

## Quarterly Report FY 2018 Q3

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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 third quarter 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 some 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, Harajuku ZERO GATE, which opened in March, and Sannomiya ZERO GATE, which partially opened in September.

In our Medium-term Business Plan, in line with one of our three 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. Kyoto ZERO GATE also fully opened in August, following its partial opening in November 2017, and Sannomiya ZERO GATE partially opened in September. 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. Additionally, as a part of our efforts to expand the array of services we offer to customers and tenant shops by making active use of ICT, we updated our PARCO smartphone application POCKET PARCO in November, creating a new application experience capable of accessing not only information about PARCO shopping centers, but all PARCO-related information, including performance venues, movie theaters, and crowdfunding. We also introduced smartphone settlement capabilities to PARCO\_ya Ueno in December through LINE Pay.

Finally, as part of our tactic to “expand soft content,” we reopened our two-screen mini-theater CINE QUINTO in Shibuya in July, and the opened our new five-screen mini-theater UPLINK Kichijoji PARCO in December. 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 TIC TAC USED+.

The annual dividend for fiscal 2018 will be increased to 24 yen, a 1 yen increase compared with fiscal 2017.

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.

## 2

## Performance Overview

Consolidated operating revenue and profit 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 some 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 and Sannomiya ZERO GATE, which partially opened in the current fiscal year.

- 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, Harajuku ZERO GATE, which opened in March, and Sannomiya ZERO GATE, which partially opened in September, that maintained performance for our Shopping Center business amid struggling sales at some 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.

## 3

## New store openings and store closures

2018	2019	After 2021
<p><b>Harajuku ZERO GATE</b> (Tokyo) (Opened in March, 2018)</p> <p><b>Sannomiya ZERO GATE</b> (Kobe) (Partial opening in September, 2018)</p>	<p>Scheduled opening of <b>Kinshicho Ekimae property</b> (Tokyo)</p> <p>Scheduled opening of <b>SAN-A Urasoe West Coast PARCO CITY</b> (Okinawa) *1</p> <p>Scheduled opening of <b>Kawasaki ZERO GATE</b> (Kawasaki)*2</p> <p>Scheduled opening of <b>The new Shibuya PARCO</b> (Udagawa-cho 15 Development Project)</p>	<p>Scheduled opening of <b>New store in the North Building of Daimaru Shinsaibashi</b> (Osaka)</p>

\*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	FY 2017	Change	Change	FY 2017
	3Q	3Q			4Q
<b>For the Period</b>					
Operating revenue	¥66,272	¥68,252	¥(1,980)	(2.9%)	¥ 91,621
Operating cost	44,922	45,984	(1,061)	(2.3%)	62,357
Operating gross profit	21,349	22,267	(918)	(4.1%)	29,263
SG&A	14,396	14,060	336	2.4%	18,979
Operating profit	8,139	9,660	(1,520)	(15.7%)	11,713
Profit	5,419	6,507	(1,087)	(16.7%)	7,809
Operating cash flow	1,575	18,212	(16,636)	-	21,386
Investing cash flow	(11,377)	(9,093)	(2,284)	-	(11,552)
Financing cash flow	(6,406)	(10,088)	16,494	-	(7,897)
EBITDA *1	12,551	13,815	(1,264)	(9.2%)	17,372
<b>At the Period End *2</b>					
Total assets	275,879	-	14,043	-	261,835
Total equity	129,013	-	2,701	-	126,311
Interest-bearing debt	62,450	-	9,630	-	52,820
<b>Per Share Data</b>					
Profit	53.52	64.14	(10.61)	(16.5%)	76.97

	Millions of yen		
	FY 2018 3Q	change	Change
<b>Selling, general and administrative expenses</b>			
Total SG&A	¥ 14,396	¥ 336	2.4%
Personnel	6,210	223	3.7%
Lease/rental	2,170	17	0.8%
Advertising	429	(101)	(19.1%)
Agency services	1,001	152	18.0%
Depreciation	638	3	0.6%
Tax and dues	579	(14)	(2.4%)

