GCA / 2174

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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.

Executive summary

Business

- GCA Corp. (GCA)'s primary business is M&A advisory and ancillary services. Reportable segments comprise Advisory and Asset Management. GCA is known for its independence (which puts it in a position to provide clients with the best strategic advice), its business model of winning repeat clients by offering the best advice, and its ability to handle cross-border M&A transactions with global network in Japan, the US and Europe.
- The company's Advisory business offers a comprehensive range of advisory services to both public and private companies, including advice on buying and selling businesses, taking companies private, defending against hostile takeovers, group restructuring, and business turnarounds. GCA not only helps clients execute mergers and acquisitions, it also provides strategic advice on how to increase enterprise value upstream, and based on the aim of the merger/acquisition, advice on post-merger integration downstream.
- The company's US subsidiary, GCA Advisors LLC, has a strong client base for its advisory services among companies in hi-tech and other growth industries, and has built an extensive network in Silicon Valley that includes more than 200 private equity funds. In addition to M&A advisory services, the US subsidiary also has advisory services for private companies seeking to raise capital.
- In July 2016, GCA completed a business merger with Altium Corporate Finance Group Limited, a firm with seven offices in five major European countries and Israel. GCA now has 15 offices in 10 countries in Europe, the US and Asia, and has become an M&A advisory firm with roughly JPY20.0bn in revenues and over 400 professionals on staff.
- The company's Asset Management business is operated by Mezzanine Corporation, which offers mezzanine financing through specialized funds.

Trends

- For FY12/17, on a non-GAAP accounting basis, GCA reported consolidated revenues of JPY19.8bn (+6.4% YoY), operating profit of JPY2.0bn (-39.9%), recurring profit of JPY2.1bn (-41.4%), and net income attributable to parent company shareholders of JPY1.4bn (-36.0% YoY).
- For FY12/18, on a non-GAAP accounting basis, GCA expects consolidated revenues of JPY21.0bn (+6.3 YoY), operating profit of JPY2.6bn (+27.1%), recurring profit of JPY2.6bn (+24.3%), and net income attributable to parent company shareholders of JPY1.8bn (+27.7%).
- GCA also has not disclosed any numerical targets for the medium or long term. Shared Research sees that earnings outlook for GCA may be influenced by trends in the M&A market; the company's ability to take advantage of profitable opportunities; and its ability to expand market share.

Strengths and weaknesses

In Shared Research's view, GCA's strengths lie in its status as an independent advisory specialist with unique features, its strong position in Japan—an M&A growth market—and its low risk business model. Shared Research judges that weaknesses include earnings volatility in line with M&A market trends; a limited ability to provide financing; and its small size, which means it has few people pitching for business (see Strengths and weaknesses section for details).

Key financial data

Income statement (Non-GAAP) (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Est.
(Fund unconsolidated)										
Revenues	**6,150**	**8,099**	**7,972**	**9,555**	**9,575**	**13,019**	**13,159**	**18,558**	**19,754**	**21,000**
YoY	-	31.7%	-1.6%	19.9%	0.2%	36.0%	1.1%	41.0%	6.4%	6.3%
Operating profit	**-506**	**213**	**979**	**1,588**	**1,740**	**3,592**	**2,738**	**3,402**	**2,045**	**2,600**
YoY	-	-	359.6%	62.2%	9.6%	106.4%	-23.8%	24.3%	-39.9%	27.1%
OPM	-	2.6%	12.3%	16.6%	18.2%	27.6%	20.8%	18.3%	10.4%	12.4%
Net income	**-476**	**20**	**499**	**1,248**	**1,122**	**2,260**	**1,614**	**2,201**	**1,409**	**1,800**
YoY	-	-	-	150.1%	-10.1%	101.4%	-28.6%	36.4%	-36.0%	27.8%
Net margin	-	0.2%	6.3%	13.1%	11.7%	17.4%	12.3%	11.9%	7.1%	8.6%
Per share data (JPY, adjusted for stock splits)										
Shares issued (year end; '000)	34,356	35,066	35,133	28,650	28,673	26,325	27,100	38,721	38,853	
EPS	-13.9	1.2	18.6	44.2	42.2	85.8	60.0	69.1	37.2	47.4
EPS (fully diluted)	-	1.1	17.9	-	41.6	84.3	54.0	66.8	35.3	
Dividend per share	-	10.0	10.0	30.0	13.0	32.0	35.0	45.0	35.0	35.0
Book value per share	305.5	230.8	236.6	205.9	240.1	310.2	332.6	503.6	480.9	

Income statement (J-GAAP) (JPYmn)	FY12/09 Cons.	FY12/10 Cons.	FY12/11 Cons.	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.	FY12/18 Est.
Revenues	**6,150**	**8,099**	**7,972**	**9,555**	**9,575**	**13,019**	**13,159**	**18,558**	**19,754**	**21,000**
YoY	-	31.7%	-1.6%	19.9%	0.2%	36.0%	1.1%	41.0%	6.4%	6.3%
Operating profit	**-506**	**213**	**979**	**1,588**	**1,740**	**3,592**	**2,738**	**2,492**	**723**	**1,220**
YoY	-	-	359.6%	62.2%	9.6%	106.4%	-23.8%	-9.0%	-71.0%	68.7%
OPM	-	2.6%	12.3%	16.6%	18.2%	27.6%	20.8%	13.4%	3.7%	5.8%
Net income	**-476**	**20**	**499**	**1,248**	**1,122**	**2,260**	**1,614**	**1,373**	**87**	**420**
YoY	-	-	2395.0%	150.1%	-10.1%	101.4%	-28.6%	-14.9%	-93.7%	382.8%
Net margin	-	0.2%	6.3%	13.1%	11.7%	17.4%	12.3%	7.4%	0.4%	2.0%
Per share data (JPY, adjusted for stock splits)										
EPS	-13.9	1.2	18.6	44.2	42.2	85.8	60.0	43.1	2.3	11.1
EPS (fully diluted)	-	1.1	17.9	-	41.6	84.3	54.0	41.7	2.2	

Balance sheet (JPYmn)	FY12/09	FY12/10	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
Cash and cash equivalents	6,861	8,567	8,754	5,555	7,147	9,411	9,830	11,236	12,819
Total current assets	**31,912**	**38,762**	**34,622**	**33,799**	**15,119**	**11,443**	**13,065**	**15,456**	**15,866**
Investments and other assets	2,918	677	1,173	1,311	1,433	1,491	906	1,209	1,222
Total assets	**35,180**	**39,821**	**36,093**	**35,364**	**16,836**	**13,188**	**14,608**	**27,389**	**27,387**
Total current liabilities	**1,085**	**2,193**	**1,673**	**2,743**	**2,301**	**4,187**	**5,213**	**6,962**	**7,515**
Total fixed liabilities	**222**	**254**	**256**	**163**	**115**	**288**	**75**	**598**	**669**
Total liabilities	**1,308**	**2,447**	**1,930**	**2,906**	**2,417**	**4,476**	**5,289**	**7,561**	**8,185**
Net assets	**33,872**	**37,373**	**34,163**	**32,457**	**14,419**	**8,712**	**9,319**	**19,828**	**19,201**
Non-controlling interests	23,629	30,775	26,895	26,402	7,406	0	0	99	148
Total interest-bearing debt	0	0	0	0	0	0	0	0	0
Cash flow statement (JPYmn)	**FY12/09**	**FY12/10**	**FY12/11**	**FY12/12**	**FY12/13**	**FY12/14**	**FY12/15**	**FY12/16**	**FY12/17**
Cash flows from operating activities	-2,513	-1,928	7,631	978	23,349	4,164	1,242	2,716	3,366
Cash flows from investing activities	-1,505	1,912	44	-63	-130	-87	138	271	-305
Cash flows from financing activities	1,142	1,952	-7,373	-4,347	-21,951	-843	-975	-1,735	-1,875
Financial ratios	**FY12/09**	**FY12/10**	**FY12/11**	**FY12/12**	**FY12/13**	**FY12/14**	**FY12/15**	**FY12/16**	**FY12/17**
(Fund unconsolidated)									
ROA (RP-based)	1.1%	4.8%	11.1%	7.8%	16.5%	24.0%	19.7%	12.7%	2.8%
ROE	-	0.2%	7.5%	20.4%	18.9%	31.2%	18.9%	9.8%	0.5%
Equity ratio	88.8%	73.2%	74.2%	61.7%	68.5%	61.3%	61.7%	69.6%	66.7%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Non-GAAP operating profit equals J-GAAP operating profit less goodwill amortization and non-recurring items as determined by the company. Non-recurring items are those revenues and expenses that the company has deemed transient and are therefore excluded when making its earnings forecast.

Recent updates

Highlights

On **December 17, 2018**, GCA Corporation (GCA) announced the establishment of a local subsidiary in France.

The company will establish a local subsidiary in Paris, France with an aim of expanding its business in Europe, and hired a managing director as part of preparation for that.

Overview of French subsidiary

- Company name: GCA Altium France SAS (tentative)
- Address: 72, rue du Faubourg Saint-Honoré, F-75008 Paris, France
- Representative: Hugues Archambault
- Date of establishment: January 2019 (scheduled)
- Capital: EUR50,000

On **November 22, 2018**, Shared Research updated the report following interviews with the company.

On **November 7, 2018,** the company announced earnings results for Q3 FY12/18; see the results section for details.

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

Trends and outlook

Quarterly trends and results

Cumulative	FY12/17				FY12/18				FY12/18	
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	% of FY	FY Est.
Revenues	3,388	6,821	12,780	19,754	4,247	10,427	15,270		72.7%	21,000
YoY	-7.5%	-4.4%	19.5%	6.4%	25.4%	52.9%	19.5%			6.3%
Operating profit (Non-GAAP based)	209	130	977	2,045	433	1,239	1,624		62.5%	2,600
YoY	-67.9%	-91.6%	-53.7%	-39.9%	107.2%	853.1%	66.2%			27.1%
OPM	6.2%	1.9%	7.6%	10.4%	10.2%	11.9%	10.6%			12.4%
Net income (Non-GAAP based)	97	-39	797	1,409	261	864	1,136		63.1%	1,800
YoY	-74.0%	-	-34.9%	-36.0%	169.1%	-	42.5%			27.8%
Net margin	2.9%	-	6.2%	7.1%	6.1%	8.3%	7.4%			8.6%
Operating profit (J-GAAP based)	-119	-516	12	723	89	558	615			
YoY	-	-	-99.2%	-71.0%	-	-	-			
OPM	-	-	0.1%	3.7%	2.1%	5.4%	4.0%			
Net income (J-GAAP based)	-231	-686	-167	87	-83	184	127			
YoY	-	-	-	-93.7%	-	-	-			
Net margin	-	-	-	0.4%	-	1.8%	0.8%			

Quarterly	FY12/17				FY12/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues	3,388	3,433	5,959	6,974	4,247	6,180	4,843	
YoY	-7.5%	-1.1%	67.3%	-11.3%	25.4%	80.0%	-18.7%	
Operating profit (Non-GAAP based)	209	-79	847	1,068	433	806	385	
YoY	-67.9%	-	48.6%	-17.2%	107.2%	-	-54.5%	
OPM	6.2%	-	14.2%	15.3%	10.2%	13.0%	7.9%	
Net income (Non-GAAP based)	97	-136	836	612	261	603	272	
YoY	-74.0%	-	182.4%	-37.3%	169.1%	-	-67.5%	
Net margin	2.9%	-	14.0%	8.8%	6.1%	9.8%	5.6%	
Operating profit (J-GAAP based)	-119	-397	528	711	89	469	57	
YoY	-	-	826.3%	-20.4%	-	-	-89.2%	
OPM	-	-	8.9%	10.2%	2.1%	7.6%	1.2%	
Net income (J-GAAP based)	-231	-455	519	254	-83	267	-57	
YoY	-	-	-	-57.7%	-	-	-	
Net margin	-	-	8.7%	3.6%	-	4.3%	-	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods
Note: Non-GAAP operating profit equals J-GAAP operating profit less goodwill amortization and non-recurring items as determined by the company. Non-recurring items are those revenues and expenses that the company has deemed transient and are therefore excluded when making its earnings forecast.

