GCA / 2174

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Research Coverage Report by Shared Research Inc.

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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. As an independent company, GCA does not advise on investments and loans involving companies with which it has potential conflicts of interest, lead-manage securities issues, publish securities analyst reports, or act as an accounting auditor or dual agent. According to the company, this helps establish a structure that provides clients with the best strategic M&A advice from a neutral position.
- 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 20 offices in Europe, the US and Asia, and has become an M&A advisory firm able to advise on cross-border M&A deals in these regions with roughly JPY27.0bn 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 FY12/18, GCA reported on an IFRS basis revenues of JPY26.7bn (+35.0% YoY), operating profit of JPY3.5bn (+83.3% YoY), pre-tax profit of JPY3.5bn (+88.4% YoY), and net income attributable to owners of the parent of JPY2.4bn (+92.3% YoY). On a non-GAAP accounting basis, GCA reported consolidated operating profit of JPY3.9bn (+98.8% YoY), pre-tax profit of JPY3.9bn (+104.2% YoY), and net income attributable to owners of the parent of JPY2.8bn (+114.9% YoY).
- For FY12/19, on an IFRS basis, the company forecasts revenues of JPY23.0bn (-13.8% YoY), operating profit of JPY3.4bn (-3.7% YoY), pre-tax profit of JPY3.4bn (-4.1% YoY), and profit attributable to owners of the parent of JPY2.4bn (-5.2% YoY). On a Non-GAAP basis, operating profit is forecasted to be JPY3.4bn (-11.8% YoY), pre-tax profit is JPY3.4bn (-12.1% YoY) and net income attributable to owners of the parent is JPY2.4bn (-14.7% YoY).
- GCA also has not disclosed any numerical targets for the medium or long term. Shared Research sees that the company's earnings outlook 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. In the longer term, GCA aims to become the world's top M&A advisory firm by 2030.

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

Non-GAAP

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.
Revenues	**6,150**	**8,099**	**7,972**	**9,555**	**9,575**	**13,019**	**13,159**	**18,558**	**19,754**
YoY	-	31.7%	-1.6%	19.9%	0.2%	36.0%	1.1%	41.0%	6.4%
Operating profit	**-506**	**213**	**979**	**1,588**	**1,740**	**3,592**	**2,738**	**3,402**	**2,045**
YoY	-	-	359.6%	62.2%	9.6%	106.4%	-23.8%	24.3%	-39.9%
OPM	-	2.6%	12.3%	16.6%	18.2%	27.6%	20.8%	18.3%	10.4%
Net income	**-476**	**20**	**499**	**1,248**	**1,122**	**2,260**	**1,614**	**2,201**	**1,409**
YoY	-	-	-	150.1%	-10.1%	101.4%	-28.6%	36.4%	-36.0%
Net margin	-	0.2%	6.3%	13.1%	11.7%	17.4%	12.3%	11.9%	7.1%
Per share data (Split-adjusted; JPY)									
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
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
Book value per share	305.5	230.8	236.6	205.9	240.1	310.2	332.6	503.6	480.9

Non-GAAP

Income statement (Non-GAAP) (JPYmn)	FY12/17 IFRS	FY12/18 IFRS	FY12/19 IFRS
Revenues	**19,769**	**26,690**	**23,000**
YoY	-	35.0%	-13.8%
Operating profit	**1,939**	**3,855**	**3,400**
YoY	-	98.8%	-11.8%
OPM	9.8%	14.4%	14.8%
Net income attrib. to owners of the parent	**1,309**	**2,814**	**2,400**
YoY	-	115.0%	-14.7%
Net margin	6.6%	10.5%	10.4%
Per share data (Split-adjusted; JPY)			
Shares issued (year-end; '000)			
EPS	35.9	75.1	63.1
EPS (fully diluted)	34.0	66.8	
Dividend per share	35.0	35.0	35.0
Book value per share	537.4	554.2	

J-GAAP

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.
Revenues	**6,150**	**8,099**	**7,972**	**9,555**	**9,575**	**13,019**	**13,159**	**18,558**	**19,754**
YoY	-	31.7%	-1.6%	19.9%	0.2%	36.0%	1.1%	41.0%	6.4%
Operating profit	**-506**	**213**	**979**	**1,588**	**1,740**	**3,592**	**2,738**	**2,492**	**723**
YoY	-	-	359.6%	62.2%	9.6%	106.4%	-23.8%	-9.0%	-71.0%
OPM	-	2.6%	12.3%	16.6%	18.2%	27.6%	20.8%	13.4%	3.7%
Net income	**-476**	**20**	**499**	**1,248**	**1,122**	**2,260**	**1,614**	**1,373**	**87**
YoY	-	-	2395.0%	150.1%	-10.1%	101.4%	-28.6%	-14.9%	-93.7%
Net margin	-	0.2%	6.3%	13.1%	11.7%	17.4%	12.3%	7.4%	0.4%
Per share data (Split-adjusted; JPY)									
EPS	-13.9	1.2	18.6	44.2	42.2	85.8	60.0	43.1	2.3
EPS (fully diluted)	-	1.1	17.9	-	41.6	84.3	54.0	41.7	2.2

IFRS

Income statement (J-GAAP) (JPYmn)	FY12/17 IFRS	FY12/18 IFRS	FY12/19 IFRS
Revenues	**19,769**	**26,690**	**23,000**
YoY	-	35.0%	-13.8%
Operating profit	**1,898**	**3,479**	**3,350**
YoY	-	83.3%	-3.7%
OPM	9.6%	13.0%	14.6%
Profit attrib. to owners of the parent	**1,268**	**2,439**	**2,350**
YoY	-	92.4%	-3.6%
Profit margin	6.4%	9.1%	10.2%
Per share data (Split-adjusted; JPY)			
EPS	33.5	64.2	61.8
EPS (fully diluted)	31.8	57.1	

J-GAAP

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**
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**
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%

IFRS

Balance sheet (JPYmn)	FY12/17	FY12/18
Cash and cash equivalents	12,724	15,829
Total current assets	**15,456**	**20,709**
Total assets	**29,055**	**33,853**
Total current liabilities	**7,930**	**11,929**
Total noncurrent liabilities	**574**	**634**
Total liabilities	**8,504**	**12,563**
Total equity	**20,550**	**21,289**
Non-controlling interests	147	187
Total interest-bearing debt	65	97
Cash flow statement (JPYmn)	**FY12/17**	**FY12/18**
Cash flows from operating activities	3,385	5,418
Cash flows from investing activities	-305	-521
Cash flows from financing activities	-1,894	-1,214
Financial ratios	**FY12/17**	**FY12/18**
ROA (pre-tax profit based)	6.5%	11.1%
ROE	6.3%	11.8%
Equity ratio	70.2%	62.2%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods.
Note: GCA began applying the International Financial Reporting Standards (IFRS) in FY12/18.
Note: Non-GAAP operating profit equals IFRS operating profit less non-recurring items as determined by the company. Non-recurring items are those revenues and expenses the company has deemed transient and are therefore excluded when making its earnings forecast.

