



TEAR / 2485

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How to read a Shared Research report: This report begins with the trends and outlook section, which discusses the company's most recent earnings. First-time readers should start at the business section later in the report.

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Executive summary

Upending established funeral practices

- In 1997, TEAR President Tomiyasu founded the company to overturn long-standing practices among traditional funeral companies. TEAR provides a full range of funeral services in funeral halls, homes, temples, and community centers. The company operates in the Nagoya area. Harnessing the experience in operating funeral halls, TEAR also franchises funeral hall management (Franchise segment), mainly for the purpose of raising name recognition.
- According to the Ministry of Health, Labour and Welfare's Vital Statistics Survey, 1.4mn people (+2.1% YoY) died in Japan in 2018. Over the past 20 years, the number of deaths in Japan rose by 1.9% per year. The National Institute of Population and Social Security Research forecasts an annual growth of 0.9% in the death rate from 2018, with deaths peaking at 1.7mn per year in 2040.
- The company led the adoption of fully transparent funeral pricing, detailing all associated costs for customers. TEAR's funerals typically cost less than its competitors' (about 30% less than the industry average). The company applies a dominant policy strategy and operates funeral halls mainly located in Nagoya city, Aichi prefecture, and surrounding regions (It operated 34 halls in Nagoya city at the end of FY09/19). Most customers join a prepay system, TEAR Club; after paying an initial fee, members receive funeral-related benefits, as well as discounts and services at partner companies. The company also has a unique staff training system.
- Backed by an expanding market, the company has increased its number of halls. From FY09/10 through FY09/19 the number of funerals it handled at directly managed halls rose by an average of 7.1% per year, sales rose by an average of 5.9%, operating profit rose by an average of 4.6%, and net income rose by an average of 7.7%. Since FY09/13, the company's market share of funeral hall users in Nagoya has topped 20% and reached 24.9% in FY09/19.

Financial targets

- For FY09/20, TEAR forecasts sales of JPY12.1bn (-5.5% YoY), operating profit of JPY660mn (-42.9% YoY), recurring profit of JPY650mn (-43.5% YoY), and net income attributable to owners of the parent of JPY390mn (-50.7% YoY). In August 2020, the company announced revisions to its full-year forecast. By comparison to its previous forecast, the most recent forecast has seen downward revisions of JPY1.6bn to sales, JPY560mn to operating profit, JPY565mn to recurring profit, and JPY425mn to net income attributable to owners of the parent. The downward revisions follow the number of funerals remaining below expected levels. Average funeral price also fell as a result of the spread of the novel coronavirus disease (COVID-19).
- In the medium-term plan starting in FY09/20 and ending FY09/22, the company plans to hold 13,920 funerals at directly managed halls (up 27.4% from FY09/19), with sales of JPY15.4bn (up 20.1%) and operating profit of JPY1.4bn (up 21.5%) in the final year. The company aims to achieve sales and profit growth by promoting four key points: 1) Accelerated opening of directly managed halls and funeral consultation salons, along with planned openings of new franchises; 2) Improved usage of existing halls and strengthened online marketing; 3) Bringing ancillary funeral services in-house and tightening up M&A criteria; and 4) Systematic hiring of human resources and improved training.
- In the long term, TEAR plans to have 200 funeral halls (116 in FY09/19).

Strengths and weaknesses

Shared Research thinks the TEAR's strengths are its system of preregistering customers, accumulated expertise in managing a sizeable chain of funeral halls, and its relative ease in raising funds. Weaknesses are that new halls pull down earnings, the heavy influence of lower funeral prices on profits, and weak earnings outside Aichi Prefecture at this stage (see section on Strengths and weaknesses).

Key financial data

Income statement (JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19	FY09/20
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.	Cons.	Est.
Sales	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311	12,779	12,075
YoY	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%	3.8%	-5.5%
Gross profit	2,412	2,528	2,787	3,103	3,366	3,688	3,916	4,292	4,839	5,061	
YoY	29.7%	4.8%	10.2%	11.4%	8.4%	9.6%	6.2%	9.6%	12.7%	4.6%	
GPM	31.6%	32.3%	33.4%	34.8%	35.3%	36.1%	37.0%	37.8%	39.3%	39.6%	
Operating profit	771	736	869	940	992	1,078	1,094	1,190	1,323	1,156	660
YoY	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%	-12.6%	-42.9%
OPM	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%	9.0%	5.5%
Recurring profit	703	662	798	846	925	1,023	1,072	1,185	1,300	1,151	650
YoY	50.6%	-6.0%	20.7%	6.0%	9.3%	10.5%	4.8%	10.5%	9.7%	-11.5%	-43.5%
RPM	9.2%	8.5%	9.6%	9.5%	9.7%	10.0%	10.1%	10.4%	10.6%	9.0%	5.4%
Net income	405	354	419	517	548	652	712	801	896	791	390
YoY	46.3%	-12.5%	18.2%	23.5%	6.0%	19.0%	9.2%	12.5%	11.9%	-11.7%	-50.7%
Net margin	5.3%	4.5%	5.0%	5.8%	5.8%	6.4%	6.7%	7.1%	7.3%	6.2%	3.2%
Per share data (JPY)											
Shares issued (year-end; '000)	2,278	2,278	2,278	9,112	18,224	20,167	20,167	20,167	20,210	22,405	
EPS	22.2	19.4	23.0	28.4	30.1	33.0	35.3	39.7	44.4	36.1	17.4
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	-	-
Dividend per share	3.8	3.8	4.4	10.0	12.0	6.0	6.0	8.0	10.0	11.0	20.0
Book value per share	98.7	114.4	133.7	157.7	180.2	246.5	275.8	308.5	345.7	399.1	
Balance sheet (JPYmn)											
Cash and cash equivalents	1,185	1,001	1,138	940	1,134	1,813	1,442	1,758	2,125	2,968	
Total current assets	1,476	1,325	1,528	1,369	1,634	2,334	1,943	2,341	2,752	3,629	
Tangible fixed assets	3,924	4,646	5,225	5,626	5,789	6,270	6,649	7,234	7,728	8,209	
Investments and other assets	1,071	1,135	1,153	1,376	1,350	1,307	1,285	1,263	1,257	1,366	
Intangible fixed assets	246	193	173	134	141	226	190	151	114	95	
Total assets	6,716	7,299	8,079	8,504	8,913	10,137	10,069	10,990	11,958	13,301	
Accounts payable	284	245	305	262	314	312	309	315	352	323	
Short-term debt	57	77	74	87	97	117	120	60	70	83	
Total current liabilities	2,097	2,008	2,279	2,142	2,430	2,482	2,178	2,193	2,432	2,107	
Long-term debt	2,651	2,903	3,068	2,919	2,596	2,058	1,672	1,894	1,531	1,230	
Total fixed liabilities	2,819	3,206	3,364	3,489	3,199	2,685	2,330	2,575	2,540	2,253	
Total liabilities	4,917	5,214	5,643	5,631	5,629	5,167	4,508	4,769	4,973	4,360	
Net assets	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984	8,940	
Total interest-bearing debt	3,863	4,111	4,337	4,175	3,899	3,279	2,676	2,746	2,311	1,911	
Cash flow statement (JPYmn)											
Cash flows from operating activities	860	597	924	806	1,151	1,177	1,180	1,406	1,620	1,177	
Cash flows from investing activities	-711	-919	-901	-717	-529	-877	-806	-998	-596	-1,048	
Cash flows from financing activities	16	139	115	-289	-429	378	-742	-93	-658	715	
Financial ratios											
ROA (RP-based)	11.0%	9.4%	10.4%	10.2%	10.6%	10.7%	10.6%	11.3%	11.3%	9.1%	
ROE	24.9%	18.2%	18.5%	19.5%	17.8%	15.8%	13.5%	13.6%	13.6%	9.9%	
Equity ratio	26.8%	28.6%	30.1%	33.8%	36.8%	49.0%	55.2%	56.6%	58.4%	67.2%	

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Parent-only earnings until FY09/16. Consolidated earnings starting in FY09/17. YoY comparisons for FY09/17 are for reference purposes only.

Recent updates

Highlights

On September 11, 2020, TEAR Corporation announced the opening of Tear Yatomi Higashi funeral hall.

The company plans to open Tear Yatomi Higashi (Yatomi-shi, Aichi Prefecture) on September 19. The hall uses movable partitions to accommodate ceremonies of varying scale from small family funerals to larger, regular funerals.

On September 4, 2020, the company announced the opening of Tear Shibata Family Funeral Hall.

The company plans to open Tear Shibata Family Funeral Hall in Nagoya, Aichi Prefecture on September 12. Tear Shibata will be the 12th funeral hall in the family funeral hall format. Family funeral halls have a total floor space of about half that of existing halls, and holds only one funeral for a single family at a time. They offer venues and services for family funerals with a small number of mourners comprising only family members, friends, and relatives to mid-sized and small funerals of about 30 mourners.

On August 28, 2020, Shared Research updated the report following interviews with the company.

On August 6, 2020, the company announced earnings results for Q3 FY09/20; see the results section for details.

On the same day, the company announced revisions to its full-year FY09/20 forecast.

Revised full-year FY09/20 forecast

▷ Sales:	JPY12.1bn (previous forecast: JPY13.7bn)
▷ Operating profit:	JPY660mn (JPY1.2bn)
▷ Recurring profit:	JPY650mn (JPY1.2bn)
▷ Net income*:	JPY390mn (JPY815mn)
▷ EPS:	JPY17.41 (JPY36.38)

*Net income attributable to owners of the parent

Reasons for the revisions

In cumulative Q3, average funeral price fell 14.5% YoY. The number of funerals was lower than expected, and funeral services have seen reductions to attendee numbers and scale and lower memorial service catering sales because of the spread of COVID-19 from Q3 (April–June 2020). On the other hand, average funeral price has been improving modestly and memorial service catering sales have also been recovering. As a result, the company forecasts sales of JPY12.1bn (-5.5% YoY).

In light of the spread of COVID-19, the company revised store opening plans and refrained from business activities such as promotional events at its halls. (The company had planned to open eight family funeral halls but actually opened five, and had planned to open three funeral consultation centers but opened one.) However, personnel and other expenses rose, and the company forecasts operating profit of JPY660mn (-42.9% YoY) and recurring profit of JPY650mn (-43.6% YoY).

The company expects impact from the COVID-19 pandemic will continue until 1H FY09/21, and improve from 2H. Taking a comprehensive view of these circumstances, the company has made accounting estimates on the recoverability of deferred tax

assets and impairment losses on fixed assets. As a result, the company forecasts net income attributable to owners of the parent of JPY390mn (-50.7% YoY), reflecting the booking of impairment losses for some stores.

For previous releases and developments, please refer to the News and topics section.

Trends and outlook

Quarterly trends and results

Cumulative (JPYmn)	FY09/19				FY09/20				FY09/20	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of Est.	FY Est.
Sales	3,266	6,692	9,712	12,779	3,377	6,671	9,145		75.7%	12,075
YoY	8.2%	5.8%	5.1%	3.8%	3.4%	-0.3%	-5.8%			-5.5%
Gross profit	1,338	2,778	3,922	5,061	1,375	2,727	3,534			
YoY	13.1%	9.9%	7.2%	4.6%	2.8%	-1.8%	-9.9%			
GPM	41.0%	41.5%	40.4%	39.6%	40.7%	40.9%	38.6%			
SG&A expenses	876	1,791	2,773	3,905	981	1,977	2,903			
YoY	10.7%	8.5%	11.3%	11.1%	12.0%	10.4%	4.7%			
SG&A ratio	26.8%	26.8%	28.6%	30.6%	29.0%	29.6%	31.7%			
Operating profit	461	986	1,148	1,156	393	749	630		95.5%	660
YoY	17.6%	12.6%	-1.5%	-12.6%	-14.8%	-24.0%	-45.1%			-42.9%
OPM	14.1%	14.7%	11.8%	9.0%	11.6%	11.2%	6.9%			5.5%
Recurring profit	451	984	1,145	1,151	390	745	627		96.5%	650
YoY	15.6%	13.2%	-0.8%	-11.5%	-13.5%	-24.3%	-45.2%			-43.5%
RPM	13.8%	14.7%	11.8%	9.0%	11.5%	11.2%	6.9%			5.4%
Net income	308	671	777	791	261	504	377		96.7%	390
YoY	16.7%	13.3%	-1.0%	-11.7%	-15.3%	-24.9%	-51.5%			-50.7%
Net margin	9.4%	10.0%	8.0%	6.2%	7.7%	7.6%	4.1%			3.2%
Quarterly (JPYmn)	FY09/19				FY09/20					
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Sales	3,266	3,426	3,020	3,067	3,377	3,294	2,474			
YoY	8.2%	3.7%	3.4%	0.0%	3.4%	-3.9%	-18.1%			
Gross profit	1,338	1,440	1,144	1,139	1,375	1,352	807			
YoY	13.1%	7.1%	1.1%	-3.6%	2.8%	-6.1%	-29.5%			
GPM	41.0%	42.0%	37.9%	37.1%	40.7%	41.0%	32.6%			
SG&A expenses	876	915	982	1,132	981	996	926			
YoY	10.7%	6.5%	16.6%	10.5%	12.0%	8.9%	-5.7%			
SG&A ratio	26.8%	26.7%	32.5%	36.9%	29.0%	30.2%	37.4%			
Operating profit	461	525	162	8	393	356	-119			
YoY	17.6%	8.5%	-43.9%	-94.9%	-14.8%	-32.2%	-			
OPM	14.1%	15.3%	5.4%	0.3%	11.6%	10.8%	-			
Recurring profit	451	533	161	6	390	355	-118			
YoY	15.6%	11.3%	-43.5%	-95.9%	-13.5%	-33.4%	-			
RPM	13.8%	15.6%	5.3%	0.2%	11.5%	10.8%	-			
Net income	308	363	106	14	261	243	-127			
YoY	16.7%	10.7%	-45.1%	-87.4%	-15.3%	-33.1%	-			
Net margin	9.4%	10.6%	3.5%	0.5%	7.7%	7.4%	-			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Quarterly earnings by segment

Cumulative (JPYmn)	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,266	6,692	9,712	12,779	3,377	6,671	9,145	
YoY	8.2%	5.8%	5.1%	3.8%	3.4%	-0.3%	-5.8%	
Funeral	3,173	6,475	9,402	12,383	3,272	6,459	8,851	
YoY	8.6%	5.8%	5.0%	3.8%	3.1%	-0.2%	-5.9%	
Franchise	93	217	310	396	105	212	294	
YoY	-3.1%	8.5%	7.3%	3.4%	12.9%	-2.3%	-5.2%	
Operating profit	461	986	1,148	1,156	393	749	630	
YoY	17.6%	12.6%	-1.5%	-12.6%	-14.8%	-24.0%	-45.1%	
Funeral	673	1,428	1,821	2,157	640	1,244	1,344	
YoY	15.6%	13.4%	4.6%	-1.6%	-4.9%	-12.9%	-26.2%	
Franchise	18	41	52	65	22	53	61	
YoY	-14.3%	-14.6%	-23.5%	-23.5%	22.2%	29.3%	17.3%	
Adjustments	-230	-483	-725	-1,066	-269	-547	-775	

Quarterly (JPYmn)	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	3,266	3,426	3,020	3,067	3,377	3,294	2,474	
YoY	8.2%	3.7%	3.4%	0.0%	3.4%	-3.9%	-18.1%	
Funeral	3,173	3,302	2,927	2,981	3,272	3,187	2,392	
YoY	8.6%	3.2%	3.3%	0.3%	3.1%	-3.5%	-18.3%	
Franchise	93	124	93	86	105	107	82	
YoY	-3.1%	19.2%	4.5%	-8.5%	12.9%	-13.7%	-11.8%	
Operating profit	461	525	162	8	393	356	-119	
YoY	17.6%	8.5%	-43.9%	-94.9%	-14.8%	-32.2%	-	
Funeral	673	755	393	336	640	604	100	
YoY	15.6%	11.5%	-18.5%	-25.3%	-4.9%	-20.0%	-74.6%	
Franchise	18	23	11	13	22	31	8	
YoY	-14.3%	-14.8%	-45.0%	-23.5%	22.2%	34.8%	-27.3%	
Adjustments	-230	-253	-242	-341	-269	-278	-228	

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

Number of funeral halls

Number of funeral halls	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	104	107	109	116	118	119	123	
YoY change	9	10	11	14	14	12	14	
QoQ change	2	3	2	7	2	1	4	
Directly managed	59	61	62	68	69	70	72	
YoY change	7	7	7	11	10	9	10	
QoQ change	2	2	1	6	1	1	2	
Franchisees	45	46	47	48	49	49	51	
YoY change	2	3	4	3	4	3	4	
QoQ change	-	1	1	1	1	-	2	

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

Funerals held

Cumulative	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of funerals held	2,705	5,658	8,303	10,923	2,891	5,862	8,460	
YoY	8.5%	6.9%	7.5%	6.6%	6.9%	3.6%	1.9%	
Number of funerals per hall	46.6	95.9	139.0	177.9	42.2	85.0	121.3	
YoY	-3.7%	-5.2%	-4.6%	-6.6%	-9.5%	-11.4%	-12.7%	

Quarterly	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of funerals held	2,705	2,953	2,645	2,620	2,891	2,971	2,598	
YoY	8.5%	5.5%	8.8%	3.8%	6.9%	0.6%	-1.8%	
Number of funerals per hall	46.6	49.2	43.0	40.3	42.2	42.7	36.6	
YoY	-3.7%	-6.8%	-3.5%	-10.6%	-9.5%	-13.1%	-14.9%	

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

Sales

Impact on sales YoY change	FY09/18		FY09/19		FY09/20	
Cumulative (JPYmn)	Q2	Q4	Q2	Q4	Q2	Q4
Sales increase	426	959	369	468	-21	
Comparable halls: average price	-129	-203	-9	-195	-149	
Comparable halls: no. of funerals	236	547	160	218	-76	
Comparable halls: other factors	-22	-21	38	40	-38	
New halls	313	599	161	389	245	
Franchisees	33	43	17	12	-4	
Other factors	-5	-6	-	3	2	

Impact on sales YoY change	FY09/18		FY09/19		FY09/20	
Semi-annual (JPYmn)	1H	2H	1H	2H	1H	2H
Sales (YoY change)	426	533	369	99	-21	
Comparable halls: average price	-129	-74	-9	-186	-149	
Comparable halls: no. of funerals	236	311	160	58	-76	
Comparable halls: other factors	-22	1	38	2	-38	
New halls	313	286	161	228	245	
Franchisees	33	10	17	-5	-4	
Other factors	-5	-1	-	3	2	

Source: Shared Research based on company data

Comparable hall sales

Comparable hall sales YoY	FY09/18		FY09/19		FY09/20	
Cumulative	Q2	Q4	Q2	Q4	Q2	Q4
Sales	2.1%	3.6%	2.8%	0.2%	-4.0%	
Number of funerals	4.7%	5.7%	3.0%	2.1%	-1.4%	
Average price	-2.5%	-2.0%	-0.2%	-1.9%	-2.7%	

Comparable hall sales YoY	FY09/18		FY09/19		FY09/20	
Semi-annual	1H	2H	1H	2H	1H	2H
Sales	2.1%	5.1%	2.8%	-2.4%	-4.0%	
Number of funerals	4.7%	6.7%	3.0%	1.2%	-1.4%	
Average price	-2.5%	-1.5%	-0.2%	-3.6%	-2.7%	

Source: Shared Research based on company data

Number of funerals

Impact on no. of funerals YoY change	FY09/18		FY09/19		FY09/20	
Cumulative	Q2	Q4	Q2	Q4	Q2	Q4
Number of funerals (YoY change)	524	1,087	365	675	204	
Comparable halls	225	521	157	213	-76	
New halls	299	566	208	462	280	

Impact on no. of funerals YoY change	FY09/18		FY09/19		FY09/20	
Semi-annual	1H	2H	1H	2H	1H	2H
Number of funerals (YoY change)	524	563	365	310	204	
Comparable halls	225	296	157	56	-76	
New halls	299	267	208	254	280	

Source: Shared Research based on company data

Average funeral price

Impact on average price YoY change	FY09/18		FY09/19		FY09/20	
Cumulative (JPYmn)	Q2	Q4	Q2	Q4	Q2	Q4
Average funeral price (YoY change)	1,020	1,025	1,007	995	971	
YoY	-3.0%	0.0%	-1.3%	-2.9%	-3.6%	
Altar	-0.7%	0.5%	0.9%	-1.1%	-2.4%	
Funeral-related items	-1.0%	-1.1%	-0.8%	-0.6%	-0.2%	
Floral tributes	-1.2%	-1.7%	-1.5%	-1.3%	-0.9%	

Impact on average price YoY change	FY09/18		FY09/19		FY09/20	
Semi-annual (JPYmn)	1H	2H	1H	2H	1H	2H
Average funeral price (YoY change)	1,020	1,030	1,007	983	971	
YoY	-3.0%	3.2%	-1.3%	-4.6%	-3.6%	
Altar	-0.7%	1.7%	0.9%	-3.1%	-2.4%	
Funeral-related items	-1.0%	-1.2%	-0.8%	-0.4%	-0.2%	
Floral tributes	-1.2%	-2.2%	-1.5%	-1.1%	-0.9%	

Source: Shared Research based on company data

Cost of sales ratio

Impact on cost ratio YoY change	FY09/18		FY09/19		FY09/20	
Cumulative (pp)	Q2	Q4	Q2	Q4	Q2	Q4
Cost ratio (YoY change)	-0.1	-1.5	-1.5	-0.3	0.6	
Halls merchandise costs	-0.8	-1.3	-1.4	-0.8	-0.6	
Subsidiaries merchandise cost ratio	-0.9	-1.0	-0.9	-0.8	-0.6	
Halls fixed costs	0.1	-0.5	-0.1	0.7	0.9	
Subsidiaries fixed costs	0.6	0.1	0.6	0.5	0.3	
Other fixed costs	1.1	0.6	0.1	0.1	0.6	

Impact on cost ratio YoY change	FY09/18		FY09/19		FY09/20	
Semi-annual (pp)	1H	2H	1H	2H	1H	2H
Cost ratio (YoY change)	-0.1	-2.9	-1.5	0.9	0.6	
Halls merchandise costs	-0.8	-1.8	-1.4	-0.2	-0.6	
Subsidiaries merchandise cost ratio	-0.9	-1.1	-0.9	-0.7	-0.6	
Halls fixed costs	0.1	-1.1	-0.1	1.5	0.9	
Subsidiaries fixed costs	0.6	-0.4	0.6	0.4	0.3	
Other fixed costs	1.1	0.1	0.1	0.1	0.6	