Quarterly performance by segment

Cumulative	FY12/17				FY12/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues	3,388	6,821	12,780	19,754	4,247	10,427	15,270	
YoY	-7.5%	-4.4%	19.5%	6.4%	25.4%	52.9%	19.5%	
Advisory	3,209	6,493	12,302	19,122	4,097	10,215	14,816	
YoY	-8.2%	-4.1%	21.2%	9.2%	27.7%	57.3%	20.4%	
Asset management	178	328	478	632	150	302	453	
YoY	6.0%	-8.9%	-11.5%	-39.9%	-15.7%	-7.9%	-5.2%	
Total expenses	3,179	6,691	11,803	17,709	3,814	9,188	13,646	
YoY	5.6%	19.7%	29.8%	16.8%	20.0%	37.3%	15.6%	
Personnel expenses	2,135	4,577	8,317	13,263	2,744	7,029	10,396	
YoY	3.6%	16.0%	-3.1%	17.1%	28.5%	53.6%	25.0%	
% of revenues	63.0%	67.1%	65.1%	67.1%	64.6%	67.4%	68.1%	
Rent	297	596	900	1,214	306	642	971	
YoY	42.1%	57.7%	-57.4%	32.8%	3.0%	7.7%	7.9%	
Other	747	1,518	2,586	3,232	765	1,517	2,278	
YoY	0.9%	-72.8%	111.1%	11.0%	2.4%	-0.1%	-11.9%	
Operating profit (Non-GAAP based)	209	130	977	2,045	433	1,239	1,624	
YoY	-67.9%	-91.6%	-38.9%	-39.9%	107.2%	853.1%	66.2%	
Advisory	183	67	874	1,857	391	1,165	1,519	
YoY	-71.1%	-95.5%	-56.7%	-39.8%	113.7%	-	73.8%	
Asset management	26	63	103	188	42	73	105	
YoY	52.9%	6.8%	10.8%	-40.3%	61.5%	15.9%	1.9%	
Number of deals closed	38	67	85	112	30	65	98	
YoY	-	-	-	-	-21.1%	-3.0%	15.3%	
Number of bankers	277	284	292	294	289	291	295	
Quarterly	FY12/17				FY12/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenues	3,388	3,433	5,959	6,974	4,247	6,180	4,843	
YoY	-7.5%	-1.1%	67.3%	-11.3%	25.4%	80.0%	-18.7%	
Advisory	3,209	3,284	5,809	6,820	4,097	6,118	4,601	
YoY	-8.2%	0.2%	71.8%	-7.3%	27.7%	86.3%	-20.8%	
Asset management	178	150	150	154	150	152	151	
YoY	6.0%	-21.9%	-16.7%	-69.9%	-15.7%	1.3%	0.7%	
Total expenses	3,179	3,512	5,112	5,906	3,814	5,374	4,458	
YoY	5.6%	36.1%	45.8%	-2.6%	20.0%	53.0%	-12.8%	
Personnel expenses	2,135	2,442	3,740	4,946	2,744	4,285	3,367	
YoY	3.6%	29.6%	-19.3%	80.0%	28.5%	75.5%	-10.0%	
% of revenues	63.0%	71.1%	62.8%	70.9%	64.6%	69.3%	69.5%	
Rent	297	299	304	314	306	336	329	
YoY	42.1%	76.9%	-82.5%	-	3.0%	12.4%	8.2%	
Other	747	771	1,068	646	765	752	761	
YoY	0.9%	-84.1%	-	-61.7%	2.4%	-2.5%	-28.7%	
Operating profit (Non-GAAP based)	209	-79	847	1,068	433	806	385	
YoY	-67.9%	-	-	-40.8%	107.2%	-	-54.5%	
Advisory	183	-116	807	983	391	774	354	
YoY	-71.1%	-	50.3%	-7.9%	113.7%	-	-56.1%	
Asset management	26	37	40	85	42	31	32	
YoY	52.9%	-11.9%	17.6%	-61.7%	61.5%	-16.2%	-20.0%	
Number of deals closed	38	29	18	27	30	35	33	
YoY	-	-	-	-	-21.1%	20.7%	83.3%	

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods
Note: In the table, dashes (-) indicate that YoY changes exceed 1,000%.
Note: The number of bankers (number of professionals excluding those working in the back office) excludes GCA FAS and strategic PMI consulting group.

Mezzanine fund balance

	FY12/17				FY12/18			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund investments	6,995	11,867	11,917	10,756	15,392	26,010	26,151	
QoQ change	31	4,872	50	-1,161	4,636	10,618	141	
Operational investment securities	3,161	3,161	4,161	1,000	1,000	7,500	7,500	
QoQ change	-	-	1,000	-3,161	-	6,500	-	
Operational investment loans	3,834	8,706	7,755	9,755	14,392	18,510	18,650	
QoQ change	31	4,872	-951	2,000	4,637	4,118	140	

Source: Shared Research based on company data

Q3 FY12/18 earnings

Non-GAAP-based earnings results for cumulative Q3 FY12/18 were:

- ▷ Revenue: JPY15.3bn (+19.5% YoY)
- ▷ Operating profit: JPY1.6bn (+66.2% YoY)
- ▷ Recurring profit: JPY1.6bn (+57.3% YoY)

▷ Net income: JPY1.1bn (+42.5%YoY)

*Net income refers to net income attributable to parent company shareholders

Looking at cumulative Q3 FY12/18 results against the company's full-year forecasts, revenue was 72.7% against plan (versus 64.7% for cumulative 3Q FY12/17 against FY12/17 results), operating profit was 62.5% (versus 47.8%), and net income was 63.1% (versus 56.6%). Revenue and all profit categories were short of the 75% mark, but appeared on track with full-year targets considering that the amount received in new assignments increased 8.9% YoY and the pipeline of assignments grew by 5.3%.

According to the company, the number of M&A deals completed in October 2018 was 16 (98 for cumulative Q3, 33 for Q3 [Jul–Sep]). We also understand that the company will book advisory fees from Nippon Paper Industries Co., Ltd. and Marubeni Corporation in Q4 (Oct–Dec 2018) on a sell-side transaction slated for November 30, 2018 concerning their affiliate Daishowa-Marubeni International Ltd. (the equity ownership percentage prior to the transaction was 50% for both companies). Based on the CAD465mn (approximately JPY39.6bn) transaction value disclosed by Nippon Paper Industries, we estimate that GCA's commission from both companies will be in the region of JPY1bn.

Among the adjustments made to calculate non-GAAP earnings, the adjustment for goodwill amortization came to JPY992mn. Non-recurring items included JPY16mn in costs for the share-based compensation associated with the business merger with Altium.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and a Japanese standard (J-GAAP). Non-GAAP operating profit excludes goodwill amortization and non-recurring items determined by the company from J-GAAP operating profit.

J-GAAP-based earnings results for cumulative Q3 FY12/18 were:

▷ Operating profit: JPY615mn (JPY12mn operating profit in cumulative Q3 FY12/17)

▷ Recurring profit: JPY625mn (+744.6% YoY)

▷ Net income: JPY127mn (JPY167mn net loss)

*Net income/loss refers to net income/loss attributable to parent company shareholders

Advisory business

Advisory revenues rose 20.4% YoY to JPY14.8bn and non-GAAP operating profit was up 73.8% YoY to JPY1.5bn.

The rise in revenues was owing to the number of completed M&A deals increasing 15.3% YoY to 98. Meanwhile, the increase in operating profit was due to higher revenues compensating for a rise in personnel expenses. Driving up personnel expenses was increased bonuses in accordance with increased revenues, and increases in other compensation owing to tougher competition in the jobs market, particularly in the US.

In Q3 FY12/18, the number of M&A deals decreased 10% YoY and the total value also dropped 3% in the global M&A market. By region, the number of completed deals in Japan increased 12% YoY but the value decreased 8%. The number of completed deals decreased 11% and the value decreased 4% in the US; and the number of completed deals dropped 17% and the value decreased 8% in Europe, Middle East, and Africa (according to data from Thomson Reuters).

Advisory revenues grew YoY thanks to the brisk performance in Europe where the number of completed deals increased YoY. The company has also maintained a robust pipeline of assignments globally, with the number reaching a record high. Through consolidation with the GCA group in 2016, GCA Altium, which is strong in M&A transactions related to business succession, gained access to global prospective buyers in the US, Japan, and Asia. As a result, the number of sell-side assignments won in Europe continued to grow.

By assignment categories, sell-side transactions accounted for 51% of the total (53% in FY12/17), and buy-side 49% (22%). By domestic projects and cross-border, domestic projects were 63% (65% in FY12/17), and cross-border 37% (35%). Private equity-related assignments accounted for 37% of the total. By industry, the highest proportion of revenues came from technology, industrials, and consumer/retail.

The most significant cross border deals completed in Q3 (Jul–Sep 2018) were as following:

- ▷ Acquisition of Quartz Media (USA) by Uzabase (Japan): Uzabase, a business information services company, acquired Quartz Media LLC, an online media business, in the US. The company advised Uzabase.
- ▷ Acquisition of Parador (Germany) by HIL Limited (India): HIL Limited, a leading building materials company, part of India's CK Birla Group, acquired Parador Holding GmbH, a German flooring solutions supplier. The company advised HIL Limited.
- ▷ Sale of Cleanpart (Germany) between Deutsche Beteiligungs AG (Germany) and Mitsubishi Chemical Corporation (Japan): Deutsche Beteiligungs AG, an investment fund, sold Cleanpart, a company providing services to the semiconductor industry, to Mitsubishi Chemical, a comprehensive chemicals manufacturer. The company advised Deutsche Beteiligungs AG.

Asset Management business

The Asset Management business reported revenues of JPY453mn (-5.2% YoY) and operating profit of JPY105mn (+1.9% YoY).

The investment fund balance at the end of Q3 totaled JPY26.2bn (+JPY15.4bn YoY), consisting of operational investment securities of JPY7.5bn (+JPY6.5bn YoY) and operational investment loans of JPY18.7bn (+JPY8.9bn YoY).

For details on previous quarterly and annual results, please refer to the Historical financial statements section.

FY12/18 forecast

Non-J-GAAP-based earnings forecasts for full-year FY12/18 are:

- ▷ Revenues: JPY21.0bn (+6.3% YoY)
- ▷ Operating profit: JPY2.6bn (+27.1%)
- ▷ Recurring profit: JPY2.6bn (+24.3%)
- ▷ Net income: JPY1.8bn (+27.7%)

J-GAAP-based earnings forecasts for full-year FY12/18 are:

- ▷ Operating profit: JPY1.2bn (+68.8% YoY)
- ▷ Recurring profit: JPY1.2bn (+58.6%)
- ▷ Net income: JPY420mn (+378.1%)

*Net income refers to net income attributable to parent company shareholders

Among the adjustments made to calculate non-GAAP earnings, the amount for goodwill amortization is expected to be JPY1.3bn.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used to aid management's decision-making, and a Japanese standard (J-GAAP). Non-GAAP operating profit deducts goodwill amortization and non-recurring items defined by the company from J-GAAP operating profit.

According to the company, the business environment is as follows:

- ▷ In Japan, in addition to their need for overseas business growth, companies' requirements for digitalization in their businesses are increasing as they incorporate cutting-edge technologies. M&A activity is expected to increase as a result.
- ▷ In the US, the prospect of tax reductions led to uncertainty in the M&A market in 2017. Now that these reductions have been implemented, renewed M&A activity is expected in 2018.
- ▷ The European market remained strong in FY12/17. It is assumed that the high level of M&A activity will continue in FY12/18.

