

Quarterly Report FY 2019 Q3

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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 third quarter of fiscal 2019, the third year of our Medium-term Business Plan for 2017-2021, operating revenue increased due to contributions from PARCO store openings and PARCO Space Systems, and operating profit rose.

Of the twelve development projects targeted in the Medium-term Business Plan, eight have already opened, plans to open a new store in the North Building of Daimaru Shinsaibashi in Autumn 2020 are progressing smoothly, and the three remaining projects are also developing well. During the current fiscal year, we opened four properties in different business formats: Kinshicho PARCO in March, SAN-A Urasoe West Coast PARCO CITY in June, Kawasaki ZERO GATE in August and the Shibuya PARCO main building in November. We are seeing steady sales performance at each of these.

For the Shibuya PARCO main building, which opened on November 22, we collaborated with business partners under the concept of providing new consumption proposals and values. Shibuya PARCO has 193 shops that have been realized based on leading-edge planning. In addition to fashion stores with styles ranging from luxury to mode, street and lolita, restaurants are also performing well. 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.

Performance Overview

In the third quarter results, operating revenue increased due to contributions from PARCO store openings as well as the strong performance of PARCO Space Systems. Operating profit also increased.

- Operating revenue increased due to contributions from PARCO store openings, including Kinshicho PARCO in March and Shibuya PARCO in November, the success of PARCO Space Systems and the sale of sales floor reservations at the Shibuya redevelopment project, despite struggles at some existing PARCO stores and NEUVE A.
- Operating profit increased due to the effect of application of IFRS 16, compensation related to the redevelopment of Shibuya PARCO and gains on sales of noncurrent assets.
- Profit for the quarter decreased due to reversal of deferred tax assets accompanying a decline in profitability of NEUVE A.
- Our forecasts for the fiscal year ending February 2020 remain unchanged.

Medium-term Business Plan store openings and closures

FY2017	FY2018	FY2019	FY2020
PARCO_ya (Ueno) Opened in November, 2017	Harajuku ZERO GATE Opened in March, 2018	Kinshicho PARCO (Tokyo) Opened in March, 2019	New store in the North Building of Daimaru Shinsaibashi (Osaka) Scheduled to open in Autumn 2020
Kyoto ZERO GATE Opened in November, 2017	Sannomiya ZERO GATE (Kobe) Opened in September, 2018	SAN-A Urasoe West Coast PARCO CITY*1 (Okinawa) Opened in June, 2019	
		Kawasaki ZERO GATE (kawasaki) Opened in August, 2019	
		Shibuya PARCO main building Opened in November, 2019	
Otsu PARCO Closed in August, 2017		Utsunomiya PARCO Closed in May, 2019	
		Kumamoto PARCO Scheduled to Closed in February, 2020	

*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	FY 2018	Change	Change	FY 2018
	3Q	3Q			4Q
For the Period					
Operating revenue <i>Including real estate sales ¥21,702 *</i>	¥ 88,029	¥ 66,272	¥ 21,757	32.8%	¥ 89,969
Operating cost <i>Including real estate costs ¥21,702 *</i>	66,188	44,922	21,265	47.3%	61,861
Operating gross profit	21,840	21,349	491	2.3%	28,108
SG&A	14,377	14,396	(19)	(0.1%)	19,384
Operating profit	10,130	8,139	1,990	24.5%	5,425
Profit	5,323	5,419	(95)	(1.8%)	3,370
Operating cash flow	30,648	1,575	29,073	-	4,529
Investing cash flow	(5,324)	(11,377)	6,053	-	(13,909)
Financing cash flow	(16,051)	6,406	(22,458)	-	5,610
EBITDA *1	21,735	12,551	9,183	73.2%	11,389
At the Period End *2					
Total assets	361,408	-	86,039	-	275,369
Total equity	124,113	-	(2,795)	-	126,908
Interest-bearing debt <i>Lease liabilities not included</i>	55,270	-	(6,470)	-	61,740
Per Share Data					
Profit (yen)	52.66	53.52	(0.86)	(1.6%)	33.30

*Operating revenue increased temporarily due to sale of sales floor reservations at the Shibuya redevelopment project and an equivalent amount was posted under operating cost.

