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On **November 8, 2018**, TEAR Corporation announced earnings results for Full-year FY09/18.

Cumulative (JPYmn)	FY09/17				FY09/18				FY09/18	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Sales	2,866	5,897	8,705	11,352	3,019	6,323	9,245	12,311	100.3%	12,270
YoY	8.8%	6.8%	8.0%	7.2%	5.3%	7.2%	6.2%	8.4%		8.1%
Gross profit	1,138	2,354	3,412	4,292	1,183	2,527	3,658	4,839		
YoY	15.1%	9.6%	11.2%	9.6%	4.0%	7.3%	7.2%	12.7%		
GPM	39.7%	39.9%	39.2%	37.8%	39.2%	40.0%	39.6%	39.3%		
SG&A expenses	729	1,492	2,253	3,101	791	1,650	2,492	3,516		
YoY	-1.5%	6.0%	9.0%	9.9%	8.5%	10.6%	10.6%	13.4%		
SG&A ratio	25.4%	25.3%	25.9%	27.3%	26.2%	26.1%	27.0%	28.6%		
Operating profit	408	861	1,159	1,190	392	876	1,165	1,323	103.8%	1,275
YoY	63.9%	16.2%	16.0%	8.8%	-3.9%	1.7%	0.5%	11.2%		7.1%
OPM	14.2%	14.6%	13.3%	10.5%	13.0%	13.9%	12.6%	10.7%		10.4%
Recurring profit	402	851	1,148	1,185	390	869	1,154	1,300	103.2%	1,260
YoY	62.1%	16.4%	17.0%	10.5%	-3.0%	2.1%	0.5%	9.7%		6.3%
RPM	14.0%	14.4%	13.2%	10.4%	12.9%	13.7%	12.5%	10.6%		10.3%
Net income	254	559	761	801	264	592	785	896	106.7%	840
YoY	66.0%	19.4%	20.8%	12.5%	3.9%	5.9%	3.2%	11.9%		4.9%
Net margin	8.9%	9.5%	8.7%	7.1%	8.7%	9.4%	8.5%	7.3%		6.8%

  

Quarterly (JPYmn)	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,866	3,031	2,808	2,647	3,019	3,304	2,922	3,066
YoY	8.8%	5.1%	10.5%	4.5%	5.3%	9.0%	4.1%	15.8%
Gross profit	1,138	1,216	1,058	880	1,183	1,344	1,131	1,181
YoY	15.1%	4.9%	15.1%	3.7%	4.0%	10.5%	6.9%	34.2%
GPM	39.7%	40.1%	37.7%	33.2%	39.2%	40.7%	38.7%	38.5%
SG&A expenses	729	763	761	848	791	859	842	1,024
YoY	-1.5%	14.4%	15.3%	12.5%	8.5%	12.6%	10.6%	20.8%
SG&A ratio	25.4%	25.2%	27.1%	32.0%	26.2%	26.0%	28.8%	33.4%
Operating profit	408	453	298	31	392	484	289	158
YoY	63.9%	-7.9%	15.5%	-67.4%	-3.9%	6.8%	-3.0%	409.7%
OPM	14.2%	14.9%	10.6%	1.2%	13.0%	14.6%	9.9%	5.2%
Recurring profit	402	449	297	37	390	479	285	146
YoY	62.1%	-7.0%	18.8%	-59.3%	-3.0%	6.7%	-4.0%	294.6%
RPM	14.0%	14.8%	10.6%	1.4%	12.9%	14.5%	9.8%	4.8%
Net income	254	305	202	40	264	328	193	111
YoY	66.0%	-3.2%	24.7%	-51.2%	3.9%	7.5%	-4.5%	177.5%
Net margin	8.9%	10.1%	7.2%	1.5%	8.7%	9.9%	6.6%	3.6%

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 Q2 FY09/17, consolidated earnings starting in Q3 FY09/17  
 Note: YoY comparisons from Q3 FY09/17 to Q2 FY09/18 are for reference purposes only.