GCA has become a global M&A advisory firm with 18 business locations in 11 countries following the completion of the merger with European company Altium and business expansion in Asia. The company says that this has led to an increase in opportunities to participate in M&A deals, of which more than 50% are in the technology sector. According to the company, it is well positioned for further growth, because its strengths lie in technology sector M&A, including IoT, AI, and fintech.

The company plans to establish subsidiaries in Vietnam and Taiwan to respond to client needs in Asia. As a result, the company will deploy more than 20 professionals in six locations in Asia to support Japanese companies engaging in M&A and business expansion in Asia, attracting more opportunities to make proposals to client firms.

Dividend policy

The FY12/18 annual dividend per share will be JPY35 (lower limit); a JPY17.5 interim dividend and a JPY17.5 year-end dividend. GCA allocates the amount remaining after excluding the annual dividend from non-GAAP-based net income to funds used for share buybacks and special dividends. However, the company stated that while it will return 100% to shareholders through share buybacks or special dividends, in order to implement this policy efficiently and flexibly, it will not be carried out in a single fiscal year but over several years.

Long-term outlook

GCA does not disclose mid- and long-term quantitative targets. Shared Research thinks that three important factors influence GCA's outlook: developments in the M&A market, how many profitable opportunities the company can seize as the market expands, and the company's office network.

M&A trends

Economic trends tend to influence M&A activity heavily. Shared Research thinks the size of the Japanese economy and relatively small M&A market will likely drive up M&A transactions over the long-term (see Market Overview for details).

Capitalizing on opportunities

GCA's ability to capitalize on opportunities depends on four unique characteristics: being independent allows the company to propose the best measures for its clients; its repeat-client model (achieving repeat orders through providing the best proposals to clients) is maintained; and its ability to handle cross-border M&A deals. As many of its competitors lack such abilities, Shared Research thinks that GCA will likely benefit from market expansion in Japan.

Office network expansion

From the time of its foundation, the company envisioned globalization of Japanese companies, and by merging with Savvian in the US in April 2008, it established a system that allowed the company to cover cross-border deals between Japan and the US.

In Europe, the company announced a merger of the European independent M&A advisory company Altium Corporate Finance Group Limited (Altium), which became its wholly-owned subsidiary in July 2016. According to the company, by making Altium its subsidiary, it established a system allowing it to handle cross-border deals not only between Japan and US, but also Japan and Europe.

Altium was founded in 1972, headquartered in London, UK. It has offices in UK, Germany, Switzerland, Italy, and Israel. Revenues in FY12/16 were JPY6.4bn (-3.5% YoY) and operating profit was JPY954mn (-3.5% YoY). According to the company, Altium is an advisory firm that specializes in the European technology sector, taking the third place in the 2015 M&A ranking for advisories working with European companies in the technology sector (based on completed deals value of USD500mn or more).

Business

Business description

GCA Corporation (GCA) is an independent M&A advisory firm. Its corporate philosophy is "Trusted Advisor for Client's Best Interest."

Businesses

The company's primary business is M&A advisory and ancillary services. As of FY12/17, reportable segments comprise Advisory and Asset Management.

The main entities in the Advisory business are GCA Corporation; GCA Advisors, LLC; GCA Altium Corporate Finance Ltd. (Altium); and GCA FAS Co., Ltd. (formerly DCo Corporation). GCA has a global advisory network of 15 offices in 10 countries, and is the seventh largest (revenue basis) listed independent M&A advisory firm in the world.

The company specializes in the technology sector, and has developed a network that allows it to provide full support for Japan-US and Japan-Europe cross-border M&A deals. Breaking down each region by sector classification, Japan/Asia generates a high share of deals from technology (21% of all deals in FY12/17), consumer/retail (21%), industrials (33%). In the US a large proportion of deals come from the technology sector (61% of all deals in FY12/17), with industrials increasing (17%). Deals in Europe are spread across different sectors, but the share of consumer/retail (30% in FY12/17) and technology (20%) remains high.

Mezzanine Corporation, another important entity, operates the company's Asset Management business; the company records performance fees related to the management of its investment business limited partnerships (funds) in this segment.

Earnings by segment

(JPYmn)	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.
Revenues	**9,555**	**9,575**	**13,019**	**13,159**	**18,558**	**19,754**
YoY	19.9%	0.2%	36.0%	1.1%	41.0%	6.4%
Advisory	8,806	8,346	10,376	12,867	17,507	19,122
YoY	20.3%	-5.2%	24.3%	24.0%	36.1%	9.2%
Japan	4,741	4,431	4,155	7,573	6,812	5,986
YoY	20.7%	-6.5%	-6.2%	82.3%	-10.0%	-12.1%
US	4,059	3,909	6,000	5,148	6,801	4,655
YoY	20.2%	-3.7%	53.5%	-14.2%	32.1%	-31.6%
Europe	-	-	-	49	3,701	8,481
Asset management	749	1,229	2,643	291	1,051	632
YoY	15.4%	64.1%	115.1%	-89.0%	261.2%	-39.9%
Operating profit (Non-GAAP)	**1,588**	**1,740**	**3,592**	**2,738**	**3,402**	**2,045**
YoY	62.2%	9.6%	106.4%	-23.8%	24.3%	-39.9%
Advisory	1,410	1,146	1,927	2,967	3,086	1,857
YoY	79.8%	-18.7%	68.2%	54.0%	4.0%	-39.8%
Asset management	177	591	1,665	-228	315	188
YoY	-8.8%	233.9%	181.7%	-	-	-40.3%
Net income (Non-GAAP)	**1,259**	**1,125**	**2,260**	**1,614**	**2,201**	**1,409**
YoY	136.2%	-10.6%	100.9%	-28.6%	36.4%	-36.0%
Operating profit (J-GAAP)	**1,588**	**1,740**	**3,592**	**2,738**	**2,492**	**723**
YoY	62.2%	9.6%	106.4%	-23.8%	-9.0%	-71.0%
Net income (J-GAAP)	**1,259**	**1,125**	**2,260**	**1,614**	**1,373**	**87**
YoY	136.2%	-10.6%	100.9%	-28.6%	-14.9%	-93.7%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: Adjustments to operating profits (elimination of intraregional transactions) for regional advisory businesses made prior to December 2012 differ from those made in December 2013 onwards
Non-GAAP operating profit and net income reflect profits prior to excluding goodwill amortization due to the Altium business merger and non-recurring items

Advisory business (Japan)

The Advisory business is composed of GCA Corp. and GCA FAS Co., Ltd. (formerly DCo Corp.).

Advisory business (Japan) (JPYmn)	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.
Revenues	4,741	4,431	4,155	7,573	6,812	5,980
YoY	20.7%	-6.5%	-6.2%	82.3%	-10.0%	-12.2%
Employees	78	75	84	98	113	110

Source: Shared Research based on company data
Note: Figures for years prior to FY12/11 are the difference between the advisory business and the US region business.
Note: Adjustments to operating profit (elimination of intraregional transactions) made prior to December 2012 differ from those made in December 2013 onwards

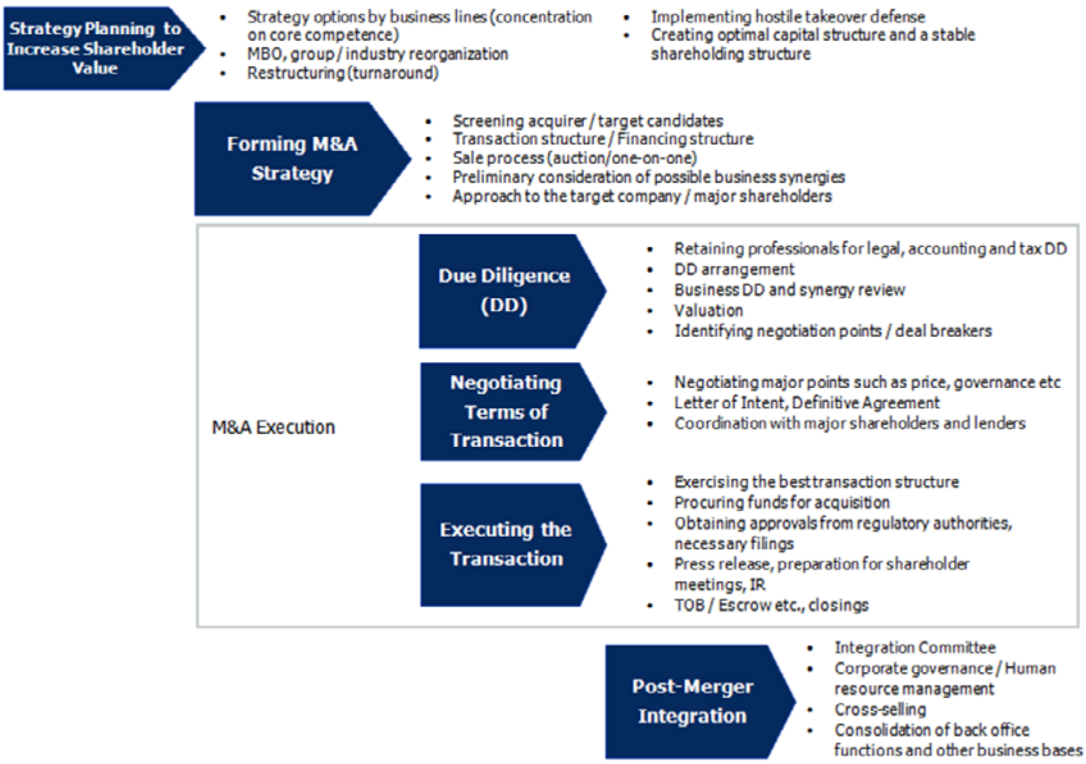
GCA Corporation

GCA offers comprehensive advisory services to public and private companies, including divestitures, acquisitions, going-private transactions, takeover defense, restructurings, and turnarounds.

Improving corporate value, strategic planning, and post-merger integration

The company provides expertise not only in deal execution, but also the entire process from upstream operations (e.g., strategic and M&A planning to maximize corporate value) to downstream post-merger integration.

Advisory business coverage



Source: Shared Research based on company data

Frequently serve as advisors to buyers as part of its repeat-client model

In M&A transactions, when a seller sells a business to a buyer that can strengthen it, the buyer adds corporate value. In theory, the seller and the buyer divide this value fairly, resulting in a win-win M&A deal. In reality, the buyer and seller are usually at odds, and must negotiate the terms and conditions of the deal.

To ensure post-purchase value accretion, the buyer must manage a prudent acquisition process (pre-deal research and adequate purchase contracts). The seller, meanwhile, wants to maximize the sale price. Ideally, and this is particularly relevant in the Japanese business environment, the seller also wants to ensure that employees of the divested business can enjoy continued employment and prosper. GCA serves as an advisor to either buyers or sellers. Because the company is focused on sustaining what it calls a "repeat-client model," it tends to advise buyers more frequently (satisfied buyers will come for more business).

GCA does not act as a business broker that introduces buyer and seller and receives a fee from each.

Efficient management through cell management

As of FY12/14, the company has begun implementing a new type of organizational structure called "cell management." The company previously worked with a large team of 100 employees, but henceforth it works with small teams—"cells"—of about 10 employees each. The company believes that via this new structure it is able to increase the number of assignments, and streamline operations and employee training. Unlike most investment banks, the company does not intend to have separate teams of bankers who compete against each other. Rather, it ensures employees are working together for the benefit of all cells.

