



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, 1.3mn people (+2.5% YoY) died in Japan in 2017. 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 1.0% in the death rate from 2017, 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 28 halls in Nagoya city at the end of FY09/18). 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 FY09/08 through FY09/18 the number of funerals it handled at directly managed halls rose by an average of 9.3% per year, sales rose by an average of 7.4%, operating profit rose by an average of 10.6%, and net income rose by an average of 14.9%. Since FY09/13, the company's market share of funeral hall users in Nagoya has topped 20% and reached 24.2% in FY09/18.

Financial targets

- For FY09/19, TEAR estimates sales of JPY12.9bn (+4.7% YoY), operating profit of JPY 1.1bn (-16.9% YoY), recurring profit of JPY1.1bn (-18.5% YoY), and net income of JPY700mn (-21.9% YoY). In the funeral business, in terms of sales, the company expects existing funeral halls to continue to perform well and the start of operations at new halls to boost sales. In terms of profit, the company forecasts a decline at all levels. It is looking to reduce cost of sales through a review of the items it uses in funerals and by 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 openings; higher personnel expenses related to aggressive recruitment of new graduates; increased expenses associated with staff training facilities; higher advertising costs related to increased online marketing; and increased repair costs associated with upgrading the backbone IT system.
- In the medium-term plan starting in FY09/19 and ending FY09/21, the company plans to hold 12,738 funerals at directly managed halls (up 24.3% from FY09/18), with sales of JPY14.6bn (up 18.6%) and operating profit of JPY1.4bn (up 3.6%) in the final year. TEAR plans to accelerate the opening of new directly managed halls (excluding funeral consultation salons) from three in FY09/18 to six or seven per year. 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. Further, 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 (102 in FY09/18) and sales of JPY16.5bn (from JPY12.3bn in FY09/18).

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
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.	Est.
Sales	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311	12,885
YoY	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%	4.7%
Gross profit	2,412	2,528	2,787	3,103	3,366	3,688	3,916	4,292	4,839	
YoY	29.7%	4.8%	10.2%	11.4%	8.4%	9.6%	6.2%	9.6%	12.7%	
GPM	31.6%	32.3%	33.4%	34.8%	35.3%	36.1%	37.0%	37.8%	39.3%	
Operating profit	771	736	869	940	992	1,078	1,094	1,190	1,323	1,100
YoY	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%	-16.9%
OPM	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%	8.5%
Recurring profit	703	662	798	846	925	1,023	1,072	1,185	1,300	1,060
YoY	50.6%	-6.0%	20.7%	6.0%	9.3%	10.5%	4.8%	10.5%	9.7%	-18.5%
RPM	9.2%	8.5%	9.6%	9.5%	9.7%	10.0%	10.1%	10.4%	10.6%	8.2%
Net income	405	354	419	517	548	652	712	801	896	700
YoY	46.3%	-12.5%	18.2%	23.5%	6.0%	19.0%	9.2%	12.5%	11.9%	-21.9%
Net margin	5.3%	4.5%	5.0%	5.8%	5.8%	6.4%	6.7%	7.1%	7.3%	5.4%
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	
EPS	22.2	19.4	23.0	28.4	30.1	33.0	35.3	39.7	44.4	
EPS (fully diluted)	-	-	-	-	-	-	-	-	-	
Dividend per share	3.8	3.8	4.4	10.0	12.0	6.0	6.0	8.0	10.0	
Book value per share	98.7	114.4	133.7	157.7	180.2	246.5	275.8	308.5	345.7	
Balance sheet (JPYmn)										
Cash and cash equivalents	1,185	1,001	1,138	940	1,134	1,813	1,442	1,758	2,125	
Total current assets	1,476	1,325	1,528	1,369	1,634	2,334	1,943	2,341	2,858	
Tangible fixed assets	3,924	4,646	5,225	5,626	5,789	6,270	6,649	7,234	7,728	
Investments and other assets	1,071	1,135	1,153	1,376	1,350	1,307	1,285	1,263	1,257	
Intangible fixed assets	246	193	173	134	141	226	190	151	114	
Total assets	6,716	7,299	8,079	8,504	8,913	10,137	10,069	10,990	11,958	
Accounts payable	284	245	305	262	314	312	309	315	352	
Short-term debt	57	77	74	87	97	117	120	60	70	
Total current liabilities	2,097	2,008	2,279	2,142	2,430	2,482	2,178	2,193	2,432	
Long-term debt	2,651	2,903	3,068	2,919	2,596	2,058	1,672	1,894	1,531	
Total fixed liabilities	2,819	3,206	3,364	3,489	3,199	2,685	2,330	2,575	2,540	
Total liabilities	4,917	5,214	5,643	5,631	5,629	5,167	4,508	4,769	4,973	
Net assets	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984	
Total interest-bearing debt	3,863	4,111	4,337	4,175	3,899	3,279	2,676	2,746	2,311	
Cash flow statement (JPYmn)										
Cash flows from operating activities	860	597	924	806	1,151	1,177	1,180	1,406	1,620	
Cash flows from investing activities	-711	-919	-901	-717	-529	-877	-806	-998	-596	
Cash flows from financing activities	16	139	115	-289	-429	378	-742	-93	-658	
Financial ratios										
ROA (RP-based)	11.0%	9.4%	10.4%	10.2%	10.6%	10.7%	10.6%	11.3%	11.3%	
ROE	24.9%	18.2%	18.5%	19.5%	17.8%	15.8%	13.5%	13.6%	13.6%	
Equity ratio	26.8%	28.6%	30.1%	33.8%	36.8%	49.0%	55.2%	56.6%	58.4%	

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 **January 11, 2019**, Shared Research updated the report following interviews with TEAR Corporation.

On **November 27, 2018**, the company announced a new share offering and secondary offering of shares.

The company's Board of Directors approved a new share offering and secondary offering of shares under the following terms:

Issuance of new shares by public offering

Type and number of shares available for subscription	2,000,000 common shares (equal to 9.9% of total shares issued)
Method for determining payment amount	To be determined between December 5 and December 12, 2018 (Issue Price Determination Date)
Subscription method	General public offering, with Nomura Securities Co., Ltd. serving as the lead underwriter of the underwriting syndicate that will underwrite all of the shares offered. For the public offering, the offering price will be at a price equal to 0.90–1.00 times the closing price of the stock on the Tokyo Stock Exchange on the Issue Price Determination Date, the multiple to be determined in consideration of demand conditions for the shares.
Subscription period	The subscription period will run from the business day following the Issue Price Determination Date through the second business day following the Issue Price Determination Date.

Secondary share offering by way of over-allotment

Type and number of shares in secondary offering	300,000 common shares
Seller	Nomura Securities Co., Ltd.
Sales price	To be determined on the Issue Price Determination Date. Secondary share offering price to be set at the same price as the new shares made available for subscription by way of public offering.
Sales method	After determining the demand for the new shares made available for subscription by way of public offering, Nomura Securities Co., Ltd. will borrow up to 300,000 common shares from TEAR Corporation shareholders for sale by way of secondary offering.
Subscription period	The same as the subscription period for the public offering of new shares

Issuance of new shares by way of third-party allocation (private placement)

Type and number of shares available for subscription	300,000 common shares (equal to 1.5% of total shares issued)
Method for determining payment amount	To be determined on the Issue Price Determination Date. Payment amount to be set at the same price as the new shares made available for subscription by way of public offering.
Receiving party	Nomura Securities Co., Ltd.
Subscription period	January 7, 2019

Use of proceeds from share offering

TEAR expects to receive a combined total of up to JPY1,630mn (net proceeds) from the public offering of new shares and private placement of shares. Of this amount, it plans to allocate JPY1,374mn for capital spending. Any remaining amounts will be used to repay loans prior to the end of September 2019.

With regard to capital spending plans, the company has budgeted a total of JPY1,045mn for the construction of new funeral halls (with JPY448mn to be spent in FY09/19 and JPY597mn in FY09/20) and JPY329mn for the renovation of existing facilities (by the end of FY09/20). As of November 2018, the company has plans to build a total of 14 new funeral halls, six new funeral

consultation salons, one new office/training facility, and renovate four existing funeral halls, with all work to be completed by FY09/21.

On **November 19, 2018**, the company announced the opening of Tear Itaka Family Funeral Hall.

The company plans to open Tear Itaka Family Funeral Hall (Meito-ku, Nagoya, Aichi Prefecture) designated for family funerals on November 23, 2018. 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.

Tear Itaka Family Funeral Hall is a new format of funeral hall; its total floor space is about half of existing funeral halls, it has 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 this format of funeral halls can be considered as a new model following its existing funeral halls and funeral consultation centers. Tear Itaka Family Funeral Hall will be the second hall using the format designated for family funerals.

On **November 12, 2018**, the company announced the opening of Tear Nezu Funeral Consultation Center (Bunkyo-ku, Tokyo Prefecture).

The company will open Tear Nezu Funeral Consultation Center on November 17, 2018. This will be the company's 7th location that uses the consultation center format (6th in the Tokyo Prefecture).

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

On **November 8, 2018**, the company announced earnings results for Full-year FY09/18; see the results section for details.

On **the same day, 2018**, the company announced a revision of its medium-term management plan.

To respond to changes in the business environment, the company has revised its medium-term management plan every year since 2015 using a rolling format. In this latest management plan, the company. It has modified its previous plan and recast it under its new management policies. It forecasts 12,738 funerals at directly managed funeral halls, sales of JPY14.6bn, and recurring profit of JPY1.4bn for FY09/21, the final year of the plan.

Numerical Targets

Targets	FY09/18	FY09/19	FY09/20	FY09/21
	Act.	Est.	Targets	Targets
Number of funerals held	10,248	10,877	11,802	12,738
YoY	11.9%	6.1%	8.5%	7.9%
Sales (JPYmn)	12,311	12,885	13,755	14,600
YoY	8.4%	4.7%	6.8%	6.1%
Operating profit (JPYmn)	1,323	1,100	1,210	1,370
YoY	11.2%	-16.9%	10.0%	13.2%
OPM	10.7%	8.5%	8.8%	9.4%
Recurring profit (JPYmn)	1,300	1,060	1,205	1,370
YoY	9.7%	-18.5%	13.7%	13.7%
Net income (JPYmn)	896	700	795	900
YoY	11.9%	-21.9%	13.6%	13.2%
Capital expenditures (JPYmn)	646	1,140	902	812

Source: Shared Research based on company data

Planned funeral hall openings

	FY09/18	FY09/19	FY09/20	FY09/21
	Act.	Est.	Targets	Targets
Number of funeral halls (year-end)	102	119	136	152
YoY change	8	17	17	16
Directly managed	57	67	77	86
YoY change	6	10	10	9
Franchisees	45	52	59	66
YoY change	2	7	7	7

Source: Shared Research based on company data

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

Trends and outlook

Quarterly trends and results

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.

Number of deaths in Aichi Prefecture

Number of deaths (cumulative)	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aichi Prefecture	16,322	35,270	52,466	67,969	15,796	35,599	52,706	68,623
YoY	2.7%	4.1%	2.6%	3.1%	-3.2%	0.9%	0.5%	1.0%
Nagoya City	5,565	11,847	16,885	21,768	5,714	12,101	17,319	22,675
YoY	6.8%	5.4%	4.1%	2.4%	2.7%	2.1%	2.6%	4.2%

Number of deaths (quarterly)	FY09/17				FY09/18			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Aichi Prefecture	16,322	18,948	17,196	15,503	15,796	19,803	17,107	15,917
YoY	2.7%	5.3%	-0.1%	4.7%	-3.2%	4.5%	-0.5%	2.7%
Nagoya City	5,565	6,282	5,038	4,883	5,714	6,387	5,218	5,356
YoY	6.8%	4.1%	1.2%	-2.8%	2.7%	1.7%	3.6%	9.7%

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

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 grew on increased number of funerals despite a decline in the unit funeral price in the Funeral business. Profit increased from operating profit level, because the sales growth effect and higher GPM absorbed the increase in SG&A expenses. Gross profit rose 12.7% YoY to JPY4.8bn. GPM rose 1.5pp YoY to 39.36%. Labor costs increased, but cost-to-sales ratio fell as *shikimi* (Japanese star anise), an evergreen plant in the magnolia family conventionally placed before a Buddhist altar, was replaced with artificial flowers at all its funeral halls in the Funeral business and as the company began providing *yukan* (washing of a corpse before encoffinement) services in-house from Q3 FY03/17. SG&A expenses were JPY3.5bn (+13.4% YoY), with the SG&A-to-sales ratio rising 1.2pp YoY to 28.6%. Personnel expenses increased, because the company recruited staff (mainly new graduates) with a medium- to long-term perspective for opening new halls, while advertising and promotional expenses also went up as a result of online marketing in the Kanto area (Tokyo, Kanagawa, Chiba, and Saitama prefectures).