Millions of yen			
	FY 2019 3Q	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 14,377	¥ (19)	(0.1%)
Personnel	6,168	(41)	(0.7%)
Lease/rental	1,041	(1,128)	(52.0%)
Advertising	399	(29)	(6.9%)
Agency services	1,042	41	4.1%
Depreciation	1,871	1,232	192.9%
Taxes and dues	545	(34)	(6.0%)
Effect of Application of IFRS 16			
	Effect	Without effect	
Lease/rental etc.*	¥ (7,867)	¥ 9,172	
Depreciation*	6,626	4,978	
Operating profit	1,241	8,889	
Finance costs (Interest expenses)	1,242	719	
Total effect	(1)		

*Total for each item's operating cost, SG&A

Consolidated Results by Segment *3			
Millions of yen			
	FY 2019 3Q	Change	Change
Shopping Complex Business (PARCO, PARCO (Singapore))			
Operating revenue	¥ 60,122	¥ 21,945	57.5%
Segment profit	10,150	1,936	23.6%
Retail Business (NEUVE A)			
Operating revenue	12,893	(1,296)	(9.1%)
Segment profit	(522)	(342)	-
Space Engineering and Management (PARCO SPACE SYSTEMS)			
Operating revenue	16,510	1,033	6.7%
Segment profit	710	305	75.4%
Other Business (PARCO Digital Marketing, PARCO's Entertainment Business)			
Operating revenue	4,580	131	3.0%
Segment profit	(104)	145	-
Total			
Operating revenue	94,107	21,813	30.2%
Segment profit	10,233	2,045	25.0%
Consolidated (after adjustment)			
Operating revenue	88,029	21,757	32.8%
Segment profit	10,130	1,990	24.5%

Millions of yen			
	FY 2019 3Q	change	Main factors
Other income and expense			
Other income	¥ 3,710	¥ 1,908	
Compensation income	2,650	1,186	Business promotion compensation related to Shibuya redevelopment
Gain on sales of noncurrent assets	297	297	Shibuya SR6 sale, Chofu land expropriation
Others	315	315	Income from lender finance lease transactions, etc.
Other expense	1,043	428	
Impairment loss	577	463	Hiroshima ZERO GATE and NEUVE A, etc.
Loss on disposal of noncurrent assets	375	(23)	Renovation of PARCO stores

Finance income and costs		
Share of income & loss of entities accounted for using equity method		
Finance income (Interest income etc.)	¥ 134	¥ 20
Finance costs (Interest expenses)	1,962	1,583
Except for Effect of Application of IFRS 16 *4	719	340
Share of income & loss of entities accounted for using equity method	(1)	(9)

*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	FY 2018	Change	Change	FY 2018
	3Q	3Q			4Q
For the Period					
Operating revenue <i>Including real estate sales ¥21,702 *</i>	¥ 63,733	¥ 41,747	¥ 21,985	52.7%	¥ 56,288
Operating gross profit	14,028	13,427	600	4.5%	17,105
Operating profit	9,944	7,906	2,037	25.8%	4,792
Profit	5,861	5,495	365	6.7%	3,237
At the Period End *1					
Total assets	355,325	-	83,415	-	271,909
Total equity	123,644	-	(1,952)	-	125,596

	Millions of yen		
	FY 2019 3Q	Change	Change
Operating cost			
Total Operating cost	¥ 49,704	¥ 21,384	75.5%
Personnel	1,322	(31)	(2.3%)
Lease/rental	897	(6,141)	(87.3%)
Advertising	3,876	(62)	(1.6%)
Agency services	3,415	105	3.2%
Depreciation	9,597	5,811	153.5%
Utilities	2,851	85	3.1%
Building and repairs	1,228	(2)	(0.2%)
Other sales and marketing costs	2,538	(117)	(4.4%)
Real estate costs	21,702	21,702	-

	Millions of yen		
	FY 2019 3Q	Change	Change
Selling, general and administrative expenses			
Total SG&A	¥ 6,971	¥ 198	2.9%
Personnel	2,971	(36)	(1.2%)
Lease/rental	87	(404)	(82.2%)
Advertising	168	(9)	(5.2%)
Agency services	884	49	5.9%
Depreciation	937	598	176.5%
Taxes and dues	386	(31)	(7.5%)
Effect of Application of IFRS 16			
		Effect	Without effect
Lease/rental etc.		(6,873)	7,858
Depreciation		5,801	(4,733)
Interest expenses		1,227	730
Total effect		▲ 155	

	Millions of yen		Main factors
	FY 2019 3Q	Change	
Other income and expense			
Other income	¥ 3,655	¥ 1,897	
Compensation income	2,650	1,186	Business promotion compensation related to Shibuya redevelopment
Gain on sales of noncurrent assets	297	297	Shibuya SR6 sale, Chofu land expropriation
Others	260	260	Income from lender finance lease transactions, etc.
Other income and expense	768	261	
Impairment loss	327	319	Hiroshima ZERO GATE, etc.
Loss on disposal of noncurrent assets	386	(18)	Renovation of PARCO stores

	Millions of yen	
	FY 2019 3Q	Change
Finance income and costs		
Finance income (Dividend income*2 etc.)	¥ 394	¥ 30
Finance costs (Interest expenses)	1,957	1,567
Except for Effect of Application of IFRS 16 *3	730	340