Corporate structure that is not reliant on superstars

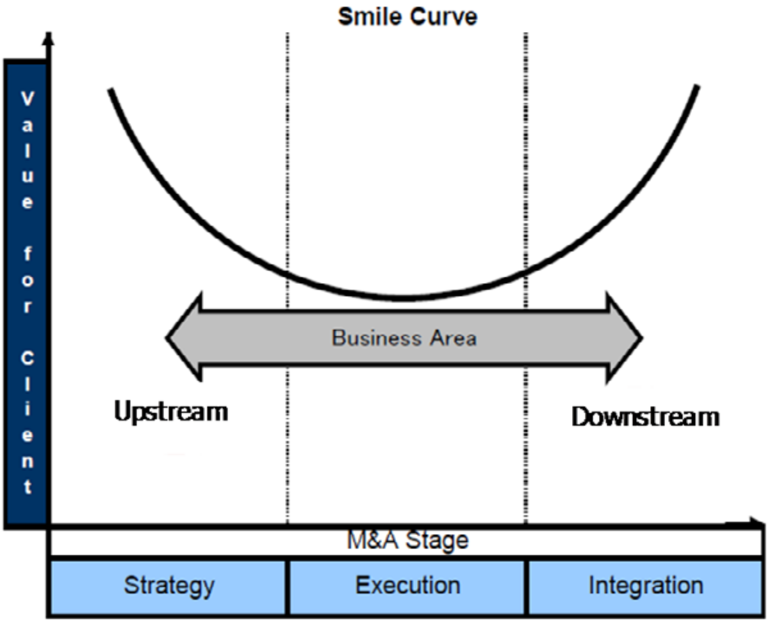
While many M&A advisory firms are reputed to rely on a few star players, GCA says that it developed a system that allows most of its experienced staff to contribute actively; that lowers its dependence on star performers (as of February 2014).

Company also offers PMI services

In 2014, the company established a strategic PMI (post-merger integration) team system, which is focused on providing consulting services to clients before, during, and after the merger process is complete. This is in contrast to the company's previous service which focused on financial advisory, due diligence, and areas primarily concerned with the execution phase of mergers. There had been significant demand for services both before and after mergers occur, and GCA views entry into these services as a natural progression based on its track record.

Successful post-merger integration in most cases determines deal success for a buyer. This is especially true for cross-border transactions. The company explains that by consulting in these areas, a time-consuming and involved task that many of its competitors (e.g., bulge-bracket investment banks) would prefer not to touch, it can earn client trust, leading to repeat business.

Business areas of the strategic PMI team



Source: Shared Research based on company data

GCA FAS Co., Ltd. (formerly DCo Corporation; advisory segment, due diligence)

In August 2014, the company changed the name of DCo Corporation to GCA FAS Co., Ltd. GCA FAS offers due diligence on finance and taxes for domestic and cross-border M&A deals; valuations of corporate value and intangible assets; and advisory services for small and mid-sized M&A deals in Japan and abroad.

Utilize TOKYO PRO Market J-Adviser license to benefit companies seeking an equity carve-out or business succession

In December 2016, GCA FAS was certified by the Tokyo Stock Exchange as a J-Advisor for the TOKYO PRO Market, which is an exchange for professionals operated by the Tokyo Stock Exchange. "J-Advisors" are certified bodies entrusted by the Tokyo Stock Exchange to evaluate the eligibility of the listing applicant on behalf of the Tokyo Stock Exchange, and lead a series of administrative procedures from application to listing as well as providing advice on post-listing disclosures.

> The Tokyo Pro Market is an exchange for selected professional investors where companies can float shares under less stringent listing requirements (no numerical requirements on minimum shareholders, profit or market capitalization) and simpler disclosures.

By taking advantage of the features of TOKYO PRO MARKET, GCA FAS will be able to offer clients new options for their capital strategies, such as using the market as a platform to conduct equity carve-out IPOs in the case of large companies, or business succession in the case of small-to-medium sized companies. Owners of small-to-medium sized companies that list on the TOKYO PRO MARKET receive tax benefits when converting invested funds to cash.

Advisory business (US)

Results from GCA Advisors LLC are recorded in the Advisory business (US).

Results in the Advisory business (US)

Advisory business (US) (JPYmn)	FY12/12 Act.	FY12/13 Act.	FY12/14 Act.	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.
Revenues	4,059	3,909	6,000	5,148	6,801	4,655
YoY	20.2%	-3.7%	53.5%	-14.2%	32.1%	-31.6%
Employees	65	60	66	74	79	72

Source: Shared Research based on company data
Note: Adjustments to operating profit (elimination of intraregional transactions) made prior to December 2012 differ from those made in December 2013 onwards

GCA Advisors LLC (advisory segment, US)

GCA Advisors LLC is an independent M&A advisory firm formed in 2003 with personnel from Morgan Stanley, Robertson Stephens, and other US investment banks.

High-tech sector is a strength in the United States business

The company works with high-tech growth companies on the West Coast of the United States from its San Francisco headquarters. The segment's ability to support execution of cross-border deals between Japan and the US make it a compelling proposition.

GCA Advisors employs sector specialists. It is strong in the high-tech sector and claims deep relationships with over 200 private equity funds in Silicon Valley. Considering the difficulty of becoming a Silicon Valley insider, being able to offer Japanese clients the latest information from US tech companies is useful for promoting Japan-US cross-border deals. The firm is also broadening its coverage into healthcare and industrials.

The breakdown of deals in FY12/17 was 61% in technology, 17% in industrials and 17% in digital media.

Fundraising advisory services

In the US, GCA Advisors also offers advisory services on raising funds for non-listed companies, in addition to M&A advisory services. In Q2 FY12/14, the company also established a fundraising team for venture capital and private equity funds, in a bid to create further revenue opportunities. The company, which helps startup companies raise funds, will also start assisting investment funds seeking to procure capital.

Advisory business (Europe)

Altium is accounted for within the European Advisory business.

Results of the Advisory business (Europe)

Advisory business (Europe) (JPYmn)	FY12/15 Act.	FY12/16 Act.	FY12/17 Act.
Revenues	49	3,700	8,481
YoY	-	-	129.2%
Employees	88	90	110

Source: Shared Research based on company data
GCA Altium became a consolidated subsidiary in August 2016
Note: Figures for FY12/15 are the ones for Europe segment in the segment information by location

Key strengths in the technology sector; aiming for synergies with the US business

In July 2016, GCA completed a business merger with Altium Corporate Finance Group Ltd., a firm with seven offices in four major European countries and Israel. Altium was founded in 1972, headquartered in London, UK. It has offices in the UK, Germany, Switzerland, Italy, and Israel. According to the company, Altium is an advisory firm that specializes in the European technology sector, taking the third place in the 2015 M&A ranking for advisors working with European companies in the technology sector (based on completed deals value of USD500mn or more).

The company has stated that Altium's strength in the technology sector will enable it to create significant synergies with its US offices. Further, in addition to European and US companies, GCA will be able to provide a more value-added deal execution service to Japanese companies with global operations, since it now has a network capable of providing comprehensive seamless support for both Japan-US and Japan-Europe cross border deals.

Asset Management business

In this segment—via subsidiary Mezzanine—the company offers mezzanine financing through specialized funds.

Results of the Asset Management business

Asset Management business (JPYmn)	FY12/12 Cons.	FY12/13 Cons.	FY12/14 Cons.	FY12/15 Cons.	FY12/16 Cons.	FY12/17 Cons.
Revenues	749	1,226	2,643	291	1,051	632
YoY	15.4%	63.7%	115.6%	-89.0%	261.2%	-39.9%
Operating profit	177	591	1,665	-228	315	188
YoY	-8.8%	233.9%	181.7%	-	-	-40.3%
OPM	23.6%	48.2%	63.0%	-	30.0%	29.7%

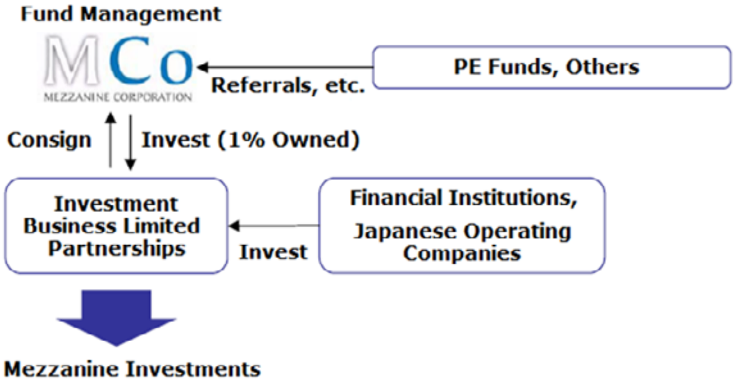
Source: Shared Research based on company data

Financing is typically provided in the form of convertible debt, senior subordinated debt, or securities involving non-voting preferred shares. Examples of situation when firm clients would find mezzanine useful include:

- Subordinated debt if an acquisition is too large to be funded through bank loans alone
- Non-voting shares to raise capital without diluting existing shareholders
- Preferred shares to fund a management buyout or management-employee buyout
- Balance sheet restructuring

Mezzanine Corp. ("MCo" in the chart below) creates limited partnerships with institutional investors and manages the funds. The segment limits its stake in each fund to 1%; therefore, its main sources of income are management fees and performance-linked fees.

Asset-management and fund businesses



Source: Shared Research based on company data

One challenge in the Asset Management business is its conflict of interest with the Advisory business. Specifically, advisory work involving mezzanine financing may jeopardize the company's neutrality, even if the advice benefits clients. According to the company, its target areas for Advisory and Asset Management work do not overlap, substantially lowering risk of a conflict of interest.

What makes GCA different?

The company cites its status as an independent M&A specialist firm, its repeat-client model, and its global network as the main factors that set it apart from competitors. Akihiro Watanabe, the company's founder and managing director, has extensively researched the US and European advisory boutiques prior to starting GCA and formed strong views about what he wants his firm to be. These views continue to form the basis of what the company stands for to this day.

Independent M&A specialist

This is the biggest factor differentiating GCA from its competitors. The company believes that being independent allows it to give better, more impartial advice to its clients in M&A deals. The company is free of potential conflicts of interest as it does not invest in or provide loans to a client company, serve as a lead manager in a securities offering, release equity analyst reports, or provide auditing services.

A bank or a securities firm (including its group companies), for example, could invest in or provide loans to a client, become a main underwriter for that client's securities offerings, and at the same time serve as a financial advisor for its M&A transactions. The possibility cannot be completely ruled out that these companies' advice could lean toward the interests of the creditor (bank) or the securities underwriting business rather than clients.

In the US, which has long been a frontrunner in the M&A business, conflicts of interest tend to be considered more seriously than in Japan and creation of an independent committee is required in the process of M&A. This is one of the reasons why independent advisory firms such as Lazard and Greenhill & Co., Inc. account for over 40% of the market share.

Repeat-client model

GCA's policy is to pursue deals, even small ones, if they help clients maximize long-term growth opportunities. In that, Shared Research thinks that GCA differs from larger rivals, particularly bulge bracket investment banks who do exclusively very large deals.

As of December 2013, about 80% of the company's revenue came from repeat clients, likely a testament to the focus on putting the clients' interest first. GCA says that it would often advise its clients not to pursue a deal if it believes it does not maximize value.

In order to reinforce this culture throughout the company, GCA does not set individual sales quotas for any employees. This avoids the tendency to put numerical targets ahead of truly working for the customer. Instead, the company evaluates staff based on customer satisfaction and 360-degree assessments. Unusual in the industry, GCA conducts a customer satisfaction survey after each deal. The 360-degree evaluation process involves executives and employees assessing individual contributions to the company's business philosophy and goals. Employees may choose his or her assessors, but other directors and employees may participate. Employees receive bonuses based on these assessments.

No. of professionals on staff (Average for Q4, persons)

	FY12/12	FY12/13	FY12/14	FY12/15	FY12/16	FY12/17
Advisory Japan	78	75	84	98	99	112
Advisory US	65	60	67	74	79	72
Advisory Europe	1	1	1	1	90	110
Total	186	177	181	202	268	294

Source: Shared Research based on company data

Global network

GCA, which anticipated a rise in globalization of Japanese firms since its founding, created a cross-border transaction platform when it merged with the former Savvian Advisors in April 2008. Further, in July 2016, GCA completed a business merger with Altium Corporate Finance Group Ltd., a firm with seven offices in four major European countries and Israel.