Source: Shared Research based on company data

Recurring profit

Impact of recurring profit YoY change	FY09/18		FY09/19		FY09/20	
Cumulative (JPYmn)	Q2	Q4	Q2	Q4	Q2	Q4
Recurring profit (YoY change)	18	115	115	-149	-239	
Sales	169	362	147	184	-8	
Cost of sales	2	184	103	37	-41	
New halls SG&A	-	-	-	-62	-	
System upgrades	-	-	-	-38	-	
Personnel expenses	-68	-196	-57	-34	-110	
THRC operation	-	-	-	-32	-	
Advertising expenses	-91	-141	-13	-96	-4	
Other	5	-94	-64	-107	-74	

Impact of recurring profit YoY change	FY09/18		FY09/19		FY09/20	
Semi-annual (JPYmn)	1H	2H	1H	2H	1H	2H
Recurring profit (YoY change)	18	97	115	-264	-239	
Sales	169	193	147	37	-8	
Cost of sales	2	182	103	-66	-41	
New halls SG&A	-	-	-	-62	-	
System upgrades	-	-	-	-38	-	
Personnel expenses	-68	-128	-57	23	-110	
THRC operation	-	-	-	-32	-	
Advertising expenses	-91	-50	-13	-83	-4	
Other	5	-99	-64	-43	-74	

Source: Shared Research based on company data

Number of deaths in Aichi Prefecture

Number of deaths (cumulative)	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aichi Prefecture	16,914	36,454	53,002	69,547	17,664	37,346	53,622	
YoY	7.1%	2.4%	0.6%	1.3%	4.4%	2.4%	1.2%	
Nagoya City	5,854	12,308	17,732	23,238	5,710	12,217	17,613	
YoY	2.5%	1.7%	2.4%	2.5%	-2.5%	-0.7%	-0.7%	

Number of deaths (quarterly)	FY09/19				FY09/20			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aichi Prefecture	16,914	19,540	16,548	16,545	17,664	19,682	16,276	
YoY	7.1%	-1.3%	-3.3%	3.9%	4.4%	0.7%	-1.6%	
Nagoya City	5,854	6,454	5,424	5,506	5,710	6,507	5,396	
YoY	2.5%	1.0%	3.9%	2.8%	-2.5%	0.8%	-0.5%	

Source: Shared Research based on "Number of households and population of Nagoya," Vital Statistics Overview, Ministry of Internal Affairs and Communications

Cumulative Q3 FY09/20 earnings

▷ Sales:	JPY9.1bn (-5.8% YoY)
▷ Operating profit:	JPY630mn (-45.1% YoY)
▷ Recurring profit:	JPY627mn (-45.2% YoY)
▷ Net income*:	JPY377mn (-51.5% YoY)

*Net income attributable to owners of the parent

YoY comparison

- ▷ Sales were down YoY despite an increase in the total number of funerals in the mainstay Funeral segment, as average funeral price dropped.
- ▷ Gross profit declined 9.9% YoY to JPY3.5bn and GPM fell 1.8pp YoY to 38.6%. As a result of reduced sales, the ratio of fixed costs such as funeral hall personnel expenses and rent against sales rose, equating to a decline in GPM. In 1H, continued efforts to bring customer service operations in-house also contributed to lower GPM.
- ▷ Operating profit, recurring profit, and net income attributable to owners of the parent all fell by double-digits YoY as a result of the decrease to gross profit and increased SG&A expenses. SG&A expenses increased 4.7% YoY to JPY2.9bn, and SG&A-to-sales ratio rose 3.1pp YoY to 31.7%. Although there was a reduction to advertising and promotional expenses, commission expenses related to consulting services and expenses to secure personnel in 1H with a view to opening stores in the mid- to long-term rose.

Q3 FY09/20 (April–June 2020) earnings

In Q3 FY09/20 (April–June 2020), the company recorded sales of JPY2.5bn (-18.1% YoY), and an operating loss of JPY119mn (versus Q3 FY09/19 operating profit of JPY162mn).

In the Funeral segment, sales were down YoY as average funeral price decreased by 14.5% YoY, and the total number of funerals fell by 1.8% YoY to 2,598.

- ▷ The average funeral price decreased YoY due to the spread of COVID-19, which caused decreases in the size of funerals and the number of attendees, and a reduction to the volume of memorial service catering. However, the average funeral price is gradually recovering at present, and memorial service catering sales are also returning towards normal.
- ▷ Funeral numbers decreased YoY due to a lower number of deaths YoY in Aichi Prefecture, where the company has a dominant presence. According to the company, its share of funeral services in Aichi Prefecture saw almost no change YoY in Q3 (April–June 2020), remaining at around 25%. In Q4 (July–September 2020), the company aims to increase the number of funerals it handles in the Tokai region by increasing the number of TV commercials it airs that promote the company's prices.

Although SG&A expenses decreased, the company recorded an operating loss, recurring loss, and net loss attributable to owners of the parent due to reduced sales causing gross profit to fall YoY. SG&A expenses of JPY926mn were down by 5.7% YoY as the company curbed expenses, primarily advertising and promotional expenses. According to the company, it plans to continue with its restraint on expenses from Q4 (July–September 2020).

Progress versus company forecasts

The company announced revisions to its full-year FY09/20 forecasts in August. Compared with the previous forecasts, the revisions reduced expected sales by JPY1.6bn, operating profit by JPY560mn, recurring profit by JPY565mn, and net income attributable to owners of the parent by JPY425mn. The company made these downward revisions because funeral numbers were lower than expected, and average funeral price decreased as a result of the spread of COVID-19.

Against full-year FY09/20 forecast, cumulative Q3 sales reached 75.7% (compared with 76.0% in cumulative Q3 FY09/19 against full-year FY09/19 results), operating profit 95.5% (99.3%), recurring profit 96.5% (99.5%), and net income attributable to owners of the parent 96.7% (98.2%).

Store openings

The company opened directly managed Tear Koshin in Nagoya, Tear Okazaki Ueji and Tear Kiyosu Kojyo in Aichi Prefecture. It also opened funeral consultation center Tear Oshiage in Tokyo. For franchise halls, it opened Tear Anjo Sakurai and Tear Misato in Aichi Prefecture and Tear Sakai Fuseo in Osaka. As a result, it now has 72 directly managed funeral halls and 51 franchisees, for a total of 123 halls.

Funeral segment

- ▷ Sales: JPY8.9bn (-5.9% YoY)
- ▷ Operating profit: JPY1.3bn (-26.2% YoY)

The company held promotional events at its halls and stepped up marketing to partner organizations and companies with the aim of expanding Tear Club, a pre-paid membership. However, the company was forced to refrain from all such promotional activities from Q3 because of the spread of COVID-19.

The total number of funerals increased 1.9% YoY to 8,460. The number of funerals held at existing funeral halls decreased, but the total number of funerals increased YoY as operations at new halls started. The average funeral price dropped 6.8% YoY due to decreases in funeral sizes and memorial service catering sales caused by the spread of COVID-19. With the reduction in funeral size due to spread of COVID-19, the number of sales for higher priced altars (JPY1mn or more) decreased, as did sales for memorial service catering. Analyzed by funeral hall type, average funeral price fell at the comparatively larger funeral halls with multiple ceremony halls, but did not decrease at the family funeral halls that the company is opening.

Franchise segment

- ▷ Sales: JPY294mn (-5.2% YoY)
- ▷ Operating profit: JPY61mn (+17.3% YoY)

Although the company booked franchise fees for newly opened franchise halls, royalty income and sales of goods to franchise halls decreased.

For details on previous quarterly and annual results, refer to the Historical performance section.

Full-year company forecast

(JPYmn)	FY09/19			FY09/20			YoY		
	1H Act.	2H Act.	FY Act.	1H Act.	2H Est.	FY Est.	1H Act.	2H Est.	FY Est.
Sales	6,692	6,087	12,779	6,671	5,404	12,075	-0.3%	-11.2%	-5.5%
Cost of sales	3,914	3,804	7,718	3,944					
Gross profit	2,778	2,283	5,061	2,727			-1.8%		
GPM	41.5%	37.5%	39.6%	40.9%					
SG&A expenses	1,791	2,114	3,905	1,977			10.4%		
SG&A ratio	26.8%	34.7%	30.6%	29.6%					
Operating profit	986	170	1,156	749	-89	660	-24.0%	-	-42.9%
OPM	14.7%	2.8%	9.0%	11.2%	-	5.5%			
Recurring profit	984	167	1,151	745	-95	650	-24.3%	-	-43.5%
RPM	14.7%	2.7%	9.0%	11.2%	-	5.4%			
Net income	671	120	791	504	-114	390	-24.9%	-	-50.7%
Net margin	10.0%	2.0%	6.2%	7.6%	-	3.2%			

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

For FY09/20, TEAR forecasts sales of JPY12.1bn (-5.5% YoY), operating profit of JPY660mn (-42.9% YoY), recurring profit of JPY650mn (-43.5% YoY), and net income attributable to owners of the parent of JPY390mn (-50.7% YoY). In August 2020, the company announced revisions to its full-year forecast. By comparison to its previous forecast, the most recent forecast has seen downward revisions of JPY1.6bn to sales, JPY560mn to operating profit, JPY565mn to recurring profit, and JPY425mn to net income attributable to owners of the parent.

Reasons for the revisions

In cumulative Q3, average funeral price fell 14.5% YoY. The number of funerals was lower than expected, and funeral services have seen reductions to attendee numbers and scale and lower memorial service catering sales because of the spread of COVID-19 from Q3 (April–June 2020). On the other hand, average funeral price has been improving modestly and memorial service catering sales have also been recovering. As a result, the company forecasts sales of JPY12.1bn (-5.5% YoY).

In light of the spread of COVID-19, the company revised store opening plans and refrained from business activities such as promotional events at its halls. (The company had planned to open eight family funeral halls but actually opened five, and had planned to open three funeral consultation centers but opened one.) However, personnel and other expenses rose, and the company forecasts operating profit of JPY660mn (-42.9% YoY) and recurring profit of JPY650mn (-43.6% YoY).

The company expects impact from the COVID-19 pandemic will continue until 1H FY09/21, and improve from 2H. Taking a comprehensive view of these circumstances, the company has made accounting estimates on the recoverability of deferred tax assets and impairment losses on fixed assets. As a result, the company forecasts net income attributable to owners of the parent of JPY390mn (-50.7% YoY), reflecting the booking of impairment losses for some stores.

Assumptions of company forecast

Number of funeral halls

The company plans to open six new directly managed halls (versus 11 in FY09/19, and 11 under the company's previous forecast), including one funeral consultation salons. All of the new halls will be family funeral halls. In cumulative Q3 FY09/20, the company opened four directly managed halls, including one funeral consultation salon. As at end-June 2020, the company had 72 directly managed halls, of which 10 were funeral consultation salons.

Number of funerals, and average funeral price

TEAR projects that the number of funerals it holds will increase by 4.0% YoY (the previous forecast predicted an increase of 9.8% YoY). The company held 8,460 funerals in cumulative Q3 FY09/20 (+1.9% YoY), and the company expects that increasing TV commercials promoting its prices in the Tokai region will lead to an increase to the number of funerals it will hold in Q4 (July–September 2020).

The average funeral price decreased by 1.9% YoY in FY09/19, and the company expects it to fall by 7.9% YoY in FY09/20 (a similar level to the previous forecast). Average funeral price fell by 6.8% YoY in cumulative Q3, and by 14.5% YoY in Q3 (April–June 2020) as a result of a lower memorial service catering sales and a reduction to the size of funerals due to lower attendee numbers, against the background of the spread of COVID-19. According to the company, however, there is trend towards recovery in Q4.

Outlook for cost of sales and SG&A expenses

Cost of sales is forecast to rise 1.3pp to 61.7% (the previous forecast was for cost of sales of 60.1%). The ratio of fixed costs to sales rose as a result of lower sales, with the cost-to-sales ratio rising 1.7pp YoY to 61.4% in cumulative Q3, and rising 5.3pp YoY to 67.4% in Q3. The company expects the cost-to-sales ratio to recover in Q4 (July–September 2020), falling by 0.1pp YoY to 62.8% due to recovering funeral numbers and average funeral prices.

The SG&A-to-sales ratio is forecast to rise 2.2pp to 32.8% (the previous forecast was for an SG&A-to-sales ratio of 31.0%).

Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY09/10 Par.	FY09/11 Par.	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.	FY09/15 Par.	FY09/16 Par.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.
Sales (Initial Est.)	6,982	8,403	8,620	9,130	9,900	10,000	10,800	11,420	12,270	12,885
Sales (Results)	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311	12,779
Results vs. Initial Est.	9.4%	-6.9%	-3.1%	-2.3%	-3.8%	2.1%	-1.9%	-0.6%	0.3%	-0.8%
Operating profit (Initial Est.)	578	800	779	915	980	1,032	1,085	1,175	1,275	1,100
Operating profit (Results)	771	736	869	940	992	1,078	1,094	1,190	1,323	1,156
Results vs. Initial Est.	33.4%	-8.0%	11.6%	2.7%	1.3%	4.4%	0.8%	1.3%	3.8%	5.1%
Recurring profit (Initial Est.)	480	730	700	820	880	980	1,050	1,150	1,260	1,060
Recurring profit (Results)	703	662	798	846	925	1,023	1,072	1,185	1,300	1,151
Results vs. Initial Est.	46.6%	-9.4%	14.1%	3.2%	5.1%	4.4%	2.1%	3.0%	3.2%	8.6%
Net income (Initial Est.)	262	398	400	490	540	630	690	765	840	700
Net income (Results)	405	354	419	517	548	652	712	801	896	791
Results vs. Initial Est.	54.5%	-11.0%	4.7%	5.6%	1.5%	3.5%	3.2%	4.7%	6.7%	13.0%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: For FY09/17, initial estimates are on a parent-only basis and results are on a consolidated basis. Note that they are for reference purposes only.

Medium- to long-term outlook

Number of halls, funerals per hall, and funeral prices are key to estimating sales; variable cost ratio, cost per hall, and SG&A expenses are key to estimating costs. Shared Research believes that the company has unrealized sales and could achieve profit growth of 10% annually.

Annual growth of 10% in sales and profits attainable

The company plans to open 8–11 directly managed halls (including funeral consultation salons) per year, at a pace of about 15% annual increase from the 68 halls in FY09/19. From 2018 through 2040, the number of deaths in Japan is expected to increase by 0.9% a year (source: National Institute of Population and Social Security Research), so the number of funerals at existing halls should also rise. While a fall in funeral prices is a negative factor for both sales and profits, the decline in average price in FY09/19 was only 2.9%. Assuming an increase in the number of directly-managed halls and an increase in the number of funerals at existing halls, Shared Research estimates a possible 10% growth in sales. Lower product costs are reducing the variable cost ratio, while SG&A expenses are trending north as headcount increases. As these two should cancel each other out, profit margins will be maintained, and profits may grow 10% with the growth in sales.

Number of halls and funerals per hall

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Number of halls	27	29	33	36	39	43	47	51	57	59
YoY change	4	2	4	3	3	4	4	4	6	2
Annual average	25	28	31	35	38	41	45	49	54	58
Number of funerals held	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248	10,923
Number of funerals per hall	235	215	207	199	195	196	187	187	190	188

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Accelerating pace of expansion to 8–11 new halls per year

The company aims to open 8–11 directly managed halls per year, (approximately 16% growth compared with its FY09/18 base of 57 halls), accelerating from an average of 4.2 new halls per year in the five years from FY09/14 to FY09/18.

Sustained profit growth is a priority, but it takes two to three years for new funeral halls to become profitable after they are opened. As such, the company had limited the rate at which halls increase by about 10% per year. From FY09/19 onward, the company plans to accelerate the opening of new halls to increase market share in Aichi Prefecture. In December 2018, the company raised a total of approximately JPY1.4bn (net) for this purpose by the issue of new shares via a public offering and third-party allocation. The funds raised will be used for capex to accelerate the opening of new facilities. The company will also accelerate the training of staff assigned to new halls by opening the TEAR Human Resource Center, a dedicated training facility. New recruits were previously trained at funeral halls.

The company aims to open small satellite facilities near existing halls, primarily in Nagoya (Aichi) and surrounding areas, the Kanto area (Tokyo, Kanagawa, Chiba, and Saitama), and the Kansai area (Osaka, Wakayama). In addition to the basic format (capacity: 100–150; capex: JPY150–200mn, payback period: 9–10 years), the company will open family funeral halls with maximum capacity of 30 (capex: JPY70mn, payback period: nine years).

In the Kanto area it plans to open one to three new halls per year. In Saitama, the company plans to open funeral halls concentrated within a specific region as part of its strategy to build a dominant presence. Further, it opened Tear Nippori Funeral Consultation Center in FY09/16 using a new opening model aimed at the Tokyo Metropolitan area. In locations where it does not have its own halls, TEAR will hold a funeral in a public meeting hall or similar venue upon the request of the bereaved family. Since in Tokyo there are public meeting halls where it is possible to hold a funeral, opening funeral consultation centers would allow the company to establish a marketing network with minimal investment, increasing the number of funerals it handles.

In the Kansai area, the company opened Tear Neyagawa in FY12/13, its fourth directly managed hall in Osaka, but had not opened any new halls in the area since. However, it started opening stores again in FY09/19. It plans to push forward with family funeral halls in the already developed area.

Number of funerals per hall

The number of funerals per hall is trending down. The reason is that since FY09/11, the company has been opening more halls both inside and outside Aichi prefecture (excluding Nagoya). These tend to be smaller than the ones in Nagoya city. Prior to that, funeral facilities primarily contained extra-large (capacity 150–250 people) and medium (50–100 people) halls. Subsequently, the proportion of facilities with large (100–150 people) and small (50 people) capacity halls has climbed. Since FY09/13, the company has opened facilities with just one small (100 people) hall, and it plans to build funeral facilities, mainly small facilities, with just one hall in the medium term.

Prices

Changes in funeral prices

(JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Average funeral price	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03	1.00
YoY	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%	-2.9%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

The size of funerals is on a downward trend accompanying a rise in the average age of the deceased and the chief mourners, as well as shrinking family sizes due to the low birthrate. The average price of funerals is also declining, although TEAR is working to maintain funeral prices through the use of funeral advisers. The price of funerals dropped further in FY09/15 due to changes to courtesy bus contracts and the type of transactions handled, and sales of ancillary items fell due to a decline in the number of mourners per funeral in FY09/18. In FY09/19, in addition to decline in funeral prices at existing halls, prices at new halls trended downward as the company focused on opening funeral consultation salons and family funeral halls that conduct comparatively low-priced small funerals.

Cost of sales

Changes in cost of sales

(JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.
Variable cost ratio	45.6%	45.5%	44.0%	42.5%	40.9%	39.0%	38.7%	37.3%	36.1%	36.0%
Cost of sales (varies by the no. of funeral halls)	1,787	1,794	1,960	2,121	2,378	2,664	2,718	2,954	3,200	3,427
Number of funeral halls	27	29	33	36	39	43	47	51	57	68
Cost of sales per hall	71.5	64.1	63.2	61.5	63.4	65.0	60.4	60.3	59.3	54.8

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Variable cost ratio

Variable costs include product costs, outsourcing costs, funeral consumables, and taxes and public charges. (See Profitability snapshot section.) The variable cost ratio (variable costs ÷ Funeral segment sales) fell by 9.6pp from FY09/10 through FY09/19. The variable cost ratio is on a downtrend due to declining product and outsourcing expenses.

Fixed costs per hall

Fixed costs per funeral hall depends on costs for consumables, rent, utilities, management and maintenance charges, depreciation, and other costs. This has been around JPY60–65mn per year.

SG&A expenses

Changes in SG&A expenses

SG&A expense breakdown (JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.	Cons.
Total SG&A expenses	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516	3,905
Advertising	335	311	372	410	512	653	654	752	893	990
Personnel	915	951	1,027	1,130	1,250	1,373	1,420	1,354	1,550	1,692
SG&A-to-sales ratio										
Total SG&A expenses	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%	30.6%
Advertising	4.4%	4.0%	4.4%	4.6%	5.4%	6.4%	6.2%	6.6%	7.3%	7.7%
Personnel	12.0%	12.1%	12.3%	12.7%	13.1%	13.5%	13.4%	11.9%	12.6%	13.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Personnel expenses include directors' compensation, salaries, bonuses, provision for bonuses, and welfare expenses.

The main components of SG&A expenses are personnel, advertising, and other head office expenses. The SG&A expense ratio (SG&A expenses ÷ sales) rose by 9.1pp from FY09/10 through FY09/19. The company reinvests some of the savings from declining cost of sales in advertising and personnel.

Acquisition of halls

The company is considering acquiring funeral halls through M&A. There are many SMEs in the funeral industry, and many of them are suitable targets. Many operators are aging and shutting down businesses due to lack of successors.

Medium-term management plan

In November 2018, TEAR updated its medium-term management plan covering the three years from FY09/19 to FY09/21. In the plan, TEAR outlined plans to hold 13,920 funerals (up 27.4% from FY09/19) at its directly managed funeral halls in FY09/22, and post sales of JPY15.3bn (up 20.1% YoY) and an operating profit of JPY1.4bn (up 21.5% YoY).

The company plans to accelerate the opening of new funeral halls in Nagoya and surrounding areas and strengthen its management base with the longer-term goals of 200 funeral halls and sustained growth thereafter. In the Kanto area, it plans to continuously open new funeral consultation salons in Tokyo and increase earnings. In the Kansai area, it aims to resume hall openings and strengthen the management base while expanding earnings.

The four main initiatives are as follows: accelerated opening of directly managed funeral halls and funeral consultation salons and systematic opening of franchisee managed halls; improving usability of existing halls and strengthening online marketing; bringing ancillary services in-house and setting clear standards for M&A; and systematic recruitment and enhancement of staff training structure.

Assuming that funeral prices and sales at existing halls move in line with the company's FY09/20 forecast, the establishment of new funeral halls and subsequent increase in the number of funerals held will likely spur a rise in sales. The company is currently planning to open new directly managed halls at a rate of 8–11 per year (including 2–3 funeral consultation salons) and at a rate of eight franchisee-managed halls per year.

In terms of OPM, the company forecasts profit growth on higher sales in FY09/20. Its earnings plan from FY09/21 assumes the same level of sales of existing halls as in the FY09/20 forecast, an increase in expenses associated with starting up new funeral halls and hiring of new graduates, and higher advertising and promotional expenses.

