

Financial Position and Operating Results

Overview of operating results

In the fiscal year under review (fiscal year ended February 28, 2022), the Japanese economy encountered ongoing instability, which was partly attributable to a situation where the worldwide spread of COVID-19 persisting since last year significantly affected social and economic activities in Japan and overseas, and also attributable to rapidly mounting geopolitical risks in the latter half of the fiscal year.

Despite personal spending having exhibited signs of recovery beginning in October last year amid a decreasing number of COVID-19 cases and the progress made with respect to vaccinations, challenging circumstances have persisted amid a resurgence of deteriorating consumer sentiment caused by factors that include rapid proliferation of infections involving COVID-19 variants at the end of the fiscal year and the imposition of strict infection control measures.

The Company has embarked on the FY2021 to FY2023 Medium-term Business Plan, which positions sustainability at the core of management and sets its sights on the corporate vision for 2030, amid the unprecedented crises of the COVID-19 pandemic. Under the Medium-term Business Plan, (1) we aim to achieve “full recovery” in terms of ensuring that our performance indicators return to the levels of fiscal 2019 prior to the COVID-19 pandemic and (2) we have positioned the period covered by the plan to be one of poising ourselves for “regrowth” beginning in fiscal 2024.

During the current fiscal year, which constituted the initial year of the Medium-term Business Plan, the outlook remained uncertain due to COVID-19 with the infection having spread intermittently throughout the year. Amid those circumstances, we strove to manage operations in a manner that involves addressing persistently changing circumstances across our respective businesses, with our top priority placed on ensuring the safety and security of our customers and employees and achieving business continuity. We also took a flexible approach in terms of implementing measures that entail cutting costs and carefully selecting investments even during the fiscal year.

As a result, revenue was ¥331,484 million, up 3.9% year on year.

Business profit was ¥11,718 million, up 395.1% year on year, as a result of efforts throughout the fiscal year that involved curbing investment and reducing expenses.

Operating profit was ¥9,380 million (operating loss of ¥24,265 million in the previous fiscal year) largely due to recording of gain on sale of shares of subsidiaries, gain on sale of fixed assets, and restructuring expenses.

Profit before tax was ¥6,190 million (loss before tax of ¥28,672 million in the previous fiscal year) and profit attributable to owners of parent was ¥4,321 million (loss attributable to owners of parent of ¥26,193 million in the previous fiscal year).

Business results by segment

<Department Store Business>

The adverse business environment persisted amid a situation where each store was forced to suspend on-site sales of items

other than daily necessities mainly in the first half, along with the imposition of shorter operating hours and entry restrictions, all associated with the application of the state of emergency declarations and strict infection control measures.

On the other hand, we promoted digital sales activities that involved strengthening app-based communications with customers and upgrading remote sales services. Moreover, our OMO initiatives entailed launching the new ARToVILLA media service for conveying the appeal of art in both physical stores and online.

To increase the attractiveness of stores, we enhanced key categories and constructed lounges for our loyal customers mainly in our flagship stores. We also renewed and reopened the Daimaru Suma store in March and the Matsuzakaya Takatsuki store in July so that they would become integral to their respective communities. In addition, at the Daimaru Tokyo store we sought development of new content that entailed opening “asumise,” a showroooming space for direct-to-consumer brands. We ceased operations of the Matsuzakaya Toyota store in September.

In addition, we engaged in initiatives involving organizational and personnel restructuring with our sights set on business model reforms in addition to absorption-type merger of a sales function subsidiary and overhaul of outsourcing operations for the sake of heightening flexibility in addressing the changing business environment as well as improving organizational and employee productivity.

As a result of the above, along with a rebound from suspension of store operations, among other factors, revenue was ¥190,739 million, up 9.7% year on year. Though operating loss was recorded at ¥4,594 million partly due to recording of restructuring expenses, it improved compared to the previous fiscal year (operating loss of ¥20,785 million).

<SC Business>

Adverse circumstances in the business environment persisted as was the case with the Department Store Business, amid a situation where the spread of COVID-19 resulted in suspended store operations, shortened operating hours, and restrictions imposed on entrance to entertainment venues.

Amid those circumstances, we sought to advance customer communications through initiatives that included digitizing customer touch points particularly in terms of expanding app membership in partnership with our tenants, strengthening the PARCO ONLINE STORE, and enhancing app payment functions. In terms of store rebranding, we undertook renovation centered on our flagship stores including Urawa PARCO, Sendai PARCO, and Fukuoka PARCO, and we actively operated pop-up stores that are highly distinctive to luxury brands at Shibuya PARCO. In addition, we arranged events enlisting collaboration with popular characters and furthermore held anniversary events at Shibuya and Shinsaibashi PARCO.

As a new business in the area of wellness, we entered into a new business of developing and operating medical malls and opened the first site of a new-concept medical wellness mall Welpa in Shinsaibashi PARCO in November.