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).

Sales grew mainly as a result of an increase in the number of funerals held, but the price per funeral declined. The number of funerals was 10,248 (+11.9% YoY). Funerals held at existing halls increased a brisk 5.7% YoY (+521), driven by the introduction of

competitively priced altars targeting small funerals. Funerals held at new halls totaled 566, helping to lift the overall total. The number of funerals held per hall was 190.5 (+0.2% YoY) due to strong numbers at existing 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 number of Tear Club members (accounts for majority of funerals held and potential future customers) totaled 347,000 (+29,000).

The unit funeral price dropped 2.4% YoY. In addition to the waning effects of initiatives taken in FY09/17 (such as providing a wider variety of floral tributes), the number of mourners attending funerals declined, leading to a drop in the sales of ancillary items. The average number of mourners per funeral (total for funeral and wake) was 43 versus 50 in FY09/17. As noted above, despite the introduction of a price competitive altar targeting small funerals, the unit price of altars went up since the sales share of altars priced at JPY1mn plus increased following a product review. The company stated it worked to make the new altar for small funerals simple so that the resulting gross profit per funeral is on par with funerals that used the company's conventional low-price altars. Therefore, the drop in unit funeral price has not caused a decline in GPM.

Profits went up at all levels despite the rise in SG&A expenses due to the sales growth effect and higher GPM.

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.

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

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.
Sales	6,323	5,988	12,311	6,615	6,270	12,885	4.6%	4.7%	4.7%
Cost of sales	3,795	3,676	7,471						
Gross profit	2,527	2,312	4,839						
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%						
Operating profit	876	447	1,323	810	290	1,100	-7.5%	-35.1%	-16.9%
OPM	13.9%	7.5%	10.7%	12.2%	4.6%	8.5%			
Recurring profit	869	431	1,300	780	280	1,060	-10.2%	-35.0%	-18.5%
RPM	13.7%	7.2%	10.6%	11.8%	4.5%	8.2%			
Net income	592	304	896	525	175	700	-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 (-16.9% YoY), recurring profit of JPY1.1bn (-18.5% YoY), and net income of JPY700mn (-21.9% 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.

The company forecasts operating profit of JPY1.1bn (-16.9% YoY). Factors contributing to the expected JPY223mn YoY decline are sales growth effect (+JPY225mn) versus personnel expense increase (-JPY250mn), advertising and promotional expense increase (-JPY66mn), and increase in other expenses (-JPY149mn). The company is looking to reduce cost of sales by reviewing the list of items used in funerals and bringing some ancillary funeral services in-house. However, the company anticipates that costs will rise in a number of areas: higher hall opening costs accompanying the acceleration of new 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.

The company forecasts recurring profit of JPY1.1bn (-18.5% YoY) and net income of JPY700mn (-21.9% YoY).

Assumptions

Number of funeral halls

Forecast

(Halls)	FY09/18	FY09/19
	Act.	Est.
Total	102	119
Openings	8	17
Directly managed	57	67
Openings	6	10
Franchisee	45	52
Openings	2	7

Source: Shared Research based on company data

The company plans to open 10 new directly managed halls (up four from FY09/18), including three funeral salons, and seven new franchisees (up five).

Number of funerals

Forecast

	FY09/18	FY09/19
	Act.	Est.
Number of funerals	10,248	10,877
Increase (decrease)	1,087	629
Existing halls	521	159
New halls	566	470

Source: Shared Research based on company data

TEAR projects that it will hold 10,877 funerals in FY09/19 (629 more than in FY09/18, or +6.1% YoY). The increase of 629 breaks down into +159 at existing funeral halls (+1.6% YoY) and +470 at new halls.

The number of funerals held at existing halls went up in FY09/18 as a result of introducing competitively priced altars for smaller funerals. The company considered the average growth rate of the past three fiscal years (0% in FY09/16 and 3.6% in FY09/17) in forecasting the trend for FY09/19.

Six new funeral halls opened in FY09/18 and 10 opening in FY09/19 are expected to contribute to profit.

Outlook for existing funeral halls

Forecast

	FY09/18	FY09/19
(% YoY)	Act.	Est.
Funeral sales	3.6	1.1
Funeral count	5.7	1.6
Unit price	-2.0	-0.5

Source: Shared Research based on company data

The company forecast a 1.1% YoY increase in sales of existing funeral halls, based on a 1.6% rise in the number of funerals (see above) and a 0.5% fall in unit price. The company assumes unit prices will trend at a similar level as the price assumptions made in the latest forecast (Q3 FY09/18).

Outlook for cost of sales and SG&A expenses

Forecast

	FY09/18	FY09/19
(%)	Act.	Est.
Cost-to-sales ratio	60.7	61.0
Merchandise cost ratio	33.1	32.1
Labor cost ratio	7.9	8.9
Overhead cost ratio	19.7	19.9
SG&A-to-sales ratio	28.6	30.5

Source: Shared Research based on company data

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

Cost of sales is forecast to rise 0.3pp to 61.0%. The company forecasts a 1.0pp drop in the merchandise cost ratio to 32.1%, but also a 1.0pp increase in labor cost ratio to 8.9%. The company aims to lower the merchandise cost ratio by increasing the scope of internal production. The labor cost ratio increase is due to accelerated opening of new funeral halls, in-house training of ceremony assistants, and bringing funeral transportation operations in-house. According to the company, the reduction in outsourcing costs (training its own ceremony assistants and bringing funeral transportation operations in-house) will be offset by the increase in labor costs and vehicle depreciation from expanding the scope of in-house operations.

The SG&A expense ratio is forecast to rise 1.9pp to 30.5%. Factors contributing to higher SG&A expenses include increases in personnel expenses due to expanding the work force, depreciation and other expenses associated with opening the TEAR Human Resources Center (staff training facility), and advertising and promotional costs from stepping up online advertising to attract

customers to funeral consultation salons in the Kanto area. Repair costs associated with upgrading the backbone IT system to comply with new consumption tax requirements will also lead to an increase in SG&A expenses.

Historical forecast accuracy

Results vs. Initial Est. (JPYmn)	FY09/08 Par.	FY09/09 Par.	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.
Sales (Initial Est.)	5,731	6,500	6,982	8,403	8,620	9,130	9,900	10,000	10,800	11,420	12,270
Sales (Results)	5,868	6,216	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311
Results vs. Initial Est.	2.4%	-4.4%	9.4%	-6.9%	-3.1%	-2.3%	-3.8%	2.1%	-1.9%	-0.6%	0.3%
Operating profit (Initial Est.)	394	509	578	800	779	915	980	1,032	1,085	1,175	1,275
Operating profit (Results)	485	532	771	736	869	940	992	1,078	1,094	1,190	1,323
Results vs. Initial Est.	23.1%	4.4%	33.4%	-8.0%	11.6%	2.7%	1.3%	4.4%	0.8%	1.3%	3.8%
Recurring profit (Initial Est.)	340	460	480	730	700	820	880	980	1,050	1,150	1,260
Recurring profit (Results)	421	467	703	662	798	846	925	1,023	1,072	1,185	1,300
Results vs. Initial Est.	23.8%	1.5%	46.6%	-9.4%	14.1%	3.2%	5.1%	4.4%	2.1%	3.0%	3.2%
Net income (Initial Est.)	187	253	262	398	400	490	540	630	690	765	840
Net income (Results)	224	277	405	354	419	517	548	652	712	801	896
Results vs. Initial Est.	20.0%	9.3%	54.5%	-11.0%	4.7%	5.6%	1.5%	3.5%	3.2%	4.7%	6.7%

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 9–10 directly managed halls (including funeral consultation salons) per year, at a pace of about 15% annual increase from the 57 halls in FY09/18. From 2016 through 2040, the number of deaths in Japan is expected to increase by 1.0% 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 unit price in FY09/18 was only 2.0%. 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

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Number of halls	23	27	29	33	36	39	43	47	51	57
YoY change	-	4	2	4	3	3	4	4	4	6
Annual average	23	25	28	31	35	38	41	45	49	54
Funerals held	4,481	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248
Funerals per hall	195	235	215	207	199	195	196	187	187	190

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 9–10 new halls per year

The company aims to open 9–10 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 and surrounding areas. 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 (Tokyo, Kanagawa, Chiba, and Saitama) 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.

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)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Funeral prices	-	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03
YoY	-	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%

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. However, excluding this impact, funeral prices were stable with a fluctuation of roughly 1% per year.

Cost of sales

Changes in cost of sales

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Variable cost ratio	46.7%	45.6%	45.5%	44.0%	42.5%	40.9%	39.0%	38.7%	37.3%	36.1%
Cost of sales (varies by the no. of funeral halls; JPYmn)	1,476	1,787	1,794	1,960	2,121	2,378	2,664	2,718	2,954	3,200
No. of funeral halls	23	27	29	33	36	39	43	47	51	57
Cost of sales per hall (JPYmn)	64.2	71.5	64.1	63.2	61.5	63.4	65.0	60.4	60.3	59.3

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 10.6pp from FY09/09 through FY09/18. 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)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.
Total SG&A expenses	1,329	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516
Advertising	270	335	311	372	410	512	653	654	752	893
Personnel	742	915	951	1,027	1,130	1,250	1,373	1,420	1,354	1,550
SG&A-to-sales ratio										
Total SG&A expenses	21.4%	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%
Advertising	4.3%	4.4%	4.0%	4.4%	4.6%	5.4%	6.4%	6.2%	6.6%	7.3%
Personnel	11.9%	12.0%	12.1%	12.3%	12.7%	13.1%	13.5%	13.4%	11.9%	12.6%

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 7.3pp from FY09/09 through FY09/18. 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 announced its medium-term management plan targeting the three years from FY09/19 to FY09/21. In the plan, TEAR outlined plans to hold 12,738 funerals (up 24.3% from FY09/18) at its directly managed funeral halls, and post sales of JPY14.6bn (up 18.6% YoY) and an operating profit of JPY1.4bn (up 3.6% 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. It also plans to make operations in Kanto and Kansai areas profitable and accelerate the opening of new facilities in these areas.

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 FY09/19 forecasts, 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 9–10 per year (including three funeral consultation salons) and at a rate of seven franchisee managed halls per year.

In terms of OPM, the company forecasts a profit decline in FY09/19 due to a rise in funeral hall opening expenses associated with an accelerated expansion program and personnel expenses for aggressive hiring of new graduates. However, it expects profit growth to resume in FY09/20. Its earnings plan from FY09/20 onward assumes the same level of sales of existing halls as in FY09/19, 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	FY09/18	FY09/19	FY09/20	FY09/21
	Act.	Est.	Targets	Targets
Number of funerals held	10,248	10,877	11,802	12,738
YoY	11.9%	6.1%	8.5%	7.9%
Sales (JPYmn)	12,311	12,885	13,755	14,600
YoY	8.4%	4.7%	6.8%	6.1%
Operating profit (JPYmn)	1,323	1,100	1,210	1,370
YoY	11.2%	-16.9%	10.0%	13.2%
OPM	10.7%	8.5%	8.8%	9.4%
Recurring profit (JPYmn)	1,300	1,060	1,205	1,370
YoY	9.7%	-18.5%	13.7%	13.7%
Net income (JPYmn)	896	700	795	900
YoY	11.9%	-21.9%	13.6%	13.2%
Capital expenditures (JPYmn)	646	1,140	902	812

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 has decided this is the time to accelerate the pace of opening new halls. It plans to strengthen its management base by opening directly managed halls in the Chubu central Japan region in order to lay the groundwork for strategic dominance in the Kanto eastern Japan and Kansai

western Japan regions. The company intends to open new halls at a rate of 9–10 per year at directly managed halls (including three funeral consultation centers) and at a rate of seven per year at franchisee managed halls.