Medium-term plan targets

Targets	FY09/19	FY09/20	FY09/21	FY09/22
	Act.	Est.	Targets	Targets
Number of funerals held	10,923	11,968	12,972	13,920
YoY	6.6%	9.6%	8.4%	7.3%
Sales (JPYmn)	12,779	13,695	14,570	15,350
YoY	3.8%	7.2%	6.4%	5.4%
Operating profit (JPYmn)	1,156	1,220	1,345	1,405
YoY	-12.6%	5.5%	10.2%	4.5%
OPM	9.0%	8.9%	9.2%	9.2%
Recurring profit (JPYmn)	1,151	1,215	1,345	1,410
YoY	-11.5%	5.6%	10.7%	4.8%
Net income (JPYmn)	791	815	905	950
YoY	-11.7%	3.0%	11.0%	5.0%
Capital expenditures (JPYmn)	1,038	910	695	681

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Main initiatives in the medium-term business plan

Aggressive expansion program of accelerating the opening of directly managed halls and funeral consultation salons and systematic opening of franchisee-run halls

- Strategic dominance: As TEAR strives to realize its long-term target of 200 funeral halls, it plans to increase its market share in Nagoya (the Chubu area of central Japan) by accelerating the pace of family funeral hall openings and increasing earnings at existing halls. In the Kanto area, it plans to continuously open funeral consultation salons in Tokyo and increase earnings. In the Kansai area, the company will resume hall openings to strengthen the management base and expand earnings. The company intends to open new halls at a rate of 8–11 per year at directly managed halls (including 2–3 funeral consultation centers) and at a rate of eight per year at franchisee managed halls.
- The company will focus on opening family funeral halls with maximum capacity of 30 (capex: JPY70mn, payback period: nine years). Family funeral halls will mainly open near existing funeral halls in the Chubu and Kansai areas to help increase market share in each area. The company will open halls according to the basic format (capacity: 100–150; capex: JPY150–200mn, payback period: 9–10 years) upon surveying the market size and rent of the commercial area of the intended site (defined as the area within a 3km radius of the hall).
- In August 2016, TEAR opened the Tear Nippori Funeral Consultation Center in Arakawa Ward, Tokyo (up to JPY10mn investment; over 90sqm) targeting the Tokyo metropolitan area as a new store format. The company expects these store formats to be approximately 66–99sqm in size and to be opened as tenants in buildings. It plans to invest roughly JPY15mn (Generally, TEAR invests JPY100–200mn in funeral halls, with a payback period of seven to ten years). Because funeral halls with crematoriums are abundant in Tokyo area, the company can conduct funerals by deploying staff from its existing halls even without having its own halls in the area. As opposed to launching a new hall, opening funeral consultation centers would allow the company to establish a marketing network in the Tokyo metropolitan area with small investments, which it believes will lead to a rise in number of funerals. Unlike funerals conducted in TEAR's halls, as customers are required to pay for renting the halls with crematoriums and the company will only provide funeral services, Shared Research expects funeral prices to decline. Shared Research believes the centers will yield profits more easily owing to reduced fixed costs as well as a shorter payback period than funeral halls.

Hall opening plans in the medium-term management plan

	FY09/19	FY09/20	FY09/21	FY09/22
	Act.	Est.	Targets	Targets
Number of funeral halls (year-end)	116	135	153	169
YoY change	14	19	18	16
Directly managed	68	79	89	97
YoY change	11	11	10	8
Franchisees	48	56	64	72
YoY change	3	8	8	8

Source: Shared Research based on company data

Improving usability of existing funeral halls and stepping up online marketing

- ✔ Sales strategy: In order to respond to diversifying funeral needs and a decrease in the size of funerals, the company plans to improve usability by upgrading existing facilities and systematically refurbishing existing funeral halls. It plans to refurbish two existing funeral halls per year.
- ✔ Brand strategy: The company will renew its website and step up online marketing to attract Tear Club members and increase the number of orders for funerals via the site. It will also continue PR and IR activities and aims to raise its name recognition and awareness not only in the Chubu, Kanto, and Kansai regions, but also nationwide.

Bringing ancillary services in-house and clarifying standards for M&A

- ✔ Strategy for products: The company plans to bring more ancillary services in-house. To this end, it plans to invest in personnel and equipment for vehicle-related services, increase the share of in-house *yukan* services, dispatch ceremony assistants (employees) to other funeral halls, and start and expand operations of a funeral flowers business. It also plans to streamline its logistics center, which delivers products used for funerals to funeral halls.
- ✔ M&A strategy: By clarifying quantitative standards for M&A, the company plans to speed up the process of evaluating potential targets.

Recruiting systematically and enhancing the training structure

- ✔ HR strategy: The company is working on securing personnel to achieve its longer-term goal of 200 funeral halls. In addition to putting into action a new graduate hiring program based on the PDCA cycle, it will operate its own new graduate training program for accelerated training of new recruits. It will also provide training programs for existing employees such as those on performance quality standards and executive management skills. Furthermore, the company opened the TEAR Human Resource Center (THRC) in April 2019 to increase the effectiveness of HR training. The company plans to hire 31 new graduates in FY09/20, 30 in FY09/20, and 20 in FY09/21.

Business

President Tomiyasu founded TEAR in 1997. After working for a funeral company for 18 years he decided to start his own firm and overturn long-standing practices. The company mainly operates around Nagoya, Aichi. It provides services at funeral halls, homes, temples, and public halls. It also offers post-funeral services including memorial services on important anniversaries. TEAR also manages funeral hall franchisees, leveraging its operational experience.

Rare growth industry in Japan

According to the Vital Statistics Survey published by the Ministry of Health, Labour and Welfare, there were an estimated 1.3mn deaths (+2.5% YoY) in Japan in 2018. Over the past 20 years the number of deaths grew at an annual pace of 1.9%. The National Institute of Population and Social Security Research (Population Projection for Japan) forecasts the number of deaths to increase at an annual rate of 1.0% from 2018 before peaking at 1.7mn in 2040. Demand for funeral services is growing despite Japan’s shrinking population, low birthrate, and aging society, making the funeral business one of the few growth industries in the country.

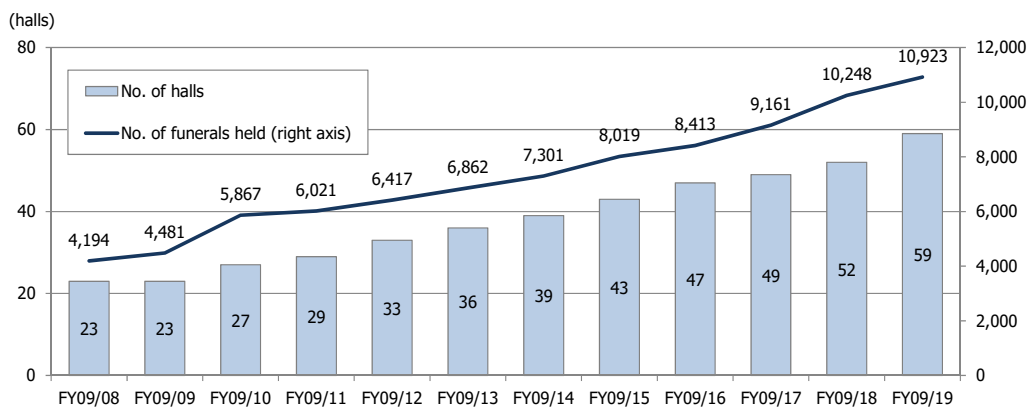
Transparent low prices, dominant presence, membership, and in-house training

Several characteristics set the company apart. TEAR spearheaded the move to provide transparent pricing, revealing all the costs associated with a funeral. Its funerals cost less than its competitors’ (about 30% less than market average). It has a dominant funeral hall presence around Nagoya (end FY09/19 it had 34 halls in Nagoya alone). The company established a membership system called TEAR No Kai (“Tear Club”), and most of the funeral services the company conducts are for members. After paying an initial fee, members receive various funeral-related benefits, as well as discounts and services at partner companies. The company also has a unique staff training system. TEAR is one of two funeral companies listed on the TSE First Section—possibly raising its reliability and profile in the eyes of consumers.

Earnings

The number of funerals handled by TEAR has grown in view of more halls and a rising number of deaths per year. From FY09/10 through FY09/19 the number of funerals TEAR handled grew by 7.1% per year. Since FY09/13, its share of funerals in Nagoya has topped 20%, reaching 24.9% at end FY09/19.

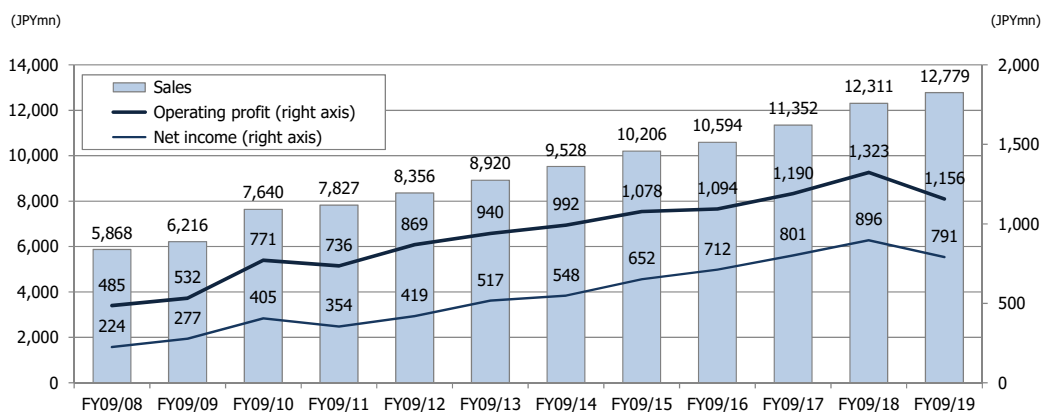
TEAR: number of directly managed funeral halls (excluding funeral consultation salons) and number of funerals conducted



Source: Shared Research based on company data

Accompanying a rise in the number of funerals handled, from FY09/10 through FY09/19 the company’s sales grew by 5.9% per year; operating profit by 4.6%; and net income attributable to owners of the parent by 7.9%.

TEAR: sales, operating profit, and net income



Source: Shared Research based on company data

Business segments

TEAR has two segments, Funeral and Franchise. In FY09/19, the funeral business accounted for more than half of sales and operating profit.

Segments (JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Sales	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311	12,779
YoY	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%	3.8%
Funeral	7,550	7,697	8,210	8,686	9,259	9,887	10,217	11,011	11,927	12,383
YoY	22.4%	1.9%	6.7%	5.8%	6.6%	6.8%	3.3%	7.8%	8.3%	3.8%
% of total sales	98.8%	98.3%	98.3%	97.4%	97.2%	96.9%	96.5%	97.0%	96.9%	96.9%
Franchise	90	130	145	234	269	319	376	340	383	396
YoY	82.5%	44.3%	11.8%	60.8%	15.1%	18.5%	18.0%	-9.6%	12.6%	3.4%
% of total sales	1.2%	1.7%	1.7%	2.6%	2.8%	3.1%	3.5%	3.0%	3.1%	3.1%
Operating profit	771	736	869	940	992	1,078	1,094	1,190	1,323	1,156
YoY	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%	-12.6%
OPM	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%	9.0%
Funeral	1,239	1,209	1,333	1,507	1,575	1,648	1,813	1,994	2,191	2,157
YoY	-	-2.4%	10.2%	13.1%	4.5%	4.7%	10.0%	10.0%	9.9%	-1.6%
OPM	16.4%	15.7%	16.2%	17.4%	17.0%	16.7%	17.7%	18.1%	18.4%	17.4%
% of total operating profit	99.0%	97.5%	96.1%	97.3%	97.3%	97.0%	96.2%	96.2%	96.3%	97.1%
Franchise	13	32	54	41	43	50	71	78	85	65
YoY	-	145.1%	71.7%	-24.2%	4.4%	16.9%	41.7%	9.9%	9.0%	-23.5%
OPM	14.3%	24.3%	37.3%	17.6%	15.9%	15.7%	18.9%	22.9%	22.2%	16.4%
% of total operating profit	1.0%	2.5%	3.9%	2.7%	2.7%	3.0%	3.8%	3.8%	3.7%	2.9%
Other, company-wide/eliminations	-481	-505	-518	-608	-625	-620	-789	-881	-953	-1,066

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Business model

Funeral segment

Sales

Segment sales are a function of the average funeral price times the number of funerals. In FY09/19, the average funeral price was JPY995,000 and the company conducted 10,923 funerals. The difference between overall sales and the number of funerals multiplied by the average funeral price comprise sales of Buddhist memorial services and gravestone referrals, as well as Tear Club membership fees, which amount to about 12% of sales.

Funeral segment: changes in sales, number of funerals held, and prices

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Sales (JPYmn)	7,550	7,697	8,210	8,686	9,259	9,887	10,217	11,011	11,927	12,383
YoY	22.4%	1.9%	6.7%	5.8%	6.6%	6.8%	3.3%	7.8%	8.3%	3.8%
Funeral sales (JPYmn)	6,524	6,599	7,084	7,569	8,141	8,596	8,909	9,619	10,504	10,868
YoY	-	1.1%	7.4%	6.8%	7.6%	5.6%	3.6%	8.0%	9.2%	3.5%
No. of funerals held	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248	10,923
YoY	30.9%	2.6%	6.6%	6.9%	6.4%	9.8%	4.9%	8.9%	11.9%	6.6%
Funeral prices (JPYmn)	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03	1.00
YoY	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%	-2.9%
Other sales (JPYmn)	1,026	1,098	1,126	1,117	1,118	1,291	1,308	1,392	1,423	1,515
YoY	-	7.0%	2.6%	-0.8%	0.1%	15.4%	1.3%	6.4%	2.2%	6.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Customers

TEAR provides funeral services at directly managed funeral halls, customers' homes, temples, and public halls. It also offers post-funeral services such as memorial services on significant dates.

TEAR established a membership system called TEAR No Kai (Tear Club). After paying an initial fee of JPY10,000 members can receive special discounts on TEAR's funerals and various other privileges. This is to boost its membership base, i.e., potential future customers. Over 90% of the company's customers are members of the club or belong to partner organizations.

Promotional events at funeral halls, door-to-door marketing by salespeople to residents near the funeral halls (each funeral hall has one or two salespeople), and internet marketing drive Tear Club membership growth. At end FY09/19, there were 380,807 club members (+9.7% YoY).

Services

Main services normally cover the two days of the wake and funeral—from when the body is taken to the funeral hall to its final trip to the crematorium. Specifically, services comprise of transportation of the body from the hospital; enshrining and preparing the body; arranging and installing an altar and associated items in accordance with the deceased's religious affiliation; and arranging and carrying out other activities before, during, and after the funeral service, including placing the body in the coffin, providing a master of ceremonies, and transporting the body to the crematorium. TEAR can provide ancillary services such as selling gravestones and arranging visits from monks, but does not generally do so. Only those with approval from relevant local authorities, the prefectural government, can handle cremations.

Prices (funeral prices)

In FY09/19, TEAR's average funeral price was JPY995,000. According to the company, this was JPY300,000–JPY400,000 cheaper than the average funeral price in Japan of JPY1.4mn (calculated by the company based on the Survey of Selected Service Industries in July 2019).

Changes in funeral prices

(JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Average funeral price	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03	1.00
YoY	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%	-2.9%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Number of funerals

The number of funerals is rising as the company's funeral hall network grows. The number of funerals per hall is around 200 a year.

Number of halls and funerals per hall

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Number of halls	27	29	33	36	39	43	47	51	57	68
YoY change	4	2	4	3	3	4	4	4	6	11
Annual average	25	28	31	35	38	41	45	49	54	63
Number of funerals held	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248	10,923
Number of funerals per hall	235	215	207	199	195	196	187	187	190	175

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Franchise segment

Using TEAR's experience, the Franchise segment targets companies looking to expand into new businesses and make effective use of vacant land. The company offers a total package spanning market surveys and funeral hall planning through training and management advice. At end October 2019, 11 franchisees were managing 48 halls.

Segment sales come from franchise-joining fees, which the company receives (JPY2mn), funeral hall application fees (JPY3mn), royalties (around 3% of the franchisee hall's revenue), fees for training franchisee staff, and funeral-related product sales franchisees.

One of the conditions for granting rights to a franchisee is that it is not already in the funeral business. Different from other firms, TEAR thinks it inefficient to retrain employees who have practical experience at another funeral company. TEAR trains franchise employees in the same manner as its own employees.

Business overview

The company provides customers with a comprehensive range of funeral services at its directly managed halls, in their homes, and at temples and public halls. It also offers post-funeral services such as memorial services on significant dates.

Service prices

According to the company, until the late 1990s when it began operating, funeral companies conducted funerals, and in many cases without revealing detailed pricing. TEAR took another approach. Since its inception the company has fully disclosed its pricing structure and provided prior estimates to its customers; customers can find funeral prices by referring to pamphlets or the internet. The company also has a policy of not accepting the gratuities traditionally paid by the bereaved to those involved in the funeral business. Its service revenue is a combination of a fixed charge (depending on the price of the altar), and a variable charge (depending on the number of mourners). Charges do not vary according to religion.

Fixed charges

The company charges according to the size of the altar, with plans ranging from JPY300,000 to JPY4.5mn. As of November 2019, altar pricing plans differed by region and hall type.

Fixed charges include the cost of the altar, funeral hall use (two days), delivery charges, a futon for the deceased, the body-washing ritual, a set of handouts for the funeral hall, an urn set, memorial garments, thank-you letters for those attending the wake (members receive 100 free), a customized eulogy, refrigerant (for one session), deodorant and preservatives, a formal photograph of the deceased, a hearse, a coffin, a temporary altar, the master of ceremonies, and service fees. Charges vary significantly between those who are members of Tear Club and nonmembers.

Funeral hall fixed charges at Tear Yatomi, Yatomi, Aichi Prefecture (thousands of yen)

Small-scale funeral			General funeral		
Altar	Alter and accessories		Altar	Alter and accessories	
	Nonmembers	Members		Nonmembers	Members
380	700	380	300	637	300
670	1,113	603	380	717	380
840	1,283	756	670	1,162	603
1,040	1,520	936	790	1,282	711
1,340	1,831	1,206	960	1,452	864
1,640	2,165	1,476	1,040	1,532	936
1,940	2,588	1,746	1,140	1,632	1,026
			1,340	1,891	1,206
			1,640	2,196	1,476
			1,940	2,630	1,746
			2,240	2,960	2,016
			2,740	2,972	2,016
			3,240	3,972	2,916
			3,740	4,472	3,366

Source: Shared Research based on company data
 Note: Member prices refer to those for Tear Club Gold Members.
 Note: The small-scale funeral plan is for relatively small funerals with 30 people or fewer.

Family funeral hall fixed charges at Tear Hojin, Nagoya, Aichi Prefecture (thousands of yen)

Family funeral		
Altar	Alter and accessories	
	Nonmembers	Members
300	625	300
500	907	500
700	1,158	630
900	1,382	810
1,200	1,764	1,080
1,500	2,169	1,350

Source: Shared Research based on company data
 Note: Member prices refer to those for Tear Club Gold Members.
 Note: The family funeral plan is exclusively for family funeral halls with a maximum capacity of 30 people.

Funeral consultation salon fixed charges at Tear Nezu, Bunkyo, Tokyo (thousands of yen)

General funeral			Cremation		
Altar	Alter and accessories		Altar	Alter and accessories	
	Nonmembers	Members		Nonmembers	Members
300	300	270	190	190	180
400	400	360	220	220	210
500	500	450	260	260	250
700	700	630			
900	900	810			
1,100	1,100	990			
1,300	1,300	1,170			
1,500	1,500	1,350			

Source: Shared Research based on company data
 Note: Member prices refer to those for Tear Club Gold Members.
 Note: The general funeral plan includes the one-day funeral plan (funeral service, memorial ceremony, and cremation in one day without a wake; altar price: JPY300,000) and the family funeral plan (funeral with 30 people maximum; altar price: JPY400,000).
 Note: The cremation plan includes transportation of the deceased to a crematorium and cremation (no wake or funeral service).

Variable charges (incidental funeral costs)

Variable charges cover thank-you gifts to mourners at the wake and funeral as well as catering charges. The amount depends on the number of mourners. The type of gift and food varies with regional customs. Charges are as shown in the table below.

Costs depend on the number of mourners

Cost per mourner (JPY)	Sokuyohin	Koden gaeshi	Wake catering	Shuttatsu ryori	Shojin otoshi
Chubu region (funeral halls, TEAR Yatomi)	600	-	1,700	1,700	4,000
Chubu region (funeral consulting salons, TEAR Hojin)	600	-	1,700	1,700	4,000
Kansai region (funeral halls, TEAR Onoshiba)	600	-	1,700	1,700	4,000
Chubu region (funeral consulting salons, TEAR Gamo)	600	-	600	-	3,980
Chubu region (funeral consulting salons, TEAR Nezu)	-	2,000	450	-	3,800

Source: Shared Research based on company data

Note: The Chubu region includes Aichi, Gifu, and Mie Prefectures. The Kansai region includes Osaka and Wakayama Prefectures. The Kanto region includes Saitama, Kanagawa, and Chiba Prefectures.

Note: Wake catering costs in the Kanto region are JPY4,500 per individual for a 10-person set.

Sokuyohin: small gift given by the bereaved to mourners who have given them condolence money at the time of funeral or memorial ceremony—primarily in western Japan. A different term, “kokorozashi,” is used in eastern Japan.

Shuttatsu Ryori (literally “departure dish”): meal eaten by the bereaved family and relatives as the last meal with the deceased before the funeral.

Shojin Otoshi: one of many terms that refers to the return to a normal diet from a vegetarian one accompanying the Buddhist ceremony on the 49th day after death. These days, it is common to perform this together with the seventh-day memorial ceremony after returning from the crematorium, at a banquet, to thank the monks and facilitators for their work.

Average prices

The average price for funerals TEAR conducted was JPY995,000 in FY09/19. The breakdown: altar (including accessories), roughly 70%; funeral associated expenses (thank-you gifts and food), roughly 20%; and floral and other offerings, roughly 10–20%. The bereaved family pays for everything except the offerings.

According to TEAR, the average price for a typical funeral in Japan was JPY1.4mn (calculated by the company based on METI’s Survey of Selected Service Industries). This means that TEAR provides funerals that are about JPY300,000 cheaper than those of its competitors. TEAR can provide this pricing by accepting a lower profit per funeral than other companies in the sector.

Price maintenance/funeral advisers

According to the company, the size of funerals is on a downward trend accompanying a rise in the average age of the deceased and the chief mourners, and shrinking family sizes due to Japan’s declining birthrate. Per the company, the average funeral price is falling across the industry. To help maintain prices, TEAR has employed funeral advisers to take requests from the bereaved family since FY09/12. Personnel involved in running the funeral may be busy with funeral preparations and unable to fully handle all of these requests. In contrast, these advisers are able to take full note of the family’s wishes and offer them the best plan. As such, the company takes service orders exceeding its average.