Overseas offices are key to M&A advisory firms because, advising a Japanese company in a cross-border M&A transaction requires deep knowledge of local firms and business environments. Further, once the acquisition is completed, the decision-making power is often bestowed upon the local entity. This means that in order to get repeat business, it is important for an advisory firm to have the infrastructure to support the local entity that makes the decisions locally.

GCA has revenues of roughly JPY20.0bn, roughly over 400 professionals on staff, and 14 offices in 10 countries. According to the company, it is the seventh largest, listed independent M&A advisory firm in the world.

On top of these overseas offices, GCA cooperates with M&A firms overseas to gather information on potential M&A projects.

In October 2013, the company formed a strategic business alliance with ICIC Securities Limited of India.
GCA also established GCA Singapore Pte. Ltd. as a local subsidiary in Singapore and signed a strategic alliance with TC Capital Pte. Ltd.– an independent investment bank in Singapore– on November 10, 2014, as part of an effort to strengthen its advice on cross-border M&A involving companies in Southeast Asia and Japan. Including GCA India Investment Advisers Private Limited in India and GCA China Co. Ltd. in China, the company has built a framework which enables it to cover a wide range of areas in Asia.

In addition, as part of the expansion of its business in Asia, the company announced in February 2018 that it will establish subsidiaries in Taiwan (Taipei, scheduled to open around April 2018) and Vietnam (Ho Chi Minh City, scheduled to open during the first half of FY12/18).

Profitability snapshot, financial ratios

In FY12/17, contributions from the Advisory business made up the majority of revenues and operating profit. In order to provide a better understanding of the company's earnings structure, we have summarized information related to earnings and expenses in the Advisory business below.

Revenues in the Advisory business

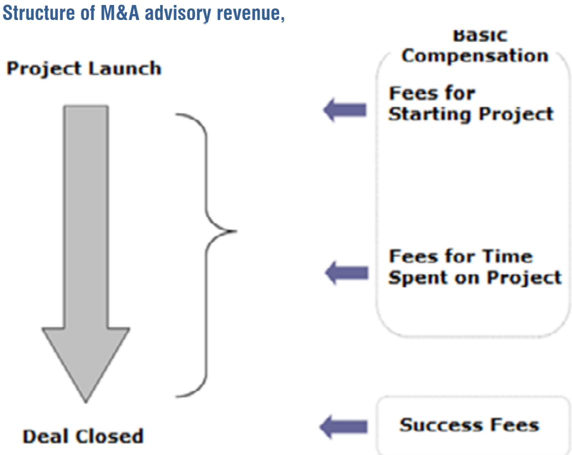
Revenues in the Advisory business vary based on the number of M&A deals made and the amount of contingency fees received. The structure for contingency fees varies between Japan and the United States.

Advisory business (Japan)

Revenues from Japanese Advisory business comprises basic compensation including fees associated with new engagements, remuneration for time spent on a project, and retainers*, and success fees receivable only upon deal completion. M&A deals with fees of JPY100mn or more are classified as large-scale deals, while deals that earn fees of JPY1.0bn or more are classified as mega-deals.

The company uses the industry-standard Lehman method to calculate remuneration and success fees based on deal size. Although the percentage fee falls as deal size grows, the monetary value of the overall success fee rises**.

Structure of M&A advisory revenue,



Source: Shared Research based on company data

*Retainer: Fees paid based on a contractual agreement to provide M&A-related preliminary advice and information over a set period of time.
**For example, for the portion of the deal under JPY500mn, the fee is 5%; from JPY500mn to JPY1bn, the fee is 4%; for JPY1bn to JPY5bn, the fee is 3%; for JPY5bn to JPY10bn, the fee is 2%; and the fee is 1% for the portion above JPY10bn. For a JPY12bn deal, the fee would be JPY500mn x 5% + JPY (10-5) '00mn x 4% + JPY (5-1) bn x 3% + JPY (10-5) bn x 2% + JPY (12-10) bn x 1% = JPY285mn.

Advisory business (US)

In the US Advisory business, the main sources of income are retainer fees and success fees. Success fees account for the majority of revenue.

Fees

The bulk of the company's costs are personnel-related expenses. In FY12/17, personnel-related expenses made up 67% of the revenue. Shared Research thinks that bonuses fluctuate with operating profit margins versus estimates, but that compared to other investment banks performance-based bonuses compose less of the total amount. Personnel expenses thus have a strong fixed-cost element.

Strengths and weaknesses

Strengths

- Independent advisory specialist with unique features: An independent M&A advisory strong in cross-border transactions—unique and superior differentiation in the Japanese market, strength in the clubby Silicon Valley market, and a global network. In July 2016, GCA completed a business merger with Altium Corporate Finance Group Ltd., a firm with seven offices in four major European countries and Israel. GCA now has 15 offices in 10 countries in Europe, the US and Asia, and has become an M&A advisory firm with roughly JPY20.0bn in revenues and over 400 professionals on staff. According to the company, as a result of the merger, it is now the seventh largest (revenue basis) listed independent M&A advisory firm in the world.
- Strongly positioned in Japan—an M&A growth market: Shared Research thinks that the stagnant Japanese economy and still-fragmented nature of many of its industries, set against the backdrop of cash-rich and technology-rich local companies, create fertile ground for consolidation and acquisitions both by and of Japanese corporations. GCA is uniquely positioned to take advantage of the secular growth trend in Japanese domestic and cross-border M&A.
- Low risk business model: The company is focused on providing advisory services. This means low overhead. GCA relies on repeat clients, reducing the need for expensive marketing and sales. It invests but a tiny fraction of its own money in risk assets and employs little or no direct leverage.

Weaknesses

- Earnings volatility in sync with M&A market trends: The level of general M&A activity has a direct impact on the company's Advisory business. The M&A market tends, in turn, to wax and wane with the economic climate and monetary conditions.
- Limited ability to provide financing: While large banks and securities firms often have conflicts in trying to marry the advisory business with the financing (merchant banking) business, it is true that many clients choose their M&A advisors based on advisors' ability to arrange financing for the deal. While GCA does have a mezzanine finance function in-house, it is at a relative disadvantage compared with large banking rivals.
- Small size means few people pitching for business: Having few staff compared with large rivals means that the company would have a harder time allocating people to pitch for new deals. While relying on repeat clients is very efficient, it also means foregone potential opportunities and potentially slower growth. It is Shared Research's understanding that business pitches and deal execution are both handled by the same group within the company's Advisory business. As such, a focus on execution could mean a potential slowing in making business pitches.

Market and value chain

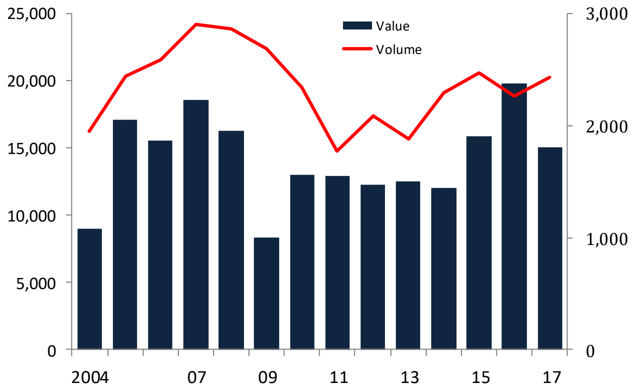
Market overview

M&A market

Since 1998, following a wave of deregulation in Japan (including reform of the Companies Act, Tax Act, and accounting standards), Japanese M&A activity rose substantially. However, after peaking in 2007, both the number and value of deals declined; the value of transactions hit bottom in 2009 and transaction volume followed suit in 2011, but both have been recovering since then. In the more developed US M&A market, deal activity tends to be sensitive to economic and monetary conditions and thus follows a continuous boom-and-slowdown cycle. Japan may be experiencing a similar phenomenon.

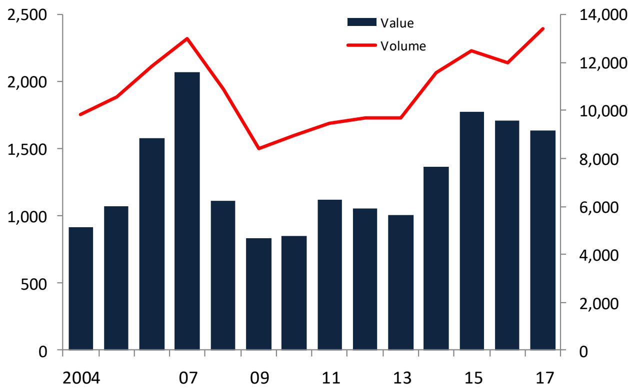
However, from a longer-term perspective, it is clear that Japan's M&A market is extremely small versus the size of its economy. M&A in the US is equivalent to 7% of GDP, but M&A in Japan is equivalent to a mere 2% (2017), leaving plenty of room for growth. For instance, more domestic mergers among Japanese companies can be expected as these companies seek ways to increase market share, benefit from size, and optimize costs in order to survive through a diminishing domestic consumer market. Meanwhile, cross-border M&A, aimed at accessing overseas markets and strengthening overseas production sites, has been accelerating in Japan.

M&A market (Japan)



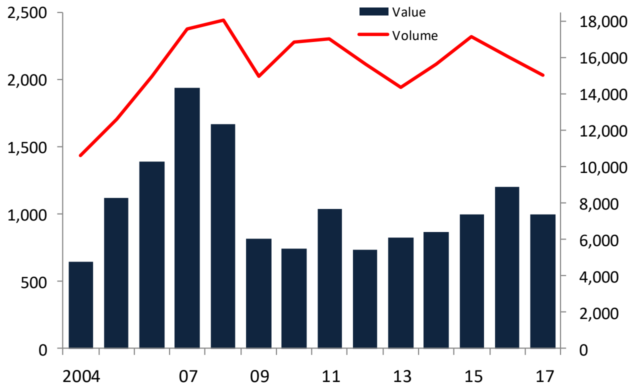
Source: Company data, Thomson Reuters (based on completed transactions)

M&A market (US)



Source: Company data, Thomson Reuters (based on completed transactions)

M&A market (Europe)



Source: Company data, Thomson Reuters (based on completed transactions)

Barriers to entry

Barriers to entry are relatively low in the M&A advisory business; it is easy to start a new firm if one has established trust with clients. However, competition is fierce among current players in the market, and it is hard not to rely on founders and other star players, making growth problematic.

Competition

Competition is fierce, with domestic securities firms, megabank groups, global investment banks, and accounting practices all vying for clients.

However, GCA consistently ranks among the top advisory firms overseas (based on number of announced deals). Shared Research understands that this is a result of GCA's positioning as an independent player and its repeat-client model. GCA has been building its global network, and is a constant feature in the top rankings for both Japan-US cross-border transactions and transactions involving Japanese firms (based on number of announced deals).

GCA Advisors LLC ranked first in US Internet advisory in 2011, highlighting its strength in M&A deals for technology companies. An insider in a club-like Silicon Valley community, the firm has built a differentiated position in the space and is working on strengthening its industry coverage outside technology field.

In July 2016, GCA completed a business merger with Altium Corporate Finance Group Ltd., a firm with seven offices in four major European countries and Israel. GCA now has15 offices in 10 countries in Europe, US, and Asia, and has become an M&A advisory firm with roughly JPY20.0bn in revenues and over 400 professionals on staff. According to the company, as a result of the business merger, it is now the seventh largest (revenue basis) listed independent M&A advisory firm in the world.

Publicly-traded independent M&A advisory firms (ranked in terms of revenues)

Rank	Company	Revenues (JPYbn)
1	Lazard	154
2	Evercore Partners	137
3	Houlihan Lokey	75
4	Moelis & Co.	67
5	PJT Partners (formerly Blackstone)	49
6	Greenhill	32
7	GCA	20

Source: Shared Research based on company materials

Strategy

For many Japanese corporations, the management principles (and every Japanese company has a set of those) remain just a motto that does not translate into what the company does on everyday basis, particularly the strategy it implements. GCA claims to be different—espousing its "Trusted Advisor for Client's Best Interest" philosophy and making it a basis for all client interactions. According to the company, the approach is not only used to think about business but also permeates the staff evaluation and incentives routines.

