GAIN Capital Holdings, Inc.

Q3 2018 Earnings Conference Call

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Hello, and welcome to the GAIN Capital Third Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your telephone keypad, to withdraw your question, please press "*", then "2." Please note, this event is being recorded.

And now I would like to turn to the call over to Nicole Briguet, Senior Account Executive at Edelman. Please go, ahead.

Nicole Briguet
Thank you, Operator. Good afternoon, and thank you to everyone for joining us for our Third Quarter 2018 Earnings Call.

Speaking today will be GAIN Capital's CEO, Glenn Stevens and CFO, Nigel Rose. Today's commentary will be accompanied by our earnings slide deck, which can be accessed via webcast on our IR website now or at a later time. Following their remarks, we will open the call to questions.

During this call, we may make forward-looking statements to assist you in understanding our expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially. I refer you to the company's Investor Relations website to access the press release and the filings of the SEC for discussions of those risks.

In addition, statements made during this call, including statements related to market conditions, changes in regulations, operating performance, and financial performance, are based on management's views as of today, and it is anticipated that future developments may cause these views to change. Please consider the information presented in this slide. The company may at some point elect to update the forward-looking statements made today but specifically disclaims any obligation to do so.

I'd now like to turn the call over to Glenn.

Glenn Stevens
Thanks, Nicole. And thanks to all of you for joining us today. We are pleased with our third quarter performance, as it reflects our focus on our three strategic priorities. We continue to drive organic growth, increase operational excellence, and reduce revenue volatility, all of which in connection with returning cash to shareholders, highlights our focus on our commitment to delivering shareholder value.

Despite a less volatile market environment during the third quarter, our diverse product offerings, geographic reach, and the execution of our strategic initiatives resulted in strong financial and operational results in the period. We delivered solid account growth during Q3, with new direct accounts increasing 28% year-over-year and 23% quarter-over-quarter. Adjusted EBITDA increased to $30.5 million for the quarter, which is more than double Q3 of '17 and leading to Q3 adjusted EBITDA margin of 32%.

Looking at our futures business, margins for the first nine months of 2018 doubled year-over-year as a result of revenue growth and cost-control measures. Q3 net revenue from our continuing operations, which excludes results from the institutional business that we sold last June, increased 30% year-over-year to $95.5 million as compared to $73.8 million in Q3 of last year.

Q3 net income increased year-over-year to $10 million as compared to a loss of $3.1 million last year. Year-to-date net income of nearly $29 million has helped fuel our share buybacks, including our recently announced tender offer, which I'll get into more detail later in this call. Our diverse offering of products delivered strong revenue per million, which increased to $164 for this quarter despite low trading volumes.

This increase in RPM was driven primarily by pockets of volatility in emerging market currencies, including the Turkish lira, and the ripple effect they had on other products, such as gold and silver. However, we continue to see long-term revenue capture to trend in line with the previous guidance of $100 to $105 RPM.

Taking quick a step back, I'd like to give an update on ESMA. While it is too early to assess the long-term impact of the ESMA changes introduced on August 1, early indications are still in line with our expectations.

During Q3, the generally slower trading conditions and lower volumes that we are seeing across GAIN's global footprint were not just confined to any one particular region. Also, we continue to anticipate that the impact of 2018 full year total revenue will be less than 5%, which is in line with our previous statements.

Turning to slide four, we remain focused on these three strategic operating pillars for the remainder of this year and beyond. These strategic operating priorities are aimed to drive top line growth, improve our bottom line, and ultimately enhance our ability to generate cash and return capital to shareholders.

We are leveraging our strong global brands and ROI-driven marketing approach to acquire new accounts and investing in new products and services, enhancing customer support and retention initiatives to drive increased client engagement and higher value per client. We saw the benefit during Q3, with new direct accounts up 28% year-over-year. This strong new direct account growth highlights the early success of our marketing initiatives.

For this quarter, overall lower volatility and softer market conditions were evidenced by the 21% quarter-over-quarter decline in the GVIX, which resulted in lower direct volume per active customer during the quarter. However, given the pickup we're seeing in new direct accounts, a good lead indicator, we feel well positioned to drive volume and revenue growth when market volatility returns.

Historically, we've seen variability in our marketing spend quarter-to-quarter as we would pull back marketing dollars during periods of low volatility and then increase that spend during times of higher volatility. However, we have now identified opportunities to more efficiently allocate marketing spend across all our regional markets to accelerate organic growth. We found that it's much more valuable to spend per customer consistently rather than altering marketing spend to align with market conditions.