Tear no Kai (Tear Club)

What is Tear Club?

Tear no Kai (Tear Club) is the company’s membership system. For an initial fee of JPY10,000 (special price for online registration is JPY7,000) and no installments or annual fees, members can receive special benefits on TEAR’s funerals depending on membership type, as well as discounts and benefits at partner companies throughout Japan. A member cannot be enrolled posthumously. One TEAR card may be used for one funeral. Other than the member, their immediate family, relatives, and friends may also use the discounts. Furthermore, Gold Tear Club members can make use of discounted services at over 10,000 hotels, hot springs, restaurants, and leisure facilities.

In the Chubu region, a nonmember who selects the standard JPY670,000 altar plan has to pay extra charges for a total cost of JPY1,112,900. Tear Club members receive a 10% discount on the altar price and incidental services free of charge, for a total funeral cost of JPY603,000.

Aim of Tear Club

It is Shared Research’s understanding that mutual aid societies, which have a large market share of the funeral business (according to company data, a roughly 60% market share among funeral businesses with sales of JPY300mn or more), have its

salespeople regularly keep in touch with members, who pay monthly installments, so customers and members are aware of the existence of the mutual aid society. For TEAR, which is not a part of this system, the Tear Club is an alternate means to keep in touch with customers and boost its profile. A METI survey* asked where respondents got information about funeral industry operators. The answers: “I already knew them,” 27.5%; “introduced by family/relatives,” 21.2%; “the deceased or family consulted with them ahead of time,” 15.8%; “the deceased chose them beforehand,” 12.2%. Excluding cases where relatives have introduced the customer, awareness and prior consultations are important factors.

Member acquisition

The Tear Club holds promotional events such as funeral seminars, discussion groups and funeral hall inspection tours. TEAR also has one or two salespeople per funeral home who visit neighborhood residents. Marketing personnel are assigned five months before opening new funeral halls; they conduct preopening marketing to the residents of the vicinity. Tear Club membership is growing at an annual pace of around 30,000. As of FY09/19 there were 380,807 members.

Changes in Tear club members and partner organizations

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
TEAR Club members	154,620	175,577	196,411	218,446	238,632	263,233	288,935	318,412	347,037	380,807
YoY	14.4%	13.6%	11.9%	11.2%	9.2%	10.3%	9.8%	10.2%	9.0%	9.7%
Partner organizations	257	294	347	446	526	628	689	759	835	931
YoY	-	14.4%	18.0%	28.5%	17.9%	19.4%	9.7%	10.2%	10.0%	11.5%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Number of funerals and members, mortality rate

According to the company, in FY09/19, 69.2% of customers were Tear Club members, 25.7% partner organizations, and 3.3% nonmembers. This shows the importance of the Tear Club in accessing customers. The company estimates that 90% of Tear Club members use its services again.

Breakdown of funeral sales

	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
TEAR Club members	69.4%	70.5%	69.1%	67.4%	67.7%	67.9%	68.2%	68.4%	69.2%
Partner organizations	22.0%	21.6%	22.6%	23.7%	23.6%	24.6%	23.9%	24.1%	25.7%
Nonmembers	7.0%	5.8%	6.3%	6.8%	6.7%	5.5%	5.8%	5.4%	3.3%
Others	1.6%	2.1%	2.0%	2.1%	2.0%	2.0%	2.1%	2.1%	1.8%

Source: Shared Research based on company data

According to the Ministry of Health, Labour and Welfare’s Vital Statistics Survey, there were 1.4mn deaths in 2018 for a mortality rate (number of deaths as share of total population) of 1.1% (1.1% in 2017). The rate for those over 50 was more than double that at 2.3% (2.2% in 2017), the rate for those over 65 was 3.5% (3.5% in 2017) and for those over 75 was 5.8% (5.8% in 2017). The annual mortality rate remains largely unchanged.

There is a tendency to think that forecasting sales in the funeral business is inherently difficult due to the lack of planning. However, if a company grows its population of potential customers as TEAR does, members or their relatives will use its funeral services every year, generating recurring funeral demand. Shared Research understands that this increases the likelihood of stable, high operating rates at the funeral halls.

Mortality statistics by five-year bracket

	Number of deceased		Mortality rate		Percentage	
	2018	2017	2018	2017	2018	2017
Total	1,362,482	1,340,397	1,097	1,075	1.1%	1.1%
0-4	2,393	2,454	50	51	0.1%	0.1%
5-9	363	351	7	7	0.0%	0.0%
10-14	463	437	9	8	0.0%	0.0%
15-19	1,143	1,161	20	20	0.0%	0.0%
20-24	2,005	2,024	34	34	0.0%	0.0%
25-29	2,218	2,276	38	38	0.0%	0.0%
30-34	3,114	3,254	47	47	0.0%	0.0%
35-39	4,606	4,749	62	62	0.1%	0.1%
40-44	8,332	8,817	93	95	0.1%	0.1%
45-49	13,996	14,019	147	151	0.1%	0.2%
50-54	19,483	19,060	237	237	0.2%	0.2%
55-59	27,379	27,527	362	367	0.4%	0.4%
60-64	43,332	44,904	576	580	0.6%	0.6%
65-69	86,355	92,433	927	937	0.9%	0.9%
70-74	114,503	109,141	1,397	1,415	1.4%	1.4%
75-79	158,272	155,804	2,292	2,321	2.3%	2.3%
80-84	225,130	226,168	4,224	4,286	4.2%	4.3%
85-89	276,700	270,070	7,893	7,972	7.9%	8.0%
90-94	234,658	223,386	14,043	14,147	14.0%	14.1%
95-99	109,213	104,089	24,878	25,765	24.9%	25.8%
100-	28,324	27,804	41,049	41,499	41.0%	41.5%

Source: Shared Research based on "Vital Statistics Survey," Ministry of Health, Labour and Welfare data
 Note: The mortality rate is deaths per 100,000 people.

Funeral halls
Hall opening strategy

It has a strategy of developing funeral halls concentrated in a certain geographic area so that it has a dominant presence. This makes it more convenient for consumers and boosts the company's name recognition. According to the company, opening a large funeral hall will not necessarily boost its profile with the surrounding residents. So if it has the funds to build one large funeral facility, instead it will open two smaller facilities. Through this the company aims to boost recognition, raise operating rates through complementary utilization of halls, and promote nearby halls when it holds funerals. TEAR has established that a funeral hall should have a catchment area of 3km in diameter. The company assesses population in an area and distance from neighboring halls when deciding whether to develop a new hall.

Development costs

Hall development costs consist largely of capital expenditure for building construction, as the company leases the land. The company's basic hall format is summarized below.

Funeral hall formats and capital expenditures

Hall format		Capex	Payback period
Standard format	1-2 stories; one ceremony hall (capacity of 100-150 people); one ante-room for family and hall designated for family funerals; one ante-room for family; one dining room	JPY150-200mn	9-10 years

Source: Shared Research based on company data
 Note: *Payback period = total investment ÷ (operating profit + depreciation)

Starting in September 2018, in addition to the basic format, the company has been opening small halls for smaller family funerals to address contracting funeral sizes. It also intends to refurbish existing halls. The company plans to open family funeral halls mainly in Nagoya and surrounding areas located in between two existing halls to increase its market share.

Family funeral hall format and capex

Hall format		Capex	Payback period
Family funeral hall format	Land area: around 660sqm, building area: around 200sqm, one ceremony hall (capacity: approx. 30)	JPY70mn	Nine years

Note: Payback period calculated as investment ÷ operating profit + depreciation

Operating rates and existing halls

Due to the nature of funerals, it is not possible to take orders and determine schedules in advance, and the company is unable to control operating rates. Per the company, average utilization was around 70%. (Based on around 25 working days per month; 30 days in a typical month excluding inauspicious days. Because one funeral includes a wake and the funeral ceremony itself over two days, one hall can hold 12.5 funerals per month. The standard two-hall facility would be operating at full capacity with 25 funerals per month.)

Tomobiki is one of the six days in the lunar calendar and is often avoided for funerals. The six days in the traditional Japanese lunar calendar, each day is classified as Sensho, Tomobiki, Senpu, Butsumetsu, Taian, and Shakko. These six days are considered when planning weddings and funerals.

Utilization rate

According to TEAR, the company includes a funeral hall in its comparable or existing hall figures two years after it opens. Sales at existing halls are growing. In addition to the increasing number of deaths (rising at an annual rate of about 1%), the company is growing its Tear Club membership through door-to-door marketing to neighborhood residents and maintaining average prices.

Halls
Network of halls

TEAR has grown its network beyond Aichi. In 2006 it expanded into Osaka, and in 2012 opened a funeral hall in Saitama. It plans to expand its business in the Kansai and Kanto regions. Further, in 2016 it opened funeral centers in Tokyo. At these centers it provides funeral services and prior consultations, and hosts funeral seminars. It has arrangements with more than 200 funeral homes in Tokyo, so TEAR's funeral services are available there as well.

TEAR's funeral halls and funerals handled

	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
No. of directly managed halls	27	29	33	36	39	43	47	51	57	68
Nagoya City	18	18	20	20	22	24	25	26	28	34
Aichi Prefecture (excl. Nagoya City)	8	10	11	12	12	14	16	18	19	20
Outside Aichi Prefecture	1	1	2	4	5	5	6	7	10	14
No. of funerals	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248	10,923
Nagoya City	4,057	4,049	4,234	4,411	4,576	4,849	5,043	5,302	5,765	6,021
Aichi Prefecture (excl. Nagoya City)	1,615	1,791	1,973	2,120	2,165	2,331	2,500	2,822	3,209	3,333
Outside Aichi Prefecture	195	181	210	331	560	839	870	1,037	1,274	1,569
No. of funerals per hall	235	215	207	199	195	196	187	187	190	175
Nagoya City	246	225	223	221	218	211	206	208	214	194
Aichi Prefecture (excl. Nagoya City)	215	199	188	184	180	179	167	166	173	171
Outside Aichi Prefecture	195	181	140	110	124	168	158	160	150	131

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

TEAR's halls: key data (as of September 30, 2019)

TEAR establishment	Location	Established	Renovated	Halls (capacity in parentheses)
Head office, TEAR Kurokawa	Kita, Nagoya City	Aug. 2001	Dec. 2016	2 large halls (capacity: 100 each), Japanese style room and hall (28 mats), 2 family waiting rooms (Japanese style; 24 mats each), 2 dining rooms (36 seats each)
Nakagawa	Nakagawa, Nagoya City	Jan. 1998		1F family funeral hall (20), 2F large hall (100), 3F large hall (100)
Kasadera	Minami, Nagoya City	Nov. 1998	Dec. 2010	1F small hall (80), 2F large hall (150)
Minato	Minato, Nagoya City	Aug. 1999	Nov. 2013	1F small hall (20), 2F large hall (120), 3F medium hall (70)
Sanno	Nakagawa, Nagoya City	Oct. 1999	May 2018	2F large hall (120), 3F large hall (120)
Midori	Midori, Nagoya City	Feb. 2001		2F large hall (300), 3F medium hall (130), 3F small hall (40)
Gokiso	Showa, Nagoya City	Jul. 2001	Nov. 2014	2F large hall (100), 3F medium hall (80), 3F small hall (30)
Daiko	Higashi, Nagoya City	Jul. 2001		2F large hall (300), 3F medium hall (150), 3F small hall (50)
Nakamura	Nakamura, Nagoya City	Dec. 2001	Jul. 2018	2F large hall (200), 3F large hall (200), 4F family-only funeral hall (20)
Aoiyama	Tempaku, Nagoya City	Jul. 2002	Jun. 2020	2F large hall (120), 3F large hall (120), 4F small hall (30)
Nishibiwajima	Kiyosu, Aichi Prefecture	Oct. 2002		1F large hall (200)
Kanie	Kanie, Aichi Prefecture	Nov. 2002		1F large hall (150), 1F medium hall (80)
Meiko	Minato, Nagoya City	Dec. 2002		1F large hall (200), 2F medium hall (70)
Joshin	Nishi, Nagoya City	Dec. 2002	Nov. 2011	1F large hall (100), 2F small hall (50)
Jimokuji	Amaguchi, Aichi Prefecture	Aug. 2003	Dec. 2012	1F large hall (150), 1F family-only funeral hall (waiting room) (30)
Toyoake	Toyoake, Aichi Prefecture	Oct. 2004	Sep. 2017	1F large hall (200), 1F medium hall (100)
Moriyama	Moriyama, Nagoya City	Oct. 2004		1F large hall (250), 2F medium hall (100)
Atsuta	Atsuta, Nagoya City	Nov. 2005		1F large hall (200), 1F medium hall (100)
Kadoma	Kadoma, Osaka Prefecture	Mar. 2006		1F medium hall (100), 1F small hall (30), 2F large hall (200)
Toyohashi	Toyohashi, Aichi Prefecture	Jul. 2006	Jul. 2015	2F large hall (120), 3F small hall (50)
Toyohashi-minami	Toyohashi, Aichi Prefecture	Jul. 2006	Sep. 2017	1F large hall (120), 1F medium hall (80)
Shikenyu	Moriyama, Nagoya City	Jun. 2008	Aug. 2020	2F large hall (200), 3F small hall (50)
Okazaki-minami	Okazaki, Aichi Prefecture	Oct. 2007		1F medium hall (100), 3F large hall (150)
Mizuho	Mizuho, Nagoya City	Oct. 2009		2F large hall (150), 3F medium hall (100)
Meito	Meito, Nagoya City	Oct. 2009		1F small hall (80), 2F large hall (200)
Kasugai	Kasugai, Aichi Prefecture	Dec. 2009		1F large hall (120), 2F small hall (50)
Sako	Nishi, Nagoya City	Jun. 2010		2F large hall (100), 3F large hall (100)
Okazaki-kita	Okazaki, Aichi Prefecture	Oct. 2010		2F large hall (120), 1F small hall (40)
Toyohashi-nishi	Toyohashi, Aichi Prefecture	Apr. 2011		2F large hall (120), 3F small hall (50)
Okazaki-chuo	Okazaki, Aichi Prefecture	Oct. 2011		2F large hall (120), 3F small hall (50)
Dotoku	Minami, Nagoya City	Apr. 2012		1F small hall (50), 2F large hall (120)
Kakuozan	Chikusa, Nagoya City	Jun. 2012		2F large hall (100), 3F small hall (50)
Koshigaya	Koshigaya, Saitama Prefecture	Sep. 2012		2F large hall (60-150), 3F large hall (60-150)
Daito	Daito, Osaka Prefecture	Apr. 2013		1F large hall (150), 2F large hall (150)
Ajiyoshi	Kasugai, Aichi Prefecture	May 2013		2F hall *(50-150; by partitions), 1F Japanese style room, over 26sqm (20)
Hatogaya	Kawaguchi, Saitama Prefecture	Aug. 2013		(50-80)
Honjin	Nakamura, Nagoya City	Oct. 2013		(40-70)
Neyagawa	Neyagawa, Osaka Prefecture	Dec. 2013		1F large hall (100), 2F large hall (100)
Matsubakoen	Nakagawa, Nagoya City	Dec. 2013		1F family funeral hall (30), 2F hall (max 120)
Takinomizu	Midori, Nagoya City	Nov. 2014		1F large hall (10-120), 1F family hall (25)
Iwatsuka	Nakamura, Nagoya City	Jan. 2015		Large hall (150)
Tsushima	Tsushima, Aichi Prefecture	Aug. 2015		1F large hall (50-150), 1F family-only hall (waiting room attached) (30)
Komaki-chuo	Komaki, Aichi Prefecture	Aug. 2015		1F large hall (30-150), 1F family-only hall (waiting room attached) (30)
Kurokawa Higashikan	Kita, Nagoya City	Apr. 2016		1F medium family funeral hall (max 100), 2F large family funeral hall (max 150)
Nippori	Arakawa, Tokyo	Aug. 2016		Funeral consultation salon
Kita-Nagoya	Kita-Nagoya, Aichi Prefecture	Aug. 2016		1F large hall (50-150), 1F family-only hall (30)
Yatomi	Yatomi, Aichi Prefecture	Sep. 2016		1F large hall (50-150), 1F family-only hall (30)
Inazawa	Inazawa, Aichi Prefecture	May 2017		Large hall (50-150), family-only hall (waiting room attached) (30)
Nyoisaru	Kasugai, Aichi Prefecture	May 2017		Large hall (50-150), family-only hall (30)
Hara	Tenpaku, Nagoya City	Jul. 2017		Large hall (max 120), family-only hall (20)
Machiya	Arakawa, Tokyo	Jul. 2017		Funeral consultation salon
Shimonoiishiki	Nakagawa, Nagoya City	Oct. 2017		Hall (max 100), waiting room for relatives (Japanese style 17.5 mats with bath room)
Kita-Senju	Adachi, Tokyo	Feb. 2018		Funeral consultation salon
Aoto Ekimae	Katsushika, Tokyo	Mar. 2018		Funeral consultation salon
Tsushima-higashi	Tsushima, Aichi Prefecture	Apr. 2018		Large hall (50; max 100 with room dividers removed), waiting room (Japanese style 17.5 mats with bath room)
Komagome	Kita, Tokyo	Aug. 2018		Funeral consultation salon
Chiyodabashi	Moriyama, Nagoya City	Sep. 2018		Family funeral hall (30), waiting room for relatives (Japanese style 6 mats, western style 20sqm, with bath room)
Nezu	Bunkyo, Tokyo	Nov. 2018		Funeral consultation salon
Itaka	Meito, Nagoya City	Nov. 2018		Family funeral hall (30), waiting room for relatives (Japanese style 6 mats, western style 21sqm, with bath room)
Gamo	Joto, Osaka	Jan. 2019		Funeral consultation salon
Ohanajaya	Katsushika, Tokyo	Mar. 2019		Funeral consultation salon
Yakiyama	Tenpaku, Nagoya City	Jun. 2019		Family funeral hall (60), waiting room for relatives (Japanese style 10 mats, western style 28sqm, with bath room)
Yahagi	Okazaki, Aichi Prefecture	Jul. 2019		Family funeral hall (50), waiting room for relatives (Japanese style 8 mats, western style 20sqm, with bath room)
Higashiikebukuro	Toshima, Tokyo	Jul. 2019		Funeral consultation salon
Kawana	Showa, Nagoya City	Jul. 2019		Family funeral hall (30), waiting room for relatives (Japanese style 10 mats, western style 26sqm, with bath room)
Yatomidori	Mizuho, Nagoya City	Aug. 2019		Family funeral hall (30), waiting room for relatives (Japanese style 10 mats, western style 25sqm, with bath room)
Hojin	Minato, Nagoya City	Aug. 2019		Family funeral hall (30), waiting room for relatives (Japanese style 10 mats, western style 25sqm, with bath room)
Arahataminami	Showa, Nagoya City	Aug. 2019		Family funeral hall (30), waiting room for relatives (Japanese style 8 mats, western style 23sqm, w/ bath room)

Source: Shared Research based on company data

Unique training program

Change in nature of funeral services

According to the company, funerals shifted from the family's home to funeral halls starting in the 1990s. Prior to that, funeral operators primarily handled the heavy infrastructure including setting up altars, ceremony venues, and tents. In the 1990s they moved into offering services such as funeral consulting, conducting proceedings, and usher services. Employees of funeral halls started to become more involved—from transporting and enshrining the body through conducting the wake, funeral, and farewell ceremony. They thus needed to show care when dealing with those close to the deceased.

Staff training to improve service

TEAR places importance on distinguishing itself through its service. It does not employ those with much experience in the funeral industry. Instead, it trains its staff so that they can provide services that take into consideration the bereaved. The company has established its own personnel training program called Tear Academy, and a testing system which employees must pass for promotion.

In-house training program: Tear Academy

TEAR has set up an in-house training organization called Tear Academy. For three months after new graduates join the company, they receive instruction in etiquette and funeral knowledge and techniques. They learn how to think as someone intimately involved with ceremonies surrounding death, and receive detailed moral training. TEAR says that this thorough education enables it to maintain service quality.

TEAR Human Resource Center (THRC; a new HR training facility that will strengthen the function of Tear Academy) opened in April 2019.

Career advancement plan: Tear Tests

TEAR has established six grades for its employees. It holds tests once a year, which involve written and practical tests. Employees receive financial rewards for passing the tests.

Service quality

Training is designed to teach the company's philosophy and unify employees' way of thinking, to offer quality services. TEAR's achievements were recognized with its inclusion in the ninth annual "High Service Japan 300," by the SPRING, the Service Industry Productivity Council. This recognizes firms and organizations which are leaders in improving productivity and innovation.

Profitability snapshot, financial ratios

Sales

As mentioned, TEAR's sales are a function of number of funerals times average price per funeral (see section on business model).

Costs

Cost of sales

TEAR adopted consolidated accounting from FY09/17 and discloses a detailed breakdown of cost of sales in the parent earnings result section of financial statements filed with the Ministry of Finance. The parent company's mainstay business is the Funeral segment and it outsources ancillary services to consolidated subsidiaries. Thus we understand that the parent company's cost of sales breakdown is more or less the same as the cost of sales breakdown of the Funeral segment. We discuss below cost of sales of the parent company in lieu of cost of sales of the Funeral segment.

Cost ratios are about 60.0–70.0%. The largest component is product costs at about 30% of sales, and outsourcing costs, personnel expenses, and rents each account for around 7% of sales.

- **Product costs:** Primarily flowers, food, altars, and coffins. Because of the particular needs of funerals, the lead time is short for ordering flowers and food. The company thus procures them from nearby florists and restaurants. It has not disclosed the breakdown of costs by item. TEAR procures altars, coffins, and ancillary items mainly from China to cut costs.
- **Outsourcing:** The company uses temporary employment agencies mainly for funeral directors, MCs, tea servers, ushers, and security guards, who are paid by the hour. Hearse costs are also included in outsourcing.
- **Personnel:** Personnel costs for employees of the funeral halls are included in costs. Depending on the size of the facility, there are between two and seven employees.
- **Rent and depreciation:** This is mainly funeral hall rents and depreciation on buildings.

