

PARCO | 8251 |

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On **October 4, 2019**, PARCO announced earnings results for 1H FY02/20.

1H FY02/20 results

- ▶ For 1H FY02/20, PARCO posted operating revenue of JPY43.7bn (-1.1% YoY), operating profit of JPY5.9bn (+2.8% YoY), pre-tax profit of JPY4.6bn (-16.2% YoY), and net income attributable to owners of parent of JPY2.8bn (-24.9% YoY).

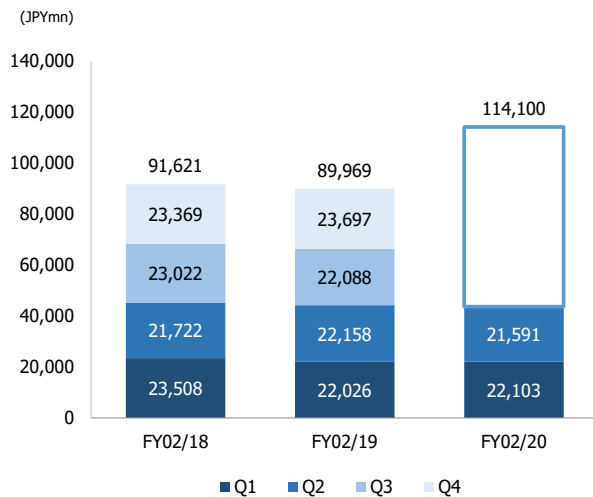
Quarterly performance

Cumulative earnings (IFRS cons.) (JPYmn)	FY02/18				FY02/19				FY02/20		FY02/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	% of 1H	1H Est.	% of FY	FY Est.
Operating revenue	23,508	45,230	68,252	91,621	22,026	44,184	66,272	89,969	22,103	43,694	95.4%	45,800	38.3%	114,100
YoY	-0.8%	-4.1%	-1.8%	-2.3%	-6.3%	-2.3%	-2.9%	-1.8%	0.3%	-1.1%		3.7%		26.8%
Cost of sales	15,914	30,077	45,985	62,358	14,882	29,484	44,923	61,861	14,447	28,730				
YoY	1.7%	-1.9%	0.6%	-0.2%	-6.5%	-2.0%	-2.3%	-0.8%	-2.9%	-2.6%				
Cost ratio	67.7%	66.5%	67.4%	68.1%	67.6%	66.7%	67.8%	68.8%	65.4%	65.8%				
Gross profit	7,594	15,153	22,267	29,263	7,144	14,700	21,349	28,108	7,656	14,964				
YoY	-5.7%	-8.2%	-6.3%	-6.5%	-5.9%	-3.0%	-4.1%	-3.9%	7.2%	1.8%				
GPM	32.3%	33.5%	32.6%	31.9%	32.4%	33.3%	32.2%	31.2%	34.6%	34.2%				
SG&A expenses	4,786	9,424	14,060	18,979	4,861	9,657	14,396	19,384	4,838	9,582				
YoY	4.9%	3.1%	2.6%	-41.8%	1.6%	2.5%	2.4%	2.1%	-0.5%	-0.8%				
SG&A ratio	20.4%	20.8%	20.6%	20.7%	22.1%	21.9%	21.7%	21.5%	21.9%	21.9%				
Operating profit	3,497	6,666	9,660	11,713	2,750	5,707	8,139	8,723	3,408	5,865	94.6%	6,200	46.9%	12,500
YoY	2.5%	-31.4%	-22.7%	-17.5%	-21.4%	-14.4%	-15.7%	-25.5%	23.9%	2.8%		8.6%		43.3%
OPM	14.9%	14.7%	14.2%	12.8%	12.5%	12.9%	12.3%	9.7%	15.4%	13.4%				
Recurring profit	3,422	6,552	9,498	11,455	2,663	5,534	7,882	5,048	2,828	4,638	89.2%	5,200	45.9%	10,100
YoY	2.0%	-29.6%	-21.0%	-16.2%	-22.2%	-15.5%	-17.0%	-55.9%	6.2%	-16.2%		-6.0%		100.1%
RPM	14.6%	14.5%	13.9%	12.5%	12.1%	12.5%	11.9%	5.6%	12.8%	10.6%				
Net income	2,301	4,469	6,507	7,809	1,784	3,786	5,419	3,370	1,895	2,843	81.2%	3,500	43.1%	6,600
YoY	5.3%	-21.2%	-12.5%	41.9%	-22.5%	-15.3%	-16.7%	-56.8%	6.2%	-24.9%		-7.6%		95.8%
Net margin	9.8%	9.9%	9.5%	8.5%	8.1%	8.6%	8.2%	3.7%	8.6%	6.5%				