- 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). Family funeral halls will mainly open near existing funeral halls in the Chubu area to help increase market share in the region.
- 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

	FY09/18	FY09/19	FY09/20	FY09/21
	Act.	Est.	Targets	Targets
Number of funeral halls (year-end)	102	119	136	152
YoY change	8	17	17	16
Directly managed	57	67	77	86
YoY change	6	10	10	9
Franchisees	45	52	59	66
YoY change	2	7	7	7

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. TEAR Human Resource Center (THRC; a new HR training facility that will strengthen the function of TEAR Academy) is scheduled to open in March 2019. The company plans to hire 40 new graduates in FY09/19, another 40 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 1.3mn deaths (+2.5% YoY) in Japan in 2017. 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 2017 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.

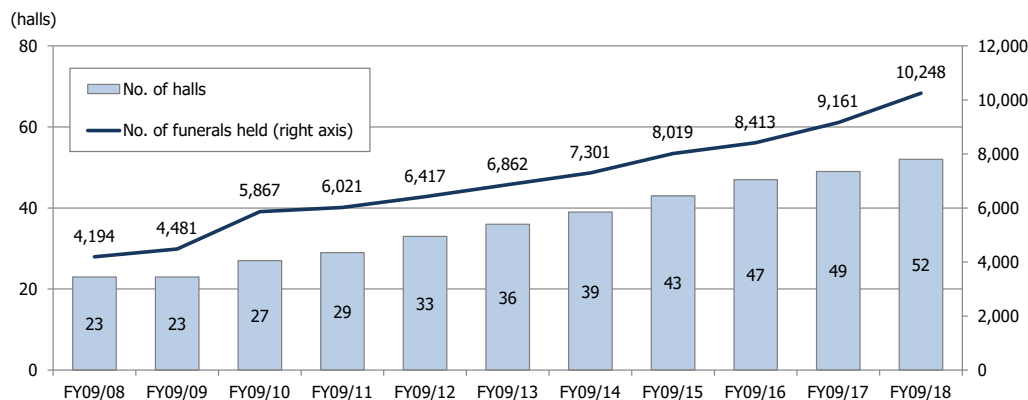
Transparent low prices, dominant presence, membership, and in-house training

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 FY09/18 it had 28 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

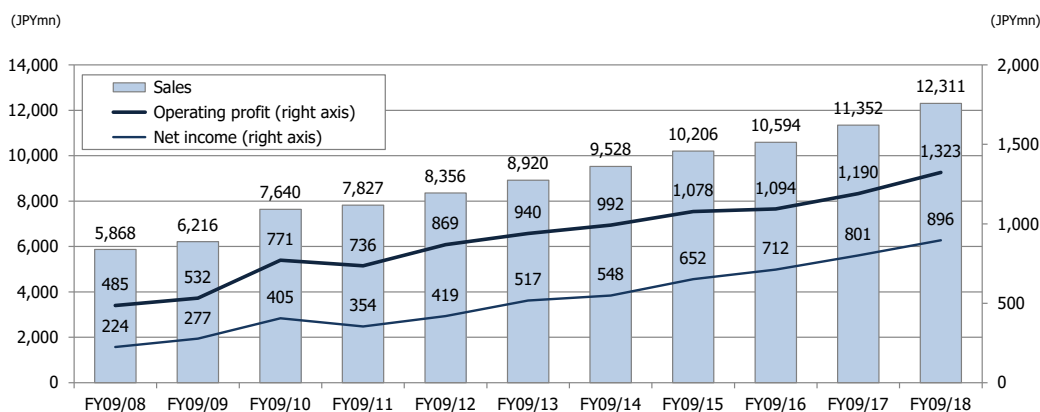
The number of funerals handled by TEAR has grown in view of more halls and a rising number of deaths per year. From FY09/08 through FY09/18 the number of funerals TEAR handled grew by 9.5% per year. Since FY09/13, its share of funerals in Nagoya has topped 20%, reaching 24.2% at end FY09/18.

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 FY09/08 through FY09/18 the company’s sales grew by 7.7% per year; operating profit by 10.6%; and net income attributable to parent company shareholders by 14.9%.

TEAR: sales, operating profit, and net income


Source: Shared Research based on company data

Business segments

TEAR has two segments, Funeral and Franchise. In FY09/17, the funeral business accounted for more than half of sales and operating profit.

Segments (JPYmn)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Sales	6,216	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311
YoY	5.9%	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%
Funeral	6,167	7,550	7,697	8,210	8,686	9,259	9,887	10,217	11,011	11,927
YoY	5.7%	22.4%	1.9%	6.7%	5.8%	6.6%	6.8%	3.3%	7.8%	8.3%
% of total sales	99.2%	98.8%	98.3%	98.3%	97.4%	97.2%	96.9%	96.5%	97.0%	96.9%
Franchise	49	90	130	145	234	269	319	376	340	383
YoY	41.5%	82.5%	44.3%	11.8%	60.8%	15.1%	18.5%	18.0%	-9.6%	12.6%
% of total sales	0.8%	1.2%	1.7%	1.7%	2.6%	2.8%	3.1%	3.5%	3.0%	3.1%
Operating profit	532	771	736	869	940	992	1,078	1,094	1,190	1,323
YoY	9.6%	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%
OPM	8.6%	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%
Funeral	-	1,239	1,209	1,333	1,507	1,575	1,648	1,813	1,994	2,191
YoY	-	-	-2.4%	10.2%	13.1%	4.5%	4.7%	10.0%	10.0%	9.9%
OPM	-	16.4%	15.7%	16.2%	17.4%	17.0%	16.7%	17.7%	18.1%	18.4%
% of total operating profit	-	99.0%	97.5%	96.1%	97.3%	97.3%	97.0%	96.2%	96.2%	96.3%
Franchise	-	13	32	54	41	43	50	71	78	85
YoY	-	-	145.1%	71.7%	-24.2%	4.4%	16.9%	41.7%	9.9%	9.0%
OPM	-	14.3%	24.3%	37.3%	17.6%	15.9%	15.7%	18.9%	22.9%	22.2%
% of total operating profit	-	1.0%	2.5%	3.9%	2.7%	2.7%	3.0%	3.8%	3.8%	3.7%
Other, company-wide/eliminations	-	-481	-505	-518	-608	-625	-620	-789	-881	-953

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 FY09/18, the average funeral price was JPY1.0mn and the company conducted 10,248 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 15% of sales.

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

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Sales (JPYmn)	6,167	7,550	7,697	8,210	8,686	9,259	9,887	10,217	11,011	11,927
YoY	5.7%	22.4%	1.9%	6.7%	5.8%	6.6%	6.8%	3.3%	7.8%	8.3%
Funeral sales (JPYmn)	-	6,524	6,599	7,084	7,569	8,141	8,596	8,909	9,619	10,504
YoY	-	-	1.1%	7.4%	6.8%	7.6%	5.6%	3.6%	8.0%	9.2%
No. of funerals held	4,481	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248
YoY	6.8%	30.9%	2.6%	6.6%	6.9%	6.4%	9.8%	4.9%	8.9%	11.9%
Funeral prices (JPYmn)	-	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03
YoY	-	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%
Other sales (JPYmn)	-	1,026	1,098	1,126	1,117	1,118	1,291	1,308	1,392	1,423
YoY	-	-	7.0%	2.6%	-0.8%	0.1%	15.4%	1.3%	6.4%	2.2%

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 FY09/18, there were 347,037 club members (+9.0% 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 FY09/18, TEAR's average funeral price was JPY1.0mn. 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 August 2018).

Changes in funeral prices

(JPYmn)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Funeral price	-	1.11	1.10	1.10	1.10	1.12	1.07	1.06	1.05	1.03
YoY	-	-	-1.4%	0.7%	-0.1%	1.1%	-3.9%	-1.2%	-0.8%	-2.4%

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

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Number of halls	23	27	29	33	36	39	43	47	51	57
YoY change	-	4	2	4	3	3	4	4	4	6
Annual average	23	25	28	31	35	38	41	45	49	54
Number of funerals held	4,481	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248
Number of funerals per hall	195	235	215	207	199	195	196	187	187	190

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 the end of FY09/18, 10 franchisees were managing 45 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 JPY230,000 to JPY3.4mn. As of December 2018, altar prices in the Chubu and Kansai regions differed from those in the Kanto region.

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), thank-you letters for those attending the funeral (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.

Fixed charges

Fixed funeral charges (JPY '000)	Chubu			Kansai			Kanto		
	Altar price	Altar and accessories		Altar price	Altar and accessories		Altar price	Altar and accessories	
		Non-members	Members		Non-members	Members		Non-members	Members
Family funeral plan	380	700	380	400	707	400	390	733	390
	670	1,113	603	670	1,109	603	590	945	590
	840	1,283	756	790	1,229	711	790	1,147	790
	1,040	1,520	936	990	1,485	891	990	1,468	990
	1,340	1,831	1,206	1,290	1,820	1,161	1,190	1,819	1,190
	1,640	2,165	1,476	1,590	2,153	1,431	1,390	2,080	1,390
	1,940	2,588	1,746	1,890	2,548	1,701			
General funeral plan	300	637	300	300	622	300	250	555	250
	380	717	380	400	722	400	630	1,014	630
	670	1,162	603	670	1,142	603	680	1,064	680
	790	1,282	711	790	1,263	711	780	1,174	780
	960	1,452	864	990	1,469	891	880	1,324	880
	1,040	1,532	936	1,290	1,790	1,161	980	1,474	980
	1,140	1,632	1,026	1,590	2,124	1,431	1,080	1,598	1,080
	1,340	1,891	1,206	1,890	2,547	1,701	1,180	1,740	1,180
	1,640	2,196	1,476	2,190	2,872	1,971	1,280	1,881	1,280
	1,940	2,630	1,746	2,690	3,372	2,421	1,380	2,010	1,380
	2,240	2,960	2,016	3,190	3,907	2,871	1,480	2,115	1,480
	2,740	2,972	2,016	3,690	4,407	3,321	1,580	2,326	1,580
	3,240	3,972	2,916				1,880	2,626	1,880
	3,740	4,472	3,366				2,180	3,005	2,180
							2,680	3,505	2,680
One day funeral plan							330	649.7	330
							530	861	530
							730	1,061	730
							930	1,382	930
							1,130	1,697	1,130
							1,330	1,958	1,330

Source: Shared Research based on company data

Note: Chubu area includes Aichi, Gifu and Mie prefectures; Kansai area: Osaka and Wakayama prefectures; Kanto area: Saitama, Kanagawa, and Chiba prefectures.

Note: Member prices refer to those for Tear Club Gold Members.

Note: One-day funeral plans provide the funeral service, memorial ceremony, and cremation in one day (no wake).

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 (Aichi, Gifu, Mie prefectures)*	600	-	1,300	1,300	3,800
Okazaki, Aichi Prefecture	500	-	500	500	3,700
Toyohashi, Aichi Prefecture	500	1,500	600	600	4,000
Kansai region (Osaka, Wakayama prefectures)	600	-	700	-	4,000
Kanto region (Saitama, Kanagawa, Chiba prefectures)	2,000	-	450	-	3,800
Kanto region (Tokyo)	2,000	-	450	-	3,800

Source: Shared Research based on company data

Note: *Excludes Okazaki and Toyohashi (Aichi Prefecture)

Note: Wake catering costs in the Kanto region are the individual price of a 10-person, JPY4,500 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 JPY1.0mn in FY09/18. 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. As of November 2017, advisers took around 70% of total orders.

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 JPY1,162,400. 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. Memorial services cost nonmembers JPY52,400 and members JPY28,600.

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 20,000. As of FY09/18 there were 347,037 members.