We ramped our marketing during Q3, increasing spend across the majority of GAIN's regional markets, and our plan is to maintain or increase these higher levels of marketing spend going forward. As such, Q3 retail marketing spend increased 59% over the prior quarter to around $10 million. We've put in real time tracking and reporting to support rapid optimization and ongoing ROI measurement. Early signs are encouraging, with more than 22,000 new direct accounts during Q3. Looking to the remainder of the year, we are forecasting Q4 marketing spend to be in line with these elevated Q3 levels.

The majority of GAIN's current client transaction revenue, or CTR, is made up of long-term high-value clients who remain with us for several years. So far, this year 72% of transaction revenue came from clients that have been with GAIN for at least one year, and 51% of CTR came from clients that had been with GAIN for three or more years. These long-tenured customers provide a recurring revenue stream and demonstrate our positive ROI on our marketing investment.

While our current results are positive, we're constantly looking at ways to improve client retention and increase their long-term value. For example, we're implementing early value prediction models that will allow us to more effectively identify high-value clients within their first month of trading, which we believe will enhance our customers' experience while increasing their overall value.

Another way we're looking to drive new client acquisition is by investing in new products and innovation and enhancing our customer experience. During Q3, we introduced a new web-based trading platform in the U.K. and Asia-Pacific region, and the US launch happened just this week. The new web platform offers better functionality and performance improvements, and we've had very positive feedback as well as high levels of engagement from clients ever since the launch.

Another exciting new development is our new Direct Market Access Initiative, or DMA, which is an FX Prime of Prime agency execution model. The DMA offering targets high-volume retail FX traders looking to access third-party liquidity directly. We launched our DMA offering in the US in early October and are planning a global rollout through the first quarter of next year.

We also upgraded our service in Canada earlier this month, launching a new suite of platforms and an expanded range of markets. As always, we continue to make advancements in on-boarding and funding options, including updates to our application form, increased automation, and better ways to engage with our clients.

Earlier this year, we began implementing our new AI-driven hedging model, which increases our use of automation to execute hedges and enable us to hedge more efficiently. By automating the process, we are able to hedge more efficiently through a 24-hour cycle, allowing for improved price discovery and smart order routing with the goal of decreasing the trading costs associated with hedging our customer flows.

Six months into implementation of the new hedging model, we continue to see positive results in comparison to our old approach. For example, we're seeing a reduction on the standard deviation of our daily P&L by 13% and also an improvement in the Sharpe ratio of 24% over the same period compared to the old approach that we took. If you look at the chart to the right, we've indexed our standard deviation and Sharpe ratio with the new hedging model and the old model, highlighting both the decrease in standard deviation and increase in our Sharpe ratio since the new model commenced. Initially, we're rolling out the new hedging model for our FX products, but we're looking to extend to other asset classes during early of the next year.

As I noted earlier, due to the diversity of our product offering, Q3 RPM increased to $164, but this was driven by pockets of volatility in exotic currencies, which generally offer higher spreads, as well as other products like metals gold and silver. Despite the strong RPM quarter however, we continue to expect revenue capture to trend in line with previous guidance of $100 to $105 RPM. While the RPM this quarter was unusual, the charts show that our new model is reducing the revenue volatility that we would otherwise have seen in the past quarters.

I'd like now to provide an update on our recent tender offering. On October 9, we launched a modified Dutch auction tender offer to purchase up to $50 million worth of our outstanding shares. GAIN will purchase up to 14.2% of outstanding shares at the high end of the range of $7.94. This tender offer is scheduled to close on November 6, unless otherwise extended by GAIN. We believe the tender offer is a prudent use of financial resources, given our ability to generate liquidity, including the recent net proceeds from the sale of our GTX business of $85 million and the current market price of our shares being very attractive.

Over the last nine months, we've made great strides in executing against our strategic priorities. We increased our focus on direct clients by ramping up our marketing efforts. We continued to enhance the customer experience with new products and innovation, and we continued to execute on our operational excellence initiatives, resulting in improving margins. We also implemented our AI hedging, which is reducing variability in our RPM. All of this better enables us to build value and return cash to shareholders.

With that, I will turn it over to Nigel for a deeper review of our third quarter results. Nigel...

Nigel Rose
Thanks, Glenn. As we discussed last quarter, with the sale of our GTX business at the end of June, under accounting standards, we now present our results split between continuing operations, which reflects retail and futures, and discontinued operations, representing the GTX business that we sold. The income statement in our 10-Q and earnings deck reflects those continuing operations with the net income or loss from discontinued operations brought under the single line item at the bottom of the income statement.

Turning to the results for the first quarter of 2018, net revenue from continuing operations increased 30% year-over-year to $95.5 million as compared to $73.8 million in Q3 2017. Q3 2018 GAAP net income from continuing operations was $10 million, resulting in GAAP EPS of $0.22 as compared to a Q3 2017 net loss of $3.1 million and GAAP loss per share of $0.06.