As a result of the above, revenue from store operations increased, but revenue overall decreased by 5.2% year on year to ¥52,556 million due to transfer of all shares of Neuve A Co., Ltd. in the specialty store business in June. Operating profit increased substantially to ¥2,055 million (operating loss of ¥6,968 million in the previous fiscal year) partly due to a rebound with respect to store closure-related expenses incurred in the previous fiscal year.

<Developer Business>

We promoted use of our existing properties on the basis of the Real Estate Business having been consolidated into Parco in the previous fiscal year. This involved opening a commercial facility at the former site of a Matsuzakaya distribution center in March while also engaging in non-commercial multi-purpose development, and furthermore selling off non-business assets. In July, we decided to open stores in a new building (formerly Kumamoto PARCO) in central Kumamoto.

Meanwhile, our efforts to develop the Nagoya Sakae area to make it more appealing involved promoting the development of Nishiki 3-chome District 25, slated for completion and opening in 2026.

As a result of the above, along with factors that include rent concessions associated with business suspension, a backlash effect with respect to prior special demand for building and interior works, and reconsideration of postponed work order schedules, revenue was ¥50,633 million, down 5.9% year on year. However, operating profit was ¥4,711 million, up 137.7% year on year, partly as a result of recording gain on sale of fixed assets.

<Payment and Finance Business>

In the payment business, we worked to maintain and expand the customer base through initiatives that included updating cards in the previous fiscal year and introducing a new points program (QIRA Point). We also achieved geographic expansion with respect to the merchant network and initiated operations such as those involving mutual transfer of customers among the Group stores.

In the finance business, we integrated the insurance agency business within the Group and started offering family trust service in seeking to expand into new financial products.

As a result of the above, revenue was ¥11,037 million, up 22.2% year on year primarily due to recovery in transaction volume handled by the Department Store and increased annual fee income associated with updating cards. Meanwhile, operating profit was ¥1,970 million, up 367.8% year on year.

<Other>

In the electronic devices division and automotive components division of Daimaru Kogyo, Ltd., which is engaged in the wholesale business, revenue decreased amid tight supply of semiconductors. Meanwhile, Dimples' staffing service business achieved an increase in revenue in part due to recovery of business involving its client facilities.

As a result of the above, revenue was ¥61,755 million, down 1.3% year on year, and operating profit was ¥1,199 million, down 30.5% year on year.

Dimples' has been removed from the scope of consolidation upon partial sale of its shares at the end of February.

Financial position

Total assets as of February 28, 2022 was ¥1,192,907 million, down ¥70,815 million compared with February 28, 2021. Meanwhile, total liabilities was ¥830,787 million, a decrease of ¥68,591 million compared with February 28, 2021. Interest-bearing liabilities (including lease liabilities) was ¥502,109 million, down ¥60,706 million compared with February 28, 2021, as a result of the Company having taken steps to optimize cash and deposits on hand secured to provide for effects of the spread of the COVID-19 pandemic and having proceeded with repayment. Total equity was ¥362,120 million, a decrease of ¥2,223 million compared with February 28, 2021.

Cash flows

The balance of “cash and cash equivalents” as of February 28, 2022 was ¥93,278 million, down ¥35,647 million compared with February 28, 2021.

Cash flow positions in the current fiscal year and the factors for these are as follows.

“Net cash provided by operating activities” was ¥49,866 million. In comparison with the previous fiscal year, despite loss before tax converted into profit before tax, cash provided decreased by ¥6,605 million, largely due to an increase in trade receivables (decrease of cash provided).

“Net cash used in investing activities” was ¥5,289 million. In comparison with the previous fiscal year, cash used decreased by ¥15,581 million, largely due to proceeds from sale of investment property and subsidiary shares, in addition to a decrease in purchase of property, plant and equipment.

“Net cash used in financing activities” was ¥80,392 million. In comparison with the previous fiscal year, although there were proceeds from issuance of bonds, cash provided decreased by ¥139,119 million, largely due to the rebound after fund raising for COVID-19 measures carried out in the previous year.

Basic profit distribution policy and dividends

The Company believes that any increase in free cash flow and improvement in ROE should help to ensure its sustainable growth and increase corporate value over the medium to long term. To such ends, the Company promotes a capital policy that takes a balanced approach to “undertaking strategic investment,” “enhancing shareholder returns,” and “expanding net worth being” after taking into consideration the business environment and risk readiness.

Moreover, our basic policy is to procure funds through interest-bearing liabilities by taking into account the ability to generate free cash flow and the balance of the interest-bearing liabilities and we aim to achieve an optimal structure of debt to equity in a manner cognizant of our funding efficiency and cost of capital.

Regarding dividends, the Company has decided to pay an annual dividend of ¥29 per share (¥27 in the previous fiscal year), up ¥2 compared to the previous fiscal year. In view of the balance of the interim dividend and year-end dividend, we have decided to pay an interim dividend of ¥14 per share, up ¥5 from the previous fiscal year (¥9 in the previous fiscal year) and a year-end dividend of ¥15 per share, down ¥3 from the previous fiscal year.