	Millions of yen		
	FY 2018 3Q	Change	Change
<b>Consolidated Results by Segment *3</b>			
<b>Shopping Complex Business (PARCO, PARCO (Singapore) )</b>			
Operating revenue	¥ 38,176	¥ (58)	(0.2%)
Segment profit	8,213	(1,251)	(13.2%)
<b>Retail Business (NEUVE A)</b>			
Operating revenue	14,190	(988)	(6.5%)
Segment loss	(180)	125	-
<b>Space Engineering and Management (PARCO SPACE SYSTEMS)</b>			
Operating revenue	15,477	(1,304)	(7.8%)
Segment profit	405	(287)	(41.5%)
<b>Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)</b>			
Operating revenue	4,448	(240)	(5.1%)
Segment loss	(250)	(127)	-
<b>Total</b>			
Operating revenue	72,293	(2,592)	(3.5%)
Segment profit	8,187	(1,542)	(15.9%)
<b>Consolidated (after adjustment)</b>			
Operating revenue	66,272	(1,980)	(2.9%)
Segment profit	8,139	(1,520)	(15.7%)

	Millions of yen		Main factors
	FY 2018 3Q	change	
<b>Other income and expense</b>			
Other income	¥ 1,801	¥ (402)	
Compensation income	1,463	-	Compensation related to Shibuya redevelopment
Others	337	(402)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other expense	615	(136)	
Loss on disposal of noncurrent assets	398	(30)	Renovation of PARCO stores
Impairment loss	113	(127)	Impairment of NEUVE A last year

Finance income and costs		
Share of income & loss of entities accounted for using equity method		
Finance income	¥ 113	¥ 10
Interest income	112	11
Finance costs (Interest expenses)	379	137
Share of income & loss of entities accounted for using equity method	7	30

\*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	FY 2017	Change	Change	FY 2017
	3Q	3Q			4Q
<b>For the Period</b>					
Operating revenue	¥41,747	¥42,160	¥(413)	(1.0%)	56,462
Operating gross profit	13,427	13,929	(501)	(3.6%)	17,766
Operating profit	7,906	9,288	(1,381)	(14.9%)	11,016
Profit	5,495	6,571	(1,076)	(16.4%)	7,680
<b>At the Period End *1</b>					
Total assets	271,463	-	12,901	-	258,562
Total equity	127,852	-	2,763	-	125,089

	Millions of yen		
	FY 2018 3Q	change	Change
<b>Operating cost</b>			
Total Operating cost	¥ 28,319	¥ 88	0.3%
Personnel	1,353	(92)	(6.4%)
Lease/rental	7,039	338	5.1%
Advertising	3,938	(172)	(4.2%)
Agency services	3,310	(56)	(1.7%)
Depreciation	3,785	258	7.3%
Utilities	2,765	22	0.8%
Building and repairs	1,231	117	10.5%
Other sales and marketing costs	2,656	(241)	(8.3%)

	Millions of yen		
	FY 2018 3Q	change	Change
<b>Selling, general and administrative expenses</b>			
Total SG&A	¥6,772	¥ 491	7.8%
Personnel	3,007	240	8.7%
Lease/rental	492	76	18.3%
Advertising	177	(69)	(28.3%)
Agency services	835	115	16.1%
Depreciation	339	38	13.0%
Tax and dues	417	(1)	(0.4%)

	Millions of yen		Main factors
	FY 2018 3Q	change	
<b>Other income and expense</b>			
Other income	¥ 1,758	¥ (439)	
Compensation income	1,463	-	Compensation related to Shibuya redevelopment
Others	294	(439)	Reversal of impairment loss on closure of Otsu PARCO last year etc.
Other income and expense	506	(50)	
Loss on disposal of noncurrent assets	405	(28)	Renovation of PARCO stores
Impairment loss	8	(27)	Impairment of Utsunomiya PARCO last year

	Millions of yen	
	FY 2018 3Q	change
<b>Finance income and costs</b>		
Finance income	¥ 364	¥(25)
Interest income	115	10
Dividend income *1	248	(36)
Finance costs	389	139