Changes in Tear club members and partner organizations

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Members	135,169	154,620	175,577	196,411	218,446	238,632	263,233	288,935	318,412	347,037
YoY	-	14.4%	13.6%	11.9%	11.2%	9.2%	10.3%	9.8%	10.2%	9.0%
Partner organizations		257	294	347	446	526	628	689	759	835
YoY	-	-	14.4%	18.0%	28.5%	17.9%	19.4%	9.7%	10.2%	10.0%

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 FY09/18, 68.4% of customers were Tear Club members, 24.1% partner organizations, and 5.4% 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
Tear Club members	69.4%	70.5%	69.1%	67.4%	67.7%	67.9%	68.2%	68.4%
Partner organizations	22.0%	21.6%	22.6%	23.7%	23.6%	24.6%	23.9%	24.1%
Nonmembers	7.0%	5.8%	6.3%	6.8%	6.7%	5.5%	5.8%	5.4%
Others	1.6%	2.1%	2.0%	2.1%	2.0%	2.0%	2.1%	2.1%

Source: Shared Research based on company data

According to the Ministry of Health, Labour and Welfare's Vital Statistics Survey, there were 1.3mn deaths in 2017 for a mortality rate (number of deaths as share of total population) of 1.1% (1.0% in 2016). The rate for those over 50 was more than double that at 2.2% (2.2% in 2015), the rate for those over 65 was 3.5% (3.4%) and for those over 75 was 5.8% (5.8%). 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	
	2017	2016	2017	2016	2017	2016
Total	1,340,397	1,307,748	1,075	1,046	1.1%	1.0%
0-4	2,454	2,618	51	54	0.1%	0.1%
5-9	351	391	7	8	0.0%	0.0%
10-14	437	440	8	8	0.0%	0.0%
15-19	1,161	1,166	20	20	0.0%	0.0%
20-24	2,024	2,083	34	35	0.0%	0.0%
25-29	2,276	2,479	38	40	0.0%	0.0%
30-34	3,254	3,354	47	48	0.0%	0.0%
35-39	4,749	5,193	62	66	0.1%	0.1%
40-44	8,817	9,263	95	97	0.1%	0.1%
45-49	14,019	13,923	151	153	0.2%	0.2%
50-54	19,060	19,480	237	250	0.2%	0.3%
55-59	27,527	28,331	367	380	0.4%	0.4%
60-64	44,904	48,223	580	596	0.6%	0.6%
65-69	92,433	93,505	937	915	0.9%	0.9%
70-74	109,141	107,826	1,415	1,463	1.4%	1.5%
75-79	155,804	153,008	2,321	2,354	2.3%	2.4%
80-84	226,168	223,763	4,286	4,332	4.3%	4.3%
85-89	270,070	260,536	7,972	7,975	8.0%	8.0%
90-94	223,386	209,379	14,147	14,195	14.1%	14.2%
95-99	104,089	95,935	25,765	25,114	25.8%	25.1%
100-	27,804	26,427	41,499	40,657	41.5%	40.7%

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)

As of November 2018, in addition to the basic format, the company is opening small halls for smaller family funerals to address contracting funeral sizes. For existing halls, it intends to push forward refurbishment. 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

	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
No. of directly managed halls	23	27	29	33	36	39	43	47	51	57
Nagoya City	15	18	18	20	20	22	24	25	26	28
Aichi Prefecture (excl. Nagoya City)	7	8	10	11	12	12	14	16	18	19
Outside Aichi Prefecture	1	1	1	2	4	5	5	6	7	10
No. of funerals	4,481	5,867	6,021	6,417	6,862	7,301	8,019	8,413	9,161	10,248
Nagoya City	3,131	4,057	4,049	4,234	4,411	4,576	4,849	5,043	5,302	5,765
Aichi Prefecture (excl. Nagoya City)	1,206	1,615	1,791	1,973	2,120	2,165	2,331	2,500	2,822	3,209
Outside Aichi Prefecture	144	195	181	210	331	560	839	870	1,037	1,274
No. of funerals per hall	195	235	215	207	199	195	196	187	187	190
Nagoya City	209	246	225	223	221	218	211	206	208	214
Aichi Prefecture (excl. Nagoya City)	172	215	199	188	184	180	179	167	166	173
Outside Aichi Prefecture	144	195	181	140	110	124	168	158	160	150

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, 2018)

TEAR establishment	Location	Established	Renovated	Halls (capacity in parentheses)
Head office and 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		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	
Daiko	Higashi, Nagoya City	Jul. 2001		2F large hall (300), 3F medium hall (150), 3F small hall (50)
Nakamura	Nakamura, Nagoya City	Dec. 2001		2F large hall (200), 3F large hall (200), 4F family-only funeral hall (20)
Aioiyama	Tempaku, Nagoya City	Jul. 2002		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	Ama, Aichi Prefecture	Aug. 2003	Dec. 2012	1F large hall (150), 1F family-only funeral hall (waiting room) (30)
Toyosake	Toyosake, 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)
Shikenya	Moriyama, Nagoya City	Jun. 2008		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)
Ajijoshi	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	Aug. 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	Tempaku, Nagoya City	Jul. 2017		Large hall (max 120), family-only hall (20)
Machiya	Arakawa, Tokyo	Jul. 2017		Funeral consultation salon
Shimonoishiki	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)

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) is scheduled to open in March 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 (JPYmn)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.
Sales	6,216	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,312
Total cost of sales	4,356	5,228	5,299	5,569	5,816	6,162	6,518	6,678	7,065	7,514
Cost of goods	1,992	2,347	2,407	2,453	2,555	2,634	2,822	2,958	3,055	3,196
Personnel	385	392	418	470	495	590	659	701	772	888
Expenses	1,979	2,489	2,474	2,647	2,766	2,938	3,037	3,015	3,237	3,430
Outsourcing	786	953	951	995	994	981	857	815	851	901
Funeral supplies	43	60	58	67	66	75	73	83	93	100
Hall supplies	14	75	40	83	52	52	80	64	68	59
Rents	597	642	650	683	747	796	841	886	943	974
Utilities	83	90	98	109	124	141	147	129	134	149
Maintenance	50	60	72	64	65	65	68	70	76	84
Depreciation	163	244	289	293	330	375	388	437	452	493
Taxes	60	82	89	94	81	94	101	100	108	114
Other	183	284	226	259	307	359	481	431	509	553
Cost of sales ratio										
Total cost of sales	70.1%	68.4%	67.7%	66.6%	65.2%	64.7%	63.9%	63.0%	62.2%	61.0%
Cost of goods	32.1%	30.7%	30.8%	29.4%	28.6%	27.6%	27.7%	27.9%	26.9%	26.0%
Personnel	6.2%	5.1%	5.3%	5.6%	5.6%	6.2%	6.5%	6.6%	6.8%	7.2%
Expenses	31.8%	32.6%	31.6%	31.7%	31.0%	30.8%	29.8%	28.5%	28.5%	27.9%
Outsourcing	12.6%	12.5%	12.2%	11.9%	11.1%	10.3%	8.4%	7.7%	7.5%	7.3%
Funeral supplies	0.7%	0.8%	0.7%	0.8%	0.7%	0.8%	0.7%	0.8%	0.8%	0.8%
Hall supplies	0.2%	1.0%	0.5%	1.0%	0.6%	0.5%	0.8%	0.6%	0.6%	0.5%
Rents	9.6%	8.4%	8.3%	8.2%	8.4%	8.4%	8.2%	8.4%	8.3%	7.9%
Utilities	1.3%	1.2%	1.3%	1.3%	1.4%	1.5%	1.4%	1.2%	1.2%	1.2%
Maintenance	0.8%	0.8%	0.9%	0.8%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Depreciation	2.6%	3.2%	3.7%	3.5%	3.7%	3.9%	3.8%	4.1%	4.0%	4.0%
Taxes	1.0%	1.1%	1.1%	1.1%	0.9%	1.0%	1.0%	0.9%	1.0%	0.9%
Other	2.9%	3.7%	2.9%	3.1%	3.4%	3.8%	4.7%	4.1%	4.5%	4.5%

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 (JPYmn)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Par.	Cons.	Cons.
Total SG&A	1,329	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516
Advertising	270	335	311	372	410	512	653	654	752	893
Personnel	742	915	951	1,027	1,130	1,250	1,373	1,420	1,354	1,550
Other	317	391	530	519	624	611	584	747	995	1,073
SG&A - to-sales										
Total SG&A	21.4%	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%
Advertising	4.3%	4.4%	4.0%	4.4%	4.6%	5.4%	6.4%	6.2%	6.6%	7.3%
Personnel	11.9%	12.0%	12.1%	12.3%	12.7%	13.1%	13.5%	13.4%	11.9%	12.6%
Other	5.1%	5.1%	6.8%	6.2%	7.0%	6.4%	5.7%	7.1%	8.8%	8.7%

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 (26.8% of sales in the Funeral business), outsourcing costs (7.6%), ancillary funeral goods (0.8%), and public taxes and charges (1.0%)—totaling 36.1% 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 63.9%. The company charges an average of JPY1.0mn per funeral, so marginal profit per funeral was JPY655,000.

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 FY09/18, fixed costs included in cost of sales were JPY3.2bn. 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 JPY59mn.

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 JPY655,000 and fixed expenses per hall are JPY59mn, so breakeven per hall is sales of JPY93mn ($\text{JPY59mn} \div 63.9\%$), or 91 funerals per year. In this case, standard format funeral hall facilities are at full capacity with 300 funerals per year, so if they hit 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 JPY65mn. Therefore, if each funeral hall bears an appropriate share of SG&A expenses, the breakeven point for each funeral hall is sales of JPY195mn ($\text{JPY124mn} \div 63.9\%$), or 190 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 73,000 funerals at its directly managed halls. As of September 2018, it also had around 347,000 members of Tear Club (+9.0% YoY), and it conducted 10,248 funerals in FY09/18; a simple calculation of the total number of funerals conducted in the past and Tear Club members comes to more than 400,000 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 FY09/18 was 1,274 (12.4% of total) and the number of funerals per hall was 150 versus the national average of 190. Thus we believe the earnings contribution of its operations outside Aichi Prefecture remains limited.

Market and value chain

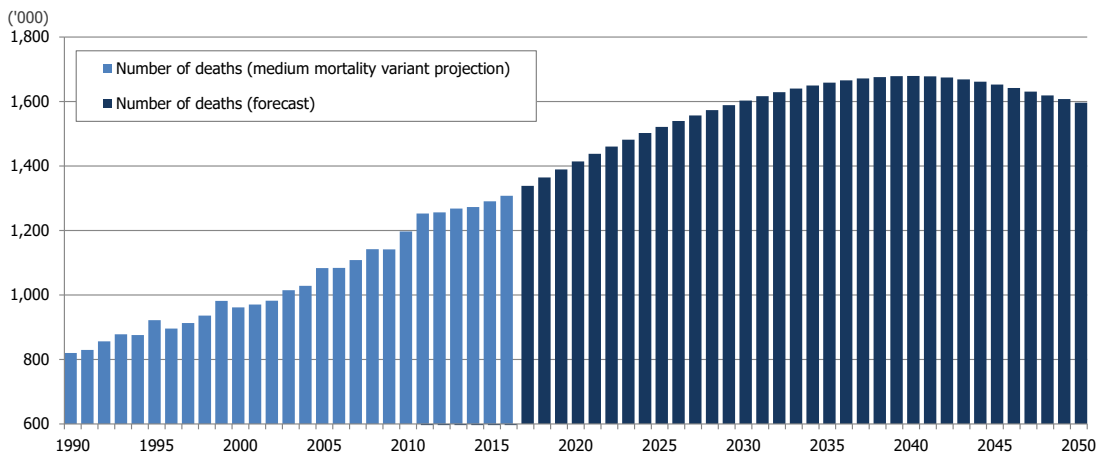
Market overview

Demographic trends paint picture of growing demand

According to the Ministry of Health, Labour and Welfare’s Vital Statistics Survey, there were an estimated 1.3mn deaths (+2.5% YoY) in Japan in 2017; 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 2017, peaking in 2040 at 1.7mn (+30% versus 2017), for an average annual growth rate of 1.0% in 2017–2040. 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.