PARCO Tenant Transaction Volume by Store *3		
	FY 2019 3Q	Change
Sapporo PARCO	¥ 9,259	¥ (4.8%)
Sendai PARCO	14,779	0.7%
Urawa PARCO	20,444	4.9%
Ikebukuro PARCO	20,104	(3.9%)
PARCO_ya Ueno	4,333	1.5%
Kichijoji PARCO	7,344	2.0%
Shibuya PARCO *5	2,815	157.8%
Kinshicho PARCO *5	6,716	-
Chofu PARCO	13,716	2.4%
Shizuoka PARCO	7,283	(0.5%)
Nagoya PARCO	25,194	(0.1%)
Hiroshima PARCO	11,123	(6.8%)
Fukuoka PARCO	16,459	(0.5%)
Urban store group 13 store total	159,577	5.1%
Utsunomiya PARCO *5	612	(62.3%)
Shin-Tokorozawa PARCO	7,661	0.5%
Tsudanuma PARCO	9,051	(1.1%)
Hibarigaoka PARCO	5,834	10.5%
Matsumoto PARCO	3,876	(13.5%)
Kumamoto PARCO	2,526	(14.6%)
Community store group 6 store total	29,564	(5.0%)
Total	189,141	3.4%
Existing store total *6	180,017	(0.7%)

*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, Shibuya PARCO main building was opened on November 22, Utsunomiya PARCO was closed on May 31.

*6 Existing store total does not include sales from Kinshicho PARCO, Shibuya PARCO main building and Utsunomiya PARCO.

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Review of PARCO Store Operations

Sales by item *	Change
Womenswear	(9.9%)
Menswear	(9.7%)
General clothing	(1.8%)
Clothing	(6.8%)
Shoes	(1.4%)
Bags	(10.4%)
Accessories	(4.1%)
Cosmetics	3.6%
Personal items	(0.7%)
Sundry goods	1.0%
Foods	12.0%
Restaurants	6.0%
Other (service, etc.)	2.4%

Paying customers, Average spend per customer *	Change
Paying customers	4.5%
Average spend per customer	(5.0%)

Millions of yen			
		Change	Share in sales
Credit card sales amount *			
Credit card	¥ 81,244	(1.2%)	45.1%
PARCO Card	33,708	(14.7%)	18.7%

Renovation *1		
Number of sections		285
Of which are new store sections		134
Renovated area	Approx.	34,000m ²
Zone sale YoY comparison *2		1.9%

Total tenant transaction volume results(Change)

	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.
Total stores	4.8%	7.8%	6.3%	4.8%	(1.9%)	5.0%	8.8%	(7.4%)	2.9%
Existing stores *	1.4%	3.4%	2.4%	1.7%	(4.5%)	2.3%	6.2%	(10.2%)	(8.1%)
			Sapporo PARCO	Ikebukuro PARCO	Fukuoka PARCO	Nagoya PARCO	Existing stores *1		

Ref: Purchases by inbound customers in main stores *3

YoY change in purchases	(5.4%)	(2.6%)	3.7%	0.4%	(1.1%)
Share of total sales of each store accounted	12.6%	4.0%	3.8%	2.2%	2.1%
YoY change in share of total sales of each store accounted	0.2%	0.1%	0.2%	0.0%	0.0%

* Existing stores totals do not include sales from Kinshicho PARCO, Shibuya PARCO main building and Utsunomiya 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 12.4%.

*3 Includes purchases by Chinese mobile payments and foreign-issued credit cards and Existing stores totals do not include sales from Kinshicho PARCO, Shibuya PARCO and Utsunomiya PARCO.

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Major Companies of PARCO Group

	Million yen		
	FY 2019 3Q	Change	
PARCO CO., LTD.			
Operating Revenue	¥ 63,733	¥ 21,985	Revenue and profit increased due to contributions from Kinshicho PARCO, which opened in March, and Shibuya PARCO, which opened in November. Scrap & build policy was advanced through the closure of Utsunomiya PARCO in May, etc.
Operating profit	9,944	2,037	
Profit	5,861	365	
NEUVE A CO., LTD.			
Operating Revenue	12,893	(1,296)	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	(522)	(342)	
Profit	(745)	(619)	
PARCO SPACE SYSTEMS CO., LTD.			
Operating Revenue	16,510	1,033	Revenue increased due to orders for interior electrical work at Shibuya PARCO, etc. Profit increased due to strong performance of highly profitable construction divisions.
Operating profit	710	305	
Profit	493	201	
PARCO Digital Marketing CO., LTD.			
Operating Revenue	902	133	Revenue and profit increased due to successful ICT utilization proposals for commercial facilities.
Operating profit	111	52	
Profit	76	35	
PARCO (Singapore) Pte Ltd			
Operating Revenue	37	(79)	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	(11)	(8)	
Profit	(10)	(8)	

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

PARCO
www.parco.co.jp