Recent updates

Highlights

On **Aug.1, 2019,** GCA Corporation (GCA) announced earnings results for 1H FY12/19; see the results section for details.

On **July 29, 2019,** the company announced the establishment of a subsidiary in an effort to strengthen its M&A advisory business related to business successions.

In October 2018, the company formed a team dedicated to handling business successions in an effort to strengthen its M&A advisory business related to business successions. To further develop the business, the company established a subsidiary specializing in business succession deals, GCA Succession Corp.

On **June 17, 2019**, the company announced a share repurchase through the off-auction own share repurchase trading system (ToSTNet-3).

Repurchase method

The company announced that it will purchase shares at the closing price of June 17, 2019 of JPY722 per share through the Off-Auction Own Share Repurchase Trading System of the Tokyo Stock Exchange (TosTNet-3) at 8:45am on June 18, 2019 through an agent.

Details of repurchase

- Type of shares to be repurchased: Common shares of the company
- Total number of shares to be repurchased: 700,000 shares (1.8% of issued shares)
- Total value of shares to be repurchased: JPY505mn

On **June 7, 2019**, Shared Research updated the report following interviews with the company.

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

Trends and outlook

Quarterly trends and results

Cumulative	FY12/18		FY12/19		FY12/19	
(JPYmn)	Q1	Q2	Q1	Q2	% of FY	FY Est.
Revenues	4,234	10,422	4,474	9,312	40.5%	23,000
YoY	-	-	5.7%	-10.7%		-13.8%
Operating profit (IFRS)	392	1,194	342	1,362	40.7%	3,350
YoY	-	-	-12.8%	14.1%		-3.7%
OPM	9.3%	11.5%	7.6%	14.6%		14.6%
Pre-tax profit (IFRS)	396	1,201	324	1,332	39.8%	3,350
YoY	-	-	-18.2%	10.9%		-4.1%
OPM	9.4%	11.5%	7.2%	14.3%		14.6%
Profit attributable to owners of the parent (IFRS)	232	829	156	909	38.7%	2,350
YoY	-	-	-32.8%	9.7%		-3.6%
Profit margin	5.5%	8.0%	3.5%	9.8%		10.2%
Operating profit (Non-GAAP)	399	1,206	359	1,372	40.4%	3,400
YoY	-	-	-10.0%	13.8%		-11.8%
OPM	9.4%	11.6%	8.0%	14.7%		14.8%
Pre-tax profit (Non-GAAP)	403	1,213	342	1,341	39.4%	3,400
YoY	-	-	-15.1%	10.6%		-12.1%
OPM	9.5%	11.6%	7.6%	14.4%		14.8%
Net income attributable to owners of the parent (Non-GAAP)	239	841	173	919	38.3%	2,400
YoY	-	-	-27.6%	9.3%		-14.7%
Net margin	5.6%	8.1%	3.9%	9.9%		10.4%

Quarterly	FY12/18		FY12/19	
(JPYmn)	Q1	Q2	Q1	Q2
Revenues	4,234	6,188	4,474	4,838
YoY	-	-	5.7%	-21.8%
Operating profit (IFRS)	392	802	342	1,020
YoY	-	-	-12.8%	27.2%
OPM	9.3%	13.0%	7.6%	21.1%
Pre-tax profit (IFRS)	396	805	324	1,008
YoY	-	-	-18.2%	25.2%
Pre-tax margin	9.4%	13.0%	7.2%	20.8%
Profit attributable to owners of the parent (IFRS)	232	597	156	753
YoY	-	-	-32.8%	26.1%
Profit margin	5.5%	9.6%	3.5%	15.6%
Operating profit (Non-GAAP)	399	807	359	1,013
YoY	-	-	-10.0%	25.5%
OPM	9.4%	13.0%	8.0%	20.9%
Pre-tax profit (Non-GAAP)	403	810	342	999
YoY	-	-	-15.1%	23.3%
Pre-tax margin	9.5%	13.1%	7.6%	20.6%
Net income attributable to owners of the parent (Non-GAAP)	239	602	173	746
YoY	-	-	-27.6%	23.9%
Net margin	5.6%	9.7%	3.9%	15.4%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods
Note: GCA began applying the International Financial Reporting Standards (IFRS) in FY12/18.
Note: Non-GAAP operating profit equals IFRS operating profit less non-recurring items as determined by the company. Non-recurring items are those revenues and expenses the company has deemed transient and are therefore excluded when making its earnings forecast.

Performance by segment (IFRS basis)

Cumulative	FY12/18		FY12/19	
(JPYmn)	Q1	Q2	Q1	Q2
Revenues	4,234	10,422	4,474	9,312
YoY	-	-	5.7%	-10.7%
Advisory	4,083	10,120	4,323	9,004
YoY	-	-	5.9%	-11.0%
Asset Management	150	302	151	307
YoY	-	-	0.7%	1.7%
Expenses	3,842	9,228	4,132	7,950
YoY	-	-	7.5%	-13.8%
Personnel expenses	2,751	7,040	2,971	5,617
YoY	-	-	8.0%	-20.2%
Operating profit (IFRS)	392	1,194	342	1,362
YoY	-	-	-12.8%	14.1%
OPM	9.3%	11.5%	7.6%	14.6%
Advisory	358	1,137	317	1,348
YoY	-	-	-11.5%	18.6%
Segment profit margin	8.8%	11.2%	7.3%	15.0%
Asset Management	42	73	23	46
YoY	-	-	-45.2%	-37.0%
Segment profit margin	28.0%	24.2%	15.2%	15.0%
Number of deals closed	28	68	34	68
YoY	-	1.5%	21.4%	0.0%
Number of bankers	289	291	297	306
YoY	-	-	2.8%	5.2%
Quarterly	**FY12/18**		**FY12/19**	
(JPYmn)	**Q1**	**Q2**	**Q1**	**Q2**
Revenues	4,234	6,188	4,474	4,838
YoY	-	-	5.7%	-21.8%
Advisory	4,083	6,037	4,323	4,681
YoY	-	-	5.9%	-22.5%
Asset Management	150	152	151	156
YoY	-	-	0.7%	2.6%
Expenses	2,751	4,289	2,971	2,646
YoY	-	-	8.0%	-38.3%
Personnel expenses	2,751	4,289	2,971	2,646
YoY	-	-	8.0%	-38.3%
Operating profit (IFRS)	392	802	342	1,020
YoY	-	-	-12.8%	27.2%
OPM	9.3%	13.0%	7.6%	21.1%
Advisory	358	779	317	1,031
YoY	-	-	-11.5%	32.3%
Segment profit margin	8.8%	12.9%	7.3%	22.0%
Asset Management	42	31	23	23
YoY	-	-	-45.2%	-25.8%
Segment profit margin	28.0%	20.4%	15.2%	14.7%
Number of deals closed	28	40	34	34
YoY	-26.3%	37.9%	21.4%	-15.0%