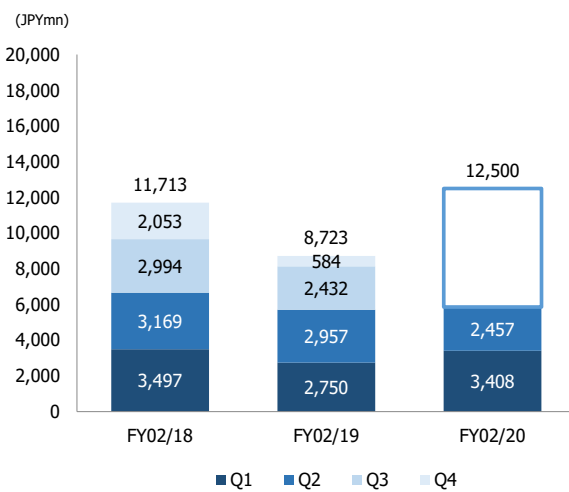
Quarterly earnings (cons.) (JPYmn)	FY12/17				FY02/19				FY02/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Operating revenue	23,508	21,722	23,022	23,369	22,026	22,158	22,088	23,697	22,103	21,591
YoY	-0.8%	-7.4%	3.1%	-3.8%	-6.3%	2.0%	-4.1%	1.4%	0.3%	-2.6%
Gross profit	7,594	7,559	7,114	6,996	7,144	7,556	6,649	6,759	7,656	7,308
YoY	-5.7%	-10.6%	-2.0%	-7.2%	-5.9%	0.0%	-6.5%	-3.4%	7.2%	-3.3%
GPM	32.3%	34.8%	30.9%	29.9%	32.4%	34.1%	30.1%	28.5%	34.6%	33.8%
SG&A expenses	4,786	4,638	4,636	4,919	4,861	4,796	4,739	4,988	4,838	4,744
YoY	4.9%	1.3%	1.6%	-74.0%	1.6%	3.4%	2.2%	1.4%	-0.5%	-1.1%
SG&A ratio	20.4%	21.4%	20.1%	21.0%	22.1%	21.6%	21.5%	21.0%	21.9%	22.0%
Operating profit	3,497	3,169	2,994	2,053	2,750	2,957	2,432	584	3,408	2,457
YoY	2.5%	-49.7%	7.5%	20.6%	-21.4%	-6.7%	-18.8%	-71.6%	23.9%	-16.9%
OPM	14.9%	14.6%	13.0%	8.8%	12.5%	13.3%	11.0%	2.5%	15.4%	11.4%
Recurring profit	3,422	3,130	2,946	1,957	2,663	2,871	2,348	-2,834	2,828	1,810
YoY	2.0%	-47.4%	8.3%	19.0%	-22.2%	-8.3%	-20.3%	-	6.2%	-37.0%
RPM	14.6%	14.4%	12.8%	8.4%	12.1%	13.0%	10.6%	-12.0%	12.8%	8.4%
Net income	2,301	2,168	2,038	1,302	1,784	2,002	1,633	-2,049	1,895	948
YoY	5.3%	-37.8%	15.7%	-	-22.5%	-7.7%	-19.9%	-	6.2%	-52.6%
Net margin	9.8%	10.0%	8.9%	5.6%	8.1%	9.0%	7.4%	-8.6%	8.6%	4.4%

Source: Shared Research based on company data
 Note: Figures may differ from company data due to differences in rounding methods.

Quarterly operating revenue



Quarterly operating profit



Source: Shared Research based on company data

Results versus plan

- ▶ The company’s initial forecast for 1H FY02/20 was operating revenue of JPY45.8bn (+3.7% YoY), operating profit of JPY6.2bn (+8.6% YoY), pretax profit of JPY5.2bn (-6.0% YoY), and net income of JPY3.5bn (-7.6% YoY).
- ▶ Results came in below forecasts at all levels, underperforming by JPY2.1bn for operating revenue (progress rate of 95.4%), JPY335mn for operating profit (94.6%), JPY562mn for pretax profit (89.2%), and JPY657mn for net income (81.2%).
- ▶ According to the company, the overall underperformance was due to weak performance by the Retail business.