Cost of sales breakdown (JPYmm)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.
Sales	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,312	12,779
Total cost of sales	5,228	5,299	5,569	5,816	6,162	6,518	6,678	7,065	7,514	7,798
Cost of goods	2,347	2,407	2,453	2,555	2,634	2,822	2,958	3,055	3,196	3,252
Personnel expenses	392	418	470	495	590	659	701	772	888	964
Other expenses	2,489	2,474	2,647	2,766	2,938	3,037	3,015	3,237	3,430	3,581
Outsourcing	953	951	995	994	981	857	815	851	901	983
Funeral supplies	60	58	67	66	75	73	83	93	100	102
Hall supplies	75	40	83	52	52	80	64	68	59	79
Rents	642	650	683	747	796	841	886	943	974	988
Utilities	90	98	109	124	141	147	129	134	149	146
Maintenance	60	72	64	65	65	68	70	76	84	93
Depreciation	244	289	293	330	375	388	437	452	493	507
Taxes and dues	82	89	94	81	94	101	100	108	114	119
Other	284	226	259	307	359	481	431	509	553	650
Cost of sales ratio										
Total cost of sales	68.4%	67.7%	66.6%	65.2%	64.7%	63.9%	63.0%	62.2%	61.0%	61.0%
Cost of goods	30.7%	30.8%	29.4%	28.6%	27.6%	27.7%	27.9%	26.9%	26.0%	25.4%
Personnel expenses	5.1%	5.3%	5.6%	5.6%	6.2%	6.5%	6.6%	6.8%	7.2%	7.5%
Other expenses	32.6%	31.6%	31.7%	31.0%	30.8%	29.8%	28.5%	28.5%	27.9%	28.0%
Outsourcing	12.5%	12.2%	11.9%	11.1%	10.3%	8.4%	7.7%	7.5%	7.3%	7.7%
Funeral supplies	0.8%	0.7%	0.8%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%	0.8%
Hall supplies	1.0%	0.5%	1.0%	0.6%	0.5%	0.8%	0.6%	0.6%	0.5%	0.6%
Rents	8.4%	8.3%	8.2%	8.4%	8.4%	8.2%	8.4%	8.3%	7.9%	7.7%
Utilities	1.2%	1.3%	1.3%	1.4%	1.5%	1.4%	1.2%	1.2%	1.2%	1.1%
Maintenance	0.8%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Depreciation	3.2%	3.7%	3.5%	3.7%	3.9%	3.8%	4.1%	4.0%	4.0%	4.0%
Taxes and dues	1.1%	1.1%	1.1%	0.9%	1.0%	1.0%	0.9%	1.0%	0.9%	0.9%
Other	3.7%	2.9%	3.1%	3.4%	3.8%	4.7%	4.1%	4.5%	4.5%	5.1%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

SG&A expenses

SG&A expenses are mainly personnel costs, advertising expenses and other head office expenses.

- Personnel:** In addition to personnel costs in the management division (71 people in FY09/18), this includes personnel in the Funeral segment other than those employed by the funeral halls (about 130 people) and employees in the Franchise segment (11 people).
- Advertising:** Costs for television commercials, flyers, and billboards. Because TEAR has used a regional saturation model in its funeral hall rollout, promotional spending packs a punch.

SG&A expense breakdown (JPYmm)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.	Cons.
Total SG&A expenses	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516	3,905
Advertising expenses	335	311	372	410	512	653	654	752	893	990
Personnel expenses	915	951	1,027	1,130	1,250	1,373	1,420	1,354	1,550	1,692
SG&A-to-sales ratio										
Total SG&A expenses	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%	30.6%
Advertising expenses	4.4%	4.0%	4.4%	4.6%	5.4%	6.4%	6.2%	6.6%	7.3%	7.7%
Personnel expenses	12.0%	12.1%	12.3%	12.7%	13.1%	13.5%	13.4%	11.9%	12.6%	13.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Personnel expenses include directors' compensation, salaries, bonuses, provision for bonuses, and welfare expenses.

Fixed and variable costs

Variable costs and marginal profit ratio

Within cost of sales, direct variable costs, which change with sales and the number of funerals, include product costs (26.3% of sales in the Funeral business), outsourcing costs (7.9%), ancillary funeral goods (0.8%), and public taxes and charges (1.0%)—totaling 36.0% in FY09/18. Other costs and SG&A expenses are mainly fixed or are indirect variable costs which change with the

number of halls. Based on direct variable costs, the marginal profit ratio was 64.0%. The company charges an average of JPY995,000 per funeral, so marginal profit per funeral was JPY637,000.

Fixed costs

Fixed costs are personnel costs included in cost of sales, funeral hall consumables, rent, utilities, management and maintenance expenses, depreciation, and “other,” as well as expenses that change with the number of funeral halls and SG&A expenses. In FY09/19, fixed costs included in cost of sales were JPY3.4bn. Divided by the average number of directly managed funeral halls at the start and end of the financial year, fixed costs per funeral hall were JPY55mn.

As mentioned above, fixed costs mainly consist of personnel costs in the management division as well as personnel in the Funeral segment other than those employed by the funeral halls. While not directly tied to changes in sales, the company is strategically adding personnel and increasing advertising expenses. As a result, SG&A expenses and the SG&A-to-sales ratio are trending higher.

As flagged, the main components of SG&A expenses are personnel expenses in the management division and personnel in the Funeral segment (excluding those employed by the funeral halls), accounting for a 60–65% share...

Hall breakeven

Marginal profit per funeral is JPY637,000 and fixed expenses per hall are JPY55mn, so breakeven per hall is sales of JPY86mn ($\text{JPY55mn} \div 64.0\%$), or 86 funerals per year. In this case, standard format funeral hall facilities are at full capacity with 300 funerals per year, so if they reach about a 30% operating rate they breakeven at the gross profit level.

By dividing SG&A expenses in FY09/18 by the average number of funeral halls at the start and end of the financial year, SG&A expenses per hall come out at JPY62mn. Therefore, if each funeral hall bears an appropriate share of SG&A expenses, the breakeven point for each funeral hall is sales of JPY183mn ($\text{JPY117mn} \div 64.0\%$), or 184 funerals per year. In this case, a 63% operating rate will make a standard format funeral hall facility break even at the operating profit level.

Strengths and weaknesses

Strengths

- ▼ **Large future customer base, from track record and preregistered customers.** According to Japan Consumers' Association's Tenth Funeral Survey, 27.6% of respondents were introduced by relatives, and 24.7% contacted a funeral establishment they had used before. The company believes it takes about 10 years to see repeat customers; in the past ten years it has conducted over 79,000 funerals at its directly managed halls. As of September 2019, it also had around 381,000 members of Tear Club (+9.7% YoY), and it conducted 10,923 funerals in FY09/19; a simple calculation of the total number of funerals conducted in the past and Tear Club members comes to more than 450,000 customers. Considering additional introductions from past users and members, the company boasts an even larger potential customer base.
- ▼ **Accumulated experience in managing funeral halls.** The company has achieved growth through its transparent pricing system, dominant presence in Nagoya, and staff training. It has cultivated and standardized its funeral hall management, with a grasp of the demographics where it opens halls, hall construction according to local characteristics, methods for member acquisition, and a staff training system to provide quality and uniform services. It can use this experience to expand into other areas.
- ▼ **Relative ease in raising funds.** TEAR is one of two funeral companies listed on the Tokyo Stock Exchange First Section. This means that compared to other small- and mid-sized companies in the same industry, it is easier for TEAR to raise the funds necessary for sales and profit growth. In FY12/14, the company raised JPY1.2bn for capex through issuing new shares, to build and renovate funeral halls. In December 2018, the company raised a total of approximately JPY1.4bn (net) for this purpose by the issue of new shares via a public offering and third-party allocation.

Weaknesses

- ▼ **New halls pull down earnings.** The company gradually increases users, as funeral halls become recognized by the surrounding community, and the number of Tear Club members grow; it takes about two or three years after building a hall for the number of users to grow enough to breakeven. New halls are essential for growing earnings, but lead to temporary dips in profits.
- ▼ **Profits affected by a decline in funeral prices.** Funeral prices are trending down due to the rise of the nuclear family, weakening community ties, the generally higher age at death leading to fewer mourners, and the move toward smaller family funerals. Compared with other companies in the funeral industry, TEAR has a higher ratio of fixed costs, such as personnel and rent expenses, and its OPM is only half of the levels of its competitors (see the Market and value chain section). Even if TEAR's marginal profit ratio was at the level of other funeral companies, its operating leverage (marginal profit ÷ operating profit; for the rate of change in operating profit, multiply the rate of change in sales by operating leverage) would be double that of its competitors. Shared Research estimates that compared to its competitors, TEAR's profits are more likely to be affected by sales fluctuations, deriving from a decline in funeral prices and other reasons.
- ▼ **Weak earnings outside Aichi Prefecture:** TEAR expanded into Osaka Prefecture in FY09/06 and to Saitama in FY09/12, and has been operating funeral consultation salons in Tokyo since FY09/16. However, the company has not gained a dominant presence in these areas and is still at the stage of trying to improve brand recognition in our view. Consequently, the number of funerals held outside Aichi Prefecture in FY09/19 was 1,569 (14.4% of total) and the number of funerals per hall was 131 versus the national average of 175. Thus we believe the earnings contribution of its operations outside Aichi Prefecture remains limited.

Market and value chain

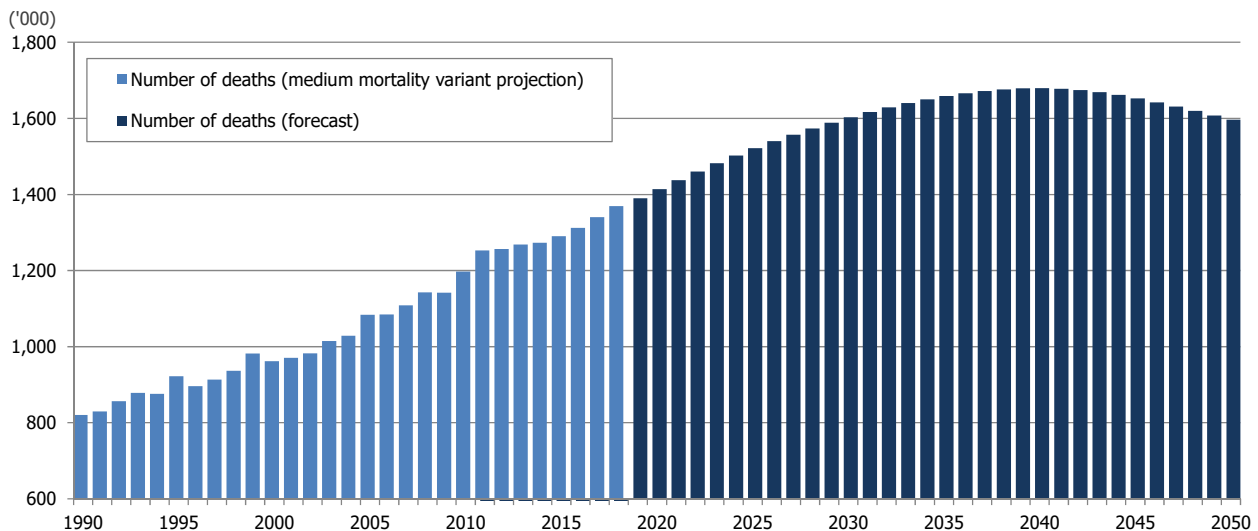
Market overview

Demographic trends paint picture of growing demand

According to the Ministry of Health, Labour and Welfare’s Vital Statistics Survey, there were an estimated 1.4mn deaths (+2.1% YoY) in Japan in 2018; an annual growth of 1.9% over the previous 20 years. According to Population Projections for Japan, released by the National Institute of Population and Social Security Research, the number of deaths will continue to grow beyond 2018, peaking in 2040 at 1.7mn (+20% versus 2018), for an average annual growth rate of 0.9% in 2018–2040. According to the Ministry of Health, Labour and Welfare’s Abridged Life Tables for Japan, in 2017 the average life expectancy in Japan was 81.09 years for men and 87.26 years for women. In 2040, the baby boomers born after World War II (58–71 as of November 2017) will be about 81–94, older than the average life expectancy for men as of 2014.

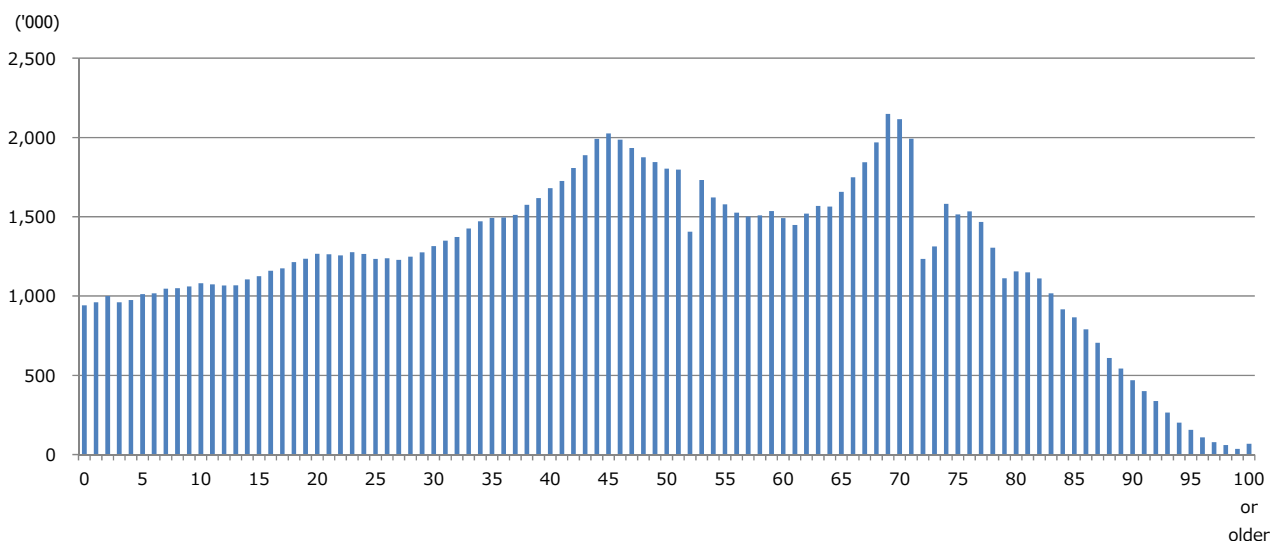
According to METI’s Survey of Selected Service Industries 2018 (announced in September 2019), sales of funeral service packages were worth JPY1.5tn in 2018.

Number of deaths ('000 people)



Source: “Annual Vital Statistics Survey,” Ministry of Health, Labour and Welfare; “Population Projections for Japan,” National Institute of Population and Social Security Research

Population by age (as of October 2018)

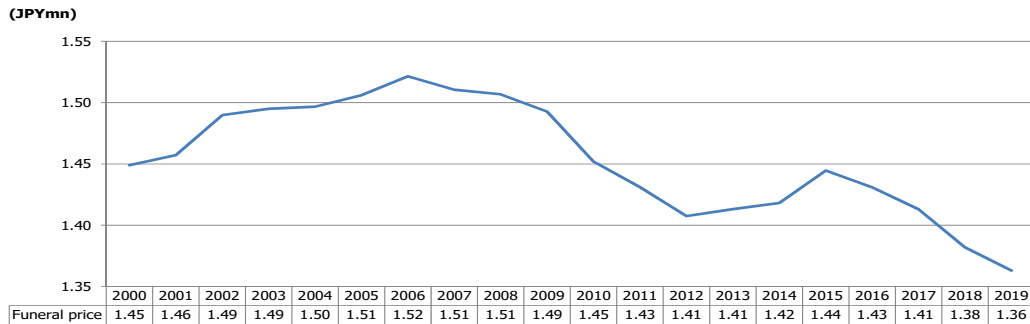


Source: “Population Estimate (as of October 1, 2018),” Statistics Bureau, Ministry of Internal Affairs and Communications

Funeral prices falling

Based on estimates derived from METI’s Survey of Selected Service Industries, funeral prices have been falling since 2006. There are several factors behind this trend, according to TEAR: the shift to nuclear families, weakening bonds with local communities, fewer mourners as the average age of death rises, and the spread of small, intimate funerals such as those just for the family. Further, in Shared Research’s view, competition is intensifying with new market entrants from other industries. The spread of price disclosure (rare in the early 2000s) and the advent of funeral comparison websites are also fueling the trend.

Funeral prices



Source: “Current Survey of Selected Service Industries,” Ministry of Economy, Trade and Industry
*Price = annual sales ÷ funerals

Industry overview

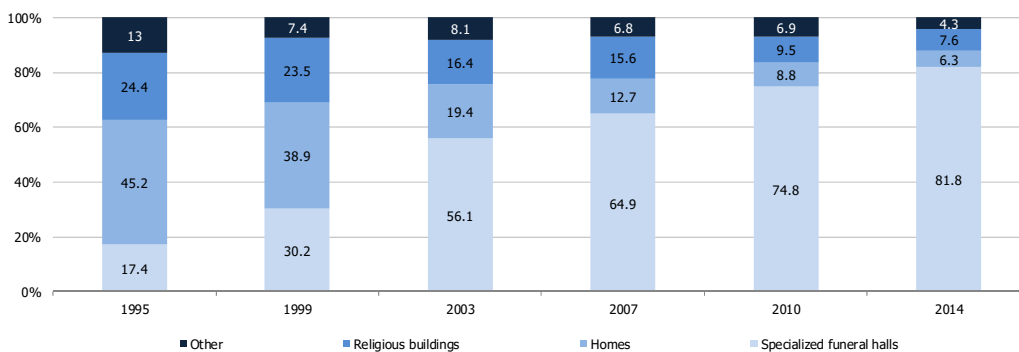
Anyone can enter

There are no official qualifications needed to conduct funerals, and no need for approval from or notification to the national government or local authorities. Further, the Ministry of Health, Labour and Welfare has technical certifications for funeral directors, and there are private-sector qualifications for Buddhist memorial service coordinators, but they are not necessary to enter the funeral business. As such, anyone can create and market a funeral business. Transporting a body using a hearse or other vehicle counts as operating a “motor truck transportation business,” so the appropriate approval for that is necessary. Note: cremation is separate from this business.

More than 80% of funerals held in halls

According to the Japan Consumers’ Association’s Funeral Survey, funerals were held mainly in family homes until the early 1990s. From 1990, the share of funerals held in halls started increasing to nudge 81.8% in 2014. According to TEAR, it has become necessary for a company to own its own funeral halls to meet customer needs. Hall ownership improves customer acquisition. Conditions are tough for small players without the cash to own a hall.

Funeral service locations



Source: “Survey on Funerals,” Japan Consumers’ Association

Number of establishments down from 2001, with small and medium enterprises holding 80% of market

According to METI's Survey of Selected Service Industries, there were 8,201 establishments in the funeral industry, a decrease of 107 establishments YoY. Establishments with capital of JPY100mn or more account for only 6.7% of the total, and small and medium enterprises capitalized at less than JPY50mn (The Small and Medium Enterprise Agency defines a small and medium enterprise in the service business as a company capitalized at less than JPY50mn or comprised of less than 100 employees) account for 82.9%.

Funeral service establishments

	2014	2015	2016	2017	2018
Number of establishments	8,674	8,550	8,652	8,166	8,201
Capital of JPY100mn or more	643	474	451	476	549
Capital of over JPY50mn, less than JPY100mn	756	795	827	896	857
Capital of less than JPY50mn	7,275	7,281	7,374	6,794	6,795

Source: Shared Research based on METI's Survey of Selected Service Industries and 2016 Economic Census for Business Activity

Competition

Listed companies

Within the funeral industry there are three listed companies other than TEAR: San Holdings (TSE1: 9628), Sun Life Corp. (TSE JASDAQ Standard: 4656), and Heian Ceremony Service Company (TSE JASDAQ Standard: 2344).

Heian Ceremony Service

The company has 36 funeral facilities and halls in Kanagawa Prefecture and Tokyo where it offers funerals and associated services to general consumers, mutual aid society members, and companies.

Heian Ceremony Service earnings

(JPYmn)	FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19
	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.	Act.
Sales	8,464	9,164	9,445	9,669	9,560	9,532	9,586	10,205	10,017	10,068
YoY	-5.4%	8.3%	3.1%	2.4%	-1.1%	-0.3%	0.6%	6.5%	-1.8%	0.5%
Funeral segment	6,862	7,603	7,866	8,146	8,040	8,008	8,056	8,741	8,470	8,554
YoY	-4.8%	10.8%	3.5%	3.6%	-1.3%	-0.4%	0.6%	8.5%	-3.1%	1.0%
Other	1,602	1,561	1,579	1,523	1,521	1,523	1,531	1,464	1,547	1,514
YoY	-8.0%	-2.5%	1.2%	-3.5%	-0.2%	0.2%	0.5%	-4.3%	5.6%	-2.1%
Operating profit	1,117	1,554	1,696	1,815	1,733	1,779	1,814	2,025	1,863	1,987
YoY	-10.4%	39.2%	9.1%	7.0%	-4.5%	2.7%	2.0%	11.6%	-8.0%	6.6%
OPM	13.2%	17.0%	18.0%	18.8%	18.1%	18.7%	18.9%	19.8%	18.6%	19.7%
Funeral segment	1,639	2,101	2,265	2,373	2,328	2,284	2,337	2,623	2,454	2,597
YoY	-9.7%	28.2%	7.8%	4.8%	-1.9%	-1.9%	2.3%	12.3%	-6.4%	5.8%
OPM	23.9%	27.6%	28.8%	29.1%	29.0%	28.5%	29.0%	30.0%	29.0%	30.4%
Other	284	267	245	251	261	270	272	220	219	213
Company-wide/ eliminations	-807	-814	-814	-809	-857	-774	-795	-818	-810	-823

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Sun Life Holding Co., Ltd.

Sun Life offers funerals and memorial services to mutual aid society members. It is also involved in the hotel, wedding, and nursing care industries. The company has a total of 32 funeral halls in Kanagawa Prefecture and Tokyo (Hachioji, Machida, and Tama cities). It also operates three *Butsudan* (Buddhist altar) stores.

Sun Life Holding earnings

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.
Sales	10,659	10,705	10,879	10,928	11,304	10,930	11,235	11,322	11,865	12,470
YoY	0.2%	0.4%	1.6%	0.5%	3.4%	-3.3%	2.8%	0.8%	4.8%	5.1%
Ceremony segment	6,588	7,023	7,324	7,386	7,964	7,787	7,704	7,875	8,195	8,648
YoY	4.6%	6.6%	4.3%	0.8%	7.8%	-2.2%	-1.1%	2.2%	4.1%	5.5%
Other	4,071	3,682	3,555	3,543	3,340	3,144	3,531	3,447	3,669	3,822
YoY	-6.1%	-9.5%	-3.4%	-0.3%	-5.7%	-5.9%	12.3%	-2.4%	6.4%	4.2%
Operating profit	924	1,040	1,174	1,306	1,380	1,187	1,145	1,105	1,026	977
YoY	336.1%	12.6%	12.8%	11.2%	5.7%	-14.0%	-3.6%	-3.5%	-7.1%	-4.8%
OPM	8.7%	9.7%	10.8%	11.9%	12.2%	10.9%	10.2%	9.8%	8.6%	7.8%
Ceremony segment	1,480	1,737	1,855	1,988	2,275	2,170	1,903	1,846	1,726	2,032
YoY	13.9%	17.4%	6.8%	7.2%	14.4%	-4.6%	-12.3%	-3.0%	-6.5%	17.8%
OPM	22.5%	24.7%	25.3%	26.9%	28.6%	27.9%	24.7%	23.4%	21.1%	23.5%
Other	323	113	153	158	17	-62	153	156	145	60
Company-wide/ eliminations	-879	-810	-834	-840	-911	-921	-912	-898	-845	-1,115

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Sun Life Holding became a holding company in March 2019. YoY figures for FY03/19 is a reference value compared to the figures prior to this transition.