Source: Shared Research based on company data
Note: Figures may differ from company materials due to differences in rounding methods
Note: The number of bankers is the number of professionals on the M&A advisory team.

Mezzanine fund balance

	FY12/18				FY12/19			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Fund investments	15,392	26,010	26,151	26,708	23,393	23,371		
QoQ	4,636	10,618	141	557	-3,315	-22		
Operational investment securities	1,000	7,500	7,500	7,500	7,500	7,310		
QoQ	-	6,500	-	-	-	-190		
Operating loans receivable	14,392	18,510	18,650	19,207	15,893	16,060		
QoQ	4,637	4,118	140	557	-3,314	167		

Source: Shared Research based on company data

1H FY12/19 earnings

IFRS-based earnings results

- Revenues JPY9.3bn (-10.7% YoY)
- Operating profit JPY1.4bn (+14.1% YoY)
- Pre-tax profit JPY1.3bn (+10.9% YoY)
- Profit * JPY909mn (+9.7% YoY)

*Profit refers to profit attributable to owners of the parent

On a non-GAAP basis, operating profit was JPY1.4bn (+13.8% YoY), pre-tax profit was JPY1.3bn (+10.6% YoY), and net income attributable to owners of the parent was JPY919mn (+9.3% YoY). Non-GAAP earnings exclude the non-recurring item of share-based compensation expenses related to the business merger with GCA Altium, which amounted to JPY9mn (JPY11mn in 1H FY12/18).

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

Advisory business

- Revenues: JPY9.0bn (-11.0% YoY)
- Segment profit: JPY1.3bn (+18.6% YoY)

There were 68 completed deals during the period (on par with 1H FY12/18), but revenues dropped YoY. Segment profit rose as the company reduced personnel expenses.

M&A market status

In 1H FY12/19, the number of M&A deals and total transaction value in the global M&A market decreased by 19% and 10% YoY, respectively (source: data from Thomson Reuters).

- Number of completed deals in Japan was down 24% YoY; transaction value was up 9% (excludes Takeda Pharmaceutical's acquisition of Shire)
- Number of completed deals in the US was down 22% YoY; transaction value was down 10% YoY
- Number of completed deals in Europe, Middle East, and Africa was down 17% YoY; transaction value was down 18% YoY

Revenues by region

- In Japan, revenues increased as several large projects closed successfully.
- Revenues in the US and Europe declined YoY.

Order status

- New orders remain strong in the Japan and US regions. In Europe, sell-side orders have been increasing now that GCA Altium, which specializes in business successions, has access to global buy-side candidates following the business merger with GCA in 2016.
- The order backlog remained at a fairly high level globally.

Asset Management business

- Revenues: JPY307mn (+1.7% YoY)
- Segment profit: JPY46mn (-37.0% YoY)

The investment fund balance totaled JPY23.4bn (seven transactions), consisting of operational investment securities of JPY7.3bn and operational investment loans of JPY16.1bn.

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

FY12/19 forecast

GCA released its FY12/19 earnings forecasts at the time of announcement of Q1 FY12/19 results. For FY12/19, on an IFRS basis, the company forecasts revenues of JPY23.0bn (-13.8% YoY), operating profit of JPY3.4bn (-3.7% YoY), pre-tax profit of JPY3.4bn (-4.1% YoY), and profit attributable to owners of the parent of JPY2.4bn (-5.2% YoY).

The company forecasts revenues to shrink alongside a fall in the number of closed deals. It also anticipates profits to fall owing to lower revenues. However, despite the planned increase in the number of bankers, the company expects the rate of decline in all profit categories to be lower than that for revenues because it expects bonuses and other expenses to be lower on account of the fall in the number of closed deals.

On a Non-GAAP basis, the company forecasts operating profit of JPY3.4bn (-11.8% YoY), pre-tax profit of JPY3.4bn (-12.1% YoY), and net income attributable to owners of the parent of JPY2.4bn (-14.7% YoY).

Planned FY12/19 dividends are JPY35.0 per share (JPY17.5 interim dividend and JPY17.5 year-end dividend). FY12/18 dividends also totaled JPY35.0 per shares.

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. In the longer term, GCA aims to become the world's top M&A advisory firm by 2030.

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. In FY12/17, the simple total of revenues and recurring profit of GCA Altium Limited, GCA Altium AG (Switzerland), and GCA Altium AG (Germany) was JPY7.6bn and JPY1.4bn, respectively (revenues totaled JPY6.4bn and operating profit JPY954mn in FY12/16). 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).

The company has been expanding its office network in Asia as well since April 2018. As part of its strategy to expand business in Asia, GCA established subsidiaries in Taipei, Taiwan and Ho Chi Minh City, Vietnam in April 2018. As of December 2018, the company had six business bases in Asia employing 25 professionals in total in Shanghai, Taipei, Singapore, Ho Chi Minh City, Mumbai, and Delhi. Working with the Asia Team in Tokyo, they support investment and M&A by Japanese companies in Asia.

Sources of long-term growth

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.

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 FY12/18, reportable segments comprise Advisory and Asset Management. Looking at the breakdown of revenues by region in FY12/18, Japan accounted for 29%, the US 28%, and Europe and the rest 43%.

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 20 offices in Japan, the US, Europe, and Asia, and is the fifth 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 deals by sector classification, technology accounted for 29% of the total, industrials 28%, consumer/retail/e-commerce/leisure 19%, services 7%, digital media 6%, finance/fintech 6%, and healthcare 6%.