Performance by segment

Shopping Complex business

- ▶ For 1H FY02/20, the Shopping Complex business posted operating revenue of JPY25.7bn (+0.7% YoY) and operating profit of JPY6.1bn (+6.1% YoY).
- ▶ Tenant transaction volume (sales by Parco tenants) was at JPY127.2bn (+4.4% YoY).
- ▶ The company continued with its scrap-and-build approach, opening up Kinshicho PARCO in March 2019 and closing down Utsunomiya PARCO in May 2019.
- ▶ PARCO planned to open 4 properties with varying business lines in FY02/20, three of which were opened during 1H (Kinshicho PARCO, Kawasaki ZERO GATE, and Okinawa SAN-A Urasoe West Coast PARCO CITY).
- ▶ In existing PARCO stores, tenant floor space that underwent renovation came to roughly 15,000 sqm. The company is focused on renovation work to introduce service shops, which do not count towards tenant transaction volume. As such, tenant transaction volume from the renovated areas decreased 5.5% YoY. Adjusting for service shop implementation in renovation areas, however, transaction volume has increased 7.5% YoY.
- ▶ For existing stores, mobile payment and handling volume of credit cards issued overseas decreased 2.9% YoY.

Retail business

- ▶ In 1H FY02/20, the Retail business posted operating revenue of JPY8.9bn (-10.0% YoY) and an operating loss of JPY342mn (loss of JPY3mn in 1H FY02/19).

- ▶ Operating revenue and profit decreased for consolidated subsidiary NEUVE A CO, LTD. as a result of a decrease in store count due to scrap-and-build efforts in FY02/19, sluggish performance from existing stores, and an increase in other costs.

Space Engineering and Management business

- ▶ For 1H FY02/20, the Space Engineering and Management business posted operating revenue of JPY9.6bn (-4.0% YoY) and operating profit of JPY204mn (+23.6% YoY).
- ▶ Profitability for PARCO SPACE SYSTEMS CO., LTD. improved, resulting in double digit profit growth.

Other businesses

- ▶ For 1H FY02/20, Other businesses posted operating revenue of JPY3.1bn (+14.5% YoY) and an operating loss of JPY82mn (loss of JPY198mn in 1H FY02/19).
- ▶ Operating revenue and profit grew for PARCO's entertainment business due to the increase in number of facilities as a result of facility openings in FY02/19 as well as the increase in theater performances.
- ▶ For PARCO Digital Marketing Co., Ltd., operating revenue increased as a result of the launch of new digital service PICTONA geared for commercial facilities. Meanwhile, operating profit declined due to an increase in personnel and development costs.