San Holdings

Three of San Holdings' group companies offer funeral services: Koekisha Co., Ltd., Souden Corp., and Tarui Co., Ltd. A fourth offers ancillary funeral-related services. The group conducts more than 10,000 funerals a year. Koekisha operates in the Kansai region (Osaka Prefecture, Hyogo Prefecture, and parts of Nara Prefecture) and the Kanto region (Tokyo and parts of Kanagawa Prefecture). Souden operates in Yonago, Tottori, Matsue and vicinity, and Tarui operates in Akashi, Hyogo Prefecture and nearby.

San Holdings earnings

(JPYmn)	FY03/10 Act.	FY03/11 Act.	FY03/12 Act.	FY03/13 Act.	FY03/14 Act.	FY03/15 Act.	FY03/16 Act.	FY03/17 Act.	FY03/18 Act.	FY03/19 Act.
Sales	17,968	17,416	18,285	18,001	18,062	18,437	18,510	18,677	20,070	20,767
YoY	-0.8%	-3.1%	5.0%	-1.6%	0.3%	2.1%	0.4%	0.9%	7.5%	3.5%
Operating profit	1,117	1,174	1,850	1,574	1,638	2,018	1,739	2,019	2,658	2,940
YoY	-15.6%	5.1%	57.6%	-14.9%	4.1%	23.2%	-13.8%	16.1%	31.6%	10.6%
OPM	6.2%	6.7%	10.1%	8.7%	9.1%	10.9%	9.4%	10.8%	13.2%	14.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

None of the listed companies are direct competitors of TEAR, which operates mainly in Aichi. Areas in the Tokyo Metropolitan region where the listed companies have funeral sites and halls are Chofu and Sugunami Ward for San Holdings; western Tokyo (Hachioji) for Sun Life Holding; and southwest Tokyo (Machida) for Heian Ceremony Service. These do not directly compete with TEAR, which aims to expand into northeastern Tokyo from Koshigaya, Saitama.

Margin comparison

There are three listed funeral companies who disclose costs: TEAR, Heian Ceremony Service, and Sun Life Holding. Compared to the OPM of Heian Ceremony Service (22.2% in FY03/19) and Sun Life Holding (17.8% in FY03/19), TEAR'S OPM is the lowest at 9.1% (FY09/19).

Comparison of cost ratio and SG&A ratio

(JPYmm)	TEAR FY09/19	Heian Ceremony FY03/19	Sun Life FY03/18
Sales	12,779	10,017	10,612
Funeral business	12,383	8,434	8,195
Cost ratio (funeral business)	63.0%	69.1%	75.3%
Merchandise	26.3%	27.3%	22.9%
Personnel	7.8%	22.5%	17.9%
Other costs	28.9%	19.3%	34.5%
Outsourcing	7.9%	1.7%	6.9%
Commission fee	-	2.9%	10.1%
Depreciation	4.1%	3.9%	4.7%
Rents	8.0%	3.9%	3.7%
Other	8.9%	6.8%	9.2%
SG&A ratio (funeral business)	29.1%	10.2%	9.3%
Advertising	8.0%	3.1%	0.3%
Personnel	13.7%	4.2%	4.1%
Other	7.5%	2.5%	5.2%

Source: Shared Research based on company data

Note: The Funeral segment is called the Funeral division at Heian Ceremony Service and the Ceremony segment at Sun Life Holding

Note: Sun Life Holding does not disclose cost of sales since it became a holding company in March 2019.

The table above shows TEAR's cost-to-sales ratio using cost of sales and sales in the Funeral business. The cost-to-sales ratio for Heian Ceremony Service compares unconsolidated funeral division costs with funeral division sales. The cost-to-sales ratio for Sun Life Holding compares unconsolidated ceremonial division costs with consolidated ceremonial division sales. In FY03/18, the ratio of consolidated to unconsolidated sales was 1.12x, and the Ceremony segment operated one consolidated subsidiary, an embalming business. Because unconsolidated ceremonial division sales data were not disclosed, we used consolidated ceremonial business data to analyze cost ratios. SG&A expense-to-sales ratios for Heian Ceremony Service and Sun Life Holding were calculated by allocating unconsolidated selling expenses and general administrative expenses to the consolidated ceremonial business in line with the ratio of consolidated to unconsolidated sales. TEAR's SG&A expense-to-sales ratio was calculated by subtracting Franchise segment's operating costs from other SG&A expenses.

The reason for the different margins is that the company has a lower share of personnel expenses in cost of sales than Heian Ceremony Service and Sun Life Holding, but its outsourcing expenses and rents are high. Further, TEAR has a high share of advertising and personnel expenses in SG&A expenses.

Personnel expenses

Heian Ceremony Service and Sun Life Holding employ more temporary than regular employees, based on period-end numbers. In comparison, judging from the share of temporary employees and outsourcing expense ratios, TEAR mainly provides services through permanent staff. When it needs extra labor, it tends to outsource rather than employ temporary workers. TEAR has a low ratio of personnel expenses to cost of sales because it has a high ratio of outsourcing expenses compared with Heian Ceremony Service and Sun Life Holding. We think this is because it accounts for funeral hall salespeople in SG&A personnel expenses.

Number of employees at peer companies

	TEAR FY09/19	Heian Ceremony FY03/19	Sun Life FY03/18
Employees	409	126	180
Temporary employees	87	679	342

Source: Shared Research based on company data

The aggregate share of sales for personnel and outsourcing expenses in cost of sales and personnel expenses in SG&A expenses was 29.4% for TEAR (FY09/19), 27.2% for Heian Ceremony Service (FY03/18), and 28.8% for Sun Life Holding (FY03/18).

Rents

The company essentially leases the land it needs for its funeral halls, so Shared Research estimates that rent as a share of sales is higher than for each than the other firms. The share of land in tangible fixed assets for TEAR was 18.5% (FY09/19), 64.0% for Heian Ceremony Service (FY03/19), and 52.1% for Sun Life Holding (FY03/18).

Comparison of tangible fixed assets

(JPYmm)	TEAR FY09/19	Heian Ceremony FY03/19	Sun Life FY03/18
Tangible fixed assets	8,209	12,997	14,822
Land	1,516	8,313	7,729
Land/tangible fixed assets	18.5%	64.0%	52.1%

Source: Shared Research based on company data

Comparison of asset efficiency

	TEAR FY09/19	Heian Ceremony FY03/19	Sun Life FY03/18
ROE	9.9%	7.6%	12.2%
Equity ratio	67.2%	55.2%	17.3%
ROA (RP-based)	9.1%	6.4%	3.0%
OPM	9.0%	19.7%	8.6%
Asset turnover	1.09	0.30	0.33

Source: Shared Research based on company data

Shareholders' return on equity

Of the three companies, Sun Life Holding has the highest ROE, followed by TEAR. This is largely due to Sun Life Holding's financial leverage. TEAR has a capital-to-asset ratio of 67.2%, whereas the figure for Sun Life Holding is 17.3%.

ROA

The company has the highest ROA, which is not affected by financial leverage, making it the most efficient of its competitors. As pointed out in the profit margin comparison, TEAR's OPM is lower than those of the other two companies. However, Shared Research believes the company's higher ROA results from higher asset turnover. The company leases its land and Heian Ceremony Service and Sun Life Holding have large amounts of cash and short-term securities on their balance sheets; as a result, TEAR's total asset turnover ratio is more than threefold that of the other companies.

Ceremonial mutual aid societies

What is a ceremonial mutual aid society?

Ceremonial mutual aid societies started after World War II, when Japan's income levels were low and goods scarce. Members pay monthly installments to prepare for unexpected expenses such as weddings and funerals, enabling the joint purchase of ceremonial clothing and altars for the shared use of members. Companies in the business accept installment payments in advance, enabling their members to access cheaper-than-usual funerals and weddings. The companies either perform these ceremonies themselves or act as agents. Such businesses are classed as a "specified prepaid transactions operators" under the Installment Sales Act, and require licensing from METI.

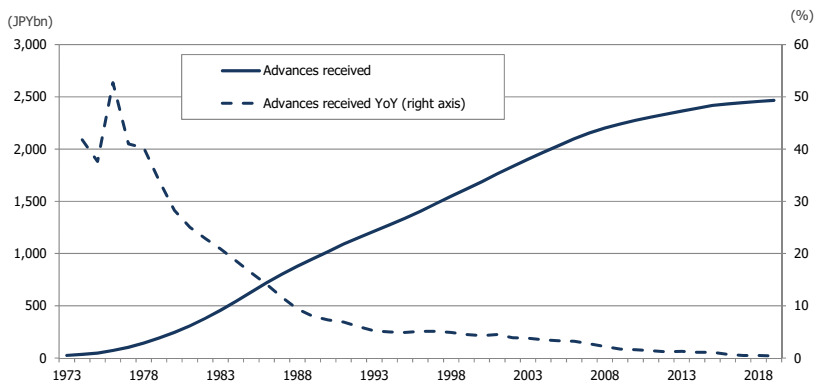
The specified prepaid transactions of mutual aid societies entail the signing of a contract between the consumer and the society; an agreement between the consumer and the mutual aid society regarding the provision of a specified service such as a future funeral. Based on the contract, the consumers pay installments over a set period, and in the future receive the provision of the service in return based on the installments.

Mutual aid societies today

According to the All Japan Ceremonial Mutual Aid Society Association, in 2009 mutual aid societies had a 30.3% share of the funeral market. According to Mutual Service Aid Guarantee Corporation, as of March 2019, mutual aid societies had balances of JPY2.5tn in advance payments and contracts with 22.9mn persons. The number of participants has been on the decline. As of March 2019, mutual aid societies' advance payment balances rose 0.4% YoY, but the number of members fell 1.0%.

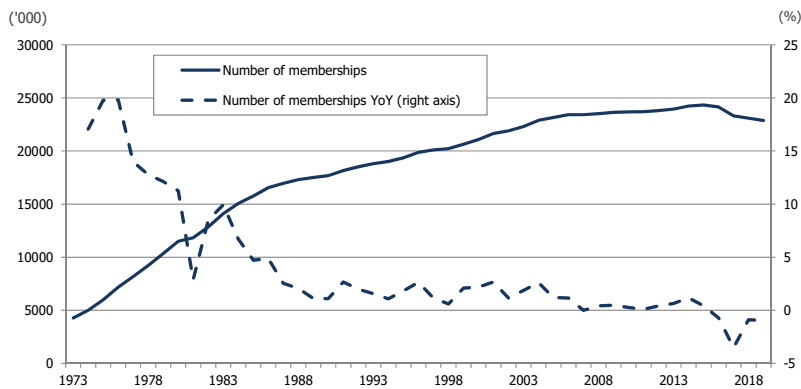
Year-on-year growth in advance payments and members is slowing; the amount outstanding grew by just 1.1% YoY in March 2015, and the number of members grew by just 0.4%.

Ceremony mutual aid societies: Advances received



Source: Shared Research based on Mutual Service Aid Guarantee Corporation data

Ceremony mutual aid societies: Membership

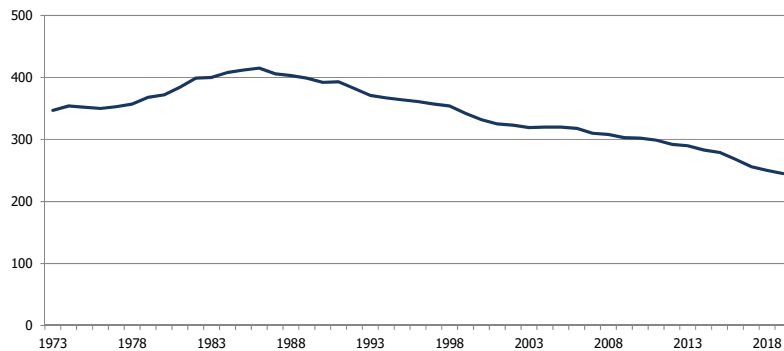


Source: Shared Research based on Mutual Service Aid Guarantee Corporation data

Downtrend in mutual aid society membership

The number of mutual aid societies in Japan peaked at end March 1986 at 415 companies, and had shrunk to 245 at end-March 2019. According to a METI study group on ceremonial mutual aid society cancellation fees, some mutual aid societies are in financial trouble. This is a result of overinvestments in the bubble era, saturation of the market and excessive competition, plus changing consumer needs.

Ceremonial mutual aid societies membership



Source: Shared Research based on Mutual Service Aid Guarantee Corporation data

Strategy

The company aims to be the most appreciated funeral company in Japan. Its strategy entails making funeral costs transparent; improving service through training; and boosting convenience through a dominant presence. It may sacrifice profit maximization in the short term to grow in the longer term.

In the 10th Funeral Survey conducted by the Japan Consumers' Association, 25% of the respondents chose a funeral operator via word-of-mouth, repeat business, and convenience. The company's strategy of using pricing, service, and convenience to maximize customer satisfaction should meet consumers' needs and encourage word-of-mouth promotion and repeat business.

Transparent pricing

Per the company, before its establishment, funeral companies managed funerals, often without first revealing the cost. Consumers also had little sense of market prices, and the religious aspect meant price negotiation was taboo. The death of a family member makes rational decisions difficult, and sometimes consumers had to make a contract in an unsettled psychological state. Under these conditions, price competition among funeral companies was difficult—keeping funeral costs stable and high.

Since TEAR was founded in 1997, it has provided transparent pricing. The company provides a low-priced service through its set charges. As of September 2019, TEAR's average funeral price was JPY995,000, 20–30% below the average market price of JPY1.4mn (calculated by the company based on METI's Survey of Selected Service Industries). Slimmer profits underpin low prices.

Training staff to improve service

The company established its own training organization and personnel development division for training staff, to offer service that takes into consideration the deceased person's next of kin. Through employee education the company aims to improve service quality.

Starting in the 1990s, funerals shifted from being held in the home to funeral halls. Hitherto, funeral operators were primarily involved with handling the heavy infrastructure including setting up altars, ceremony venues, and tents. In the 1990s operators moved into services such as funeral consulting, conducting proceedings, and offering guide services. Funeral hall staff needed to show concern, care, and politeness in dealing with the next of kin. Small and medium enterprises (SMEs) account for some 80% of funeral operators, but Shared Research believes that such operators may not be able to provide sufficient training to standardize funeral service quality due to organizational and cost reasons.

Greater convenience via saturation

According to the company, since funerals shifted from the home to halls in the 1990s, it became essential for funeral businesses to own their own halls.

The company enhances convenience through establishing a regional saturation of multiple funeral halls near where consumers carry out daily activities. Per the company, SMEs in the funeral industry do not have the resources to own funeral halls; companies such as TEAR have more opportunities to get customers through hall ownership. Also, its regional funeral hall saturation boosts its profile and name recognition. Holding funerals also is a chance to promote nearby funeral halls.

Medium-term targets

The company's medium-term targets include 200 funeral halls (up 84 from FY09/19). Hall targets include directly managed new facilities, and those opened by current and new franchisees.

Historical performance

1H FY09/20 earnings

▷ Sales:	JPY6.7bn (-0.3% YoY)
▷ Operating profit:	JPY749mn (-24.0% YoY)
▷ Recurring profit:	JPY745mn (-24.3% YoY)
▷ Net income*:	JPY504mn (-24.9% YoY)

*Net income attributable to owners of the parent

YoY Comparison

- ▷ Overall sales declined YoY. In the mainstay Funeral segment, comparable hall sales were down 4.0% YoY.
- ▷ Gross profit fell to JPY2.7bn (-1.8% YoY).
- ▷ GPM fell 0.6pp to 40.9%. Lower product cost ratio at funeral halls and subsidiaries through bringing operations related to hearses, coffins, and customer services in-house, and expanding the funeral flowers business resulted in a 1.2pp improvement in GPM. On the other hand, an increase in hearses along with an increase in labor costs from bringing customer service operations in-house lowered GPM by 0.6pp YoY. Additionally, a higher fixed cost ratio at subsidiaries and funeral halls due to lower average funeral prices contributed to a 1.2pp YoY decline in GPM.
- ▷ Profit lines from operating profit down declined due to lower gross profits and higher SG&A expenses. SG&A expenses grew by JPY186mn to JPY2.0bn (+10.4% YoY) and the SG&A-to-sales ratio increased 2.9pp to 29.6%. Personnel expenses increased by JPY110mn YoY as the company secured personnel in preparation for new funeral hall openings, and advertising expenses grew by JPY4mn due to an increase in the number of funeral halls.

Progress versus company forecast

Against 1H FY09/20 forecast, 1H sales reached 95.2, operating profit 89.2%, recurring profit 88.7%, and net income attributable to owners of the parent 88.4%. Contributions from new funeral halls were largely in line with expectations, but comparable hall sales came in JPY334mn below company expectations. As a result, sales and profits underperformed the company's 1H forecast.

Against full-year FY09/20 forecast, 1H sales reached 48.7% (compared with 52.4% in 1H FY09/19 against full-year FY09/19 results), operating profit 61.4% (85.3%), recurring profit 61.3% (85.5%), and net income attributable to owners of the parent 61.8% (84.8%). Although progress rates for sales and profits were below those of 1H FY09/19, the company maintained its full-year forecast. The spread of COVID-19 had almost no impact on 1H results. However, as of May 2020, the company said the impact on 2H results was unclear. The company noted that funeral sizes were smaller and the number of attendees were lower in April 2020.

Progress of openings

The company opened directly managed Tear Koshin in Nagoya and funeral consultation center Tear Oshiage in Tokyo. For franchise halls, Tear Anjo Sakurai was opened in Aichi Prefecture. As a result, it now has 70 directly managed funeral halls and 49 franchisees, for a total of 119 halls.

Funeral segment

▷ Sales:	JPY6.5bn (-0.2% YoY)
▷ Operating profit:	JPY1.2bn (-12.9% YoY)

The company held promotional events at its halls and stepped up marketing to partner organizations and companies with the aim of expanding Tear Club (voluntarily refrained from activities from March 2020 to prevent the spread of COVID-19). It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

The total number of funerals increased 3.6% YoY to 5,862 (+204 funerals YoY).

- ▷ The number of funerals held at existing halls decreased by 1.4% YoY to 5,378 (-76 funerals YoY) and the number of funerals held at newly opened funeral halls was 280. In Q2 FY09/20 (January–March 2020), the number of funerals held at existing halls declined due in part to TV commercials aired in Aichi Prefecture by the operator of a funeral home referral website. From June 2020, the company plans to air TV commercials in Aichi Prefecture to promote its high quality and low prices to increase the number of funerals held at existing halls.
- ▷ The number of funerals per hall decreased by 11.4% YoY to 85.0. In addition to the decline in the number of existing halls, the company opened more funeral consultation salons and family funeral halls, which have fewer halls per facility than conventional funeral halls, in FY09/19. As a result, the number of funerals per hall declined.

The average funeral price was JPY971,000 (-3.6% YoY). Compared to 1H FY09/19, the price of altars fell 2.4% while the price of funeral-related products declined 0.2%. Additionally, floral tribute sales decreased by 0.9%. Although the number of sales for higher priced altars (JPY1 mn or more) increased, the number of sales for mid-priced altars (between JPY500,000 to 900,000 per altar) fell, pushing down the average price of altars.

Franchise segment

- ▷ Sales: JPY212mn (-2.3% YoY)
- ▷ Operating profit: JPY53mn (+29.3% YoY)

In addition to an increase in royalty income due to the number of franchise halls rising by three YoY, the company booked franchise fees for new franchise halls slated to open in Q3 or later. However, segment sales declined YoY due to a decline in sales of goods to franchise halls. On the profit front, event-related expenses decreased, resulting in higher operating profit.

Q1 FY09/20 earnings

- ▷ Sales: JPY3.4bn (+3.4% YoY)
- ▷ Operating profit: JPY393mn (-14.7% YoY)
- ▷ Recurring profit: JPY390mn (-13.6% YoY)
- ▷ Net income*: JPY261mn (-15.2% YoY)

*Net income attributable to owners of the parent

YoY Comparison

- ▷ Overall sales grew YoY. Funeral and Franchise segments both recorded YoY sales growth.
- ▷ Gross profit rose to JPY1.4bn (+2.8% YoY).
- ▷ GPM fell 0.3pp to 40.7%. Although a lower product costs to sales ratio contributed to a 1.0pp improvement in GPM, upfront costs associated with promoting in-house preparation of hearses and coffins as well as insourcing of customer relations services resulted in a 1.3pp decline in GPM.
- ▷ Profit lines from operating profit down declined as growth in SG&A expenses outpaced growth in gross profit. SG&A expenses grew by JPY105mn YoY to JPY981 mn (+12.0% YoY) and the SG&A-to-sales ratio grew 2.2pp to 29.0%. Personnel expenses grew by JPY50mn YoY due to an increase in the number of stores, and advertising expenses increased by JPY12mn.

Progress versus company forecast

Against 1H FY09/20 forecast, Q1 sales reached 48.2% (compared with 48.8% in Q1 FY09/19 against 1H FY09/19 results), operating profit 46.8% (46.8%), recurring profit 46.4% (45.8%), and net income 45.8% (45.9%). According to the company, Q1 results were in line with expectations.

Progress of openings

The company opened directly managed funeral consultation center Tear Oshiage in Tokyo and a franchise hall, Tear Anjo Sakurai, in Aichi Prefecture. As a result, it now has 69 directly managed funeral halls and 49 franchisees, for a total of 118 halls.

Funeral segment

- ▷ Sales: JPY3.3bn (+3.1% YoY)
- ▷ Operating profit: JPY640mn (-4.9% YoY)

Sales were higher YoY despite lower average funeral prices due to an increase in the number of funerals held. Profit decreased due to upfront costs related to the aforementioned internalization efforts as well as increased costs due to an increase in the number of funeral halls.

The company held promotional events at its halls and stepped up marketing to partner organizations and companies with the aim of expanding Tear Club, a pre-paid membership. It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

The total number of funerals increased by 186 (+6.9% YoY) to 2,891. The number of funerals grew at existing halls while new halls also contributed. The number of funerals per funeral hall decreased 9.5% YoY to 42.2. Although the number of funerals held at existing halls increased, the overall number of funerals per hall decreased because the company promoted the opening of halls with fewer halls per facility than conventional funeral hall types, namely funeral consultation salons and family funeral halls, in FY09/18.

