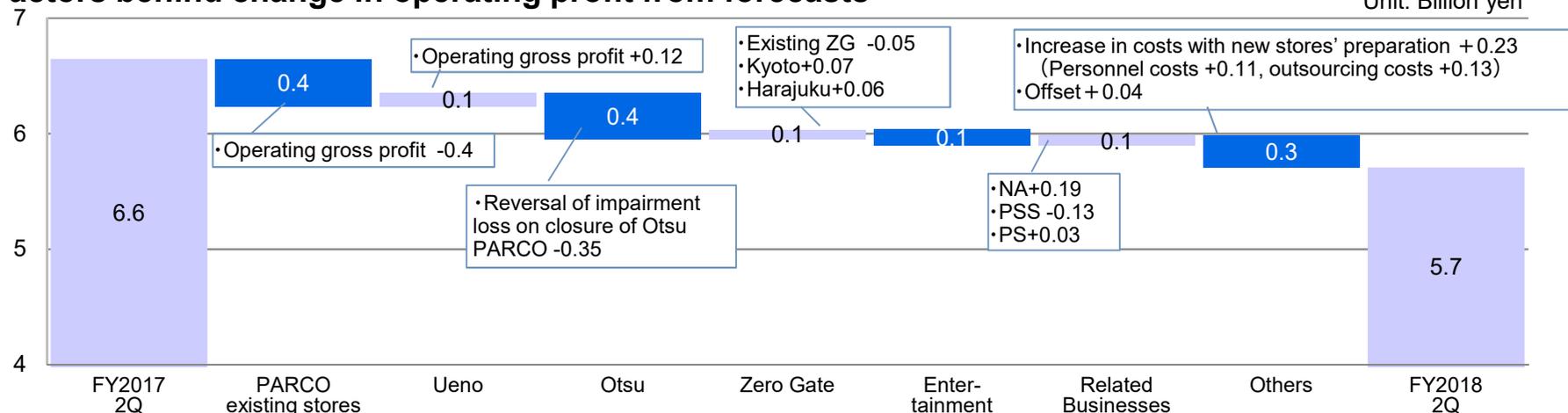
Unit: Million yen

Consolidated	FY2018 Mar.-Aug.	FY2017 Mar.-Aug.	Change ¥	Change %	Forecasts	Difference from forecast ¥	Difference from forecast %
Operating revenue	44,184	45,230	(1,045)	(2.3%)	46,400	(2,215)	(4.8%)
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%)
EBITDA*	8,625	9,398	(773)	(8.2%)	—	—	—