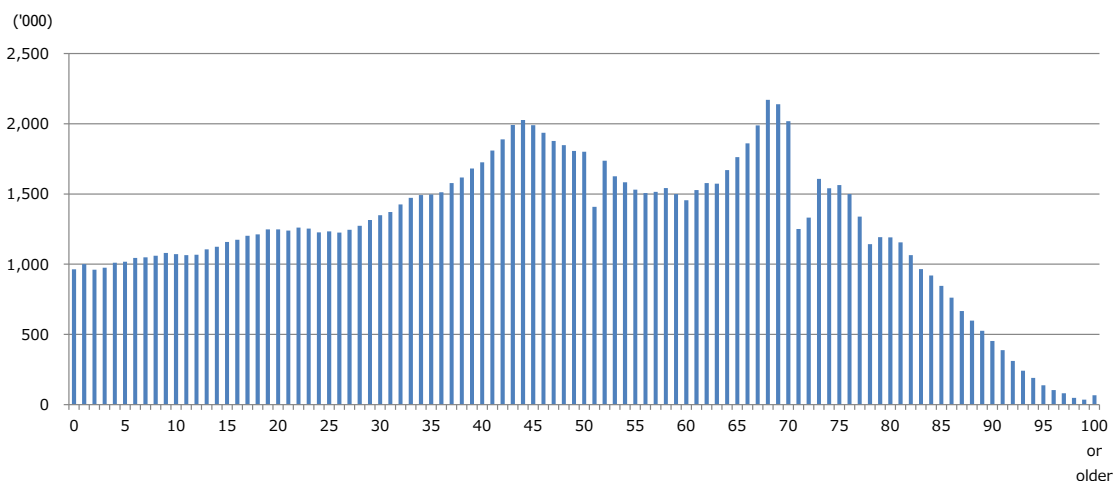
According to METI’s Survey of Selected Service Industries 2017 (announced in September 2018), sales of funeral service packages were worth JPY1.5tn in 2017.

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 2017)



Source: “Population Estimate (as of October 1, 2017),” Statistics Bureau, Ministry of Internal Affairs and Communications

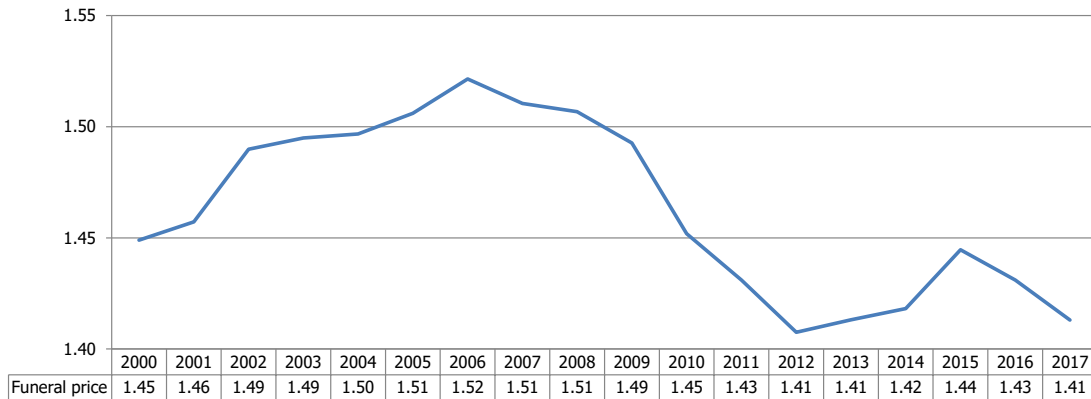
Funeral prices falling

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

(JPYmn)



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

Industry overview

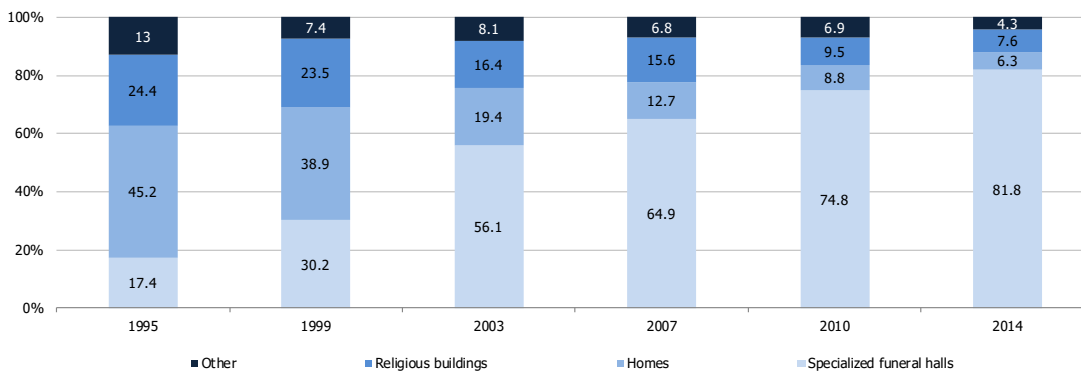
Anyone can enter

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 8,166 establishments in the funeral industry, a decrease of 486 establishments YoY. Establishments with capital of JPY100mn or more account for only 5.8% 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 83%.

Funeral service establishments

	2013	2014	2015	2016	2017
Number of establishments	9,267	8,674	8,550	8,652	8,166
Capital of JPY100mn or more	671	643	474	451	476
Capital of over JPY50mn, less than JPY100mn	992	756	795	827	896
Capital of less than JPY50mn	7,604	7,275	7,281	7,374	6,794

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 33 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.

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

Source: Shared Research based on company data

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

Sun Life

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 29 funeral halls in Kanagawa Prefecture and Tokyo (Hachioji, Machida, and Tama cities). It also operates three *Butsudan* (Buddhist altar) stores.

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

Source: Shared Research based on company data

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

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.

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

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; 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. Compared to the OPM of Heian Ceremony Service (20.9% in FY03/18) and Sun Life (16.4% in FY03/18), TEAR'S OPM is lowest at 10.6% (FY09/18).

(JPYmn)	TEAR FY09/18	Heian Ceremony FY03/18	Sun Life FY03/18
Sales	12,311	10,017	10,612
Funeral business	11,927	8,434	8,195
Cost ratio (funeral business)	63.0%	69.1%	75.3%
Cost of goods	26.8%	27.3%	22.9%
Personnel	7.4%	22.5%	17.9%
Miscellaneous costs	28.8%	19.3%	34.5%
Outsourcing	7.6%	1.7%	6.9%
Commission fee	-	2.9%	10.1%
Depreciation	4.1%	3.9%	4.7%
Rents	8.2%	3.9%	3.7%
Other	8.9%	6.8%	9.2%
SG&A ratio (funeral business)	27.0%	10.2%	9.3%
Advertising	7.5%	3.1%	0.3%
Personnel	13.0%	4.2%	4.1%
Other	6.5%	2.5%	5.2%

Source: Shared Research based on company data

Note: For Sun Life, the Funeral segment is called the Ceremony segment.

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 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 data to analyze cost ratios. SG&A expense-to-sales ratios for Heian Ceremony Service and Sun Life 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, 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 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. We think this is because it accounts for funeral hall salespeople in SG&A personnel expenses.

Number of employees at peer companies

	TEAR FY09/18	Heian Ceremony FY03/18	Sun Life FY03/18
Employees	394	126	180
Temporary employees	80	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 28.0% for TEAR (FY09/18), 28.4% for Heian Ceremony Service (FY03/18), and 28.8% for Sun Life (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 19.2% (FY09/18), 62.4% for Heian Ceremony Service (FY03/18), and 52.1% for Sun Life (FY03/18).

Comparison of tangible fixed assets

(JPYmn)	TEAR FY09/18	Heian Ceremony FY03/18	Sun Life FY03/18
Tangible fixed assets	7,691	10,612	14,822
Land	1,474	6,624	7,729
Land/tangible fixed assets	19.2%	62.4%	52.1%

Source: Shared Research based on company data

Comparison of asset efficiency

	TEAR FY09/18	Heian Ceremony FY03/18	Sun Life FY03/18
ROE	13.6%	7.5%	12.2%
Equity ratio	58.4%	53.6%	17.3%
ROA (RP-based)	11.3%	6.1%	3.0%
OPM	8.9%	18.6%	8.6%
Asset turnover	1.22	0.31	0.33

Source: Shared Research based on company data

Shareholders' return on equity

It has the highest ROE of the three companies. Sun Life has the second-highest ROE because of its financial leverage. TEAR has a capital-to-asset ratio of 58.4%, whereas the figure for Sun Life 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 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.

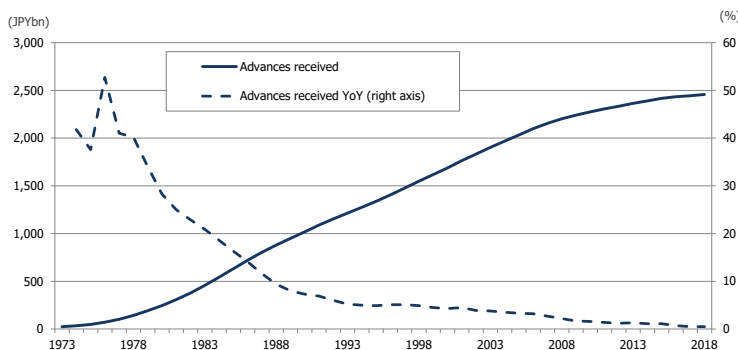
The specified prepaid transactions of mutual aid societies entail the signing of a contract between the consumer and the society; an agreement between the consumer and the mutual aid society regarding the provision of a specified service such as a future funeral. Based on the contract, the consumers 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 2018, mutual aid societies had balances of JPY2.5tn in advance payments and contracts with 23mn persons. The number of participants has been on the decline. As of March 2018, mutual aid societies' advance payment balances rose 0.5% YoY, but the number of members fell 0.9%.

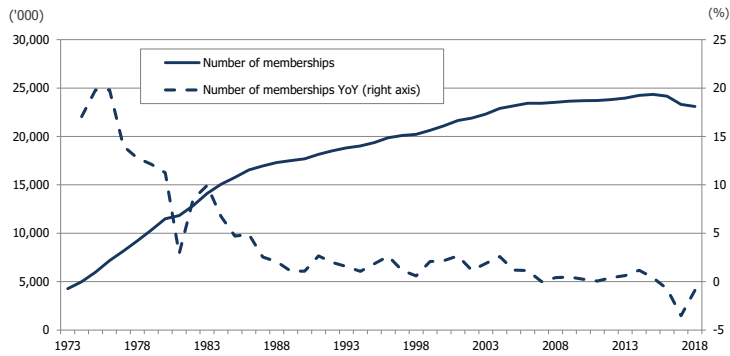
Year-on-year growth in advance payments and members is slowing; the amount outstanding grew by just 1.1% YoY in March 2015, and the number of members grew by just 0.4%.

Ceremony mutual aid societies: Advances received



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

Ceremony mutual aid societies: Membership

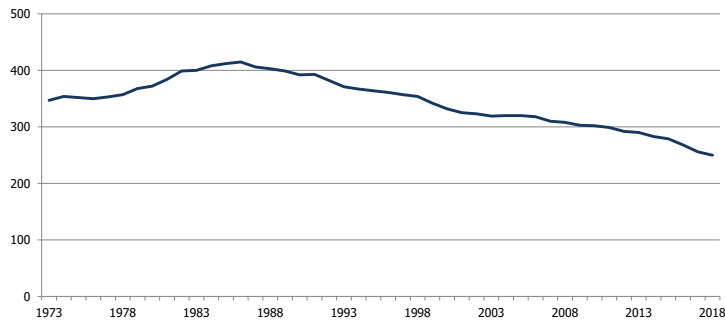


Source: Shared Research based on Mutual Service Aid Guarantee Corporation data

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 250 at end-March 2018. 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 2018, TEAR's average funeral price was JPY1.0mn, 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 98 from FY09/18). Hall targets include directly managed new facilities, and those opened by current and new franchisees.

Historical performance

Q3 FY09/18 earnings

For Q3 FY09/18, sales were JPY9.2bn (+6.2% YoY), operating profit was JPY1.2bn (+0.5% YoY), recurring profit was JPY1.2bn (+0.5% YoY), and net income attributable to parent company shareholders came to JPY785mn (+3.2% YoY).

Versus the full-year FY09/18 company forecasts, Q3 sales reached 75.3% (Q3 FY09/17 sales reached 76.7% of the full-year FY09/17 result), operating profit 91.4% (Q3 FY09/17 operating profit reached 97.4% of the full-year FY09/17 result), recurring profit 91.6% (Q3 FY09/17 recurring profit reached 96.9% of the full-year FY09/17 result), and net income 93.5% (Q3 FY09/17 net income reached 95.0% of the full-year FY09/17 result). Sales and each profit category were in line with company forecasts. Profits demonstrated progress versus forecasts of greater than 75% in Q3, but the company's earnings trend indicates that profits tend to be pushed down by funeral hall repair expenses in Q4 (July–September).