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
YoY	-	-	-	-	-	129.2%
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%

(JPYmn)	FY12/17 IFRS	FY12/18 IFRS
Revenues	**19,769**	**26,690**
YoY	-	35.0%
Advisory	19,137	26,086
YoY	-	36.3%
Japan	-	-
YoY	-	-
US	-	-
YoY	-	-
Europe	-	-
YoY	-	-
Asset management	632	604
YoY	-	-4.4%
Pre-tax profit	**1,853**	**3,493**
YoY	-	88.5%
Advisory	1,686	3,348
YoY	-	98.6%
Asset management	188	151
YoY	-	-19.7%
Net income attrib. to owners of the parent	**1,309**	**2,814**
YoY	-	115.0%

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 onward
Non-GAAP operating profit and net income reflect profits prior to excluding goodwill amortization due to the Altium business merger and non-recurring items
GCA adopted IFRS in FY12/18.

Advisory business (Japan)

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

Results of the Advisory business (Japan)

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: Adjustments to operating profit (elimination of intraregional transactions) made prior to December 2012 differ from those made in December 2013 onward

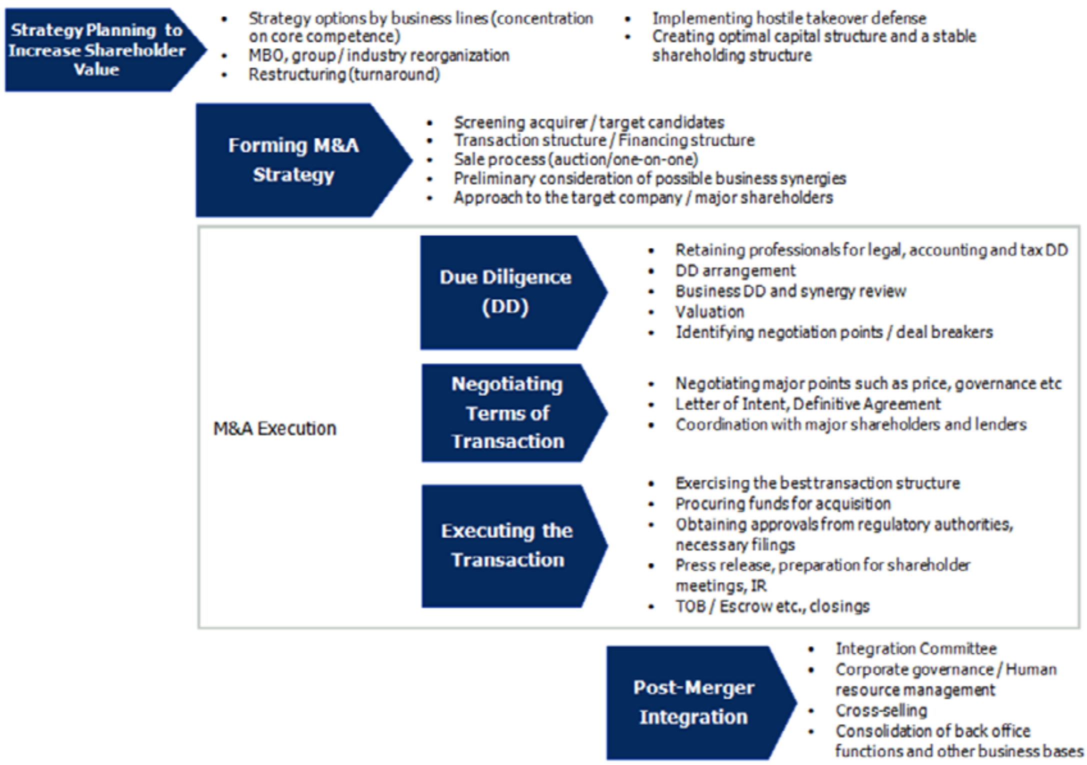
GCA Corporation

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

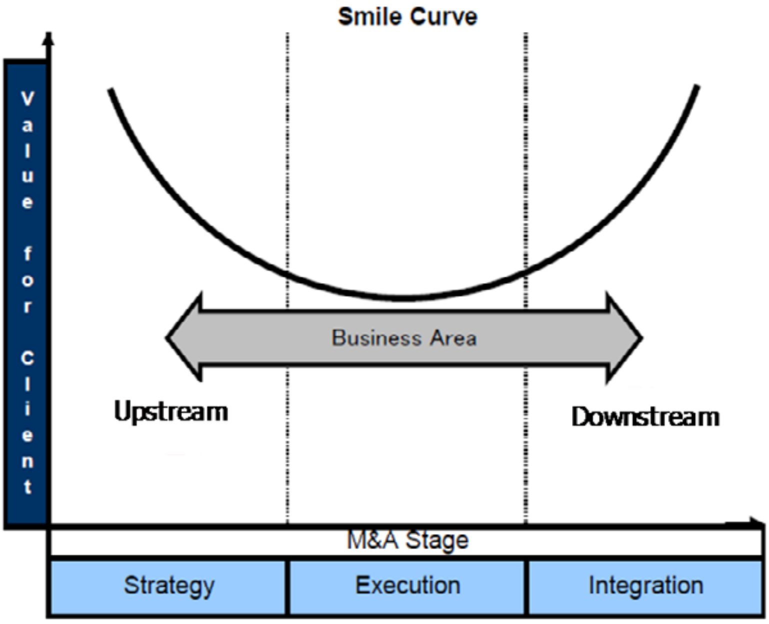
While many M&A advisory firms are reputed to rely on a few star players, GCA says that it developed a system that allows most of its experienced staff to contribute actively; that lowers its dependence on star performers (as of February 2014).

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 onward

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 company commented that it was receiving orders for deals that leverage its strengths in the high-tech sector because of growing interest in investing in high technology among companies in other sectors.

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%

Asset Management business (JPYmn)	FY12/17 IFRS	FY12/18 IFRS
Revenues	632	604
YoY	-	-4.4%
Segment profit (pre-tax profit)	188	151
YoY	-	-19.7%
OPM	29.7%	25.0%

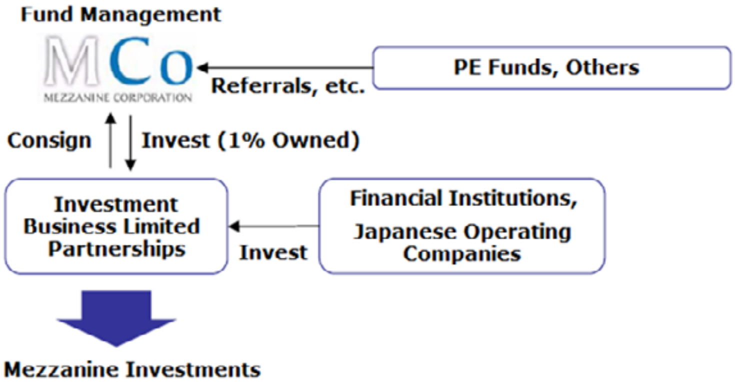
Source: Shared Research based on company data
Note: GCA adopted IFRS in FY12/18.