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

Factors behind change in operating profit from forecasts

Unit: Billion yen

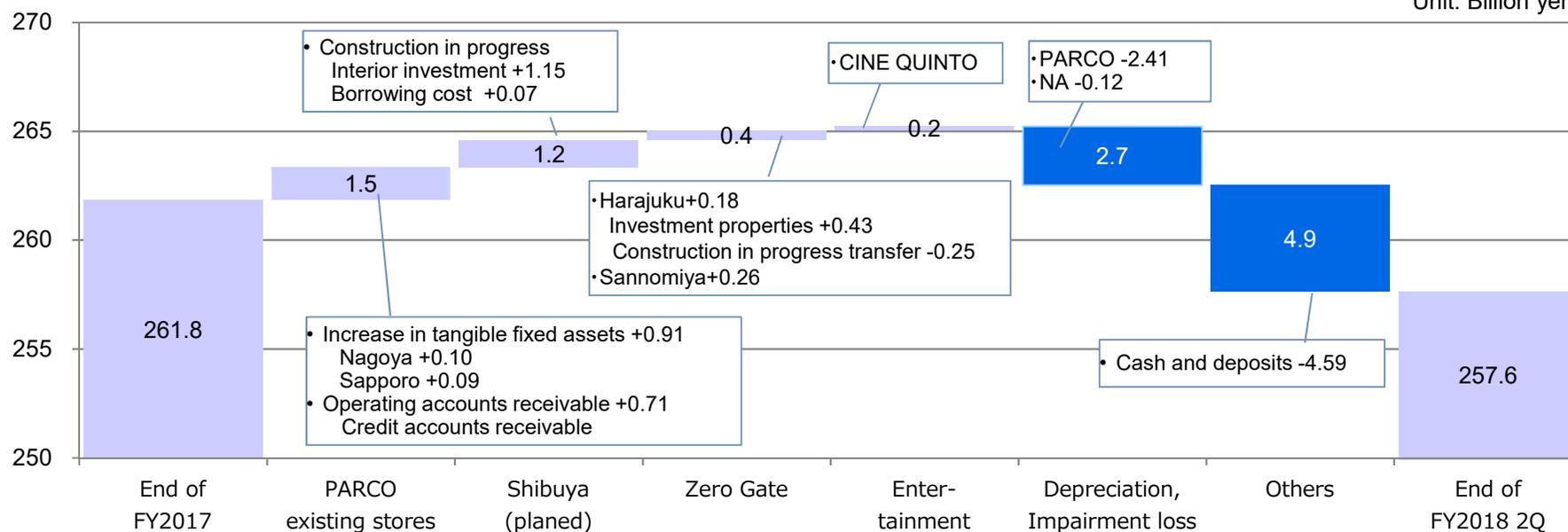


Unit: Million yen

Consolidated	FY2018 End of Aug	End of FY2017	Change ¥
Total assets	257,686	261,835	(4,149)
Total equity	128,545	126,311	2,234
Interest-bearing debt	48,030	52,820	(4,790)
Equity ratio	49.9%	48.2%	1.6%

Total assets: Breakdown of change

Unit: Billion yen



Consolidated results by segment

Unit: Million yen

		2018 Mar - Aug	2017 Mar - Aug	Change ¥	Change %
Shopping Complex Business	Operating revenue	25,490	25,513	(22)	(0.1%)
	Segment profit	5,764	6,617	(853)	(12.9%)
Retail Business	Operating revenue	9,927	10,597	(670)	(6.3%)
	Segment loss	(3)	(192)	189	—
Space Engineering and Management Business	Operating revenue	9,990	10,273	(283)	(2.8%)
	Segment profit	165	299	(133)	(44.7%)
Other Business	Operating revenue	2,692	2,781	(88)	(3.2%)
	Segment loss	(198)	(55)	(142)	—
Consolidated	Operating revenue	44,184	45,230	(1,045)	(2.3%)
	Segment profit	5,707	6,666	(958)	(14.4%)

Segment profit or loss refers to operating profit.

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

Due to adjustments between business segment results, totals of business segment figures differ from consolidated figures.

Capital Expenditure

Unit: Million yen

Consolidated	2018 Mar - Aug	2017 Mar - Aug	Change ¥	Change %
Capex	4,384	5,205	(820)	(15.8%)

Revision to full-year forecast in view of H1 performance

Unit: Million yen

Consolidated	FY2018 Revised forecast	FY2017 results	Change ¥	Change %	Initial forecast	Change ¥
Operating revenue	93,700	91,621	2,078	2.3%	96,000	(2,300)
Operating profit	10,800	11,713	(913)	(7.8%)	11,750	(950)
Profit	7,100	7,809	(709)	(9.1%)	7,700	(600)

Decision to increase the interim dividend per share by 1 yen

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.

Overview of FY2018 H1 results and FY2018 full-year forecasts

Current issues and future policies

Development projects and other topics

Recognizing current issues and taking action in H2.

H1 target operating profit (6.4 billion yen)

○ **Factors behind failure to achieve target**
 (¥ 0.69 bn below target)

[PARCO Stores Business]
 (¥ 0.47 bn below target)
 Sluggish clothing sales
 Impact of competition

[Entertainment Business]
 (¥ 0.12 bn below target)
 Movie business revenue sensitive to change factors

[Space & Engineering Management Business]
 (¥ 0.05 bn below target)
 Shortage of new projects

[Retail Business] (¥ 0.04 bn below target)
 Impact of store impairment loss and sluggish sales at main stores

H1 Results (5.7 Billion yen)



Full-year profit forecast (10.8 billion yen)

○ **H2 Action plan**

[PARCO Stores Business]

- Increase customer satisfaction
- Use renovations to attract new customers
- Expand functionality of smartphone app to increase frequency of contact with customers
- Strengthen promotions for visitors to Japan from overseas

[Entertainment Business]

- Strengthen planning and stabilize profits by acquiring a movie theater
- Implementation of large scale exhibitions and performances, maintaining a flexible attitude towards the inclusion of additional ad-hoc performances