That it is independent is an issue with respect to scale and ability to link deals with financing. However, independence is also a strength. After all, in the world of M&A, it is hard to move without running into conflicts of interest. Even if a major investment bank spins out a division that becomes a new advisory, it would be difficult to grow. They must expand their talent pools beyond the founders, and introducing sales quotas would not adequately meet customer needs. The cohesiveness of the organization might falter. Shared Research thus thinks that it would be hard to replicate GCA, (i.e., its independence, high weight of repeat business, top-tier position in the M&A league table involving Japanese firms).

The company might be unable to deliver on its promise of "Client's Best Interest" in some instances, especially when a Japanese corporation wants to shift overseas through M&A. The company anticipated the increase in Japanese cross-border M&A deals when it was founded, and accordingly put in place a group company structure, which enables it to support cross-border deals involving Japan, US and Europe.

At the time of the merger with Savvian, the company had in mind a "merger of equals." A straight-out purchase would leave the target company's employees with little incentive; as personnel are the one and only asset of an M&A advisory firm, this would damage the company. Post-merger, GCA's board has had a balance of founding directors from the old firms.

If its aim is to strengthen its organization through another merger of equals, bolstering its financial position would provide a wider range of potential partners. It will be vital for the company to maintain its unique characteristics mentioned above and seize emerging profit opportunities.

Historical financial statements

1H FY12/18 earnings

Non-GAAP-based earnings results for 1H FY12/18 were:

- ▷ Revenue: JPY10.4bn (+52.9% YoY)
- ▷ Operating profit: JPY1.2bn (+853.1% YoY)
- ▷ Recurring profit: JPY1.2bn (+722.7% YoY)
- ▷ Net income: JPY864mn (net loss of JPY39mn in 1H FY12/17)

*Net income refers to net income attributable to parent company shareholders

Measured against the company's full year forecasts for FY12/18, 1H revenues reached 49.7% (compared to 34.5% of full-year results in FY12/17), operating profit 47.7% (6.4%), and net income 48.0% (net loss of JPY39mn in 1H FY12/17 against a full-year net income of JPY1.4bn). In FY12/17, revenues and profits were weighted to the second half, due to the concentration of large projects completed in the latter part of the year. In the first half of FY12/18, however, the company has made solid progress against its plan, broadly achieving 50% in terms of revenues and profits.

Among the adjustments made to calculate non-GAAP earnings, the adjustment for goodwill amortization came to JPY668mn. Non-recurring items included JPY11mn in costs for the share-based compensation associated with the business merger with Altium.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and a Japanese standard (J-GAAP). Non-GAAP operating profit excludes goodwill amortization and non-recurring items determined by the company from J-GAAP operating profit.

J-GAAP-based earnings results for 1H FY12/18 were:

- ▷ Operating profit: JPY558mn (JPY516mn operating loss in 1H FY12/17)
- ▷ Recurring profit: JPY554mn (JPY496mn recurring loss)
- ▷ Net income: JPY184mn (JPY686mn net loss)

*Net loss refers to net loss attributable to parent company shareholders

Advisory business

Advisory revenues rose 57.3% YoY to JPY10.2bn and non-GAAP operating profit came to JPY1.2bn (operating profit of JPY67mn in 1H FY12/17).

Sales increased in all regions: Japan, the US and Europe. The number of projects completed fell to 65 (compared to 67 in the previous year), but the average scale of the projects completed was ahead of the previous year. On the profit side, personnel expenses showed a rising trend, primarily in the US, but overall profits rose in line with revenues.

In 1H FY12/18, the number of M&A deals decreased 12% YoY and the total value also dropped 1% in the global M&A market. By region, the number of completed deals in Japan increased 16% YoY but the value decreased 18%. The number of completed deals decreased 13% but value increased 3% in the US; the number of completed deals dropped 21% and value decreased 2% in Europe, Middle East, and Africa (according to data from Thomson Reuters).

Looking at the breakdown of revenue by region, in addition to the growth in number of the completed deals in Advisory business in Japan, an increase in new assignments led to a rise in retainer fees, which lifted regional revenue by 33 % YoY. In Advisory business in the US, revenue increased 74% YoY largely due to the completion of large deals. In Europe, the number of completed deals increased YoY, resulting in a revenue of JPY4.0bn (+61% YoY).

By assignment categories, sell-side transactions accounted for 50% of the total (53% in FY12/17), and buy-side 50% (22% in FY12/17). By domestic projects and cross-border, domestic projects were 64% (65% in FY12/17) and cross-border 36% (35%). Private equity-related projects accounted for 52% of the total. By industry, technology accounted for 30% (27% in FY12/17), industrials 27% (21%), consumer/retail 16% (23%).

Cross-border deals included the following transactions.

- ▷ Acquisition of Lafert S.p.A. (Italy) by Sumitomo Heavy Industries (Japan): Sumitomo Heavy Industries acquired Lafert S.p.A, a major European industrial electric motor and driver designer and manufacturer. (I). The company advised Sumitomo Heavy Industries. (Closed)
- ▷ Acquisition of Quartz Media (USA) by Uzabase (Japan): Uzabase, a business information services company, is acquiring Quartz Media LLC, an online media business, in the US. The company advises Uzabase. (Due to close within the year)
- ▷ Acquisition of Parador (Germany, portfolio company of NORD Holding) by HIL Limited (India): HIL Limited, a leading building materials company, part of India's CK Birla Group, is acquiring Parador Holding GmbH, a German flooring solutions supplier. The company advises HIL Limited. (Due to close within the year)

Assignments in the pipeline reached a record high, maintaining high levels globally. As of the end of Q2, there were 10 projects announced but not yet closed. The company continued to win sell-side assignments at its advisory arm in Europe, which has the strength in M&A transactions related to business succession, as the European arm gained access to global prospective buyers in the US, Japan, and Asia thanks to group consolidation in 2016.

Asset Management business

The Asset Management business reported revenues of JPY302mn (-7.9% YoY) and operating profit of JPY73mn (+15.9% YoY).

The balance of investment made by the fund as of the end of 1H totaled JPY26.0bn (+JPY15.3bn from end-FY12/17). The breakdown was operational investment securities of JPY7.5bn (+JPY6.5bn from end- FY12/17) and operational investment loans of JPY18.5bn (+JPY8.8bn from end- FY12/17), showing progress in investment activities.

Q1 FY12/18 earnings

Non-GAAP-based earnings results for Q1 FY12/18 were:

- ▷ Revenues: JPY4.2bn (+25.4% YoY)
- ▷ Operating profit: JPY433mn (+107.2% YoY)
- ▷ Recurring profit: JPY430mn (+145.7% YoY)
- ▷ Net income: JPY261mn (+169.1% YoY)

*Net income refers to net income attributable to parent company shareholders

Among the adjustments made to calculate non-GAAP earnings, the adjustment for goodwill amortization came to JPY336mn. Non-recurring items included JPY7mn in costs for the share-based compensation associated with the business merger with Altium.

> The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and a Japanese standard (J-GAAP). Non-GAAP operating profit excludes goodwill amortization and non-recurring items determined by the company from J-GAAP operating profit.

Compared with the company’s full-year FY12/18 forecast released at the time of Q1 earnings announcement, on a non-GAAP basis Q1 revenues had a progress rate of 20.2% (17.2% versus full-year results in FY12/17), operating profit 16.7% (10.2%), and net income attributable to parent company shareholders 14.5% (6.9%).

J-GAAP-based earnings results for Q1 FY12/18 were:

- ▷ Operating profit: JPY89mn (JPY119mn operating loss in Q1 FY12/17)
- ▷ Recurring profit: JPY86mn (JPY154mn recurring loss)
- ▷ Net loss: JPY83mn (JPY231mn net loss)

*Net loss refers to net loss attributable to parent company shareholders

Advisory business

Advisory revenues rose 27.7% YoY to JPY4.1bn and non-GAAP operating profit increased 113.7% YoY to JPY391mn.

Looking at the breakdown of revenue by region, an increase in new assignments in Japan led to a rise in retainer fees, which lifted regional revenue by approximately 50% YoY. In the US, revenue was largely on par year-on-year due in part to the completion of large-scale deals. In Europe, the number of completed deals doubled year-on-year, resulting in a revenue of approximately JPY1.4bn (+56% YoY). The revenue growth was enough to offset the rise in personnel expenses at operations in Japan and Europe (main contributors to the revenue increase), and OP was up YoY as a result.

Retainer: Fees received in exchange for preliminary M&A-related information and advice provided to a client for a fixed period based on a contractual agreement.

Assignments in the pipeline reached a record high, maintaining high levels globally. The company continued to win sell-side assignments at its advisory arm in Europe formed through merger with local company Altium (strong in sell-side deals), as this business integration gave clients better access to potential buyers world-wide.

To expand business in Asia, the company established subsidiaries in Taiwan (Taipei) and Vietnam (Ho Chi Minh City). In Japan, the company opened its Nagoya branch (third domestic base) in the Tokai region to promote advisory services targeting automobile-related businesses. GCA has six offices in four different countries in Asia, with a total of 25 professionals (sum of bankers and back office staff) in the region.

Japan market

Revenues in Japan doubled YoY, thanks to an increase in retainer fees and a higher number of completed deals resulting from an improved success ratio. The number of bankers (including the strategic PMI consulting group) was 130.

US market

Revenues in the US were largely on par YoY. Completion of large deals and fees from fundraising services contributed to revenues. The number of bankers in the US advisory business was 70.

European market

Revenues in Europe were JPY1.4bn (up 56% YoY). The number of completed deals doubled mainly on a robust flow of M&A transactions related to business succession caused by a lack of successors. The number of bankers in the European advisory business was 110.

Asset Management business

The Asset Management business reported revenues of JPY150mn (+15.7% YoY) and operating profit of JPY42mn (+61.5%).

The investment fund balance at the end of Q1 totaled JPY15.4bn (five transactions), consisting of operational investment securities of JPY1.0bn and operational investment loans of JPY14.4bn.

Full-year FY12/17 earnings

The following is the company's non-GAAP earnings results:

- ▷ Revenues: JPY19.8bn (+6.4% YoY)

- ▷ Operating profit: JPY2.0bn (-39.9% YoY)
- ▷ Recurring profit: JPY2.1bn (-41.4% YoY)
- ▷ Net income*: JPY1.4bn (-36.0% YoY)

*Net income refers to net income attributable to parent company shareholders

Among the adjustments made to calculate non-GAAP earnings, the adjustment for goodwill amortization came to JPY1.3bn. Non-recurring items included JPY41mn in costs for the share-based compensation associated with the business merger with Altium.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and a Japanese standard (J-GAAP). Non-GAAP operating profit excludes goodwill amortization and non-recurring items determined by the company from J-GAAP operating profit.

The following is the company's J-GAAP earnings results:

- ▷ Operating profit: JPY723mn (-71.0% YoY)
- ▷ Recurring profit: JPY769mn (-71.1% YoY)
- ▷ Net income: JPY87mn (-93.6% YoY)

*Net income refers to net income attributable to parent company shareholders

Advisory business

Advisory revenues rose 9.2% YoY to JPY19.1bn and non-GAAP operating profit fell 39.8% YoY to JPY1.9bn.

Overall revenue increased despite sales declines in Japan and the US, because of a strong contribution from Europe throughout the year. Operating profits declined, however, primarily because the company did not reduce US personnel expenses because of the need to keep a minimum level of human resources in place for future growth.

By region, advisory revenues from Japan came in at JPY6.0bn (-12.2% YoY), the US JPY4.7bn (-31.6%), and Europe JPY8.5bn (+129.2% YoY) (GCA Altium was consolidated from FY08/16).