Sales grew on increased number of funerals despite a decline in the unit funeral price in the Funeral business. Gross profit rose 7.2% YoY to JPY3.7bn. GPM rose 0.4pp YoY to 39.6%. Labor costs increased, but cost-to-sales ratio fell as *shikimi* (Japanese star anise), an evergreen plant in the magnolia family conventionally placed before a Buddhist altar, was replaced with artificial flowers at all its funeral halls in the Funeral business and as the company began providing *yukan* (washing of a corpse before encoffinment) services in-house from Q3 FY03/17. SG&A expenses were JPY2.5bn (+10.6% or +JPY239mn YoY), with the SG&A-to-sales ratio rising 1.1pp YoY to 27.0%. The increase in SG&A expenses was attributed to a JPY100mn increase in personnel expenses from hiring employees in preparation for store openings in the medium- to long-term and a JPY100mn rise in advertising expenses due to aggressive product promotions.

The company opened a directly managed funeral hall Tear Shimonoiishiki in Nagoya city and Tear Tsushimahigashi in Aichi Prefecture. It also opened Tear Kita-Senju and Tear Aoto Ekimae using a new model for funeral consultation center aimed at the Tokyo metropolitan area. It now has 55 directly managed funeral halls (+six halls YoY) and 43 franchisees (+two halls YoY), for a total of 98 halls (+eight halls YoY).

Funeral segment

Segment sales were JPY9.0bn (+5.9% YoY) and operating profit was JPY1.7bn (+0.4% YoY).

The number of funerals rose 9.8% YoY to 7,723 owing to an increase in the number of funerals at existing halls and contributions from newly established funeral halls. The number of funerals per hall was 145.7 (-1.6% YoY) in cumulative Q3 (October 2017–June 2018) and 44.6 (-5.5% YoY) in Q3 (April–June). Since FY09/13, the company shifted its strategy from opening funeral facilities with two halls to opening those with a single hall. As a result, the share of funeral facilities with a single hall increased, leading to a decline in the number of funerals per hall. According to the company, funeral facilities with a single hall have higher utilization rates than those with two halls, and hence the single-hall facilities can absorb opening costs and turn a profit from the initial year of opening. An increase in the number of funeral consultation salon openings also attributed to the drop in the number of funerals held per hall.

The number of members of Tear Club, which forms the base of the number of funerals TEAR conducts and is an indicator of potential customer count, rose to 339,000 (+21,000 from end-FY09/17). 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 unit funeral price dropped 2.9% YoY. In addition to the waning effects of initiatives taken in FY09/17 (such as providing a wider variety of floral tributes), the number of mourners attending funerals declined, leading to a drop in the sales of ancillary items. Unit price of altars also fell with the introduction of a price competitive altar targeting small funerals. However, the company stated it worked to make the new altar for small funerals simple so that the resulting gross profit per funeral is on par with funerals that used the company's conventional low-price altars. Therefore, the drop in unit funeral price has not caused a decline in GPM.

Franchise segment

Segment sales were JPY289mn (+17.5% YoY) and operating profit was JPY68mn (+11.5% 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.

1H FY09/18 earnings

For 1H FY09/18, sales were JPY6.3bn (+7.2% YoY), operating profit was JPY876mn (+1.7%), recurring profit was JPY869mn (+2.1%), and net income attributable to parent company shareholders came to JP592mn (+5.9%).

TEAR in May 2017 acquired all shares in Aikyo, which provides *yukan* (washing the body) and *nokan* (encoffinment) services, and turned it into a subsidiary. (Aikyo was converted from a limited-liability company to a joint-stock company prior to the acquisition.) Along with the move, TEAR adopted consolidated earnings starting in Q3 FY09/17. As such, YoY figures are for reference purposes only as the company did not release consolidated earnings statements for Q3 FY09/16 (as below).

Against the company's 1H FY09/18 forecast, sales were 100.1%, operating profit was 104.3%, recurring profit was 104.7%, and net income was 100.3%. Sales landed largely in line with forecast since the number of funerals conducted by TEAR, which exceeded company expectations, offset the lower-than-expected unit funeral price.

Comparing year-on-year results, 1H sales increased thanks to the Funeral segment that saw a rise in the total number of funerals conducted. Gross profit rose 7.3% YoY to JPY2.5bn and GPM rose 0.1pp YoY to 40.0%. The company reviewed its product lineup and took steps to manage ancillary funeral-related services in-house, but the cost ratio remained around the same level YoY at 60.0%, due to higher labor costs. SG&A expenses were JPY1.7bn (+10.6% YoY), with the SG&A-to-sales ratio rising 0.8pp YoY to 26.1%. Personnel expenses increased 10.5% YoY to JPY718mn as the company hired employees in preparation for store openings in the medium- to long-term. Advertising expenses were up 26.4% YoY, finishing at JPY436mn as a result of aggressive sales promotions mostly in the Kanto region.

The company opened a directly managed funeral hall Tear Shimonoiishi in Nagoya city. It also opened Tear Kita-Senju and Tear Aoto Ekimae using a new model for funeral consultation center aimed at the Tokyo metropolitan area. It now has 54 directly managed funeral halls (+7 halls YoY) and 43 franchisees (+3), for a total of 97 halls (+10).

Funeral segment

Segment sales were JPY6.1bn (+6.8% YoY) and operating profit was JPY1.3bn (+0.6%).

The total number of funerals conducted by TEAR was 5,293 (+11.0% YoY). The increase came from the opening of new halls (+7 halls YoY), which brought up the number of directly managed funeral halls to 54, as well as a rise in the number of funerals held at existing halls. The increase by 524 funerals breaks down to 299 funerals from the operation of newly opened funeral halls, and 225 funerals held at existing halls (+4.7% YoY).

The number of members of Tear Club, which forms the base of the number of funerals TEAR conducts and is an indicator of potential customer count, rose to 333,000 (+14,400 from end-FY09/17). 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 unit funeral price dropped 3.0% YoY to JPY1.02mn. In addition to the waning effects of initiatives taken in FY09/17 (such as providing a wider variety of floral tributes), the number of mourners attending funerals declined, leading to a drop in the sales of ancillary items. Unit price of altars also fell with the introduction of a price competitive altar targeting small funerals. However, the company stated it worked to make the new altar for small funerals simple so that the resulting gross profit per funeral is on par

with funerals that used the company's conventional low-price altars. Therefore, the drop in unit funeral price has not caused a decline in GPM.

Franchise segment

Segment sales were JPY200mn (+19.8% YoY) and operating profit was JPY48mn (+14.3%).

The number of franchise halls rose by three 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.

Q1 FY09/18 earnings

For Q1 FY09/18, sales were JPY3.0bn (+5.3% YoY), operating profit was JPY392mn (-3.9%), recurring profit was JPY390mn (-3.0%), and net income attributable to parent company shareholders came to JP264mn (+3.9%).

TEAR in May 2017 acquired all shares in Aikyo, which provides *yukan* (washing the body) and *nokan* (encoffinement) services, and turned it into a subsidiary. (Aikyo was converted from a limited-liability company to a joint-stock company prior to the acquisition.) Along with the move, TEAR adopted consolidated earnings starting in Q3 FY09/17. As such, YoY figures are for reference purposes only as the company did not release consolidated earnings statements for Q3 FY09/16 (as below).

Against the company's 1H FY09/18 forecast, sales were 47.8% (compared with Q1 FY09/17 progress of 48.6% versus 1H results), operating profit was 46.7% (47.4%), recurring profit was 47.0% (47.2%), and net income was 44.7% (45.4%). Sales and all profit items were in line with forecasts, but among the key performance indicators, the unit price of funerals declined versus the company's estimate.

Gross profit rose 4.0% YoY to JPY1.2bn. GPM fell 0.5pp YoY to 39.2%. While product cost ratio decreased as the company reviewed its product lineup and took steps to manage ancillary funeral-related services in-house, the overall cost ratio increased on higher personnel expenses arising from hall operations, as well as higher rent and utility expenses. SG&A expenses were JPY791mn (+8.5% YoY), with the SG&A-to-sales ratio rising 0.8pp YoY to 26.2%. 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 in Nagoya city. It now has 52 directly managed funeral halls and 43 franchisees, for a total of 95 halls.

Funeral segment

Segment sales were JPY2.9bn (+4.8% YoY) and operating profit was JPY582mn (-4.4%).

Sales rose YoY owing to strong performance of existing funeral halls and the opening of new halls.

The total number of funerals conducted by TEAR increased 9.9% YoY to 2,493. The operation of newly opened funeral halls contributed to the increase, and the number of funerals held at existing halls was also up 3.7% YoY.

The number of members of Tear Club, which forms the base of the number of funerals TEAR conducts and is an indicator of potential customer count, rose to 325,000 (+6,700 or +2.2% from end-FY09/17). 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 unit funeral price dropped 3.8% YoY. In addition to a reactionary falloff from the same period the previous year, the positive impact of the initiatives taken in FY09/17 (such as providing a wider variety of floral tributes and offering food using food warmer

carts) began to wear off. Further, the company bolstered the lineup of altars with an eye to raise their unit prices, but sales of high-end altars were not favorable.

Franchise segment

Segment sales were JPY96mn (+24.7% YoY) and operating profit was JPY21mn (-8.7%).

The number of franchise halls rose by four from 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 a drop in sales and an increase in profits.

FY09/17 earnings

For FY09/17, sales were JPY11.4bn (+7.2% YoY), operating profit was JPY1.2bn (+8.8%), recurring profit was JPY1.2bn (+10.5%), and net income attributable to parent company shareholders came to JPY801mn (+12.5%).

TEAR in May 2017 acquired all shares in Aikyo, which provides *yukan* (washing the body) and *nokan* (encoffinement) services, and turned it into a subsidiary. (Aikyo was converted from a limited-liability company to a joint-stock company prior to the acquisition.) Along with the move, TEAR adopted consolidated earnings starting in Q3 FY09/17. As such, YoY figures are for reference purposes only as the company did not release consolidated earnings statements for Q3 FY09/16 (as below).

Gross profit rose 9.6% YoY to JPY4.3bn. In addition to the rise in sales, GPM increased 0.8pp YoY to 37.8%. Cost of sales declined as the company reviewed its product lineup and took steps to manage ancillary funeral-related services in-house; a drop in product sales to franchisees also contributed to lower CoS. SG&A expenses finished at JPY3.1bn (+9.9% YoY), with the SG&A ratio rising 0.7pp YoY to 27.3%. The increase came from hiring employees in preparation for medium- to long-term store openings and a rise in advertising expenses due to aggressive product promotions. As a result of the above, operating profit, recurring profit, and net income increased.

The company now has 51 directly managed funeral halls and 43 franchisees, for a total of 94 halls. It renovated Tear Kurokawa, Tear Toyoake, and Tear Toyohashiminami funeral halls to respond to diversifying funeral needs.

Funeral segment

Segment sales were JPY11.0bn (+7.8% YoY) and operating profit was JPY2.0bn (+10.0%).

Sales rose YoY thanks to strong performance of existing funeral halls and the opening of new halls.

The company handled 9,161 funerals (+8.9% YoY), with existing halls hosting 8,716 services (+303 funerals, +3.6% YoY). During that time, the company opened 445 new halls. There were 1.3mn deaths (+3.3% YoY) in Japan from October 2016 to September 2017, according to figures calculated by Shared Research (includes preliminary figures) based on the Ministry of Health, Labour and Welfare's Vital Statistics Survey (rough estimate). We believe that the number of funerals at existing halls rose because the number of deaths also rose.

The number of members of Tear Club, which forms the base of the number of funerals TEAR conducts and is an indicator of potential customer count, rose to 318,000 (+29,000 YoY, +10.2% YoY). The number of partner organizations also rose to 759 (+70, +10.2% 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. It also enhanced Tear Plus, giving members privileges and discounts at partner companies.

Average funeral price fell 0.9% YoY to JPY1.1mn. The prices of altars fell despite lineup expansion aimed at higher prices, but the price of floral tributes and food increased due to proposals of added-value items including a wider variety of floral tributes and the use of heated food carts.

Franchise segment

Segment sales were JPY340mn (-9.6% YoY) and operating profit was JPY78mn (+9.9%).