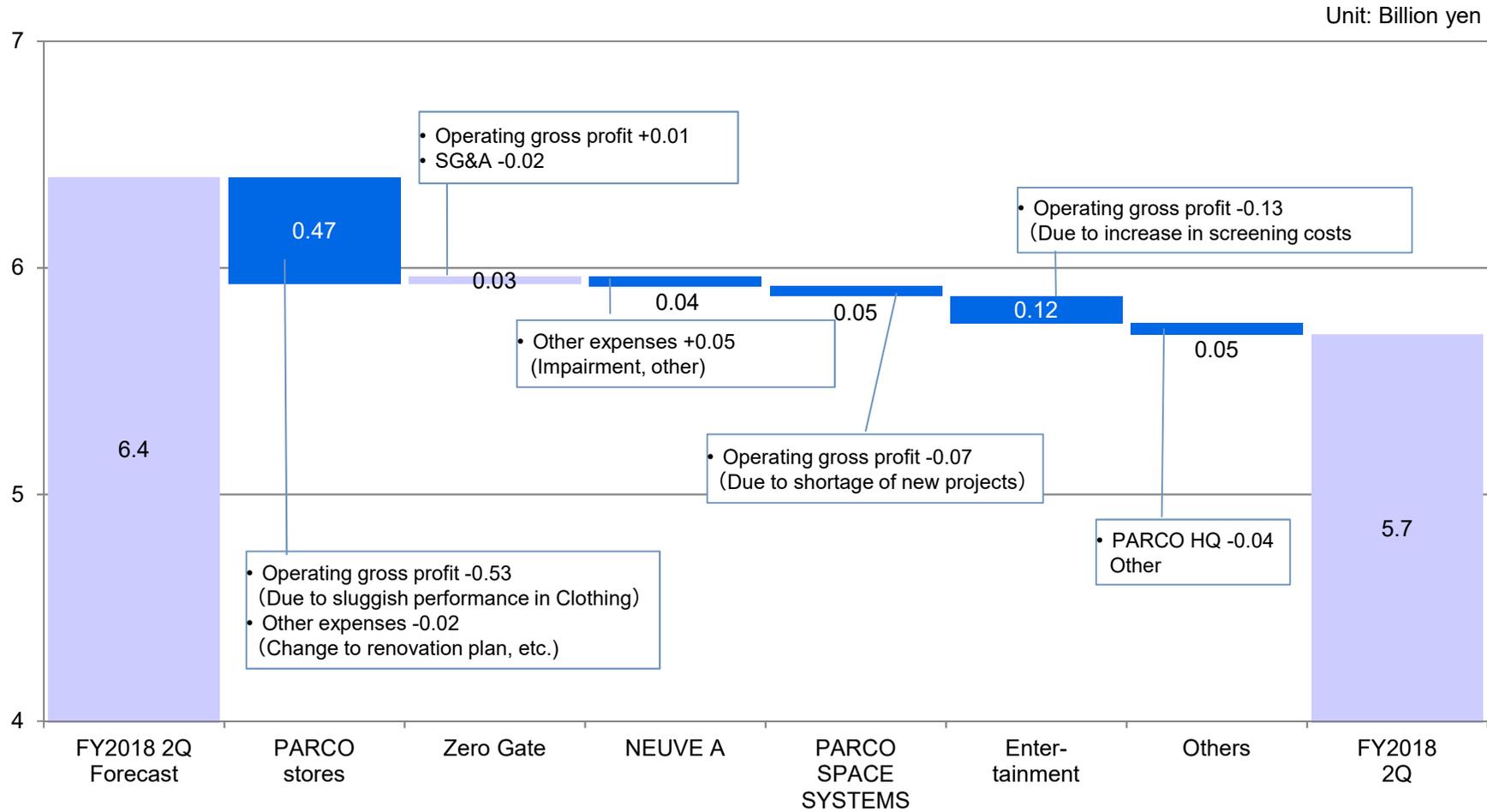
[Space & Engineering Management Business]

- Focus on acquiring new projects for core interior design business

[Retail Business]

- Continue consolidation of unprofitable stores
- Accelerate digital strategy
- Upgrade smartphone app, strengthen e-commerce
- Launch of TiCTAC's new online business model on September,27

Current issues and future policies 2 : Factors behind YoY change in operating profit 10/23



Accelerating our response to anticipated changes in consumer values and purchasing behavior.

<H1 Achievements>

- ◎ Tenant transaction volume (existing stores) (-2.1%)
- ◎ Advance renovation with theme of creating new added value
- ◎ Total renovation area: Approx. 14,000m²
- ◎ Renovation zone transaction volume YOY increase of 16.3%
- ◎ Incubation space “UP NEXT” to be established in all urban stores by March



Fukuoka PARCO “UP NEXT”

*Existing stores

Sales by Clothing*	Change
Womenswear	(11.1%)
Menswear	(9.2%)
General clothing	0.3%
Clothing	(6.5%)

	Change	Share in sales
PARCO Card sales amount*	(9.0%)	21.0%

<Current issues>

- Sluggish clothing sales
 - Changes in consumer attitudes to fashion, rise of e-commerce
 - Pursuing ongoing renovations to adapt to diversity of consumption, but results are gradual
 - Large impact on Ikebukuro PARCO, where clothing accounts for a large share of sales
- Impact of competition
 - Large impact on Shizuoka PARCO and Matsumoto PARCO
- Decrease in PARCO Card transaction volume

Increase ability to communicate trends.
 Promote initiatives to increase store visits and purchase frequency.