In the global M&A market, the number of completed deals in FY12/17 was up 2% YoY, but down 10% in value terms. Broken down by region, the number of completed transactions in Japan was up 7% (down 24% in value terms), in the US up 12% (down 4%), and in Europe down 6% (down 17%), based on data from Thomson Reuters.

Sales grew 33% YoY in Europe (the company gained a global platform following the completion of the business merger with Altium in July 2016). Several transactions in the US have been pushed back to 2018, because the technology-related M&A market contracted on a value basis and tax cuts were yet to be finalized. The M&A market also contracted 24% in value terms in Japan, which had a negative effect on earnings.

Japan market

Revenues in Japan were JPY5.4bn (-16.5% YoY). The decline primarily reflected a lower number of large-scale deals. Revenues from large-scale deals were JPY3.5bn (-18.3%), and the total number of large-scale deals was 11 (20 in the previous year).

The number of professionals in the advisory business in Japan increased to 112 at the end of FY12/17 (99 at the end of FY12/16).

US market

Revenues in the US were JPY4.7bn (-31.7% YoY). Fees from fundraising services (Note) contributed to revenues.

Note: The company has been involved in fundraising for venture capital and private equity funds in the US since FY12/14.

While GCA received considerable amount of assignments, revenues were down YoY mainly because sell-side clients waited for the US Congress to pass a tax reform bill, thinking that the bill (when enacted) could raise a company's net income, and help push up the sale price of that business in M&A deals. Revenues from large-scale deals were JPY3.6bn (-35.8% YoY), and the number of large-scale deals was 12 (20 in the previous year). The new US tax bill was enacted in December 2017.

The number of professionals in the US advisory business was 72 at the end of FY12/17 (79 at the end of FY12/16).

European market
Revenues in Europe (GCA Altium in Europe consolidated from August 2016) were JPY8.5bn (up 130.1% YoY).

This year included a full 12-month contribution from the European subsidiary, GCA Altium (Altium). In FY12/16, this was only consolidated from Q3. In addition, M&A related business succession in Europe (business succession M&A) is on the rise due to a lack of successors. Altium has traditionally been strong in business succession M&A. As a result of its integration into GCA, Altium has been able to look for buyers on a global basis. Its rate of closing deals has improved and the number of deals has increased.

Revenues from large-scale deals were JPY6.2bn (up 152.3% YoY), and the number of large-scale deals was 26 (12 in the previous year). The number of professionals in the European advisory business was 110 at the end of FY12/17 (90 at the end of FY12/16).

Asset Management business
The Asset Management business reported revenues of JPY632mn (-39.9% YoY) and operating profit of JPY188mn (-40.3% YoY).

The investment fund balance at the end of FY12/17 totaled JPY10.8bn (four transactions), consisting of operational investment securities of JPY1.0bn and operational investment loans of JPY9.8bn.

FY12/16 earnings

- Revenues: JPY18.6bn (+41.0% YoY)
- Operating profit: JPY2.5bn (-9.0% YoY)
- Recurring profit: JPY2.7bn (-2.7% YoY)
- Net income*: JPY1.4bn (-14.9% YoY)

*Net income refers to net income attributable to parent company shareholders

The following is the company's non-GAAP earnings results, which excludes goodwill amortization and non-recurring items determined by the company from J-GAAP operating profit:

- Revenues: JPY18.6bn (+41.0% YoY)
- Operating profit: JPY3.4bn (+24.2% YoY)
- Recurring profit: JPY3.6bn (+30.6% YoY)
- Net income: JPY2.2bn (+36.4% YoY)

*Net income refers to net income attributable to parent company shareholders

Among the adjustments made to calculate non-GAAP earnings, the adjustment for goodwill amortization came to JPY511mn. Non-recurring items included JPY398mn in remuneration to experts and Japanese stamp taxes associated with the business merger with Altium. The company also incurred another JPY81mn in tax expense related to these adjustments. The company made no such adjustments last fiscal year.

In the global M&A market, both the number and value of completed deals in FY12/16 was down 2% YoY, but the market itself was robust maintaining a level almost as high as 2015, according to data from Thomson Reuters. The number of completed transactions in Japan was up slightly and the value was up 8% (huge buyout of ARM Holdings by SoftBank excluded). In the US, the number of completed deals was flat and the value was down 4%; in Europe, the number of completed deals was down 2% and the value was up 2%.

On July 31, 2016, GCA completed a business merger with Altium Corporate Finance Group Ltd., a firm with seven offices in four major European countries and Israel. With the merger, the company's revenues rose to JPY20bn and the number of professionals in staff increased to about 300.

After the merger, GCA's Japanese and US offices started cooperating with the European offices to win additional assignments, and the company successfully received mandates on multiple new transactions. With the strength of the European franchise being in sell-side transactions, the merger has allowed the company to give European companies access to potential buyers globally in the US, Japan and Asia. This has led to an increase in the number of European sell-side assignments at the company.

In terms of the accounting approach related to the merger, the company plans to book all JPY9.6bn—portion exceeding Altium's net assets--as goodwill and amortize that amount over eight years using the straight-line method. This means it will amortize JPY1.2bn every year, following a JPY500mn amortization in 2016 (since there were only five months remaining in the year after acquiring Altium in July 2016). With this accounting approach, the goodwill amortization cost will be unrelated to cash-based expenditures, so it will not have an impact on earnings based on actual cash flow.

Advisory business

Advisory revenues rose 36.1% YoY to JPY17.5bn and non-GAAP operating profit rose 4.0% YoY to JPY3.1bn.

Japan market

Revenues in Japan totaled JPY6.8bn (-10.0% YoY), with operating profit at JPY1.5bn (-42.7% YoY).

As mentioned above, the number of completed deals in the Japanese M&A market edged up slightly YoY, and the total transaction value of completed deals rose 8% YoY (huge buyout of ARM Holdings by Softbank excluded), according to data from Thomson Reuters.

According to the company, its M&A advisory business in Japan benefited from an increased awareness of corporate governance issues among companies and rising client interest and appreciation for independent advisors such as GCA, which does not have any conflicts of interest as it is not engaged in brokerage representing clients on both sides nor in financing. As a result, while there were no mega-deals like the previous year and GCA's overall advisory revenues in Japan finished down, revenues excluding mega-deals were up by 8% YoY. Roughly 60% of revenues came from cross-border deals (up from 47% a year earlier); GSA gained further credibility as a firm with global platform, and this has led to an increase in cross-border M&A assignments in Japan.

GCA closed 155 deals (+11.5% YoY) in FY12/16, but the value of these deals (unadjusted for joint projection allocations) declined to JPY6.9bn (-12.6% YoY). While the number of deals during this period rose year on year, the total value fell short of performance in FY12/15 when the company booked a mega-deal (M&A transactions on which advisors earned more than JPY1.0bn in fees), the sale by Japan Tobacco Inc. (JT) of shares in a soft drink vending machine subsidiary and the transfer by JT of soft drink brands (GCA advised JT; deal closed in July 2015).

Further, GCA has entered the business succession market. In November 2016, during the sale to Tokyu Land Corporation of National Students Information Center (NASIC)--a major operator of rental apartments to students--the company successfully solicited bids from several companies in its role as the advisor for the seller, NASIC's founding family. Note that for business succession transactions, GCA does not act as a broker to avoid conflicts of interests; it serves the private company exclusively as the sell-side advisor that aims to maximize the selling price. GCA has seen an increase in consultations pertaining to business successions following its handling of the NASIC assignment.

US market

Revenues in the US totaled JPY6.8bn (+32.1% YoY), with operating profit at JPY1.1bn (+117.9% YoY).

As mentioned above, the number of completed deals in the US M&A market was flat YoY and the transaction value declined 4%, according to data from Thomson Reuters.

The company's US Advisory business closed several major deals, entered into the private fund business, which compensated for decreased demand for private capital, and expanded its coverage areas focusing on technologies such as FinTech, health care IT, and automobile.

The company closed 55 deals (-9.8% YoY), but the total transaction value rose (unadjusted for joint projection allocations) to JPY6.4bn (+40.1% YoY): Even though the number of closed deals declined, the value of each deal increased.

European market

Revenues in the European market totaled JPY3.7bn (FY12/15: JPY49mn), with operating profit at JPY530mn (FY12/15: operating loss of -JPY37mn).

As mentioned earlier, the number of completed deals in the European M&A market declined roughly 2% YoY, but the total transaction value increased 2% according to data from Thomson Reuters.

The business merger on July 31, 2016 with Altium, which has offices in Israel and four major countries in Europe, generated JPY3.7bn in revenues in five months. The company closed 47 deals at a total value (unadjusted for joint projection allocations) of JPY3.7bn.

Asset Management business

The Asset Management business reported revenues of JPY1.1bn (+260.2% YoY) and operating profit of JPY315mn (versus year-earlier loss of JPY228mn).

Consolidated subsidiary Mezzanine Corporation earned performance fees of roughly JPY300mn as it reaped returns on previous investments made by the investment business limited partnerships (funds) under management.

FY12/15 earnings

- Revenues: JPY13.2bn (+1.1% YoY)
- Operating profit: JPY2.7bn (-23.8% YoY)
- Recurring profit: JPY2.7bn (-24.0% YoY)
- Net income: JPY1.6bn (-28.6% YoY)

Advisory business

- Revenues: JPY12.9bn (+24.0% YoY)
- Operating profit: JPY3.0bn (+54.0% YoY)

In 2015, the total value of reported transactions in the global M&A market was USD4.7tn, up roughly 42% versus 2014 and a new record high, according to data from Thomson Reuters.

Domestic market

In 2015, the value of completed M&A transactions in the domestic market was up roughly 15% YoY to JPY13.3tn.

GSC's Japan Advisory business saw revenues rise 82.3% YoY to JPY7.6bn and operating profit rise 215.8% YoY to JPY2.7bn. Amid growth in the overall M&A market, GSC's Japan Advisory business saw revenues set a new record high thanks to the closing of several mega-deals (M&A transactions on which advisors earned more than JPY1.0bn in fees). The company's success was the result of efforts aimed at increasing market share, started two years ago:

- Introduced "Cell Management" in Japan, focusing especially on personnel development and order management
- Exercised strict order management at individual cell levels to reach annual order targets
- Order management aimed not only at reaching monetary targets, but also included a more rigorous order process to increase profitability of individual deals
- Introduced the Assignment Officer system with the aim of increasing efficiency through better resource allocation
- Expanded presence in US, India, and Asia, thereby increasing its global network and increasing flow of high quality cross-border transactions

These measures were especially effective in increasing the number of cross-border deals handled by GCA Savvian, leading to a more than 100% YoY increase in fees earned from cross-border transactions last year. The company also hired a number of well-known senior banking specialist in cross-border transactions, started up a Japan Desk, and in November 2014 established a subsidiary in Singapore and entered into a business alliance with TC Capital (a leading independent M&A advisory firm based in Singapore) to help it to better meet the needs of its growing M&A client list in Southeast Asia. Together with its existing subsidiaries in India and China, this gives the company a network that can cover all of Asia.

As the result of these efforts, GCA Savvian finished 2015 at number nine spot in the rankings of M&A advisors for Japanese companies based on the value of completed deals (according to Thomson Reuters data). The company reports that it had more opportunities to present proposals to clients in 2015, and that the creation of its global network had allowed it to provide more high-quality information. When making proposals, GCA Savvian looks at potential mergers and acquisitions from the perspective of its clients, carefully considering the business opportunities M&A will provide for each client. For example, when working to sell a business on behalf of a client, GCA Savvian also takes time to carefully examine the potential impact of the acquisition on the buyer, rather than merely asking for bids, as is the norm. As a result, GCA Savvian is viewed favorable for its approach to M&A transactions and is being directly named as the advisor in more than more transactions.