**Quarterly earnings by segment**

Cumulative (JPYmn)	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,866	5,897	8,705	11,352	3,019	6,323	9,245	12,311
YoY	-72.9%	6.8%	8.0%	7.2%	-73.4%	7.2%	6.2%	8.4%
Funeral	2,789	5,730	8,459	11,011	2,923	6,122	8,956	11,927
YoY	10.7%	7.9%	8.9%	7.8%	4.8%	6.8%	5.9%	8.3%
Franchise	77	167	246	340	96	200	289	383
YoY	-32.5%	-19.7%	-14.9%	-9.6%	24.7%	19.8%	17.5%	12.6%
Operating profit	408	861	1,159	1,190	392	876	1,165	1,323
YoY	-62.7%	16.2%	16.0%	8.8%	-67.1%	1.7%	0.5%	11.2%
Funeral	609	1,252	1,734	1,994	582	1,259	1,741	2,191
YoY	35.6%	13.3%	14.5%	10.0%	-4.4%	0.6%	0.4%	9.9%
Franchise	23	42	61	78	21	48	68	85
YoY	43.8%	31.3%	27.1%	9.9%	-8.7%	14.3%	11.5%	9.0%
Adjustments	-224	-433	-636	-881	-211	-431	-644	-953

  

Quarterly (JPYmn)	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	2,866	3,031	2,808	2,647	3,019	3,304	2,922	3,066
YoY	8.8%	5.1%	10.5%	4.5%	5.3%	9.0%	4.1%	15.8%
Funeral	2,789	2,941	2,729	2,552	2,923	3,199	2,834	2,971
YoY	10.7%	5.4%	10.9%	4.3%	4.8%	8.8%	3.8%	16.4%
Franchise	77	90	79	94	96	104	89	94
YoY	-32.5%	-4.3%	-2.5%	8.0%	24.7%	15.6%	12.7%	0.0%
Operating profit	408	453	298	31	392	484	289	158
YoY	329.5%	-7.9%	15.5%	-67.4%	1164.5%	6.8%	-3.0%	409.7%
Funeral	609	643	482	260	582	677	482	450
YoY	35.6%	-2.0%	17.6%	-12.8%	-4.4%	5.3%	0.0%	73.1%
Franchise	23	19	19	17	21	27	20	17
YoY	43.8%	18.8%	18.8%	-26.1%	-8.7%	42.1%	5.3%	0.0%
Adjustments	-224	-209	-203	-245	-211	-220	-213	-309

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	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total	86	87	90	94	95	97	98	102
YoY change	6	6	8	8	9	10	8	8
QoQ change	-	1	3	4	1	2	1	4
Directly managed	47	47	49	51	52	54	55	57
YoY change	4	4	5	4	5	7	6	6
QoQ change	-	-	2	2	1	2	1	2
Franchisees	39	40	41	43	43	43	43	45
YoY change	2	2	3	4	4	3	2	2
QoQ change	-	1	1	2	-	-	-	2

Source: Shared Research based on company data

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

**Funerals held**

Cumulative	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of funerals held	2,269	4,769	7,033	9,161	2,493	5,293	7,723	10,248
YoY	7.1%	7.3%	9.9%	8.9%	9.9%	11.0%	9.8%	11.9%
Number of funerals per hall	48.3	101.5	148.1	190.1	48.4	101.1	145.7	190.5
YoY	-2.0%	-1.9%	0.0%	-0.6%	0.3%	-0.3%	-1.6%	0.2%

  

Quarterly	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Number of funerals held	2,269	2,500	2,264	2,128	2,493	2,800	2,430	2,525
YoY	7.1%	7.4%	15.7%	5.8%	9.9%	12.0%	7.3%	18.7%
Number of funerals per hall	48.3	53.2	47.2	42.6	48.4	52.8	44.6	45.1
YoY	-2.0%	-1.8%	4.9%	-3.7%	0.3%	-0.7%	-5.5%	5.9%

Source: Shared Research based on company data

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

**Full-year FY09/18 earnings**

For full-year FY09/18, sales were JPY12.3bn (+8.4% YoY), operating profit was JPY1.3bn (+11.2% YoY), recurring profit was JPY1.3bn (+9.7% YoY), and net income attributable to parent company shareholders came to JPY896mn (+11.9% YoY).

Sales growth was underpinned by an increase in sales of funeral services and by higher franchise revenues.