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.

A large portion of the company's revenue comes 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	FY12/18
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	299

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 JPY27.0bn, roughly over 400 professionals on staff, and 20 offices in Japan, the US, Europe, and Asia. It is the fifth 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 its strategy to expand business in Asia, GCA established subsidiaries in Taipei, Taiwan and Ho Chi Minh City, Vietnam in April 2018. As of December 2018, the company had six business bases in Asia employing 25 professionals in total in Shanghai, Taipei, Singapore, Ho Chi Minh City, Mumbai and Delhi. Working with the Asia Team in Tokyo, they support investment and M&A by Japanese companies in Asia.

Profitability snapshot, financial ratios

In FY12/18, contributions from the Advisory business made up the majority of revenues and pre-tax 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

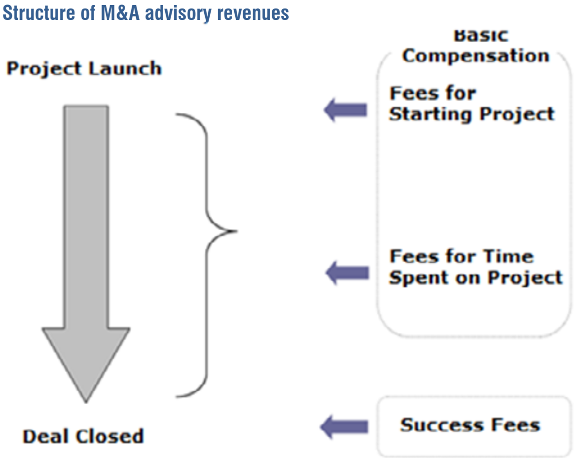
Revenues in the Advisory business vary based on the number of M&A deals made and the amount of contingency fees received. The structure for contingency fees varies between Japan and the United States.

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 revenues



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 revenues.

Fees

The bulk of the company's costs are personnel-related expenses. In FY12/18, personnel-related expenses made up 66% of the revenues. 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 five major European countries and Israel. As of end FY12/18, GCA had 20 offices in Japan, the US and Asia, and has become an M&A advisory firm with roughly JPY27.0bn in revenues and over 400 professionals on staff. According to the company, as a result of the merger, it is now the fifth 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

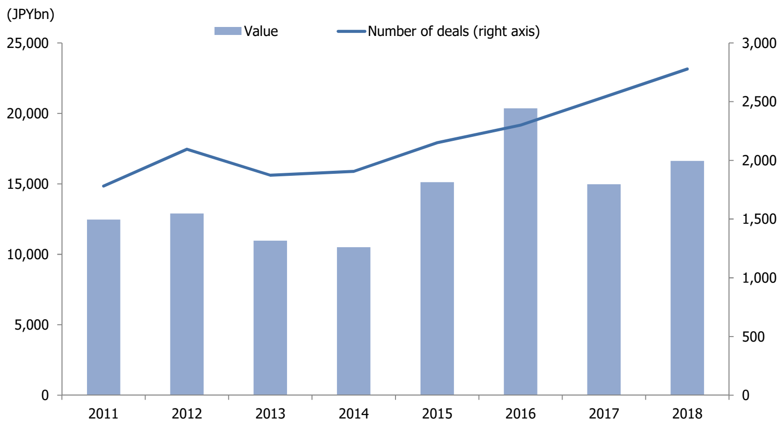
Market overview

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.

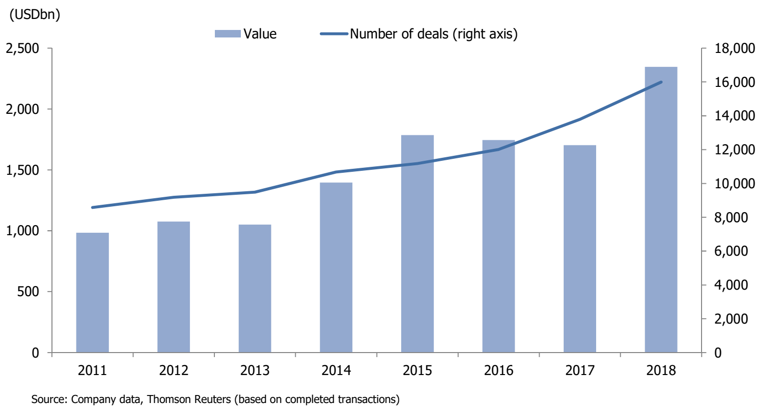
However, from a longer-term perspective, it is clear that Japan's M&A market is extremely small versus the size of its economy. M&A in the US is equivalent to 11% of GDP, but M&A in Japan is equivalent to a mere 3% (2018), leaving plenty of room for growth. For instance, more domestic mergers among Japanese 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)



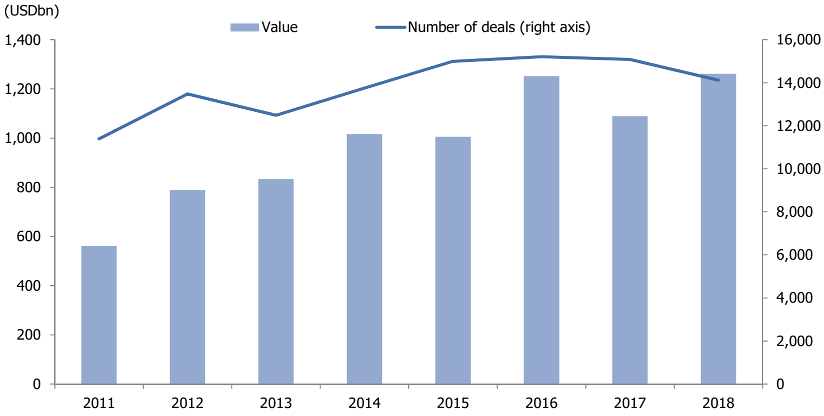
Source: Thomson Reuters (based on completed transactions)

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 five major European countries and Israel. GCA now has 20 offices in Japan, Europe, US, and Asia, and has become an M&A advisory firm with roughly JPY27.0bn in revenues and over 400 professionals on staff. According to the company, as a result of the business merger, it is now the fifth 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	26

Source: Shared Research based on company materials

Historical financial statements

Q1 FY12/19 earnings

IFRS-based earnings results

- ▷ Revenues JPY4.5bn (+5.7% YoY)
- ▷ Operating profit JPY342mn (-12.8% YoY)
- ▷ Pre-tax profit JPY324mn (-18.2% YoY)
- ▷ Net income* JPY156mn (-34.7% YoY)

*Net income refers to net income attributable to owners of the parent

Revenues grew on an increase in the number of completed deals in the Advisory business. Despite the benefit of higher revenues, profit declined owing to increased expenses, including a 7.5% YoY increase in personnel expenses to JPY4.1bn from recruiting more senior partners and other personnel over FY12/18.