M&A Advisory Ranking in Japan (FY12/15)

Ranking	Advisor	Value (USDmn)	No. of Deals
1	Nomura Securities Co., Ltd.	8,167	110
2	Mizuho Financial Group, Inc.	5,160	151
3	Mitsubishi UFJ Morgan Stanley	4,386	39
4	Sumitomo Mitsui Financial Group, Inc.	3,847	152
5	Daiwa Securities Co.Ltd.	3,815	62
6	PwC	2,585	59
7	Goldman Sachs	2,249	9
8	Merrill Lynch	1,993	9
9	**GCA Savvian**	1,814	28
10	KPMG	1,629	75

Source: Shared Research based on company data

The operating profit margin at GSC's Japan Advisory business jumped from 20.4% in FY12/14 to 35.3% in FY12/15. Although personnel-related expenses increased along with the rise in top-line revenues, personnel expenses as a percent of revenues fell from 57% in FY12/14 to 49% in FY12/15. (Company data; the denominator differs from the revenue figure shown for the geographical reporting segment.) The company reports that as it strives to become an M&A advisory company, until now it has had difficulty bringing its personnel cost ratio below 50%.

US market

In 2015, the value of completed M&A transaction in the US market rose 28% YoY to USD1.7tn.

At GSC's US Advisory business, gross revenues declined 14.2% YoY to USD5.1bn, and operating profit declined 61.3% to USD485mn. Hurt by delays in the regulatory approval, revenues at the company's US Advisory business finished the year down 14% YoY, but the company reports that its US order pipeline is up sharply YoY and expects many of these deals to close in Q1 FY12/16.

The operating profit margin at GSC's US Advisory business dropped from 20.9% in FY12/14 to 9.4% in FY12/15. Although personnel-related expenses declined along with the drop in top-line revenues, personnel expenses as a percent of revenues jumped from 62% in FY12/14 to 67% in FY12/15. (Company data; the denominator differs from the revenue figure shown for the geographical reporting segment.)

Representative M&A transactions closed during FY12/15:

- Japan: Share transfer by Daiichi Sankyo Company, Ltd. of its Daiichi Sankyo Propharma Akita Plant to Alfresa Pharma Corporation (GSC advised Daiichi Sankyo; deal closed in April 2015).
- Japan: Sale by Japan Tobacco Inc. (JT, TSE1: 2914) of shares in a soft drink vending machine subsidiary and the transfer by JT of soft drink brands (GSC advised JT; deal closed in July 2015).
- US: Delphi Automotive PLC invested in Tula Technology, Inc. (GSC advised Delphi Automotive; deal closed in July 2015).
- US: Acquisition by Blucora, Inc. of HD Vest Financial Services (GSC advised Blucora; deal closed in December 2015)
- Cross-border: Acquisition of SDI Media Imagica Robot Holdings, Inc. by Cool Japan Fund and Sumitomo Corporation (GSC advised Imagica Robot, Cool Japan Fund, and Sumitomo Corporation; deal closed in April 2015).
- Cross-border: Acquisition of Harald Indústria e Comércio de Alimentos Ltda. by Fuji Oil Company, Ltd. (GSC advised Fuji Oil; deal closed in July 2015).
- Cross-border: Acquisition of Powervation Limited by ROHM Co., Ltd. (TSE1: 6963) (GSC advised ROHM; deal closed in June 2015).

Cross-border: Acquisition by THK from TRW Automotive, a major US auto parts maker, of TRW's Linkage and Suspension business in the US, Canada, Germany, and Czech (GSC advised THK; deal closed in August 2015).

Asset Management business

- Revenues: JPY291mn (-89.0%YoY)
- Operating loss: JPY228mn (versus operating profit of JPY1.7bn last year)

The sharp drop in revenues and earnings at the Asset Management business reflects the weak results at consolidated subsidiary Mezzanine Corporation, which did not book any performance-based fees for new investment capital brought in during the period.

Having brought in no new capital during the period, the mezzanine fund business saw total investments outstanding fall from JPY9.3bn (six investments) at end December 2014 to JPY7.0bn (three investments) at the end of December 2015.

Capital policy

Share buybacks and treasury stock cancellations

During FY12/15, GCA Savvian bought back a total of 1,852,000 shares (representing 7.0% of shares outstanding as of the end of FY12/14) at a total cost of JPY2.6bn. The share buybacks were as follows:

- May 2015: Bought back 805,000 shares (3.06% of shares outstanding as of the end of FY12/14) at a cost of JPY1.1bn
- June 2016: Bought back 490,000 shares (1.86% of shares outstanding) at a cost of JPY751mn
- October 2016: Bought back 193,000 shares (0.73% of shares outstanding) at a cost of JPY300mn
- November 2016: Bought back 364,000 shares (1.38% of shares outstanding) at a cost of JPY500mn

In December 2015, GCA Savvian cancelled 408,000 shares of treasury stock (1.48% of shares outstanding).

Company to increase capital reserve available for share buybacks and dividends

In February 2016, the company announced that it would submit a proposal at its annual general meeting of shareholders (in March) to reduce its capital and capital reserve, and transfer the funds to its "other capital reserve" account, thereby increasing the funds available for share buybacks and dividends.

At the end of FY12/15, the company's balance sheet showed capital stock of JPY1,329mn. The company plans to transfer JPY1,129mn of this along with JPY904mn of its JPY954mn capital reserve to its "other capital surplus" account in March 2016. After the transfer, the company will have JPY3,325mn in its other capital surplus account and this, combined with unappropriated retained earnings of JPY2,680mn, will give it a total of JPY6,005mn that will be available to fund dividend payments and/or share repurchases.

Other information

History

The founding members — Akihiro Watanabe (current representative director), Nobuo Sayama (current director), Hiroyasu Kato (current director), and Reijiro Yamamoto (current managing director)—established Global Corporate Advisory (GCA) in 2004. They launched the mezzanine finance business in 2005 and a due diligence subsidiary in 2006. The same year, GCA became the first advisory firm to list on the Mothers section of the Tokyo Stock Exchange. In 2008, GCA combined with Savvian (see Advisory Business for Savvian’s history) to form GCA Savvian Group Corporation (current GCA Corporation; GCA). In 2012, GCA transferred to the First Section of the Tokyo Stock Exchange. On July 31, 2016, the company merged with the European Altium Corporate Finance Group Limited (Altium) and changed its name from GCA Savvian Corporation to GCA Corporation.

News and topics

February 2018

On **February 14, 2018,** the company announced plans to expand its business in Asia. The company plans to establish subsidiaries in Taipei, Taiwan and Ho Chi Minh City, Vietnam as part of a strategy to strengthen its operations in Asia.

Overview of Taiwan subsidiary

- Name: GCA Taiwan (provisional name)
- Date of establishment: Scheduled for April 2018

Overview of Vietnam subsidiary

- Name: GCA Vietnam (provisional name)
- Date of establishment: Scheduled for 1H 2018 (January - June)

The company commented that establishing these two subsidiaries will have no impact on earnings. The addition of two new business bases brings the total of professionals employed by the company to over 400 in 18 business bases in 11 countries. The company will deploy more than 20 employees from Japan at six locations in four countries in Asia.

January 2018

On **January 31, 2018**, the company announced a revision of the FY12/17 earnings forecasts.

FY12/17 full-year forecasts revision

- Revenues: JPY19.8bn (JPY20.0bn in previous forecast)
- Operating profit: JPY2.0bn (JPY3.6bn)
- Recurring profit: JPY2.1bn (JPY3.6bn)
- Net income: JPY1.4bn (JPY2.4bn)

*Net income is net income attributable to parent company shareholders.

Reason for revision

Amid a downturn in the US technology-related M&A market (YoY decline of around 50% YoY in transaction value), GCA saw lower revenues in the US as multiple projects were pushed back to 2018. In Japan, the M&A market declined 24% YoY in transaction value, also affecting results. On the profit front, the company did not cut personnel expenses because it had to maintain a minimum level of personnel required for future growth, and operating profit fell accordingly. Strong performance in Europe was not enough to cover lower operating profit in the US; as a result, the company revised down its earnings forecasts.

May 2017

On **May 12, 2017,** the company announced changes to its dividend policy and a revision to its dividend forecast.

Change to dividend policy

Previous core policy

Minimum annual dividend per share of JPY20 (JPY10 interim dividend and JPY10 year-end dividend) + performance-linked dividend (JPY15 in FY12/16)

Future core policy

The FY12/17 annual dividend per share will be JPY35 (lower limit); a JPY17.5 interim dividend and a JPY17.5 year-end dividend.
*The company will raise the lower limit of the dividend amount as it expands services in the future.

Further, GCA allocates the amount remaining after excluding the annual dividend from non-GAAP-based net income to funds used for share buybacks and special dividends. However, the company stated that while it will return 100% to shareholders through share buybacks or special dividends, in order to implement this policy efficiently and flexibly, it will not be carried out in a single fiscal year but over several years.

Revision of FY12/17 dividend forecast

The company raised its previous dividend forecast by JPY15 from an annual dividend of JPY20 (JPY10 interim dividend and JPY10 year-end dividend) to JPY35 (JPY17.5 interim dividend and JPY17.5 year-end dividend).

March 2017

On **March 16, 2017**, the company announced the opening of its Delhi office (Delhi, India).

The company's Indian subsidiary, GCA India Investment Advisers Private Limited, has opened an office in Delhi as part of GCA's initiatives to expand services in India. Together with the Mumbai office, GCA's team in India comprises eight professional staff of which three are Japanese nationals.

February 2017

On **February 14, 2017,** the company announced earnings results for full-year FY12/16 and a plan to pay dividend.

Dividend Payment

The company held a board meeting on the same day and decided to pay dividend to shareholders of record as of December 31, 2016. The company's year-end dividend will be JPY35 per share (ordinary dividend of JPY10, commemorative dividend of JPY10, and performance-linked dividend of JPY15). As a result, annual dividend, including the interim dividend of JPY10 per share, will be JPY45.

Major shareholders

Top Shareholders	Amount Held
AGCA Holdings Limited	27.31%
Akihiro Watanabe	9.61%
MLPFS Custody Account	7.74%
Japan Trustee Services Bank, Ltd. (trust account)	5.62%
State Street Bank and Trust Company	5.28%
The Master Trust Bank of Japan, Ltd. (trust account)	3.15%
Japan Trustee Services Bank, Ltd. (trust account9)	2.66%
GCA Corporation	2.29%
Hiroyasu Kato	1.67%
Nothern Trust Co.(AVFC) Re Fidelity Funds	1.41%

Source: Shared Research based on company data
(As of December 31, 2017)

Shareholder returns

GCA's basic policy is to return 100% of its profits to shareholders through dividend payments and stock repurchasing.

Paid-in stock options

GCA issues paid-in stock options as part of its policy of returning profits to executives and employees.

The company aims to control the dilution risk by using funds (cash flow) from the exercise of these options to purchase treasury stock. The company also aims to use 70% of net income to purchase treasury stock, as a means of returning profits to shareholders. The company intends to cancel treasury stock when appropriate.

Company profile

Company Name	Head Office
GCA Corporation	Pacific Century Place Marunouchi 30F 1-11-1 Marunouchi Chiyoda-ku Tokyo, Japan 100-6230
Phone	**Listed On**
+81-3-6212-7100	Tokyo Stock Exchange 1st Section
Established	**Exchange Listing**
April 1, 2004	October 6, 2006
Website	**Fiscal Year-End**
http://www.gcaglobal.co.jp/	December
IR Contact	**IR Web**
-	http://www.gcaglobal.co.jp/ir-en/who-we-are-en/
IR Mail	**IR Phone**
ir@gcakk.com	+81-3-6212-7100

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Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
istyle Inc.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS Inc.
JP-HOLDINGS, INC.
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KFC Holdings Japan, Ltd.
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Kumiai Chemical Industry Co., Ltd.
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LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
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Milbon Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
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NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
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NS TOOL CO., LTD.
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ONO SOKKI Co., Ltd.
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