Cumulative (IFRS) (JPYmn)	FY02/18				FY02/19				FY02/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Operating revenue	23,508	45,230	68,252	91,621	22,026	44,184	66,272	89,969	22,103	43,694
YoY	-0.8%	-4.1%	-1.8%	-2.3%	-6.3%	-2.3%	-2.9%	-1.8%	0.3%	-1.1%
Shopping Complex	12,850	25,513	38,235	51,351	12,872	25,490	38,176	51,117	13,095	25,680
YoY	-6.5%	-7.2%	-6.2%	-4.7%	0.2%	-0.1%	-0.2%	-0.5%	1.7%	0.7%
% of total operating revenue	54.7%	56.4%	56.0%	56.0%	58.4%	57.7%	57.6%	56.8%	59.2%	58.8%
Retail	5,199	10,597	15,179	21,216	4,934	9,927	14,190	19,754	4,403	8,938
YoY	1.4%	1.9%	-0.1%	-1.5%	-5.1%	-6.3%	-6.5%	-6.9%	-10.8%	-10.0%
% of total operating revenue	22.1%	23.4%	22.2%	23.2%	22.4%	22.5%	21.4%	22.0%	19.9%	20.5%
Space Engineering and Management	5,695	10,273	16,781	21,399	4,949	9,990	15,477	21,882	4,581	9,586
YoY	-0.1%	-3.3%	9.2%	4.2%	-13.1%	-2.8%	-7.8%	2.3%	-7.4%	-4.0%
% of total operating revenue	24.2%	22.7%	24.6%	23.4%	22.5%	22.6%	23.4%	24.3%	20.7%	21.9%
Other	1,931	2,781	4,689	6,158	1,154	2,692	4,448	6,327	1,774	3,081
YoY	45.6%	-8.0%	1.9%	0.3%	-40.2%	-3.2%	-5.1%	2.7%	53.7%	14.5%
% of total operating revenue	8.2%	6.1%	6.9%	6.7%	5.2%	6.1%	6.7%	7.0%	8.0%	7.1%
Operating profit	3,497	6,666	9,660	11,713	2,750	5,707	8,139	8,723	3,408	5,865
YoY	2.5%	-31.4%	-22.7%	-17.5%	-21.4%	-14.4%	-15.7%	-25.5%	23.9%	2.8%
Shopping Complex	3,245	6,617	9,465	10,964	2,767	5,764	8,213	5,142	3,266	6,116
YoY	6.1%	-28.5%	-21.3%	-16.8%	-14.7%	-12.9%	-13.2%	-53.1%	18.0%	6.1%
% of total operating profit	92.8%	99.3%	98.0%	93.6%	100.6%	101.0%	100.9%	58.9%	95.8%	104.3%
Segment profit margin	25.3%	25.9%	24.8%	21.4%	21.5%	22.6%	21.5%	10.1%	24.9%	23.8%
Retail	-18	-192	-305	75	32	-3	-180	-25	-65	-342
YoY	-	-	-	-63.4%	-277.8%	-98.4%	-	-	-	-
% of total operating profit	-0.5%	-2.9%	-3.2%	0.6%	1.2%	-0.1%	-2.2%	-0.3%	-1.9%	-5.8%
Segment profit margin	-0.3%	-1.8%	-2.0%	0.4%	0.6%	0.0%	-1.3%	-0.1%	-1.5%	-3.8%
Space Engineering and Management	323	299	693	652	83	165	405	662	124	204
YoY	10.3%	-23.8%	32.2%	-15.7%	-74.3%	-44.8%	-41.6%	1.5%	49.4%	23.6%
% of total operating profit	9.2%	4.5%	7.2%	5.6%	3.0%	2.9%	5.0%	7.6%	3.6%	3.5%
Segment profit margin	5.7%	2.9%	4.1%	3.0%	1.7%	1.7%	2.6%	3.0%	2.7%	2.1%
Other	-43	-55	-122	53	-119	-198	-250	-297	99	-82
YoY	-	-	-	17.8%	-	-	-	-	-	-
% of total operating profit	-1.2%	-0.8%	-1.3%	0.5%	-4.3%	-3.5%	-3.1%	-3.4%	2.9%	-1.4%
Segment profit margin	-2.2%	-2.0%	-2.6%	0.9%	-10.3%	-7.4%	-5.6%	-4.7%	5.6%	-2.7%
Quarterly (IFRS) (JPYmn)	FY02/18				FY12/18				FY12/19	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Operating revenue	23,508	21,722	23,022	23,369	22,026	22,158	22,088	23,697	22,103	21,591
YoY	-0.8%	-7.4%	3.1%	-3.8%	-6.3%	2.0%	-4.1%	1.4%	0.3%	-2.6%
Shopping Complex	12,850	12,663	12,722	13,116	12,872	12,618	12,686	12,941	13,095	12,585
YoY	-6.5%	-7.9%	-4.2%	0.1%	0.2%	-0.4%	-0.3%	-1.3%	1.7%	-0.3%
% of total operating revenue	54.7%	58.3%	55.3%	56.1%	58.4%	56.9%	57.4%	54.6%	59.2%	58.3%
Retail	5,199	5,398	4,582	6,037	4,934	4,993	4,263	5,564	4,403	4,535
YoY	1.4%	2.3%	-4.3%	-4.8%	-5.1%	-7.5%	-7.0%	-7.8%	-10.8%	-9.2%
% of total operating revenue	22.1%	24.9%	19.9%	25.8%	22.4%	22.5%	19.3%	23.5%	19.9%	21.0%
Space Engineering and Management	5,695	4,578	6,508	4,618	4,949	5,041	5,487	6,405	4,581	5,005
YoY	-0.1%	-6.9%	37.2%	-10.6%	-13.1%	10.1%	-15.7%	38.7%	-7.4%	-0.7%
% of total operating revenue	24.2%	21.1%	28.3%	19.8%	22.5%	22.8%	24.8%	27.0%	20.7%	23.2%
Other	1,931	850	1,908	1,469	1,154	1,538	1,756	1,879	1,774	1,307
YoY	45.6%	-49.9%	20.8%	-4.4%	-40.2%	80.9%	-8.0%	27.9%	53.7%	-15.0%
% of total operating revenue	8.2%	3.9%	8.3%	6.3%	5.2%	6.9%	8.0%	7.9%	8.0%	6.1%
Operating profit	3,497	3,169	2,994	2,053	2,750	2,957	2,432	584	3,408	2,457
YoY	2.5%	-49.7%	7.5%	20.6%	-21.4%	-6.7%	-18.8%	-71.6%	23.9%	-16.9%
Shopping Complex	3,245	3,372	2,848	1,499	2,767	2,997	2,449	-3,071	3,266	2,850
YoY	6.1%	-45.6%	2.5%	30.9%	-14.7%	-11.1%	-14.0%	-	18.0%	-4.9%
% of total operating profit	92.8%	106.4%	95.1%	73.0%	100.6%	101.4%	100.7%	-	95.8%	116.0%
OPM	25.3%	26.6%	22.4%	11.4%	21.5%	23.8%	19.3%	-23.7%	24.9%	22.6%
Retail	-18	-174	-113	380	32	-35	-177	155	-65	-277
YoY	-	-	-	43.4%	-	-	-	-59.2%	-	-
% of total operating profit	-0.5%	-5.5%	-3.8%	18.5%	1.2%	-1.2%	-7.3%	26.5%	-1.9%	-11.3%
Space Engineering and Management	323	-24	394	-41	83	82	240	257	124	80
YoY	10.2%	-	200.8%	-	-74.3%	-	-39.1%	-	49.4%	-2.4%
% of total operating profit	9.2%	-0.8%	13.2%	-2.0%	3.0%	2.8%	9.9%	44.0%	3.6%	3.3%
Other	-43	-12	-67	175	-119	-79	-52	-47	99	-181
YoY	-	-	-	548.1%	-	-	-	-	-	-
% of total operating profit	-1.2%	-0.4%	-2.2%	8.5%	-4.3%	-2.7%	-2.1%	-8.0%	2.9%	-7.4%