<H2 Action Plan>

○ **Continue with store renovations and inventory alterations in response to environmental and consumption changes**

- Stores to be enhanced in H2: Nagoya PARCO, Ikebukuro PARCO, Hiroshima PARCO, Shizuoka PARCO, Kichijoji PARCO, Urawa PARCO, Shin-Tokorozawa PARCO.
- Total renovation area for H2: Approx. 21,000m²
 Approx. 35,000m² planned for the full year

○ **Evolution of CRM* measures**

- In H2, official app POCKET PARCO will gain promotional messaging functionality
- PARCO Card special services will include points from FY 2019
- Settlement functions for smartphones are planned for FY2019 or later

○ **Responding to inbound demand**

- Continue expanding promotions for customers visiting from overseas
- Alipay payment terminals will be introduced in some shops in Nagoya PARCO, Fukuoka PARCO, Ikebukuro PARCO from September

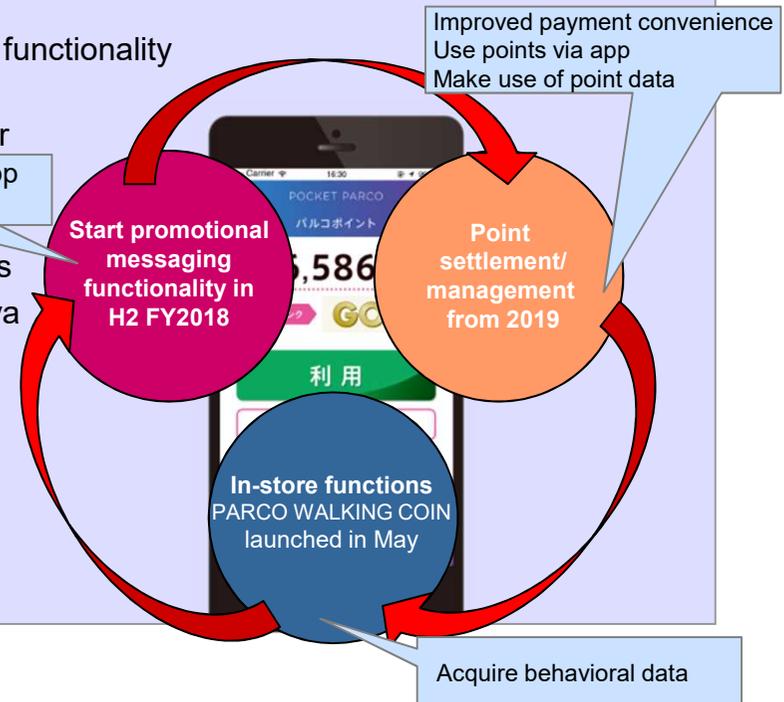
○ **Improve ability to attract customers via better sales planning and stronger content**

- Create motivation for customers to visit stores by strengthening development plans to leverage PARCO's unique characteristics



Renovated Konami Sports Club opened in September(Nagoya PARCO)

Increase in active app users



* Customer relationship management

Stabilize profits by enhancing content plans, providing places for customers to enjoy themselves, and expanding the number of entertainment bases.

<H1 Achievements>

- ◎ Re-opening of mini theater “CINE QUINTO” in Shibuya in July.



Two-screen mini theater CINE QUINTO

<Current Issues>

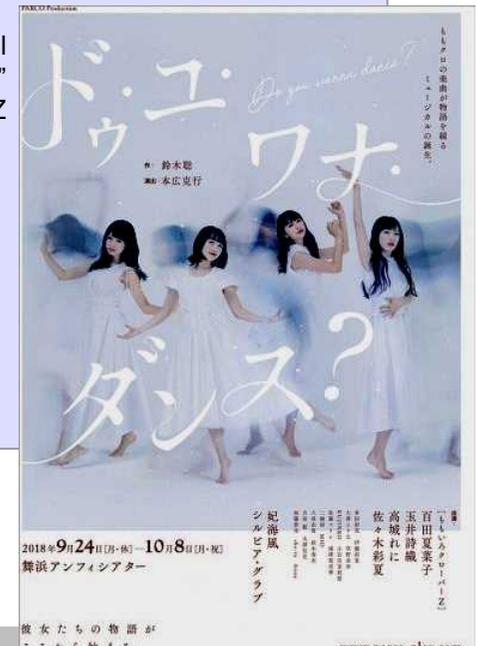
- Business instability due to reduced number of entertainment venues accompanying temporary closure of Shibuya PARCO
- Impact of sensitivity of movie business revenue to change factors