Third quarter 2018 adjusted net income was $13.5 million and adjusted EPS was $0.30 as compared to third quarter 2017 adjusted net income of $1.4 million and adjusted EPS of $0.03. Q3 2018 adjusted EBITDA from continuing operations was $30.5 million, equivalent to a margin of 32%, as compared to $12.9 million in Q3 2017 and a 17% margin.

In terms of our operating costs, at the beginning of 2018, we guided to a fixed cost range of $195 million to $205 million for our combined business, and we now expect full year 2018 overheads to be between $190 million to $195 million for our continuing operations.

Turning to our retail segment. During the third quarter, low volatility drove a 21% decrease in average daily volume to $7.8 billion as compared to the prior year quarter. Despite that, average daily volume for the nine months remains above the same period in the prior year by 5% at $10.3 billion.

As Glenn mentioned earlier, despite the low trading volumes, the third quarter saw revenue capture of $164 per million as a result of increased trading of emerging market currencies, which have substantially higher spreads, and a subsequent impact upon trading in other asset classes and precious metals in particular, such as gold and silver.

This resulted in third quarter total revenue of $85.9 million, an increase of 34% year-over-year, with margins of 45%. Revenues for the nine months period improved 33% to $246.1 million compared to prior year, with margins of 44% well ahead of the prior year's 25% and outpacing the trailing 12-month average of 39%. Q3 referral fees decreased both on an absolute and cost per million basis as the share of indirect volume fell from 33% in Q3 of '17 to 25% this quarter.

Taking a look now at our futures business. Revenues were $9.7 million for the quarter, down only slightly as compared to Q3 2017 revenue of $9.8 million, while profit margins remained stable at 13% year-over-year. Futures year-to-date revenues improved 8% to $33.3 million, helping to raise profit margins to 14% compared to 7% for the first nine months of 2017.

During the third quarter, futures average daily contracts increased 7% to 25,748 as compared to the prior year period, while for the nine months average daily contracts have improved 12% to 31,149 versus prior year. We continue to see potential for further margin improvement for this segment as interest rates increase.

Shifting to our capital strategy. We continue to focus on four key priorities: required liquidity reserves, corporate development, quarterly dividends, and our share buyback program. GAIN continues to maintain a strong liquidity position, which as of September 30 was $352 million.

Adjusting for the net proceeds from the sale of GTX, this represents a 31% improvement over Q3 2017. We have ample liquidity for corporate development opportunities and have now completed 11 transactions since our IPO in 2010. This includes the sale of our GTX business, which generated net proceeds of approximately $85 million.

We continue to be well positioned for future opportunities should they arise. We remain committed to actively returning capital to shareholders, including through dividend payments and share buybacks. And as such, a quarterly dividend of $0.06 will be paid on December 18.

Share buybacks continue to be a strong focus, particularly as we feel our shares remain undervalued. During the third quarter of 2018, we repurchased 451,624 shares at an average share price of $7.20. That leaves approximately $26 million available for additional repurchases during 2018. In addition, as Glenn mentioned, on October 9, we commenced a tender offer to purchase up to $50 million of shares. We believe the offer is the most prudent way to return capital to shareholders in the near term and highlights our ability to create value for our investors.

And with that, I will turn it to the operator for questions.

QUESTION AND ANSWER

Operator
Yes, thank you. We will now begin the question-and-answer session. To ask a question you may press "*", then "1" on your telephone keypad. If you are using a speakerphone, please pick

up your handset before pressing the keys, to withdraw your question, please press "*", then "2." At this time we will pause momentarily to assemble the roster.

And the first question comes from Kyle Voigt with KBW.

Kyle Voigt
Hi, good evening. Thanks for taking my question. Obviously, just really strong RPM in the quarter. I guess, what we're looking at is, if you did have a normalized RPM in the $100 to $105 per million range, I don't think that's a scenario where the company would've been profitable, given the volume environment. And I think for investors, they want to know kind of what is the management team doing, I guess, to...if you are in a normalized RPM environment, what's going to change going forward in terms of you giving investors comfort that you're going to be profitable in that environment where there is lower volatility? Thank you.

Glenn Stevens
Thanks, Kyle. So I guess, a couple of things. First of all, we regularly look at normalizing, if you will, on a couple of different items, one being RPM, one being GVIX, and one being varying levels of volume. And yes, to your point truly with a more in line or standard, if you will, RPM, then our numbers would've been lower. That said, I think it's important to look at not necessarily from quarter-to-quarter, and what we've said in the past is to try to focus on our trailing 12, at least, to say, "Hey, where is our breakeven, over time where is our breakeven RPM?," to know that essentially be able to build higher lows that gives you the...and then give you the opportunity for higher highs when it comes to those RPMs and when it comes to your net contribution. So in an isolated quarter, the way you're saying, you could do the analysis easy enough, since we put out the volume numbers and you can put out the...you put out the varying RPMs to see where different breakevens are. But I think most importantly is that we've continued to diversify our product.