The number of franchise halls rose by four from FY09/16, leading to an increase in royalty income. However, sales of goods fell compared with FY09/16, when sales benefited from the opening of new halls, with the end result being a drop in sales and an increase in profits.

Income statement

Income statement (JPYmn)	FY09/09 Par.	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.
Sales	6,216	7,640	7,827	8,356	8,920	9,528	10,206	10,594	11,352	12,311
YoY	5.9%	22.9%	2.4%	6.8%	6.7%	6.8%	7.1%	3.8%	7.2%	8.4%
Cost of sales	4,356	5,228	5,299	5,569	5,816	6,162	6,518	6,678	7,059	7,471
Gross profit	1,860	2,412	2,528	2,787	3,103	3,366	3,688	3,916	4,292	4,839
GPM	29.9%	31.6%	32.3%	33.4%	34.8%	35.3%	36.1%	37.0%	37.8%	39.3%
SG&A expenses	1,329	1,641	1,792	1,918	2,164	2,373	2,610	2,821	3,101	3,516
SG&A ratio	21.4%	21.5%	22.9%	23.0%	24.3%	24.9%	25.6%	26.6%	27.3%	28.6%
Operating profit	532	771	736	869	940	992	1,078	1,094	1,190	1,323
YoY	9.6%	45.0%	-4.6%	18.1%	8.1%	5.6%	8.6%	1.5%	8.8%	11.2%
OPM	8.6%	10.1%	9.4%	10.4%	10.5%	10.4%	10.6%	10.3%	10.5%	10.7%
Non-operating income	14	19	16	16	22	29	33	30	40	29
Non-operating expenses	78	87	90	86	115	96	88	52	45	52
Recurring profit	467	703	662	798	846	925	1,023	1,072	1,185	1,300
YoY	10.9%	50.6%	-6.0%	20.7%	6.0%	9.3%	10.5%	4.8%	10.5%	9.7%
RPM	7.5%	9.2%	8.5%	9.6%	9.5%	9.7%	10.0%	10.1%	10.4%	10.6%
Extraordinary gains	1	1	2	-	0	0	0	-	-	-
Extraordinary losses	3	3	51	46	1	5	0	-	29	-
Tax charges	188	297	258	334	328	372	370	360	355	404
Implied tax rate	40.4%	42.3%	42.2%	44.4%	38.8%	40.5%	36.2%	33.6%	30.7%	31.1%
Net income	277	405	354	419	517	548	652	712	801	896
YoY	23.3%	46.3%	-12.5%	18.2%	23.5%	6.0%	19.0%	9.2%	12.5%	11.9%
Net margin	4.5%	5.3%	4.5%	5.0%	5.8%	5.8%	6.4%	6.7%	7.1%	7.3%

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 (JPY5mn in FY09/18) and advertising revenue (JPY9mn), 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 FY09/18, the interest rate on interest-bearing debt was 1.4% (versus 1.6% in FY09/17) and has been trending down since FY09/14.

Interest expense

(JPYmn)	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Interest expense	70	78	85	80	78	76	64	50	43	36
Interest-bearing debt interest rate	2.0%	2.0%	2.1%	1.9%	1.8%	1.9%	1.8%	1.7%	1.6%	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)	FY09/09 Par.	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.
Assets										
Cash and cash equivalents	1,019	1,185	1,001	1,138	940	1,134	1,813	1,442	1,758	2,125
Accounts receivable	123	108	136	177	212	245	223	217	288	385
Inventories	21	35	34	46	58	70	96	91	88	102
Prepaid expenses	90	90	88	101	106	112	114	123	-	
Other current assets	72	59	66	66	53	74	88	70	207	246
Total current assets	1,324	1,476	1,325	1,528	1,369	1,634	2,334	1,943	2,341	2,858
Buildings and structures (net)	1,946	2,651	3,026	3,699	3,675	3,962	4,442	4,796	5,260	5,590
Land	883	946	1,287	1,287	1,291	1,291	1,291	1,291	1,428	1,488
Construction in progress	506	141	125	9	188	75	39	54	58	31
Other fixed assets	53	185	207	230	472	461	482	507	478	608
Total tangible fixed assets	3,389	3,924	4,646	5,225	5,626	5,789	6,270	6,649	7,234	7,728
Long-term prepaid expenses	149	153	146	152	193	186	176	164	-	-
Guarantee deposits	896	896	917	914	1,083	1,048	1,012	1,001	970	915
Deferred tax assets	16	22	71	87	101	115	119	117	135	158
Investment and other assets	1,062	1,071	1,135	1,153	1,376	1,350	1,307	1,285	1,263	1,257
Goodwill	159	134	111	87	64	41	17	-	-	-
Other	124	112	82	85	70	100	208	190	151	114
Total intangible assets	283	246	193	173	134	141	226	190	151	114
Total fixed assets	4,734	5,241	5,974	6,551	7,136	7,279	7,803	8,125	8,648	9,100
Total assets	6,058	6,716	7,299	8,079	8,504	8,913	10,137	10,069	10,990	11,958
Liabilities										
Accounts payable	236	284	245	305	262	314	312	309	315	352
Short-term debt	-	57	77	74	87	97	117	120	60	70
Current portion of long-term debt	1,124	1,156	1,131	1,195	1,170	1,207	1,105	884	792	710
Accounts payable—other	240	246	193	326	296	323	488	432	503	667
Other current liabilities	273	356	361	380	327	490	461	433	523	633
Total current liabilities	1,873	2,097	2,008	2,279	2,142	2,430	2,482	2,178	2,193	2,432
Long-term debt	2,630	2,651	2,903	3,068	2,919	2,596	2,058	1,672	1,894	1,531
Deferred tax liabilities	88	157	162	127	377	383	374	353	331	445
Asset retirement obligations	16		136	169	193	220	254	303	349	563
Total long-term liabilities	2,734	2,819	3,206	3,364	3,489	3,199	2,685	2,330	2,575	2,540
Total liabilities	4,607	4,917	5,214	5,643	5,631	5,629	5,167	4,508	4,769	4,973
Net assets										
Capital stock	581	581	581	581	581	581	1,159	1,159	1,159	1,184
Capital surplus	214	214	214	214	214	214	793	793	793	817
Retained earnings	657	1,005	1,290	1,641	2,078	2,490	3,017	3,608	4,268	4,983
Treasury stock	-	-0	-0	-0	-0	-0	-0	-0	-0	-0
Total shareholder's equity	1,452	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984
Total net assets	1,452	1,800	2,085	2,436	2,873	3,284	4,970	5,561	6,221	6,984
Working capital	-93	-142	-75	-82	8	1	8	-1	61	135
Total interest-bearing debt	3,754	3,863	4,111	4,337	4,175	3,899	3,279	2,676	2,746	2,311
Net debt (net cash)	2,735	2,678	3,110	3,199	3,235	2,766	1,466	1,234	988	186

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 23.9% of total assets in FY09/18. Of this, 74.4% was cash and deposits. Accounts receivable comprised 13.5% of current assets; these are rising with sales growth, but because its customers are mainly individuals, the collection period is short. In FY09/18, the accounts receivable turnover period was 10.0 days.

Accounts receivable turnover

Accounts receivable turnover	FY09/09	FY09/10	FY09/11	FY09/12	FY09/13	FY09/14	FY09/15	FY09/16	FY09/17	FY09/18
Accounts receivable turnover	61.5	66.3	64.3	53.4	45.8	41.7	43.6	48.1	45.0	36.6
Days in accounts receivable	5.9	5.5	5.7	6.8	8.0	8.8	8.4	7.6	8.1	10.0

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 64.6% total assets in FY09/18. 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 2018)

TEAR establishment	Location	Buildings and structures (JPYmn)	Land (JPYmn)	Lease assets (JPYmn)	Total (JPYmn)
Head office and TEAR Kurokawa	Kita, Nagoya City	338	214	4	588
Nakagawa	Nakagawa, Nagoya City	30		143	176
Kasadera	Minami, Nagoya City	13	70	10	95
Minato	Minato, Nagoya City	2		13	17
Sanno	Nakagawa, Nagoya City	92			95
Midori	Midori, Nagoya City	157			159
Gokiso	Showa, Nagoya City	46			51
Daiko	Higashi, Nagoya City	101			103
Nakamura	Nakamura, Nagoya City	145			151
Aoiyama	Tempaku, Nagoya City	2			2
Nishibiwajima	Kiyosu, Aichi Prefecture	40			41
Kanie	Kanie, Aichi Prefecture	99			99
Meiko	Minato, Nagoya City	25			27
Joshin	Nishi, Nagoya City	62	188		251
Jimokuji	Ama, Aichi Prefecture	54	70		125
Toyoake	Toyoake, Aichi Prefecture	151			156
Moriyama	Moriyama, Nagoya City	85			86
Atsuta	Atsuta, Nagoya City	67			68
Kadoma	Kadoma, Osaka Prefecture	123	235		360
Toyohashi	Toyohashi, Aichi Prefecture	94	90		186
Toyohashi-minami	Toyohashi, Aichi Prefecture	66	141		209
Shikenyu	Moriyama, Nagoya City	102			103
Okazaki-minami	Okazaki, Aichi Prefecture	122	184		308
Mizuho	Mizuho, Nagoya City	190			191
Meito	Meito, Nagoya City	75		52	129
Kasugai	Kasugai, Aichi Prefecture	129	62		192
Sako	Nishi, Nagoya City	124			125
Okazaki-kita	Okazaki, Aichi Prefecture	125			126
Toyohashi-nishi	Toyohashi, Aichi Prefecture	99			99
Okazaki-chuo	Okazaki, Aichi Prefecture	122	160		284
Dotoku	Minami, Nagoya City	98			99
Kakuozan	Chikusa, Nagoya City	129			130
Koshigaya	Koshigaya, Saitama Prefecture	213			214
Daito	Daito, Osaka Prefecture	48		96	146
Ajijoshi	Kasugai, Aichi Prefecture	14		122	138
Hatogaya	Kawaguchi, Saitama Prefecture	50			51
Honjin	Nakamura, Nagoya City	61			62
Neyagawa	Neyagawa, Osaka Prefecture	129			132
Matsubakoen	Nakagawa, Nagoya City	148			151
Takinomizu	Midori, Nagoya City	93			95
Iwatsuka	Nakamura, Nagoya City	122			125
Tsushima	Tsushima, Aichi Prefecture	120	19		143
Komaki-chuo	Komaki, Aichi Prefecture	148			153
Kurokawa Higashikan	Kita, Nagoya City	222			227
Nippori	Arakawa, Tokyo	4			5
Kita-Nagoya	Kita-Nagoya, Aichi Prefecture	138			142
Yatomi	Yatomi, Aichi Prefecture	140			145
Inazawa	Inazawa, Aichi Prefecture	157	36		200
Nyoisaru	Kasugai, Aichi Prefecture	150			159
Hara	Tempaku, Nagoya City	138			145
Machiya	Arakawa, Tokyo	6			7
Shimonoishiki	Nakagawa, Nagoya City	118			125
Kita-Senju	Adachi, Tokyo	6			7
Aoto Ekimae	Katsushika, Tokyo	2			3
Tsushima-higashi	Tsushima, Aichi Prefecture	140			147
Komagome	Kita, Tokyo	3			4
Chiyodabashi	Moriyama, Nagoya City	68			75

Source: Shared Research based on company data

Investments and other assets

Investments and other assets accounted for 10.5% of total assets in FY09/18. 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 hall by end September 2020, and the balance (if any) for repayment of loans.

Cash flow statement

Cash flow statement (JPYmn)	FY09/09 Par.	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.
Cash flows from operating activities	555	860	597	924	806	1,151	1,177	1,180	1,406	1,620
Cash flows from investing activities	-702	-711	-919	-901	-717	-529	-877	-806	-998	-596
Free cash flow (1+2)	-147	150	-322	23	89	622	300	374	408	1,024
Cash flows from financing activities	470	16	139	115	-289	-429	378	-742	-93	-658
Depreciation and amortization of goodwill (A)	225	308	332	335	379	394	403	507	522	561
Capital expenditures (B)	-591	-702	-900	-850	-507	-556	-915	-819	-998	-646
Working capital changes (C)	41	-49	66	-7	90	-7	7	-9	62	74
Simple FCF (NI + A + B - C)	-130	60	-280	-89	299	393	133	409	263	737

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 largely affected by changes in interest-bearing liabilities. 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. In FY09/16 and FY09/17, financial cash flows were negative due to the repayment of interest-bearing debt.