<H2 Action Plan>

- Maintain profit by expanding number of entertainment venues
 - Increase business stability by raising the profile of “New CINE QUINTO”
- Implement large scale external performances beyond the scope of current plans
 - Increased profit from ad-hoc performances
- Cooperate among departments within the Entertainment Business to expand planned content via publications and exhibitions

Musical
“Do you wanna dance?”
performed by Momoiro Clover Z

“Nichinichi Korekojitsu”
Playing in CINE QUINTO in October



Focusing on increasing operating profit for core business.

<H1 Achievements>

- ◎ Expanded the amount of orders from existing customers
- ◎ New PBM service contract in addition to Harajuku ZERO GATE
- ◎ Selected as a winner for the DSA's 2018 Design Awards in two categories: "Show Window and Visual Design Space" and "Exhibition, Promotion Space"



The interior design of Offt Korakuen was the largest project we've handled so far

<Current Issues>

- Shortage of new projects for some business divisions
- Difficulties maintaining the human resources needed to drive business development

<H2 Action Plan>

- Focus on acquiring new projects for our highly profitable core interior design/electrical systems business
- Use new recruiting methods to attract additional specialized personnel

*1 Property and Building Management

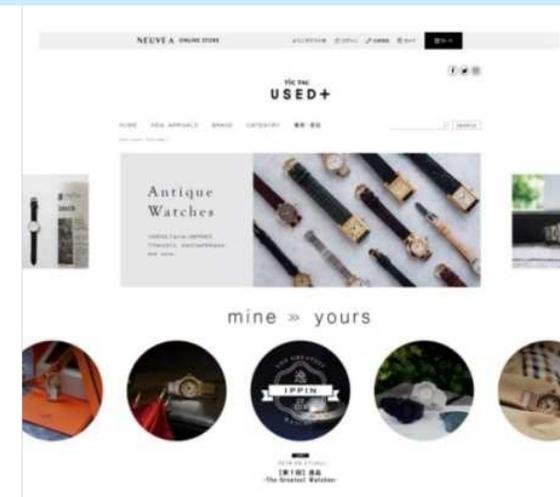
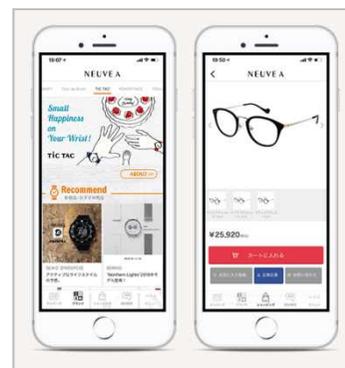
*2 Space and environmental design awards sponsored by the Japan Design Space Association (DSA)

Implement new measures and stabilize the performance of existing shops in response to a changing consumer environment

<H1 Achievements>

- Renovated two TiCTAC shops to increase floor space, strengthening existing stores
- Eight shops closed, pursuing strategy of consolidating unprofitable locations
- Total of 178 shops at the end of H1
(A decrease of 23 shops since beginning of FY2017)

NEUVE A MEMBER'S App



TiCTAC USED+

Website for the purchase and sale of used watches

<Current Issues>

- Changing strategy from expanding number of stores to expanding customer base
- Insufficient response to changes in consumer demand
- Delay in establishment of e-commerce structure

<H2 Action Plan>

- Continue with the closure of unprofitable locations, consolidating into a more reasonable number
 - Six locations scheduled to close in H2
- Recovery of TiCTAC's business
 - Online sale of used watches began in September
- Accelerate digital strategy
 - Strengthen CRM via app upgrades