Source: Shared Research based on company data
 Note: Figures may differ from company data due to differences in rounding methods.

Financial condition

- ▶ Total assets as of end 1H FY02/20 was at JPY360.0bn, an increase of JPY84.6bn compared to the end of FY02/19. This was largely attributable to an increase in right-of-use assets as a part of adopting IFRS 16 Leases.
- ▶ Total liabilities as of end 1H FY02/20 was at JPY237.1bn, an increase of JPY88.6bn compared to the end of FY02/19. This was mostly due to an increase in lease liabilities as a part of adopting IFRS 16.
- ▶ Shareholder's equity was at JPY122.9bn as of end 1H FY02/20, a decrease of JPY4.0bn compared to the end of FY02/19. This was mainly a result of retained earnings declining due to the adoption of IFRS 16.
- ▶ Cash and cash equivalents was at JPY9.2bn as of end 1H FY02/20, an increase of JPY501mn compared to the end of FY02/19.
- ▶ Cashflow from operating activities was a net inflow of JPY14.8bn due to an increase in pre-tax profit, adjustment to depreciation and amortization, and an increase in trade payable. Cashflow from investing activities was a net outflow of JPY4.4bn, mainly due to the purchase of tangible fixed assets related to the Shibuya PARCO redevelopment project. Cashflow from financial activities was a net outflow of JPY9.9bn, due to repayment of interest-bearing debt, dividend payments, and payments on lease liabilities as a result of the adoption of IFRS 16.

Company forecasts for FY02/20

Full-year forecasts

- ▶ FY02/20 full-year forecasts were adjusted down with operating revenue revised from JPY116.2bn to JPY114.1bn (+26.8% YoY), operating profit revised from JPY12.7bn to JPY12.5bn (+130.4% YoY), pre-tax profit revised from JPY10.5bn to JPY10.1bn (+100.1% YoY), and net income revised from JPY7.1bn to JPY6.6bn (+95.8% YoY).
- ▶ For 2H FY02/20, the company is expecting higher operating revenue and profit through the opening of the new Shibuya PARCO in November for the Shopping Complex business, a resurgence of the PARCO brand helped by the 50-year anniversary promotions, and strengthened sales efforts and product selection revisions for the Retail business.
- ▶ PARCO plans to renovate 24,000 sqm of floor space in 2H FY02/20.

Dividends

For the interim dividend for FY02/20, the company paid an additional JPY1 on top of its regular dividend of JPY12 to celebrate its 50th anniversary, resulting in a YoY dividend increase of JPY1. The company also plans to pay an additional JPY1 on top of its regular dividend of JPY12 for its year-end dividend, increasing full-year dividends by JPY2 to JPY26. PARCO places shareholder returns as a key management priority and plans to continue stable dividend payouts going forward.

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Contact Details

Shared Research Inc.

3-31-12 Sendagi Bunkyo-ku Tokyo, Japan

<http://www.sharedresearch.jp>

Phone: +81 (0)3 5834-8787

Email: info@sharedresearch.jp