Against full-year targets, Q1 results achieved 19.5% of revenues (compared with 15.9% in Q1 FY12/18 against full-year results), 10.2% of operating profit (11.3%), 9.7% of pre-tax profit (11.3%), and 6.6% of net income attributable to owners of the parent (9.8%). Although revenues and profits were short of the 25% mark, results appear to be trending in line with forecasts, considering forecasts for the full-year FY12/19 were disclosed at the same time as the announcement of Q1 results. The postponement of several deals was partly responsible for progress falling short of the 25% mark.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and IFRS (IFRS indicator). Non-GAAP operating profit excludes non-recurring items determined by the company from IFRS operating profit. Non-GAAP-based earnings were operating profit of JPY359mn (-10.0% YoY), pre-tax profit of JPY342mn (-15.1% YoY), and net income attributable to owners of the parent of JPY173mn (-27.6% YoY). Non-recurring items excluded from non-GAAP financial measures include JPY17mn in share-based compensation expenses related to the business merger with GCA Altium (non-recurring items amounted to JPY7mn in Q1 FY12/18).

A breakdown of IFRS-based earnings by segment is given below.

Advisory business

- ▷ Revenues: JPY4.3bn (+5.9% YoY)
- ▷ Segment profit: JPY317mn (-11.5% YoY)

Revenues grew with the closure of 30 deals compared with 28 in Q1 FY12/18. Meanwhile, profits declined on an increase in personnel expenses from the recruitment of bankers and senior bankers raising the headcount by 2.8% to 297.

M&A market status

In Q1 FY12/19, the number of M&A deals decreased 27% YoY but the total value rose 11% YoY in the global M&A market (according to data from Thomson Reuters).

- ▷ Number of completed deals in Japan: -33% YoY, value increased 146%
- ▷ Number of completed deals in the US: -31% YoY, value increased 28%
- ▷ Number of completed deals in Europe, Middle East, and Africa: -25% YoY, value increased 1%

Revenues by region

- ▷ In Japan, sales increased as several large projects closed successfully.
- ▷ Sales were sluggish in the US.

- Sales in Europe increased 6% YoY. Following the business integration in July 2016, the company has operated a global platform with sales performing steadily.

Attributes of deals closed

- By transaction type, 27% were sell-side (versus 41% in FY12/18), 38% were buy-side (33%), and 35% (26%) were others (debt advisory, IPO support, and support for establishing joint ventures).
- Cross-border deals accounted for 53% of all deals closed (compared with 35% in Q1 FY12/18). This increase was the result of gaining a global platform following the completion of the business merger in July 2016.

Key deals closed in Q1

- Acquisition of Blommer Chocolate Company (US) by Fuji Oil Holdings Inc. (Japan): Fuji Oil Holdings Inc. (TSE1: 2607), a manufacturer of cooking oil and other food ingredients, acquired Blommer Chocolate Company, a US-based commercial chocolate manufacturer. GCA acted as M&A advisor to Fuji Oil Holdings. According to information disclosed by Fuji Oil Holdings, Blommer Chocolate Company was valued at USD750mn (approximately JPY84.8bn) and advisory fees were JPY1.2bn (estimate).
- Acquisition of U.S. Water Services, Inc. (US) by Kurita Water Industries Ltd. (Japan): Kurita Water Industries Ltd. (TSE1: 6370), manufacturer and developer of water treatment equipment and chemicals, acquired U.S. Water Services, Inc., a US manufacturer and distributor of water treatment chemicals and equipment. GCA acted as M&A advisor to Kurita Water Industries. According to information disclosed by Kurita Water Industries, the acquisition price was USD270mn (approximately JPY29.4bn) and advisory fees were JPY700mn (estimate).

Order status

- New orders remained strong in the Japan and US regions. In Europe, sell-side orders have been increasing.
- The order backlog remained at a fairly high level globally, and the pipeline of assignments grew by 24.3% YoY.

Asset Management business

- Revenues: JPY151mn (+0.7% YoY)
- Segment profit: JPY23mn (-45.2% YoY)

The investment fund balance totaled JPY23.4bn (down JPY3.3bn compared with end-FY12/18), consisting of operational investment securities of JPY7.5bn (flat) and operational investment loans of JPY15.9bn (down JPY3.3bn).

Full-year FY12/18 earnings

Non-GAAP-based earnings results for FY12/18

- Revenues JPY26.7bn (+35.0% YoY)
- Operating profit JPY3.9bn (+98.8% YoY)
- Pre-tax profit JPY3.9bn (+104.2% YoY)
- Net income* JPY2.8bn (+114.9% YoY)

*Net income refers to net income attributable to owners of the parent

Revenues were up YoY on an increase in deals closed and closing of mega-deals (M&A deals that earn fees of JPY1.0bn or more), while profits were also up at all levels due to higher revenues. OPM was up 4.6pp YoY to 14.5%. Fees paid were up 34.6% YoY to

JPY17.9bn on the back of robust business performance, but other expenses only increased 9.1% YoY to JPY5.0bn, contributing to the OPM rise.

Non-recurring items adjusted for non-GAAP earnings include JPY375mn in share-based compensation expenses related to the business merger with GCA Altium.

GCA began applying the International Financial Reporting Standards (IFRS) in FY12/18.

The company discloses consolidated management results based on both an internal indicator (Non-GAAP), which is used when business managers make decisions, and IFRS (IFRS indicator). Non-GAAP operating profit excludes non-recurring items determined by the company from IFRS operating profit. The company previously disclosed management results on both a Japanese GAAP and Non-GAAP basis, with some differences between indicators such as goodwill amortization. Having transitioned to IFRS in FY12/18, the difference between IFRS and Non-GAAP indicators is smaller and results are now similar. However, the company will continue to disclose results on a Non-GAAP basis for the sake of continuity.