PARCO Tenant Transaction Volume by Store *2		
	Millions of yen	
	FY 2018 3Q	Change
<b>Urban store group</b>		
Sapporo PARCO	9,730	(2.1%)
Sendai PARCO	14,681	(0.5%)
Ikebukuro PARCO	20,922	(1.1%)
PARCO_ya Ueno	4,269	-
Shibuya PARCO	1,091	31.8%
Shizuoka PARCO	7,320	(5.8%)
Nagoya PARCO	25,214	(0.6%)
Hiroshima PARCO	11,934	(1.9%)
Fukuoka PARCO	16,538	1.6%
9 store total	111,703	2.5%
<b>Community store group</b>		
Utsunomiya PARCO	1,627	(29.3%)
Urawa PARCO	19,484	6.2%
Shin-Tokorozawa PARCO	7,621	(5.4%)
Tsudanuma PARCO	9,149	15.9%
Hibarigaoka PARCO	5,278	(15.4%)
Kichijoji PARCO	7,197	(0.5%)
Chofu PARCO	13,391	(4.8%)
Matsumoto PARCO	4,481	(19.0%)
Kumamoto PARCO	2,958	(22.8%)
9 store total *3	71,190	(6.1%)
Total *3	182,894	(1.0%)
Existing store total *4	178,625	(1.7%)

\*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).

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## Review of PARCO Store Operations

Sales by item *1	Change
Womenswear	(10.9%)
Menswear	(9.3%)
General clothing	0.5%
Clothing	(6.2%)
Shoes	(5.3%)
Bags	(10.3%)
Accessories	(9.0%)
Cosmetics	8.0%
Personal items	(0.8%)
Sundry goods	(2.6%)
Foods	12.7%
Restaurants	(1.4%)
Other (service, etc.)	3.7%

Paying customers, Average spend per customer *1	Change
Paying customers	3.6%
Average spend per customer	(5.1%)

Millions of yen			
		Change	Share in sales
<b>Credit card sales amount *1</b>			
Credit card	¥ 80,379	(3.4%)	45.0%
PARCO Card	39,116	(9.4%)	21.9%

Renovation		
Number of sections		313
Of which are new store sections		170
Renovated area	Approx.	32,000m <sup>2</sup>
Zone sale YoY comparison		14.8%

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%
Total tenant transaction volume results(Change)	Mar.	Apr.	May	Jun.	Jul.	Aug.
Total stores	1.1%	2.5%	(2.6%)			
Existing stores *1	(1.2%)	0.2%	(1.9%)			

	Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing stores *1	
Ref: Purchases by inbound customers in main stores*						
YoY change in purchases		9.7%	3.6%	40.8%	67.7%	18.6%
Share of total sales of each store accounted		12.4%	3.9%	3.6%	2.1%	2.0%
YoY change in share of total sales of each store accounted		+1.3%	+0.2%	+1.0%	+0.9%	+0.3%

\*Includes purchases by Chinese mobile payment systems and foreign-issued credit cards. \*1 Existing stores totals do not include sales from PARCO\_ya Ueno.

## 7

## Major Companies of PARCO Group

Million yen			
	FY 2018 Q3	Change	
<b>PARCO CO.,LTD.</b>			
Operating Revenue	¥ 41,747	¥ (413)	Revenue and profit declined in part due 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 some PARCO stores, despite contributions from new store openings.
Operating Profit	7,906	(1,381)	
Profit	5,495	(1,076)	
<b>NEUVE A CO., LTD.</b>			
Operating Revenue	14,190	(988)	Revenue declined as a result of the closure of unprofitable stores in the current period and the previous period, but losses were curtailed due to reductions in other expenses.
Operating Profit	(180)	125	
Profit	(126)	80	
<b>PARCO SPACE SYSTEMS CO., LTD.</b>			
Operating Revenue	15,477	(1,304)	Revenue and profit declined mostly due to the impact of large construction projects in the same period of the previous fiscal year.
Operating Profit	405	(287)	
Profit	291	(185)	
<b>PARCO Digital Marketing CO., LTD.</b>			
Operating Revenue	768	102	Despite an increase in revenue due to the successful implementation of proposals for the usage of ICT in commercial facilities, the impact of expanded programs aimed at strengthening human resources contributed to a decrease in profit.
Operating Profit	58	(12)	
Profit	40	(9)	
<b>PARCO (Singapore) Pte Ltd</b>			
Operating Revenue	116	10	Strong performance by "itadakimasu by PARCO", the Japanese-restaurant zone concept, contributed to an increase in revenue and a curtailment of losses.
Operating Profit	(2)	45	
Profit	(2)	46	

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

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