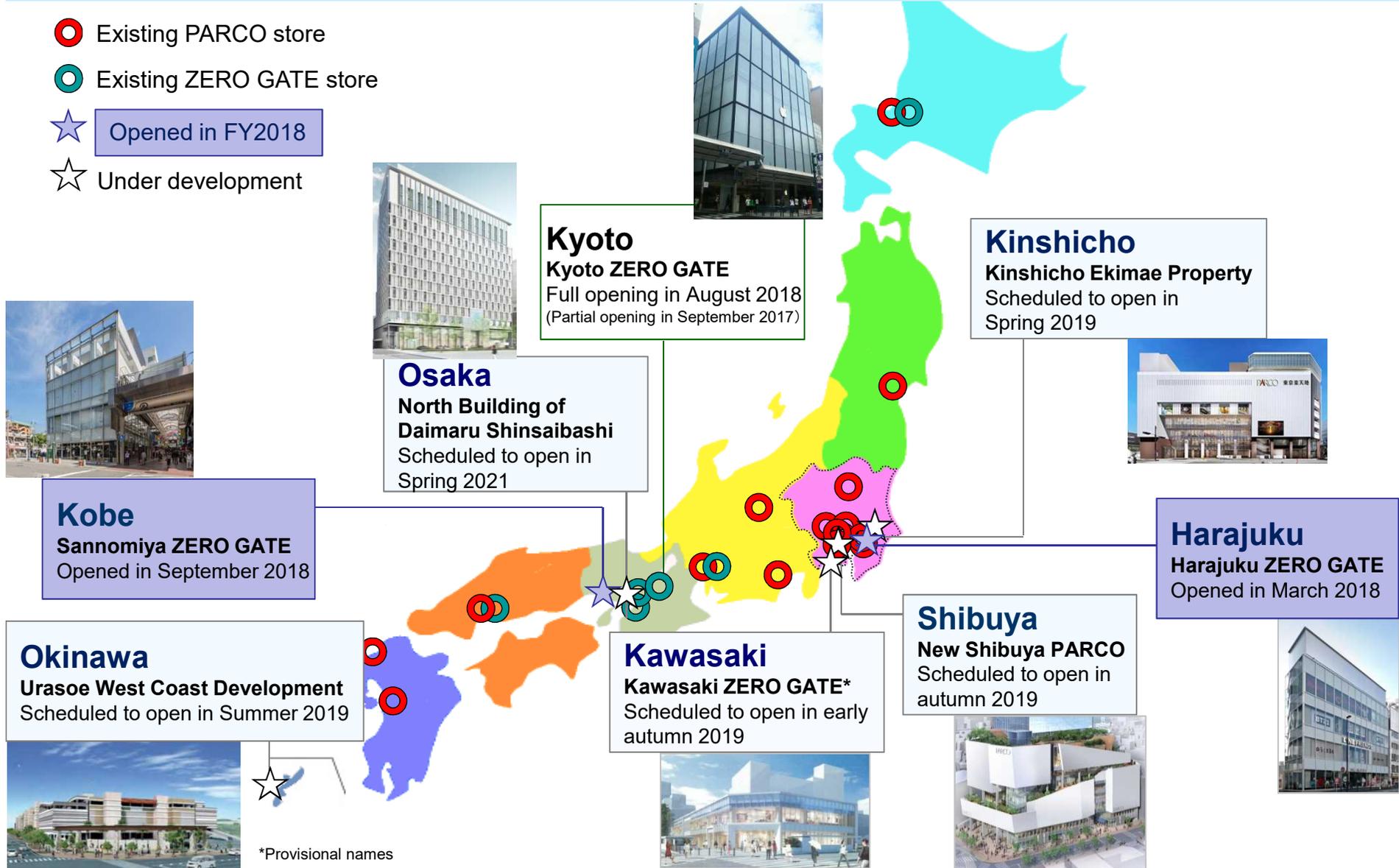
Overview of FY2018 H1 results and FY2018 full-year forecasts

Current issues and future policies

Development projects and other topics

In H1, Harajuku ZERO GATE was opened, and Kawasaki ZERO GATE* was announced. Sannomiya ZERO GATE will open in H2.

-  Existing PARCO store
-  Existing ZERO GATE store
-  Opened in FY2018
-  Under development



Of the 12 developments targeted in the medium-term plan,
4 have opened and planning for 5 others is in progress.

Medium-term Business plan progress

	Target	Planned		Planned opening				Remaining
				2017	2018	2019	2021	
PARCO	4	3	PARCO_ya Ueno	Nov.				1
			New Shibuya PARCO			Autumn		
			North Building of Daimaru Shinsaibashi				Spring	
New formats	3	2	Kinshicho Ekimae Property			Spring		1
			Urasoe West Coast Development			Summer		
ZERO GATE	5	4	Kyoto ZERO GATE	Nov.				1
			Harajuku ZERO GATE		Mar.			
			Sannomiya ZERO GATE		Sep.			
			Kawasaki ZERO GATE*			Early Autumn		
Total	12	9 (4 launched, 5 currently underway)						3

*Provisional names

One ZERO GATE opened, one announced.
 Attracted tenants from business categories with contemporary relevance.