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

September 2018

On **September 18, 2018**, the company announced the opening of Tear Nanno.

The company will open Tear Nanno in Gifu Prefecture on September 22, 2018. Tear Nanno will be the fifth funeral hall operated by Funayasu, a franchisee of the company, and the company's 16th funeral hall in Gifu Prefecture.

Tear Nanno is a single-hall facility (capacity of 50 people) designed in response to increasing demand for family funerals and small-scale funerals. Although it has only one funeral hall, Tear Nanno is equipped with a waiting room for family members that can accommodate them overnight and a dining room with a seating capacity of 48 people.

On **September 14, 2018**, the company announced the opening of Tear Chiyodabashi Family Funeral Hall.

The company plans to open Tear Chiyodabashi Family Funeral Hall designated for family funerals on September 22, 2018. Demand for small-scale family funerals with a limited number of mourners at funerals to family members and close relatives is growing against the social background of aging population and the trend toward nuclear families in Japan.

Tear Chiyodabashi Family Funeral Hall is a new format of funeral hall; its total floor space is about half of existing funeral halls, it has 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 this format of funeral halls can be considered as a new model following its existing funeral halls and funeral consultation centers.

July 2018

On **July 31, 2018**, the company announced the opening of Tear Komagome Funeral Consultation Center (Kita-ku, Tokyo Prefecture).

The company will open Tear Komagome Funeral Consultation Center on August 4, 2018. This will be the company's 6th location that uses the consultation center format (5th in the Tokyo Prefecture).

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

On **July 24, 2017**, the company announced the opening of Tear Bairin.

Tear Bairin, will start operations on July 28, 2018. This will be the company's 6th funeral hall in Gifu city, 15th in the Gifu Prefecture, giving the company 99 domestic funeral halls (directly managed plus franchises).

On **July 9, 2018**, the company announced the opening of its refurbished funeral hall Tear Nakamura.

The company will restart operation of refurbished Tear Nakamura in Nagoya, Aichi Prefecture on July 14, 2018. The renewed Tear Nakamura will include newly installed movable partition walls (with furnishings), which can be used to change the size and the layout of ceremonial halls to meet the varying scale of funeral ceremonies. The space created by making ceremonial halls smaller can be used as a foyer for the mourners.

April 2018

On **April 26, 2018**, the company announced the opening of its refurbished funeral hall Tear Sanno.

The company will restart operation of refurbished Tear Sanno in Nagoya, Aichi Prefecture on May 12, 2018. The renewed Tear Sanno will include newly installed movable partition walls (with furnishings), which can be used to change the size and the layout of ceremonial halls to meet the varying scale of funeral ceremonies. The space created by making ceremonial halls smaller can be used as a foyer for the mourners.

On **April 9, 2018**, the company announced the opening of Tear Tsushima Higashi.

The company will be opening in the Aichi prefecture, Tear Tsushima Higashi on April 21, 2018. Tear Tsushima Higashi will be the 2nd funeral hall in Tsushima city, giving the company 98 domestic funeral halls (directly managed plus franchises).

February 2018

On **February 27, 2018**, the company announced the opening of Tear Aoto Ekimae Funeral Consultation Center (Katsushika, Tokyo Prefecture).

The company will open Tear Aoto Ekimae Funeral Consultation Center on March 10, 2018. This will be the company's 5th location that uses the consultation center format (4th in the Tokyo Prefecture). Tear Aoto Ekimae Funeral Consultation Center will primarily provide funeral services and prior consultations, host events (funeral seminars, etc.), and sell products.

January 2018

On **January 29, 2018**, the company announced the opening of Tear Kita-Senju Funeral Consultation Center (Adachi, Tokyo Prefecture).

The company will open Tear Kita-Senju Funeral Consultation Center on February 10, 2018. This will be the company's 4th location that uses the consultation center format (Third in the Tokyo Prefecture). Tear Kita-Senju Funeral Consultation Center will primarily provide funeral services and prior consultations, host events (funeral seminars, etc.), and sell products.

November 2017

On **November 9, 2017**, 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 not the basic direction of the plan or key initiatives. It forecasts 11,160 funerals at directly managed funeral halls, sales of JPY13.8bn, and recurring profit of JPY1.4bn for FY09/20, the final year of the plan.

Numerical Targets

Targets	FY09/17	FY09/18	FY09/19	FY09/20
	Act.	Est.	Target	Target
Number of funerals held	9,161	9,903	10,440	11,160
YoY	8.9%	8.1%	5.4%	6.9%
Sales (JPYmn)	11,352	12,270	12,960	13,770
YoY	7.2%	8.1%	5.6%	6.3%
Operating profit (JPYmn)	1,190	1,275	1,350	1,390
YoY	8.8%	7.1%	5.9%	3.0%
OPM	10.5%	10.4%	10.4%	10.1%
Recurring profit (JPYmn)	1,185	1,260	1,335	1,380
YoY	10.5%	6.3%	6.0%	3.4%
Net income (JPYmn)	801	840	885	915
YoY	12.5%	4.9%	5.4%	3.4%
Capital expenditures (JPYmn)	998	917	800	800

Source: Shared Research based on company data

Planned funeral hall openings

Hall openings	FY09/17	FY09/18	FY09/19	FY09/20
	Act.	Est.	Target	Target
Number of funeral halls (year end)	94	106	117	129
YoY change	8	12	11	12
Directly managed	51	57	63	69
YoY change	4	6	6	6
Franchisees	43	49	54	60
YoY change	4	6	5	6

Source: Shared Research based on company data

September 2017

On **September 29, 2017**, the company announced the opening of Tear Kagashima and Tear Shimonoishiki.

Tear Kagashima, the company's 5th funeral hall in Gifu city and 14th in the Gifu Prefecture, was slated to start operations on September 30, 2017. Tear Shimonoishiki, 4th⁵

funeral hall in the Nakagawa ward of Nagoya, will also start operation on October 7, 2017, giving the company 95 domestic funeral halls (directly managed plus franchises).

On **September 15, 2017**, the company announced the reopening of Tear Toyohashiminami funeral hall.

The company announced it will reopen Tear Toyohashiminami funeral hall (Toyohashi city, Aichi Prefecture) on September 23, 2017. The facility had been closed for renovation, which included the installation of movable partition walls that can change the size of the ceremony rooms to meet the varying scale of funeral ceremonies.

On **September 1, 2017**, the company announced the reopening of Tear Toyoake funeral hall.

The company announced it will reopen Tear Toyoake funeral hall (Toyoake city, Aichi Prefecture) on September 9, 2017. The facility had been closed for renovation, which included the installation of movable partition walls that can change the size of the ceremony rooms to meet the varying scale of funeral ceremonies.

August 2017

On **August 7, 2017**, the company disclosed its full-year consolidated forecast along with its transition to consolidated earnings.

TEAR in May 2017 acquired all shares in Aikyo, which provides *yukan* (washing the body) and *nokan* (encoffinment) services, and turned it into a subsidiary. (Aikyo was converted from a limited-liability company to a joint-stock company prior to the acquisition.) Along with the move, TEAR adopted consolidated earnings in Q3 FY09/17 and disclosed its consolidated full-year forecast for FY09/17.

Consolidated earnings forecast for FY09/17

Sales

JPY11.4bn

Operating profit	JPY1.2bn
Recurring profit	JPY1.2bn
Net income attributable to parent company shareholders	JPY770mn
Earnings per share	JPY38.18

On **August 4, 2017**, the company announced the opening of Tear Senboku Komyoike.

Tear Senboku Komyoike, the company's first funeral hall in Senboku area, was slated to start operations on August 26, 2017. The funeral hall will be the company's 18th funeral hall in the Kansai area, giving the company 93 domestic funeral halls (directly managed plus franchises).

May 2017

On **May 19, 2017**, the company announced the opening of Tear Izumigaoka Funeral Consultation Center (Sakai, Osaka Prefecture).

The company will open Tear Izumigaoka Funeral Consultation Center on June 1, 2017. This will be the company's second location that uses the consultation center format (first in the Kansai region) after Tear Nippori Consultation Center in metropolitan Tokyo. Tear Izumigaoka Funeral Consultation Center will primarily provide funeral services and prior consultations, host events (funeral seminars, etc.), and sell products.

On **May 12, 2017**, the company announced the opening of Tear Nyoisaru.

Tear Nyoisaru, the company's third funeral hall in Kasugai city, was slated to start operations on May 27, 2017. The funeral hall will be the company's 52th funeral hall in Aichi prefecture, giving the company 89 domestic funeral halls (directly managed plus franchises).

Major shareholders

Top shareholders	Shares held	Shareholding ratio
Mugen Co., Ltd.	7,792,000	38.55%
Japan Trustee Services Bank, Ltd. (Trust account)	1,759,500	8.70%
Nagoya Railroad Co., Ltd.	1,280,000	6.33%
Norihisa Tomiyasu	945,600	4.67%
TEAR Employee Stockholding Association	313,700	1.55%
Shiro Fukaya	264,000	1.30%
The Master Trust Bank of Japan, Ltd. (Trust account)	201,200	0.99%
Japan Trustee Services Bank, Ltd. (Trust account 5)	194,400	0.96%
Hanae Bisou Co., Ltd.	183,200	0.90%
Trust & Custody Services Bank, Ltd. (Security investment trust account)	122,600	0.60%
SUM	13,056,200	64.60%

Source: Shared Research based on company data
(As of end-September 2018)

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. It has increased DPS along with profits and has maintained a dividend payout ratio of around 20%. In FY09/18, it paid an interim dividend of JPY5 and a year-end dividend of JPY5, for a total dividend of JPY10 (dividend payout ratio: 22.5%).

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.

Shinshozoku (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

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 city 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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AZIA CO., LTD.	JSB Co., Ltd.	SMS Co., Ltd.
BEENOS Inc.	JTEC Corporation	Snow Peak, Inc.
Bell-Park Co., Ltd.	J Trust Co., Ltd	Solasia Pharma K.K.
Benefit One Inc.	Japan Best Rescue System Co., Ltd.	SOURCENEXT Corporation
B-lot Co.,Ltd.	JINS Inc.	Star Mica Co., Ltd.
Canon Marketing Japan Inc.	JP-HOLDINGS, INC.	Strike Co., Ltd.
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Chugoku Marine Paints, Ltd.	Kumiai Chemical Industry Co., Ltd.	Take and Give Needs Co., Ltd.
cocokara fine Inc.	Lasertec Corporation	Takihyo Co., Ltd.
COMSYS Holdings Corporation	LUCKLAND CO., LTD.	TEAR Corporation
CRE, Inc.	MATSUI SECURITIES CO., LTD.	Tempo Innovation Inc.
CREEK & RIVER Co., Ltd.	Medical System Network Co., Ltd.	3-D Matrix, Ltd.
Daiseki Co., Ltd.	MEDINET Co., Ltd.	TKC Corporation
DIC Corporation	Mercuria Investment Co., Ltd.	TOKAI Holdings Corporation
Digital Arts Inc.	Milbon Co., Ltd.	Tri-Stage Inc.
Digital Garage Inc.	MIRAIT Holdings Corporation	VISION INC.
DIGITAL HEARTS HOLDINGS Co., Ltd	Monex Goup Inc.	VISIONARY HOLDINGS CO., LTD.
Don Quijote Holdings Co., Ltd.	NAGASE & CO., LTD	WirelessGate, Inc.
Dream Incubator Inc.	NAIGAI TRANS LINE LTD.	YELLOW HAT LTD.
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Elecom Co., Ltd.	Net One Systems Co.,Ltd.	YUMESHIN HOLDINGS CO., LTD.
Emergency Assistance Japan Co., Ltd.	Nichi-Iko Pharmaceutical Co., Ltd.	Yume no Machi Souzou Iinkai Co., Ltd.
en-Japan Inc.	Nihon Denkei Co., Ltd.	Yushiro Chemical Industry Co., Ltd.
euglena Co., Ltd.	NIPPON PARKING DEVELOPMENT Co., Ltd.	ZAPPALLAS, INC.
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