IFRS-based earnings results for FY12/18

- ▷ Operating profit: JPY3.5bn (+83.3% YoY)
- ▷ Pre-tax profit: JPY3.5bn (+88.4% YoY)
- ▷ Net income: JPY2.4bn (+92.3% YoY)

*Net income refers to net income attributable to owners of the parent

Advisory business

- ▷ Revenues: JPY26.1bn (+36.3% YoY)
- ▷ Segment profit (Pre-tax profit on IFRS basis): JPY3.3bn (+98.5% YoY)

Revenues and profit were up YoY due to an increase in the number of contracts closed to 145 (+29.5% YoY).

M&A market status

In FY12/18, the number of M&A deals decreased 6% YoY but the total value rose 16% YoY in the global M&A market (according to data from Thomson Reuters). The reason the total value rose despite the lower number of deals is that the market was driven by very large deals such as the acquisition of Shire Plc by Takeda Pharmaceutical Company.

- ▷ Number of completed deals in Japan +10% YoY, value almost unchanged
- ▷ Number of completed deals in the US -5% YoY, value increased 27%
- ▷ Number of completed deals in Europe, Middle East, and Africa -10% YoY, value increased 17%

Revenues by region

Revenues from the company's Advisory business increased YoY in all three regions: Japan, the US, and Europe. Revenues broke down approximately by region into Japan 30%, the US 30%, and Europe 40%.

- ▷ Multiple large deals closed in Japan, including some mega-deals (M&A deals that earn fees of JPY1.0bn or more).
- ▷ The number of large deals that reached closing increased in the US, especially in the technology field, which is GCA's area of strength.
- ▷ In Europe, the number of large deals closed was up more than 50% YoY.

Attributes of deals closed

- By transaction type, 41% were sell-side (versus 53% in FY12/17), 33% were buy-side (22%), and 26% (25%) were others (debt advisory, IPO support, and support for establishing joint ventures).
- Cross-border deals accounted for 37% of the total (versus 35% in FY12/17) and non cross-border deals accounted for 63% (65%).
- By sector, technology accounted for 29%, industrials 28%, and digital media 6%. Technology (being GCA's specialty) accounted for 48% of deals closed.

Order status

- New orders remain strong in the Japan and US regions. In Europe, sell-side orders have been increasing now that GCA Altium, which specializes in business successions, has access to global buy-side candidates following the business merger with GCA in 2016.
- Order backlog was up roughly 20% YoY as of end February 2019. Even though multiple large deals closed in Q4 FY12/18, including some mega-deals, the order backlog remains at a fairly high level globally.

Asset Management business

- Revenues: JPY604mn (-4.3% YoY)
- Segment profit (Pre-tax profit on IFRS basis): JPY151mn (-19.5% YoY)

Revenues and profit declined with a decrease in management fees on the funds Mezzanine Corp. (MCo) manages. The investment fund balance totaled JPY26.7bn (seven transactions), consisting of operational investment securities of JPY7.5bn (+JPY6.5bn YoY) and operational investment loans of JPY19.2bn (+JPY9.5bn YoY).

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 share-based compensation expenses 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).

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 share-based compensation expenses 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.

Other information

History

Akihiro Watanabe (current representative 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

May 2019

On **May 15, 2019,** the company announced a planned transition to a pure holding company structure and the establishment of a subsidiary through a company split (simple split).

At the board meeting held on the same day, the company decided to transfer the rights and obligations related to the M&A advisory business to a newly established company (GCA Advisors Co., Ltd. [provisional name]) through a company split, effective from July 1, 2019, and to shift to a pure holding company structure.

January 2019

On **January 31, 2019**, the company announced an upward revision to its FY12/18 earnings forecasts and a voluntary adoption of IFRS.

Revised earnings forecasts (Non-GAAP)

Revised FY12/18 earnings forecasts on a Non-GAAP basis

- ▷ Revenues: JPY26.6bn (previous forecast: JPY21.0bn)
- ▷ Operating profit: JPY3.8bn (JPY2.6bn)
- ▷ Recurring profit: JPY3.8bn (JPY2.6bn)
- ▷ Net income*: JPY2.8bn (JPY1.8bn)
- ▷ EPS: JPY72.33 (JPY47.41)

*Net income attributable to parent company shareholders

* For the local-currency denominated items from the company's overseas operations, the average exchange rates for the total financial period of JPY110.44/USD (the previous forecasts assumed JPY106/USD) and JPY147.48/GBP (JPY150/GBP) have been applied to convert them to JPY figures.
* The above forecasts are consolidated projections based on non-GAAP, excluding amortization of goodwill, and other.

Reasons for the revision (non-GAAP basis)

During FY12/18, the company saw strong results in the M&A advisory business across all three regions of Japan, the US, and Europe. On a non-GAAP basis, revenues and all profit items are expected to surpass previous forecasts from an increase in closed transactions and fees from time spent on projects.

Voluntary adoption of IFRS

The company has decided to shift from the Japanese accounting standards to IFRS starting with the results announcement for full-year FY12/18, as it aims to improve the comparability of its financial information on a global basis and enhance disclosure.

Revised FY12/18 earnings forecasts on an IFRS basis

- Revenues: JPY26.6bn
- Operating income: JPY3.4bn
- Profit: JPY2.4bn
- Net income*: JPY2.3bn
- EPS: JPY62.46

*Net income attributable to owners of the parent

Adjustment from non-GAAP earnings forecasts to IFRS earnings forecasts

The stock acquisition rights issued as part of purchase considerations at the time of the Altium merger are expensed at fair value under IFRS, but are excluded as an acquisition-related expense under non−GAAP. As a result, operating income and net income attributable to owners of the parent will decline by JPY375mn, respectively under IFRS.

December 2018

On **December 17, 2018**, the company 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

Major shareholders

Top shareholders	Shares Held	Shareholding raito
AGCA Holdings Limited	10,029,985	26.34%
Akihiro Watanabe	3,735,600	9.81%
MLPFS Custody Account	2,943,913	7.73%
Japan Trustee Services Bank, Ltd. (Trust account) Representative and president Kaichi Tanaka	2,683,900	7.05%
SSBTC CLIENT OMNIBUS ACCOUNT	2,072,514	5.44%
The Master Trust Bank of Japan, Ltd. (Trust account) Representative and president Hisashi Ito	1,202,600	3.16%
Hiroyasu Kato	600,500	1.58%
NORTHERN TRUST CO. (AVFC) RE FIDELITY FUNDS	555,461	1.46%
BBH/SUMITOMO MITSUI TRUST (UK) LIMITED FOR SMT TRUSTEES (IRELAND) LIMITED FOR JAPAN SMALL CAP FUND CLT AC	443,400	1.16%
The Nomura Trust and Banking Co., Ltd. (Trust account) Representative and president Kenji Kimura	400,000	1.05%
NORTHERN TRUST CO.(AVFC)RE UKDP AIF CLIENTS NON LENDING 10PCT TREATY ACCOUNT	400,000	1.05%
SUM	25,067,873	65.83%

Source: Shared Research based on company data
(As of December 31, 2018; excludes 888,901 treasury shares)

Shareholder returns

GCA's basic policy is to return 100% of its profits to shareholders through dividend payments and stock repurchasing. In FY12/18, the company plans to pay a minimum annual dividend of JPY35 per share (JPY17.5 interim dividend and JPY17.5 year-end dividend). However, it plans to raise the minimum dividend figure going forward as the business grows.