Harajuku ZERO GATE, opened in March 2018.

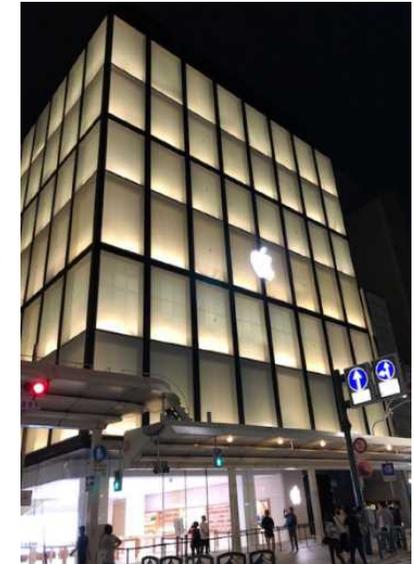
- Tenants include a popular SNS character store and a fitness gym

Kyoto ZERO GATE, fully opened in August 2018.

- Floors B1F-4F are occupied by Apple Kyoto

Scale	1F-4F
Floor area	Approx. 943m ²

Scale	B2F-7F
Floor area	Approx. 5,200m ²



Floors 1-3 are occupied by the LINE FRIENDS flagship store

Kawasaki ZERO GATE*. Opening set for Autumn of 2019.

- Current focus is on attracting tenants that are expected to expand and develop the urban functionality of Kawasaki city center
- Located in a highly visible triangular plot at a major intersection across from JR Kawasaki Station

Scale	1F-2F
Floor area	Approx.3,400m ² (planned)
Investment	Approx. ¥100mil (planned)

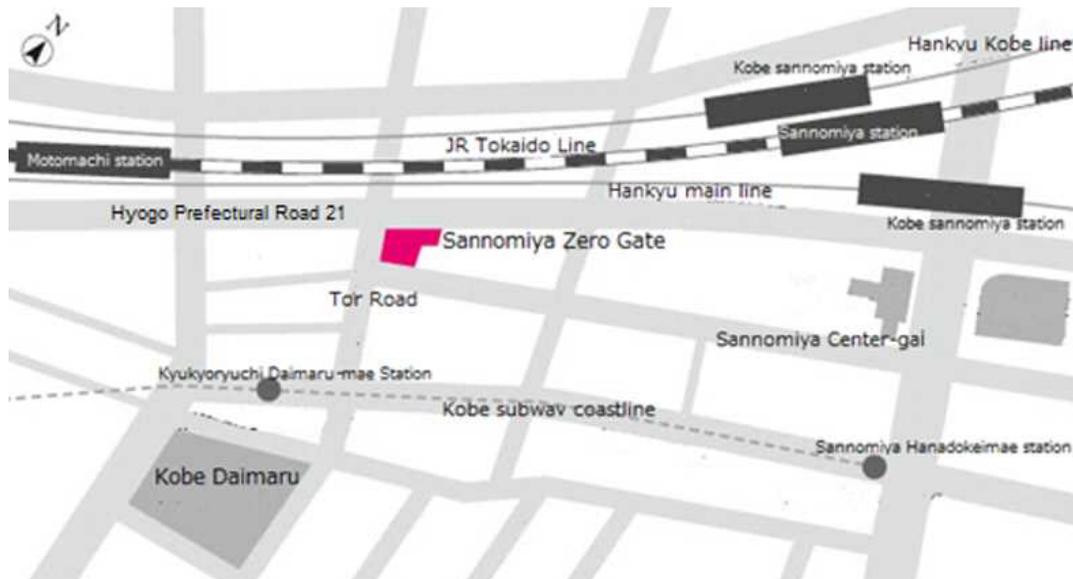


image

Sannomiya ZERO GATE opened at the entrance to a popular shopping arcade in Kobe.

Sannomiya ZERO GATE, opened in autumn 2018.