The average funeral price dropped 3.3% YoY. The price of altars decreased while prices for funeral-related products were in line with Q1 FY09/19. Additionally, unit prices for floral tributes sales declined by 0.8%. The average funeral price at new halls also trended downward because the company focused on opening family funeral halls, which host small funerals with a relatively low average funeral price, and funeral consultation salons from FY09/19 onward.

Franchise segment

- ▷ Sales: JPY105mn (+12.9% YoY)
- ▷ Operating profit: JPY22mn (+22.2% YoY)

The number of franchise halls rose by four YoY. Segment sales grew on an increase in the sale of goods to franchise halls. The segment also booked franchise fees for new franchise halls slated to open in 2H FY09/20, leading to higher sales and profit.

FY09/19 earnings

- ▷ Sales: JPY12.8bn (+3.8% YoY)
- ▷ Operating profit: JPY1.2bn (-12.6% YoY)
- ▷ Recurring profit: JPY1.2bn (-11.5% YoY)
- ▷ Net income*: JPY791mn (-11.7% YoY)

*Net income attributable to owners of the parent

YoY comparisons

- ▷ Sales increased mainly in the Funeral segment as sales at existing halls trended upward and new halls contributed to growth.
- ▷ Gross profit was up 4.6% YoY to JPY5.1bn.
 - GPM rose 0.3pp to 39.6%. Contributing to the rise in GPM was a reduction in the ratio of product costs to sales from increasing the share of hearses, coffins, and customer relations services prepared and/or conducted in-house and launching the flowers business (in-house flower decorations for altars), in addition to revising altar plans.
 - However, in Q4 (July–September) GPM fell 1.4pp to 37.1%. Although the ratio of product costs to sales decreased, the cost of sales ratio increased because of expenses related to the opening of directly managed halls in Q4. Over the full-year FY09/19, TEAR opened seven directly managed halls and four funeral consultation salons. Of these, five directly managed halls and one funeral consultation salon opened in Q4.
- ▷ Profits lines from operating profit down declined as growth in SG&A expenses outpaced growth in gross profit. SG&A expenses grew 11.1% YoY to JPY3.9bn and the SG&A-to-sales ratio grew 2.0pp to 30.6%. As mentioned above, the company spent on advertising expenses as it opened new halls in Q4. Personnel expenses also increased due to the hiring of new graduates in April 2019.

Hall openings

The company opened directly managed funeral halls, Tear Itaka, Tear Yakiyama, Tear Kawana, Tear Yatomidori, Tear Hojin, and Tear Arahata Minami in Nagoya, and Tear Yahagi in Aichi Prefecture. It also opened directly managed funeral consultation centers Tear Nezu, Tear Ohanajaya, and Tear Higashi-ikebukuro in Tokyo, and Tear Gamo in Osaka. It now has 68 directly managed funeral halls and 48 franchisees, for a total of 116 halls.

Funeral segment

- ▷ Sales: JPY12.4bn (+3.8% YoY)
- ▷ Operating profit: JPY2.2bn (-1.6% YoY)

Sales were higher YoY due to the commencement of operations at newly opened halls, in addition to a 0.2% YoY rise in sales at existing halls. Profit also increased in accordance with the rise in sales.

The company held promotional events at its halls and stepped up marketing to partner organizations and companies with the aim of expanding Tear Club, a pre-paid membership. It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

The total number of funerals increased by 675 (+6.6% YoY) to 10,923. The uptick comprised 462 funerals at new halls, in addition to 213 more funerals at existing halls (+2.1% YoY). The number of funerals per funeral hall decreased 6.6% YoY to 177.9. Although the number of funerals held at existing halls increased, the overall number of funerals per hall decreased because the company promoted the opening of halls with fewer halls per facility than conventional funeral hall types, namely funeral consultation salons and family funeral halls, in FY09/18.

The average funeral price dropped 2.9% YoY due to decreases in the prices of altars (-1.1%), funeral-related products (0.6%), and floral tributes sales (1.3%). At existing funeral halls, the 1.9% YoY decrease in average funeral price was less than the decrease for all funeral halls. The average funeral price at new halls also trended downward because the company focused on opening family funeral halls, which host small funerals with a relatively low average funeral price, and funeral consultation salons in FY09/19.

Franchise segment

- ▷ Sales: JPY396mn (+3.4% YoY)
- ▷ Operating profit: JPY65mn (-23.5% YoY)

The number of franchise halls rose by three YoY. Segment sales grew on an increase in the sale of goods to franchise halls. Segment operating profit fell, however, due to higher personnel expenses stemming from an increase in the number of supervisors.

Cumulative Q3 FY09/19 earnings

- ▷ Sales: JPY9.7bn (+5.1% YoY)
- ▷ Operating profit: JPY1.1bn (-1.5% YoY)
- ▷ Recurring profit: JPY1.1bn (-0.8% YoY)
- ▷ Net income*: JPY777mn (-1.0% YoY)

*Net income attributable to owners of the parent

YoY comparisons

- ▷ Sales growth was mainly due to higher sales in the Funeral business, where the number of funerals at existing halls increased steadily.
- ▷ Gross profit rose 7.2% YoY to JPY3.9bn.
 - In addition to higher sales, GPM rose 0.8pp YoY to 40.4%. Contributing to the rise in GPM was a reduction in the ratio of product costs to sales from increasing the share of hearses, coffins, and customer relations services prepared and/or conducted in-house and launching the flowers business (in-house flower decorations for altars), in addition to revising altar plans.
 - In Q3 (April–June 2019), GPM deteriorated 0.8% YoY to 37.9%. Although the ratio of product costs to sales decreased, the cost of sales ratio increased because a portion of expenses relating to the planned opening of directly managed halls in Q4 were booked as sales costs in Q3. Over the full-year FY09/19, TEAR plans to open seven directly managed halls and three funeral consultation salons. Of these, four directly managed halls and one funeral consultation salon are scheduled to open in Q4. Directly managed funeral halls opened in FY09/18 primarily followed the basic format (capacity: 100–150 people). In FY09/19, though, the focus is on opening family funeral halls designed for family funerals with a maximum capacity of 30 people.
- ▷ Operating profit, recurring profit, and net income were all lower YoY because the rise in SG&A expenses exceeded growth in gross profit.
 - SG&A expenses were JPY2.8bn (+11.3% YoY) with the SG&A-to-sales ratio rising 1.6pp YoY to 28.6%. This was because of the spending on advertising ahead of new hall openings scheduled for Q4, as well as higher personnel expenses due to the hiring of new graduates in April.

Progress versus company forecast

Against full-year FY09/19 forecast, cumulative Q3 sales reached 75.4% (compared with 75.1% in Q3 FY09/18 against full-year FY09/18 results), operating profit 104.4% (88.1%), recurring profit 108.0% (88.8%), and net income 111.0% (87.6%). Sales were largely on par with progress in Q3 FY09/18, while operating profit, recurring profit, and net income were all ahead. However, TEAR assumes operating profit, recurring profit, and net income will finish lower in Q4 than in Q3 due to the above-mentioned expenses accompanying the opening of halls and salons.

Progress of openings

The company opened two directly managed funeral halls, Tear Itaka and Tear Yakiyama in Nagoya. It also opened funeral consultation centers Tear Nezu and Tear Ohanajaya in Tokyo and Tear Gamo in Osaka. It now has 62 directly managed funeral halls and 47 franchisees, for a total of 109 halls.

Funeral segment

- ▷ Sales: JPY9.4bn (+5.0% YoY)
- ▷ Operating profit: JPY1.8bn (+4.6% YoY)

Sales were higher YoY due to the commencement of operations at newly opened halls, in addition to a 1.7% YoY rise in sales at existing halls. Profit also increased in accordance with the rise in sales.

The company held promotional events at its halls and stepped up marketing to partner organizations and companies with the aim of expanding Tear Club, a pre-paid membership. It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

The total number of funerals increased 7.5% YoY to 8,303 due to operations commencing at new halls, in addition to the number of funerals at existing halls increasing 3.2% YoY. The number of funerals per funeral hall decreased 4.6% YoY to 139.0. Although the number of funerals held at existing halls increased, the overall number of funerals per hall decreased because the company promoted the opening of halls with fewer halls per facility than conventional funeral hall types, namely funeral consultation salons and family funeral halls, in FY09/18.

The average funeral price dropped 2.5% YoY due to decreases in the unit price of funeral-related products and floral tributes sales, while the costs of altars stayed flat YoY. At existing funeral halls, the YoY drop in average funeral price at 1.5% was less than the drop for all funeral halls. The average funeral price at new halls also trended downward because the company focused on opening family funeral halls, which host small-scale funerals with a relatively lower average funeral price, and funeral consultation salons in FY09/19.

Franchise segment

- ▷ Sales: JPY310mn (+7.3% YoY)
- ▷ Operating profit: JPY52mn (-23.5% YoY)

The number of franchise halls rose by four YoY. Segment sales grew on an increase in the sale of goods to franchise halls. Segment operating profit fell, however, due to higher personnel expenses stemming from an increase in the number of supervisors.

Income statement

Income statement (JPYmn)	FY09/10 Par.	FY09/11 Par.	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.	FY09/15 Par.	FY09/16 Par.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.
Sales	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311	12,779
YoY	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%	3.8%
Cost of sales	5,228	5,299	5,569	5,816	6,162	6,518	6,678	7,059	7,471	7,718
Gross profit	2,412	2,528	2,787	3,103	3,366	3,688	3,916	4,292	4,839	5,061
GPM	31.6%	32.3%	33.4%	34.8%	35.3%	36.1%	37.0%	37.8%	39.3%	39.6%
SG&A expenses	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516	3,905
SG&A ratio	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%	30.6%
Operating profit	771	736	869	940	992	1,078	1,094	1,190	1,323	1,156
YoY	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%	-12.6%
OPM	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%	9.0%
Non-operating income	19	16	16	22	29	33	30	40	29	50
Non-operating expenses	87	90	86	115	96	88	52	45	52	55
Recurring profit	703	662	798	846	925	1,023	1,072	1,185	1,300	1,151
YoY	50.6%	-6.0%	20.7%	6.0%	9.3%	10.5%	4.8%	10.5%	9.7%	-11.5%
RPM	9.2%	8.5%	9.6%	9.5%	9.7%	10.0%	10.1%	10.4%	10.6%	9.0%
Extraordinary gains	1	2	-	0	0	0	-	-	-	-
Extraordinary losses	3	51	46	1	5	0	-	29	-	-
Tax charges	297	258	334	328	372	370	360	355	404	359
Implied tax rate	42.3%	42.2%	44.4%	38.8%	40.5%	36.2%	33.6%	30.7%	31.1%	31.2%
Net income	405	354	419	517	548	652	712	801	896	791
YoY	46.3%	-12.5%	18.2%	23.5%	6.0%	19.0%	9.2%	12.5%	11.9%	-11.7%
Net margin	5.3%	4.5%	5.0%	5.8%	5.8%	6.4%	6.7%	7.1%	7.3%	6.2%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Non-operating income

Non-operating income comprises interest received (JPY4mn in FY09/19) and advertising revenue (JPY12mn), so has a negligible impact on results.

Non-operating expenses

The main item in non-operating expenses is interest payments on interest-bearing debt. In FY09/19, the interest rate on interest-bearing debt was 1.4% (versus 1.4% in FY09/17) and has been trending down since FY09/14.

Interest expense

(JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Interest expense	78	85	80	78	76	64	50	43	36	30
Interest-bearing debt interest rate	2.0%	2.1%	1.9%	1.8%	1.9%	1.8%	1.7%	1.6%	1.4%	1.4%

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Note: Interest on interest-bearing debt = interest expenses / average interest-bearing debt.

Balance sheet

Balance sheet (JPYmn)	FY09/10 Par.	FY09/11 Par.	FY09/12 Par.	FY09/13 Par.	FY09/14 Par.	FY09/15 Par.	FY09/16 Par.	FY09/17 Cons.	FY09/18 Cons.	FY09/19 Cons.
Assets										
Cash and cash equivalents	1,185	1,001	1,138	940	1,134	1,813	1,442	1,758	2,125	2,968
Accounts receivable	108	136	177	212	245	223	217	288	385	410
Inventories	35	34	46	58	70	96	91	88	102	98
Prepaid expenses	90	88	101	106	112	114	123	-	-	-
Other current assets	62	69	72	63	84	95	77	211	143	156
Allowance for doubtful accounts	-2	-4	-6	-11	-10	-7	-7	-5	-5	-5
Total current assets	1,476	1,325	1,528	1,369	1,634	2,334	1,943	2,341	2,752	3,629
Buildings and structures (net)	2,651	3,026	3,699	3,675	3,962	4,442	4,796	5,260	5,590	6,088
Land	946	1,287	1,287	1,291	1,291	1,291	1,291	1,428	1,488	1,516
Lease assets (net)	108	144	130	376	359	348	324	301	445	391
Construction in progress	141	125	9	188	75	39	54	58	31	6
Other fixed assets	76	64	100	96	101	134	183	177	163	188
Total tangible fixed assets	3,924	4,646	5,225	5,626	5,789	6,270	6,649	7,234	7,728	8,209
Long-term prepaid expenses	153	146	152	193	186	176	164	-	-	-
Guarantee deposits	896	917	914	1,083	1,048	1,012	1,001	970	915	921
Deferred tax assets	22	71	87	101	115	119	117	135	158	281
Investment and other assets	1,071	1,135	1,153	1,376	1,350	1,307	1,285	1,263	1,257	1,366
Goodwill	134	111	87	64	41	17	-	-	-	-
Other	112	82	85	70	100	208	190	151	114	95
Total intangible assets	246	193	173	134	141	226	190	151	114	95
Total fixed assets	5,241	5,974	6,551	7,136	7,279	7,803	8,125	8,648	9,206	9,671
Total assets	6,716	7,299	8,079	8,504	8,913	10,137	10,069	10,990	11,958	13,301
Liabilities										
Accounts payable	284	245	305	262	314	312	309	315	352	323
Short-term debt	57	77	74	87	97	117	120	60	70	83
Current portion of long-term debt	1,156	1,131	1,195	1,170	1,207	1,105	884	792	710	598
Accounts payable—other	246	193	326	296	323	488	432	503	667	602
Other current liabilities	356	361	380	327	490	461	433	523	633	501
Total current liabilities	2,097	2,008	2,279	2,142	2,430	2,482	2,178	2,193	2,432	2,107
Long-term debt	2,651	2,903	3,068	2,919	2,596	2,058	1,672	1,894	1,531	1,230
Deferred tax liabilities	157	162	127	377	383	374	353	331	445	416
Asset retirement obligations		136	169	193	220	254	303	349	563	606
Total long-term liabilities	2,819	3,206	3,364	3,489	3,199	2,685	2,330	2,575	2,540	2,253
Total liabilities	4,917	5,214	5,643	5,631	5,629	5,167	4,508	4,769	4,973	4,360
Net assets										
Capital stock	581	581	581	581	581	1,159	1,159	1,159	1,184	1,872
Capital surplus	214	214	214	214	214	793	793	793	817	1,506
Retained earnings	1,005	1,290	1,641	2,078	2,490	3,017	3,608	4,268	4,983	5,561
Treasury stock	-0	-0	-0	-0	-0	-0	-0	-0	-0	-0
Total shareholder's equity	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984	8,940
Total net assets	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984	8,940
Working capital	-142	-75	-82	8	1	8	-1	61	135	185
Total interest-bearing debt	3,863	4,111	4,337	4,175	3,899	3,279	2,676	2,746	2,311	1,911
Net debt	2,678	3,110	3,199	3,235	2,766	1,466	1,234	988	186	-1,057

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Assets

The company's main business is the provision of services in funeral halls, so it needs little product inventory. Assets are mainly fixed.

Current assets

Current assets comprised just 27.3% of total assets in FY09/19. Of this, 81.8% was cash and deposits. Accounts receivable comprised 11.3% of current assets; these are rising with sales growth, but because its customers are mainly individuals, the collection period is short. In FY09/19, the accounts receivable turnover period was 11.4 days.

Accounts receivable turnover

Accounts receivable turnover	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
Accounts receivable turnover	66.3	64.3	53.4	45.8	41.7	43.6	48.1	45.0	36.6	32.1
Days in accounts receivable	5.5	5.7	6.8	8.0	8.8	8.4	7.6	8.1	10.0	11.4

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Tangible fixed assets

Tangible fixed assets are the main component of assets, comprising 61.7% total assets in FY09/19. The table below shows funeral hall buildings and structures, land, and lease assets. These are on an uptrend accompanying the rising number of funeral halls.

While the company generally leases land when opening a new funeral hall, in some cases it buys land depending on location and price.

Main facilities (as of end September 2019)

TEAR establishment	Location	Buildings and structures (JPYmm)	Land (JPYmm)	Lease assets (JPYmm)	Total (JPYmm)
Head office, TEAR Kurokawa	Kita, Nagoya City	591	242	2	879
Nakagawa	Nakagawa, Nagoya City	34		128	164
Kasadera	Minami, Nagoya City	61	70		132
Minato	Minato, Nagoya City	4		2	8
Sanno	Nakagawa, Nagoya City	82			84
Midori	Midori, Nagoya City	149			151
Gokiso	Showa, Nagoya City	44			47
Daiko	Higashi, Nagoya City	94			97
Nakamura	Nakamura, Nagoya City	130			136
Aoiyama	Tempaku, Nagoya City	2			3
Nishibiwajima	Kiyosu, Aichi Prefecture	39			39
Kanie	Kanie, Aichi Prefecture	94			96
Meiko	Minato, Nagoya City	102			113
Joshin	Nishi, Nagoya City	57	188		246
Jimokuji	Ama, Aichi Prefecture	51	70		122
Toyoake	Toyoake, Aichi Prefecture	147			149
Moriyama	Moriyama, Nagoya City	82			83
Atsuta	Atsuta, Nagoya City	127			135
Kadoma	Kadoma, Osaka Prefecture	122	235		359
Toyohashi	Toyohashi, Aichi Prefecture	88	90		180
Toyohashi-minami	Toyohashi, Aichi Prefecture	64	141		207
Shikenya	Moriyama, Nagoya City	90			91
Okazaki-minami	Okazaki, Aichi Prefecture	114	184		300
Mizuho	Mizuho, Nagoya City	181			181
Meito	Meito, Nagoya City	70		48	119
Kasugai	Kasugai, Aichi Prefecture	121	62		184
Sako	Nishi, Nagoya City	118			118
Okazaki-kita	Okazaki, Aichi Prefecture	119			119
Toyohashi-nishi	Toyohashi, Aichi Prefecture	92			93
Okazaki-chuo	Okazaki, Aichi Prefecture	116	160		277
Dotoku	Minami, Nagoya City	92			93
Kakuozan	Chikusa, Nagoya City	122			123
Koshigaya	Koshigaya, Saitama Prefecture	199			200
Daito	Daito, Osaka Prefecture	44		92	137
Ajiyoshi	Kasugai, Aichi Prefecture	12		117	131
Hatogaya	Kawaguchi, Saitama Prefecture	46			47
Honjin	Nakamura, Nagoya City	57			57
Neyagawa	Neyagawa, Osaka Prefecture	119			120
Matsubakoen	Nakagawa, Nagoya City	139			141
Takinomizu	Midori, Nagoya City	86			87
Iwatsuka	Nakamura, Nagoya City	114			116
Tsushima	Tsushima, Aichi Prefecture	111	19		133
Komaki-chuo	Komaki, Aichi Prefecture	139			142
Kurokawa Higashikan	Kita, Nagoya City	211			214
Nippori	Arakawa, Tokyo	4			4
Kita-Nagoya	Kita-Nagoya, Aichi Prefecture	131			133
Yatomi	Yatomi, Aichi Prefecture	132			136
Inazawa	Inazawa, Aichi Prefecture	149	36		189
Nyoisaru	Kasugai, Aichi Prefecture	142			148
Hara	Tenpaku, Nagoya City	131			135
Machiya	Arakawa, Tokyo	6			6
Shimonoishiki	Nakagawa, Nagoya City	112			116
Kita-Senju	Adachi, Tokyo	5			6
Aoto Ekimae	Katsushika, Tokyo	1			2
Tsushima-higashi	Tsushima, Aichi Prefecture	132			137
Komagome	Kita, Tokyo	3			3
Chiyodabashi	Moriyama, Nagoya City	65			70
Nezu	Bunkyo, Tokyo	1			2
Itaka	Meito, Nagoya City	36			39
Gamo	Joto, Osaka	3			4
Ohanajaya	Katsushika, Tokyo	2			3
Yakiyama	Tenpaku, Nagoya City	41			47
Yahagi	Okazaki, Aichi Prefecture	43			47
Higashiikebukuro	Toshima, Tokyo	3			4
Kawana	Showa, Nagoya City	52			57
Yatomidori	Mizuho, Nagoya City	58			64
Hojin	Minato, Nagoya City	60			66
Arahataminami	Showa, Nagoya City	48			53
Total		6,036	1,497	389	8,124

Source: Shared Research based on company data

Investments and other assets

Investments and other assets accounted for 10.3% of total assets in FY09/19. These were mainly rental deposits, including security deposits for leases and deposits and bonds for rental properties.

Liabilities**Interest-bearing debt**

Interest-bearing debt rose through FY09/12, but has been declining since FY09/13 due to repayments. The company primarily raises funds through long-term borrowing.

Net assets

The main component of net assets is shareholders' equity. Valuation and translation adjustments have a negligible impact. Shareholders' equity is increasing due to accumulated retained earnings. In December 2014, the company raised JPY1.2bn through a share issuance via a public offering and third-party allocation. At end Q1 FY09/15, capital and capital reserves rose by JPY579mn each. The company used these funds to build new halls, renovate halls, upgrade customer management IT systems, and buy equipment and fixtures to improve catering capacity at existing funeral halls in FY09/16.

In December 2018, the company raised a total of approximately JPY1.4bn (net) for this purpose by the issue of new shares via a public offering and third-party allocation. The funds are to be used for building new funeral halls and refurbishing existing halls by end September 2020, and the balance (if any) for repayment of loans.