The amount left over after deducting dividends from net income is to be used for stock repurchasing or special dividends. However, returning 100% of profits to shareholders by either of these methods will not be achieved in a single fiscal year, but over a number of years, because these measures will be taken when appropriate and in the most efficient way.

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	**Financial 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

We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at http://www.sharedresearch.jp.

Current Client Coverage of Shared Research Inc.

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ADJUVANT COSME JAPAN CO., LTD.
Aeon Delight Co., Ltd.
Aeon Fantasy Co., Ltd.
Ai Holdings Corporation
and factory, inc.
ANEST IWATA Corporation
AnGes Inc.
Anicom Holdings, Inc.
Anritsu Corporation
Apaman Co., Ltd.
ARATA CORPORATION
Arealink Co.,Ltd.
Artspark Holdings Inc.
AS ONE CORPORATION
Ateam Inc.
Aucfan Co., Ltd.
AVANT CORPORATION
Axell Corporation
Azbil Corporation
AZIA CO., LTD.
AZoom, Co., Ltd.
BEENOS Inc.
Bell-Park Co., Ltd.
Benefit One Inc.
B-lot Co.,Ltd.
Broadleaf Co., Ltd.
Canon Marketing Japan Inc.
Career Design Center Co., Ltd.
Carna Biosciences, Inc.
CARTA HOLDINGS, INC
CERES INC.
Chiyoda Co., Ltd.
Chugoku Marine Paints, Ltd.
cocokara fine Inc.
COMSYS Holdings Corporation
CRE, Inc.
CREEK & RIVER Co., Ltd.
Daiichi Kigenso Kagaku Kogyo Co., Ltd.
Daiseki Co., Ltd.
DIC Corporation
Digital Arts Inc.
Digital Garage Inc.
Dream Incubator Inc.
Earth Corporation
Elecom Co., Ltd.
en-Japan Inc.
euglena Co., Ltd.
Evolable Asia Corp.
FaithNetwork Co., Ltd.
Ferrotec Holdings Corporation
FIELDS CORPORATION
Financial Products Group Co., Ltd.
FreeBit Co., Ltd.
FRONTEO, Inc.
Fujita Kanko Inc.
Gamecard-Joyco Holdings, Inc.
GCA Corporation
Good Com Asset Co., Ltd.
Grandy House Corporation
Hakuto Co., Ltd.
Hamee Corp.
Happinet Corporation
Harmonic Drive Systems Inc.
HOUSEDO Co., Ltd.
IDOM Inc.
IGNIS LTD.
i-mobile Co.,Ltd.
Inabata & Co., Ltd.
Infocom Corporation
Infomart Corporation
Intelligent Wave, Inc.
ipet Insurance CO., Ltd.
istyle Inc.
Itochu Enex Co., Ltd.
JSB Co., Ltd.
JTEC Corporation
J Trust Co., Ltd
Japan Best Rescue System Co., Ltd.
JINS HOLDINGS Inc.
JP-HOLDINGS, INC.
KAMEDA SEIKA CO., LTD.
Kenedix, Inc.
KFC Holdings Japan, Ltd.
KI-Star Real Estate Co., Ltd.
Kondotec Inc.
Kumiai Chemical Industry Co., Ltd.
Lasertec Corporation
LUCKLAND CO., LTD.
MATSUI SECURITIES CO., LTD.
Medical System Network Co., Ltd.
MEDINET Co., Ltd.
MedPeer,Inc.
Mercuria Investment Co., Ltd.
Micronics Japan Co., Ltd.
Milbon Co., Ltd.
MIRAIT Holdings Corporation
Monex Goup Inc.
MORINAGA MILK INDUSTRY CO., LTD.
NAGASE & CO., LTD
NAIGAI TRANS LINE LTD.
NanoCarrier Co., Ltd.
Net One Systems Co.,Ltd.
Nichi-Iko Pharmaceutical Co., Ltd.
Nihon Denkei Co., Ltd.
Nippon Koei Co., Ltd.
NIPPON PARKING DEVELOPMENT Co., Ltd.
NIPRO CORPORATION
Nisshinbo Holdings Inc.
NS TOOL CO., LTD.
OHIZUMI MFG. CO., LTD.
Oisix ra daichi Inc.
Oki Electric Industry Co., Ltd
ONO SOKKI Co., Ltd.
ONWARD HOLDINGS CO.,LTD.
Pan Pacific International Holdings Corporation
PARIS MIKI HOLDINGS Inc.
PIGEON CORPORATION
QB Net Holdings Co., Ltd.
RACCOON HOLDINGS, Inc.
Raysum Co., Ltd.
RESORTTRUST, INC.
ROUND ONE Corporation
RVH Inc.
RYOHIN KEIKAKU CO., LTD.
SanBio Company Limited
SANIX INCORPORATED
Sanrio Company, Ltd.
SATO HOLDINGS CORPORATION
SBS Holdings, Inc.
Seikagaku Corporation
Seria Co.,Ltd.
SHIFT Inc.
SHIP HEALTHCARE HOLDINGS, INC.
SIGMAXYZ Inc.
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TAIYO HOLDINGS CO., LTD.
Takashimaya Company, Limited
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Takihyo Co., Ltd.
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Tenpo Innovation Inc.
3-D Matrix, Ltd.
TKC Corporation
TOKAI Holdings Corporation
TOYOBO CO., LTD.
Toyo Ink SC Holdings Co., Ltd
Toyo Tanso Co., Ltd.
Tri-Stage Inc.
VISION INC.
VISIONARY HOLDINGS CO., LTD.
WirelessGate, Inc.
YELLOW HAT LTD.
YOSHINOYA HOLDINGS CO., LTD.
YUMESHIN HOLDINGS CO., LTD.
Yume no Machi Souzou Iinkai Co., Ltd.
Yushiro Chemical Industry Co., Ltd.
ZAPPALLAS, INC.

Attention: If you would like to see companies you invest in on this list, ask them to become our client, or sponsor a report yourself.

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