Gross profit rose 12.7% YoY to JPY4.8bn. GPM rose 1.5pp YoY to 39.3%. Although labor costs increased, costs elsewhere were reduced by a review of the list of products used in funeral services product and by bringing some ancillary funeral services in-house. SG&A expenses were JPY3.5bn (+13.4% YoY) with the SG&A-to-sales ratio rising 1.2pp YoY to 28.6%. The increase came from hiring employees in preparation for store openings in the medium- to long-term and a rise in advertising expenses due to aggressive product promotions.

The company opened a directly managed funeral hall Tear Shimonoiishiki and Tear Chiyodabashi in Nagoya city and Tear Tsushimahigashi in Aichi Prefecture. It also opened Tear Kita-Senju, Tear Aoto Ekimae and Tear Komagome using a new model for funeral consultation centers aimed at the Tokyo metropolitan area. It now has 57 directly managed funeral halls and 45 franchisees, for a total of 102 halls.

**Funeral segment**

Segment sales were JPY11.9bn (+8.3% YoY) and operating profit was JPY2.2bn (+9.9% 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, a pre-paid membership. It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

The number of existing funeral halls increased and with the start of operations at new halls, the total number of funerals increased 11.9% YoY to 10,248. The unit funeral price dropped 2.4% YoY due to a decrease in the unit price of funeral-related products, partially offset by a rise in the costs of altars.

**Franchise segment**

Segment sales were JPY383mn (+12.6% YoY) and operating profit was JPY85mn (+9.0% YoY).

The number of franchise halls rose by two from the same period in the previous fiscal year. As a result, royalty income increased, as did the sales of goods. The company also worked to develop new clients through direct mailings and web ads, with the end result being an increase both in sales and profits.

## Full-year company forecasts

(JPYmn)	FY09/18			FY09/19			YoY		
	1H Act.	2H Act.	FY Act.	1H Est.	2H Est.	FY Est.	1H Est.	2H Est.	FY Est.
<b>Sales</b>	<b>6,323</b>	<b>5,988</b>	<b>12,311</b>	<b>6,615</b>	<b>6,270</b>	<b>12,885</b>	4.6%	4.7%	4.7%
Cost of sales	3,795	3,676	7,471						
<b>Gross profit</b>	<b>2,527</b>	<b>2,312</b>	<b>4,839</b>						
GPM	40.0%	38.6%	39.3%						
SG&A expenses	1,650	1,866	3,516						
SG&A ratio	26.1%	31.2%	28.6%						
<b>Operating profit</b>	<b>876</b>	<b>447</b>	<b>1,323</b>	<b>810</b>	<b>290</b>	<b>1,100</b>	-7.5%	-35.1%	-16.9%
OPM	13.9%	7.5%	10.7%	12.2%	4.6%	8.5%			
<b>Recurring profit</b>	<b>869</b>	<b>431</b>	<b>1,300</b>	<b>780</b>	<b>280</b>	<b>1,060</b>	-10.2%	-35.0%	-18.5%
RPM	13.7%	7.2%	10.6%	11.8%	4.5%	8.2%			
<b>Net income</b>	<b>592</b>	<b>304</b>	<b>896</b>	<b>525</b>	<b>175</b>	<b>700</b>	-11.3%	-42.4%	-21.9%
Net margin	9.4%	5.1%	7.3%	7.9%	2.8%	5.4%			

Source: Shared Research based on company data

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

For FY09/19, TEAR estimates sales of JPY12.9bn (+4.7% YoY), operating profit of JPY1.1bn (+8.5% YoY), recurring profit of JPY1.1bn (+8.2% YoY), and net income of JPY700mn (+5.4% YoY).

In the funeral business, the company expects existing funeral halls to continue to perform well and the start of operations at new halls to boost sales. In the franchise business, it will develop new clients and increase sales of goods to funeral halls.

In terms of expenses, the company is looking to reduce cost of sales through reviewing the list of items used in funerals and bringing some ancillary funeral services in-house. The company anticipates that costs will rise in a number of areas: higher hall opening costs accompanying the acceleration of new store openings; higher personnel expenses related to aggressive recruitment of new graduates; increased capital investment in staff training facilities; higher advertising costs related to increased online marketing; and increased repair costs associated with upgrading the backbone IT system.

This note is the most recent addition to the [full report](#).

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