Cash flow statement

Cash flow statement (JPYmn)	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18	FY09/19
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	860	597	924	806	1,151	1,177	1,180	1,406	1,620	1,177
Cash flows from investing activities (2)	-711	-919	-901	-717	-529	-877	-806	-998	-596	-1,048
Free cash flow (1+2)	150	-322	23	89	622	300	374	408	1,024	129
Cash flows from financing activities	16	139	115	-289	-429	378	-742	-93	-658	715
Depreciation and amortization of goodwill (A)	308	332	335	379	394	403	507	522	561	592
Capital expenditures (B)	-702	-900	-850	-507	-556	-915	-819	-998	-646	-1,037
Working capital changes (C)	-49	66	-7	90	-7	7	-9	62	74	50
Simple FCF (NI + A + B - C)	60	-280	-89	299	393	133	409	263	737	296

Source: Shared Research based on company data

Note: Figures may differ from company materials due to differences in rounding methods.

Cash flows from operating activities

Net income and depreciation have a big influence on operating cash flows. Operating cash flows are on an uptrend accompanying growth in net income and rising depreciation expenses due to growth in tangible fixed assets.

Cash flows from investing activities

Investing cash flows are driven mainly by outflows due to the acquisition of tangible fixed assets and payments of security deposits. Since the company plans to continue developing new funeral halls and renovating existing halls, investing cash flows may stay negative.

Cash flows from financing activities

Financing cash flows are affected by changes in interest-bearing liabilities and the issuance of new shares.

- ▷ From FY09/10 through FY09/12, they were positive due to steadily rising interest-bearing liabilities.
- ▷ In FY09/13 and FY09/14, they were negative due to repayment of interest-bearing liabilities.
- ▷ In FY09/15, although the company booked some expenses due to repayment of interest-bearing liabilities, it was able to raise capital through a public offering of new shares and allocation of new shares to a third party (JPY1.1bn in total), and as such create a positive cash flow.
- ▷ From FY09/16 through FY09/18, financing cash flows were negative due to the repayment of interest-bearing debt.
- ▷ In FY09/19, financing cash flows were positive due to the issuance of new shares (JPY1.4bn) despite some expenses due to the repayment of interest-bearing liabilities.

Other information

History

Company president joined a funeral company following part-time job after high school graduation

After graduating high school, President Norihisa Tomiyasu was introduced by the owner of a café to part-time job at a funeral home. Impressed by the gratitude shown by bereaved families to the funeral company, he shelved his plans to go to university and joined the funeral division of a ceremonial mutual aid society. Senior employees at his workplace told him to spare no efforts for the family of the bereaved and treat each body as a beloved person. This became the basis of Mr. Tomiyasu’s funeral service ethos.

After working for 3.5 years at his first funeral company, family circumstances forced Mr. Tomiyasu to return home, and he joined a mutual aid society in the Tokai region. He was made head of the Nagoya branch at age 25, and promoted to manager at age 28. He worked at this company for 11 years. However, he took exception to company policy; it refused to hold funerals for welfare recipients as it viewed the funeral industry as a business. At age 30, Mr. Tomiyasu got the idea of establishing his own funeral company. In addition to discrimination against welfare recipients, he had a desire to overturn other long-established practices in the funeral industry. For example, there were no funeral charge price lists. It was common practice to decide on prices only after knowing the wealth of the family, and societies would first inquire about the style of gate at the bereaved family’s home, type of car, and profession. Funeral companies would also make contributions to hospitals, an important marketing channel, to sign up customers there.

TEAR founded in 1997 with backing of investors

Mr. Tomiyasu quit his second company to set up TEAR, and became a contract employee in the hospital sales division of a long-established funeral company. At the time of founding, his business plan envisaged a rollout of small funeral halls closely entwined with the community. His 10-year targets included an IPO, 20 funeral halls, and 3,600 funerals annually. He needed a minimum of JPY50–100mn but banks rejected his financing requests. He met the founder of Proto Corporation (JASDAQ: 4298), Mr. Hiroichi Yokoyama. With the backing of Mr. Yokoyama and four other investors, as well as JPY10mn of his own savings, Mr. Tomiyasu had enough capital to found TEAR in July 1997.

Mr. Tomiyasu analyzed population statistics for the 16 wards that make up Nagoya and chose Nakagawa Ward for his first funeral hall. In January 1998, Tear Nakagawa, the first hall, opened. At that time the average price of funerals in the Chubu region was JPY3mn. TEAR set its price at under JPY150,000. Mr. Tomiyasu took flyers and distributed them door-to-door in a 1.5km radius around his hall. He thought that Tear Nakagawa would reach breakeven with eight or nine funerals a month; news about the company’s service spread by word of mouth and nine months after its launch it was holding over 20 funerals per month. In November of the same year the company’s second funeral hall opened.

That the halls were close to the community, with small halls accessible by bicycle, and that prices were reasonable, appealed to consumers. Maximizing consumer satisfaction made the company popular. It exceeded its initial plans: it managed to list ahead of its 10-year schedule, after eight years and 11 months, had 21 halls in its ninth year, and held 4,194 funerals in its 10th year.

Company milestones

Year	Description
1997	TEAR founded in Nakagawa Ward, Nagoya with JPY90mn in capital and aim of entering funeral business
1998	1st funeral hall, Tear Nakagawa, opens in Nakasucho, Nakagawa Ward, Nagoya
2002	10th funeral hall, Tear Aioiyama, opens in Sakainecho, Tenpaku Ward, Nagoya
2006	Shares listed on Centrex market, Nagoya Stock Exchange 20th funeral hall, Tear Toyohashi South, opens in Mukaiyama Oikecho (transferred from Freedom Co., Ltd.), and 21st funeral hall, Tear Toyohashi, opens in Makinocho, both in Toyohashi, Aichi Prefecture
2008	Listing transferred to Second Section, Nagoya Stock Exchange

2011	30th funeral hall, Tear Okazaki Chuo, opens in Shimacho, Okazaki, Aichi Prefecture
2013	Shares listed on Tokyo Stock Exchange Second Section
2014	Shares listed on Tokyo Stock Exchange First Section and Nagoya Stock Exchange First Section 40th funeral hall, Tear Takinomizu, opens in Hosoguchi, Midori Ward, Nagoya
2016	Opens the 1st funeral hall in the Tokyo metropolitan area and 1st consultation center, The Tear Nippori Funeral Consultation Center
2017	Acquired all shares in Aikyo (now Tear Service) and made it a subsidiary

Source: Shared Research based on company data

News and topics

June 2020

On **June 19, 2020**, the company announced the opening of refurbished funeral hall Tear Aioiyama.

The company will restart operation of refurbished Tear Aioiyama (Tempaku-ku, Nagoya, Aichi Prefecture) on June 26, 2020. The refurbished funeral hall uses movable partitions (that are also furniture) to accommodate ceremonies of varying scale from small family funerals to larger, regular funerals.

April 2020

On **April 20, 2020**, the company announced the opening of Tear Kiyosu Kojyo Family Funeral Hall.

The company plans to open Tear Kiyosu Kojyo Family Funeral Hall (Kiyosu, Aichi Prefecture) designated for family funerals on April 24, 2020. Demand for small-scale family funerals with a limited number of mourners (just family members and close relatives) is growing against the social background of aging population and the trend toward nuclear families in Japan.

This hall is a new format of funeral hall; its total floor space is about half of existing funeral halls, it has a minimal number of full-time hall staff, and it holds only one funeral per day. This format of funeral halls can be opened on relatively small lots and in areas where TEAR's other halls are already in operation. Therefore the company is aggressively opening this type of funeral halls following its existing halls and funeral consultation centers. Tear Kiyosu Kojyo Family Funeral Hall is the eleventh such hall in this format.

On **April 13, 2020**, the company announced the opening of Tear Okazaki Ueji Family Funeral Hall.

The company plans to open Tear Okazaki Ueji Family Funeral Hall (Okazaki, Aichi Prefecture) designated for family funerals on April 18, 2020. Demand for small-scale family funerals with a limited number of mourners (just family members and close relatives) is growing against the social background of aging population and the trend toward nuclear families in Japan.

This hall is a new format of funeral hall; its total floor space is about half of existing funeral halls, it has a minimal number of full-time hall staff, and it holds only one funeral per day. This format of funeral halls can be opened on relatively small lots and in areas where TEAR's other halls are already in operation. Therefore the company is aggressively opening this type of funeral halls following its existing halls and funeral consultation centers. Tear Okazaki Ueji Family Funeral Hall is the tenth such hall in this format.

February 2020

On **February 14, 2020**, the company announced the opening of Tear Koshin Minami Family Funeral Hall.

The company plans to open Tear Koshin Minami Family Funeral Hall (Moriyama-ku, Nagoya, Aichi Prefecture) designated for family funerals on February 22, 2020. Demand for small-scale family funerals with a limited number of mourners (just family members and close relatives) is growing against the social background of aging population and the trend toward nuclear families in Japan.

This hall is a new format of funeral hall; its total floor space is about half of existing funeral halls, it has a minimal number of full-time hall staff, and it holds only one funeral per day. This format of funeral halls can be opened on relatively small lots and in areas where TEAR's other halls are already in operation. Therefore the company is aggressively opening this type of funeral halls following its existing halls and funeral consultation centers. Tear Koshin Family Funeral Hall is the ninth such hall in the new format.

December 2019

On **December 9, 2019**, the company announced the opening of Tear Oshiage Funeral Consultation Center (Sumida-ku, Tokyo Prefecture).

The company will open Tear Oshiage Funeral Consultation Center on December 15, 2019. This will be the company's 11th location that uses the consultation center format (9th in the Tokyo Prefecture).

Tear Oshiage Funeral Consultation Center will primarily provide funeral services and prior consultations, host events (funeral seminars, etc.), and sell products.

November 2019

On **November 8, 2019**, the company announced a revision of its (rolling) medium-term management plan.

To respond to changes in the business environment, the company revises its medium-term management plan every year using a rolling format. In this latest management plan, the company changed only its numerical targets and part of the plan, and not the basic direction of the plan or key initiatives. It forecasts 13,920 funerals at directly managed funeral halls, sales of JPY15.4bn, and recurring profit of JPY1.4bn for FY09/22, the final year of the plan.

Numerical Targets

Targets	FY09/19	FY09/20	FY09/21	FY09/22
	Act.	Est.	Targets	Targets
Number of funerals held	10,923	11,968	12,972	13,920
YoY	6.6%	9.6%	8.4%	7.3%
Sales (JPYmn)	12,779	13,695	14,570	15,350
YoY	3.8%	7.2%	6.4%	5.4%
Operating profit (JPYmn)	1,156	1,220	1,345	1,405
YoY	-12.6%	5.5%	10.2%	4.5%
OPM	9.0%	8.9%	9.2%	9.2%
Recurring profit (JPYmn)	1,151	1,215	1,345	1,410
YoY	-11.5%	5.6%	10.7%	4.8%
Net income (JPYmn)	791	815	905	950
YoY	-11.7%	3.0%	11.0%	5.0%
Capital expenditures (JPYmn)	1,038	910	695	681

Source: Shared Research based on company data

Planned funeral hall openings

	FY09/19 Act.	FY09/20 Est.	FY09/21 Targets	FY09/22 Targets
Number of funeral halls (year-end)	116	135	153	169
YoY change	14	19	18	16
Directly managed	68	79	89	97
YoY change	11	11	10	8
Franchisees	48	56	64	72
YoY change	3	8	8	8

Source: Shared Research based on company data

September 2019

On **September 9, 2019**, the company announced the opening of refurbished funeral hall Tear Atsuta.

The company will restart operation of refurbished Tear Atsuta (Atsuta-ku, Nagoya, Aichi Prefecture) on September 14, 2019. At the refurbished funeral hall, a partition between the ceremonial and banquet halls can be removed to change the size and layout of the hall, thereby accommodating ceremonies of varying scale from small family funerals to larger, regular funerals.

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Mugen Co., Ltd.	7,766,900	34.66%
Japan Trustee Services Bank, Ltd. (Trust account)	1,744,900	7.78%
Nagoya Railroad Co., Ltd.	1,280,000	5.71%
Norihisa Tomiyasu	941,300	4.20%
MSIP CLIENT SECURITIES (Standing proxy: Morgan Stanley MUFG Securities Co., Ltd.)	642,397	2.86%
TEAR Employee Stockholding Association	330,500	1.47%
Shiro Fukaya	264,000	1.17%
The Master Trust Bank of Japan, Ltd. (Trust account)	227,200	1.01%
Japan Trustee Services Bank, Ltd. (Trust account 5)	210,000	0.93%
Hanae Bisou Co., Ltd.	183,200	0.81%
SUM	13,590,397	60.66%

Source: Shared Research based on company data
(As of end-September 2019)

Shareholder returns

The company's dividend policy takes into account strengthening the balance sheet and having enough retained earnings for expansion and the resulting improvement in ROE. The company also plans to boost shareholder returns through higher dividends when profits increase, and through share splits.

In FY09/18, the dividend payout ratio trended upward to 22.5%, and in FY09/19 it reached 30.5%. In FY09/20, the company plans to pay an interim dividend of JPY10, and a year-end dividend of JPY10, for a total dividend of JPY20 (dividend payout ratio: 55.0%).

Top management

President Norihisa Tomiyasu

Born in 1960 in Aichi. He shelved his plan to attend university following a part-time job in the funeral business after finishing high school. He became a full-time employee of a funeral company at the age of 18. After 18 years in the funeral business, he established the company in July 1997 as the founding president, with the aim of overturning long-standing practices.

Corporate philosophy

The company wants to become the most appreciated funeral company in Japan. Rather than sales or profits, it wants to collect the most “thank-you’s” of any funeral company in Japan.

Name

The company’s name embodies the idea that the company would like to ease the grief of the bereaved family, even if only by a tear.

Funeral customs

Preparations for Japanese funerals begin with end-of-life care. The funeral and associated ceremonies take place over many stages: The body lies in repose watched over by loved ones, and is then put in a coffin. There is a wake, funeral, funeral procession, and cremation (carried out before the funeral in some regions), retrieval of bones, Buddhist memorial service, and ceremonies on important anniversary dates including 49 days, one year, and three years after the death.

Preparation

Funeral customs	
Death	Physician confirms death, issues death certificate. Funeral company contacted.
Body lies in repose	Body lies in repose at deceased’s home or funeral hall. Incense offerings prepared.
Making arrangements	Funeral date and specific details decided.
Crematorium reservation	Crematorium booked.
Contact	Date and location of funeral passed to relatives and neighbors.
Nokan (encoffinment)	Ritual to prepare deceased for journey to afterlife. Begins with family taking turns to moisten the deceased’s mouth, bathing the deceased, applying makeup and dressing body in burial clothes. Objects beloved of the deceased placed in coffin.

Matsugo no Mizu (last water): Performed by spouse, family, friends, and acquaintances before the body is placed in coffin. Details differ by region. In general cotton wool wrapped in gauze is held with chopsticks and soaked in a bowl of water and lightly applied to the deceased’s lips. This custom was born out of wishes that the deceased would come back to life, and not suffer from thirst in the afterlife.

Yukan (washing the body): Ancient ritual where family cleanses body of deceased. In addition to washing away a lifetime of impurities and suffering, it is meant to erase worldly desires and express hope for a virtuous afterlife. In the past, it was common to adjust the water temperature by adding boiling water to the barrel when washing the body.

Shinishozoku (burial clothes): Traditionally the deceased was dressed in a plain white cotton shroud with the left side under the right—the reverse way. In recent years, the body is often dressed in clothing that the deceased liked (including patterned clothing) or a new yukata. It is also common to dress the body in a shroud supplied by the funeral company when placing the body in the coffin.

Wake

Wakes in Japanese Buddhist tradition usually entail keeping incense and candles burning constantly, with the family keeping vigil over the body overnight.

Origin of wake: After Buddha’s death, it is said that his grieving disciples kept watch over his body and retold his life’s teachings to each other throughout the night. Thus a Buddhist wake is not to pray for the deceased to go to heaven, but for those closest to the deceased to reminisce, so they can spend one last night in this world together.

Wake	
Evening wake	Evening wake (ceremony) held at funeral site

Post-ceremony wake	A meal at the funeral site for members of the deceased's family
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Funeral/farewell ceremony

The funeral and farewell ceremony differ. The funeral is a ritual where the bereaved pray for the repose of the deceased. In the farewell ceremony, those close to the deceased can say their last farewells. Recently, it has been common for the funeral and farewell ceremony to be held together. In these cases, after the funeral there is a ceremony to pray for repose of the deceased, including prayers for the deceased to enter heaven. This is followed by the farewell ceremony, where mourners say their goodbyes. The centerpiece of a Buddhist funeral is a chanting monk.

Funeral and farewell ceremony	
Funeral/farewell ceremony	After the ceremony, funeral procession is held
Cremation	Body cremated, ashes placed in urn

Seventh-day service/end of abstinence

Seventh-day memorial service/end of abstinence	
Memorial service on the seventh day	Seventh-day memorial service (usually held a week after funeral) to the same day as the funeral/farewell ceremony (because the pressures of modern living make it difficult for people to attend two separate ceremonies a week apart)
Shojin Otoshi (end of abstinence)	Returning to regular diet (eating meat and fish and drinking alcohol) after seventh day memorial service

Company profile

Company Name	Head Office
TEAR Corporation	3-35-1, Kurokawahondori, Kitaku, Nagoya, Aichi, Japan 462-0841
Phone	Listed On
+81-52-918-8200	Tokyo Stock Exchange 1st Section, Nagoya Stock Exchange 1st Section
Established	Exchange Listing
July, 1997	June 23, 2014
Website	Fiscal Year-End
http://www.tear.co.jp/ (Japanese only)	September
IR Web	IR Contact
http://www.tear.co.jp/company/ (Japanese only)	Corporate Planning Dept.
IR Mail	IR Phone
https://www.tear.co.jp/company/contact.php	+81-52-918-8254

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Aeon Fantasy Co., Ltd.	Doshisha Corporation	KI-Star Real Estate Co., Ltd.	SBS Holdings, Inc.
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AI inside Inc.	Earth Corporation	Kumiai Chemical Industry Co., Ltd.	Seria Co.,Ltd.
AirTrip Corp.	Edion Corporation	Lasertec Corporation	Serverworks Co.,Ltd.
and factory, inc.	Elecom Co., Ltd.	Locondo, Inc.	SHIFT Inc.
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Anritsu Corporation	Ferrotec Holdings Corporation	Medical System Network Co., Ltd.	SMS Co., Ltd.
Apaman Co., Ltd.	FIELDS CORPORATION	MEDINET Co., Ltd.	Snow Peak, Inc.
ARATA CORPORATION	Financial Products Group Co., Ltd.	MedPeer,Inc.	Solasia Pharma K.K.
Artspark Holdings Inc.	First Brothers Col, Ltd.	Mercuria Investment Co., Ltd.	SOURCENEXT Corporation
AS ONE CORPORATION	FreeBit Co., Ltd.	Micronics Japan Co., Ltd.	Star Mica Holdings Co., Ltd.
Ateam Inc.	Fujita Kanko Inc.	MIRAIT Holdings Corporation	Strike Co., Ltd.
Aucfan Co., Ltd.	Gamecard-Joyco Holdings, Inc.	Monex Goup Inc.	SymBio Pharmaceuticals Limited
AVANT CORPORATION	GameWith, Inc.	MORINAGA MILK INDUSTRY CO., LTD.	Syncho Food Co., Ltd.
Axell Corporation	GCA Corporation	Mortgage Service Japan Limited.	TAIYO HOLDINGS CO., LTD.
Azbil Corporation	Good Com Asset Co., Ltd.	NAGASE & CO., LTD	Takashimaya Company, Limited
AZIA CO., LTD.	Grandy House Corporation	NAIGAI TRANS LINE LTD.	Take and Give Needs Co., Ltd.
AZoom, Co., Ltd.	Hakuto Co., Ltd.	NanoCarrier Co., Ltd.	Takihyo Co., Ltd.
Base Co., Ltd	Hamee Corp.	Net Marketing Co., Ltd.	TEAR Corporation
BEEVOS Inc.	Happinet Corporation	Net One Systems Co.,Ltd.	Tenpo Innovation Inc.
Bell-Park Co., Ltd.	Harmonic Drive Systems Inc.	Nichi-Iko Pharmaceutical Co., Ltd.	3-D Matrix, Ltd.
Benefit One Inc.	HENNGE K.K.	Nihon Denkei Co., Ltd.	TKC Corporation
B-lot Co.,Ltd.	HOUSEDO Co., Ltd.	Nippon Koei Co., Ltd.	TKP Corporation
Broadleaf Co., Ltd.	H2O Retailing Corporation	NIPPON PARKING DEVELOPMENT Co., Ltd.	Tsuzuki Denki Co., Ltd.
CanBas Co., Ltd.	IDOM Inc.	NIPRO CORPORATION	TOCALO Co., Ltd.
Canon Marketing Japan Inc.	IGNIS LTD.	Nisshinbo Holdings Inc.	TOKAI Holdings Corporation
Career Design Center Co., Ltd.	i-mobile Co.,Ltd.	NS TOOL CO., LTD.	Tokyu Construction Co., Ltd.
Carna Biosciences, Inc.	Inabata & Co., Ltd.	OHIZUMI MFG. CO., LTD.	TOYOBO CO., LTD.
CARTA HOLDINGS, INC	Infocom Corporation	Oisix ra daichi Inc.	Toyo Ink SC Holdings Co., Ltd
CERES INC.	Infomart Corporation	Oki Electric Industry Co., Ltd	Toyo Tanso Co., Ltd.
Chiyoda Co., Ltd.	Intelligent Wave, Inc.	ONO SOKKI Co., Ltd.	Tri-Stage Inc.
Chori Co., Ltd.	ipet Insurance CO., Ltd.	ONWARD HOLDINGS CO.,LTD.	TSURUHA Holdings
Chugoku Marine Paints, Ltd.	Itochu Enex Co., Ltd.	Pan Pacific International Holdings Corporation	VISION INC.
cocokara fine Inc.	JAFCO Co.,Ltd.	PARIS MIKI HOLDINGS Inc.	VISIONARY HOLDINGS CO., LTD.
COMSYS Holdings Corporation	JMDC Inc.	PIGEON CORPORATION	WirelessGate, Inc.
COTA CO.,LTD.	JSB Co., Ltd.	QB Net Holdings Co., Ltd.	YELLOW HAT LTD.
CRE, Inc.	JTEC Corporation	RACCOON HOLDINGS, Inc.	YOSHINOYA HOLDINGS CO., LTD.
CREEK & RIVER Co., Ltd.	J Trust Co., Ltd	Raysum Co., Ltd.	YUMESHIN HOLDINGS CO., LTD.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.	Japan Best Rescue System Co., Ltd.	RESORTTRUST, INC.	ZAPPALLAS, INC.
Daiseki Co., Ltd.	JINS HOLDINGS Inc.	ROUND ONE Corporation	
Demae-Can CO., LTD	JP-HOLDINGS, INC.	RYOHIN KEIKAKU CO., LTD.	

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