- Original building was completely rebuilt
- Tenants include a sports fashion store and the first Kobe location for popular lifestyle store, contributing to increased foot traffic in the area

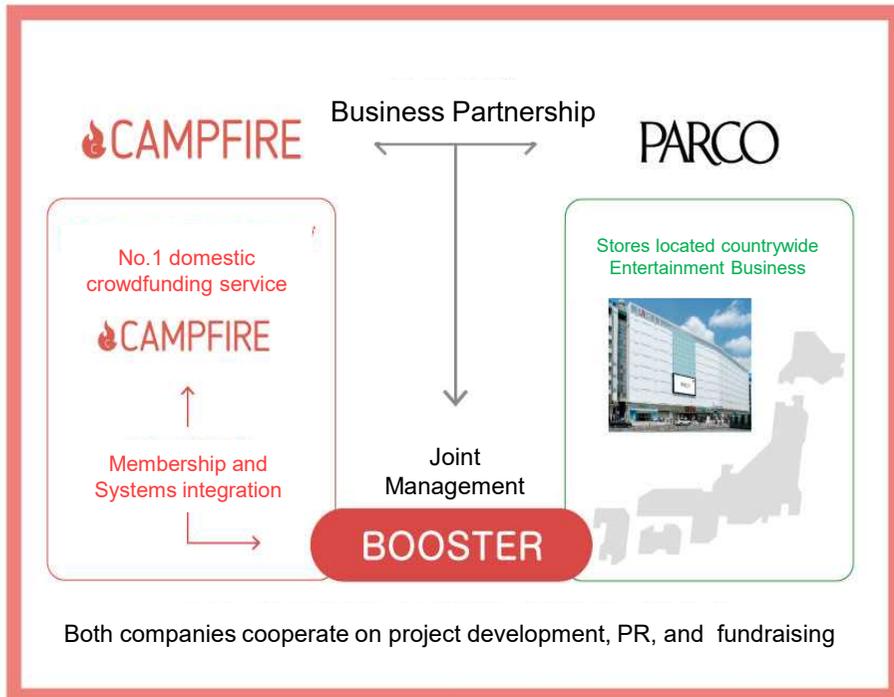


Scale	1F-4F
Floor area	Approx. 1,506m ²

Creating a high-value service that appeals to customers in a wide variety of fields around the world.

In June, PARCO entered into both a business partnership and an investment agreement with CAMPFIRE

- The companies are jointly managing crowdfunding service BOOSTER, including cooperation on project development, PR, and fundraising
- Collaboration on the implementation of membership and system integration have yielded synergistic effects
- PARCO acquired shares in CAMPFIRE in order to strengthen its partnership



Looking for the world's best of Ethiopian leather *andu amet*'s first directly managed project



Opened first directly managed *andu amet* location. *andu amet* is an ethical fashion brand and the first project to result from the CAMPFIRE and PARCO partnership

Overseas Business

Our efforts in Asia succeed through the utilization of PARCO Group’s knowhow and soft content.



- “itadakimasu by PARCO,” an authentic Japanese food court in Singapore, has successfully acquired a strong, regular customer base
- PARCO’s commercial facility design consulting business in Ho Chu Minh is making steady progress
- In August, PARCO opened a character-themed cafe for a limited time at a commercial facility in Bangkok, Thailand

DETECTIVE CONAN CAFE in Bangkok
PARCO’s fourth character-themed café overseas

PARCO Digital Marketing

Income and profit increased in H1.

Business foundation strengthened through expansion of digital marketing business.

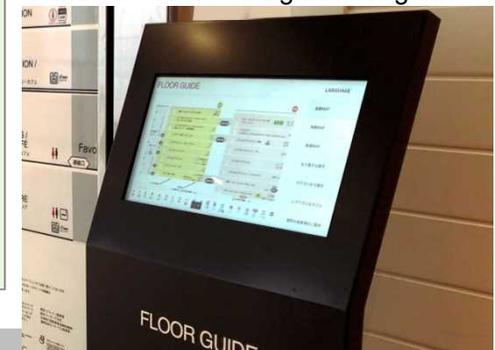
<H1 Achievements>

- Successful adoption of proposals for services making active use of ICT in commercial facilities and retail stores

<H2 Action Plan>

- Provide appealing services with a competitive edge gained from high-value product development
- Expand support for business proposals making active use of digital technology

Fukuoka PARCO’s digital floor guide





Statements in this presentation that are not historical fact, such as forecasts, are forward-looking statements, based on information available as of October 5, 2018, and are subject to a number of risks and uncertainties. Actual results may be materially different.

Perspective drawings and other pictorial representations contained in this presentation are images and may differ materially from the actual items they represent.

All rights to this material remain with PARCO or its authorized third parties. Unauthorized copying, dissemination, adaptation or distribution of this material is prohibited, as is any use of this material outside the scope of private use as defined under copyright laws.

Our thoughts are with those affected by recent natural disasters in Japan.
We wish you a speedy recovery and return to normal life.