So in some cases, you can say, "Well, hey, how would you do in a market where absolutely no product or asset class has any kind of movement or any kind of customer activity?" Yes, that's a possibility. But it's quite far out on the curve, which, arguably, is a mirror image of, "Hey, what if you had every asset class lining up and absolutely killing it in terms of interest and volume and pockets of volatility?" We don't plan for that either. And so, I guess, part of the mantra here is to be in many jurisdictions geographically and be in many markets product-wise. So in this case, you didn't get the driver from our kind of traditional engine parts being euro, being yen, being dax, being the largest volume products. We got the drive from more esoteric parts being emerging market currencies, metals, and other items like that.

So I guess to kind of to address...you're saying to give the investors some comfort, the comfort is supposed to be that we can generate cash under various scenarios of market conditions, potentially with certain pockets of products providing trading opportunities; broad-based ones; higher volatility, for sure; and even in cases of lower volatility. So there were some standouts here and some anomalous opportunities, but I would say, also, to make the assumption to say in one way, "Hey, Glenn, can you let investors know that it'll be bulletproof that if all markets were quiet, you'd be fine." No. We've always actually said that we're going to be very sensitive to volatility. And in any particular quarter, when you had GVIX, for example, down 22% this quarter over last quarter, that is a low-volatility environment. And no, we don't do well, or we do more poorly in lower-volatility environment than we do higher-volatility environment.

So I guess, I'm not trying to be dismissive at all of your question, but I guess the answer to say is that we haven't changed our business model such that we're going to be more immune to lower volatility environments over the short term. What we've tried to do is build a better base and create better margins so that when the opportunity is there, then we'll do better. But when it isn't, that we're trying to raise the base of our kind of reliable downside of an EBITDA margin. Hopefully, that addresses it a little bit.

Kyle Voigt
Yes, fair enough. I guess, on the AI hedging program, are you...like, in this quarter, are you saying that the RPM would have fluctuated more this quarter if the hedging program wasn't in place? And then, once you fully implement that for the other products outside of FX, how tight do you expect the range to be on a quarter-to-quarter basis?

Glenn Stevens
We don't...by design, again, the...from a quarter-to-quarter basis, the ranges in RPM will only modestly tighten. The goal of the AI program is twofold. One, over longer periods, as in a year, we expect the volatility or the variability of revenue to decrease, and that's what we're seeing. And part of that comes from our Sharpe ratio increase. Part of that come from our standard deviation of dailies decreasing. And so those are all benefits. It doesn't do too much to change the quarter-to-quarter RPM, but it wasn't designed to.

The other thing it's designed to do is to lower our transaction costs for hedging. And by doing that, you get a recurring benefit every quarter, and that's regardless of your RPM, your output, volatility, or volume. Now the savings of that hedging costs goes up when your volume goes up. But essentially, in any environment, the hedging costs goes down, so you get this subtle benefit in EBITDA. Or looked at another way, you get an opportunity to lower your breakeven RPM just because that benefit from hedging cost savings from the AI program has started to kick in. And to answer the second part of your question, will become more material as it kicks in across more products. And that's where we're focusing efforts now to expand that from FX into assets, into metals, into others. So the short-term impact, muted in terms of reducing the variability month-to-month or even quarter-to-quarter on RPM. The longer-term impact, yes, narrow that.

The first part of your question about, "Hey, would the RPM have been different with...under a different model?" Yes, but not by that much. Here, it's more about the longer-term benefits, as I said, from a cost perspective and a lower variability. But for this particular quarter, the impact would've been relatively muted.

Kyle Voigt
Okay. Last one from me is just on the ESMA rule changes. It sounds like you're kind of implying that you're not seeing anything different in terms of activity levels from customers in Europe versus other jurisdictions. I mean, I guess, you'd be seeing some impact somewhere on something. I guess, if you could just talk about the impact that you are seeing, if you're see anything at all, that'd be helpful. Thank you.

Glenn Stevens
Sure, so a couple of things. First of all, we, I guess, I don't want to say, we're happy, but good to see that most of the predictions and most of the expectations that we shared publicly in the last two quarters, it's very early days, we're in weeks after ESMA has taken full effect, we're seeing it play out the way we expect it to play out. So that's one item. So that's why we wanted to restate the impact in terms of it being less than 5% of total revenue. And also the fact that we did a good job addressing the professional opt up. That's been a very successful effort as well.

That said, in an environment that, as we said, saw a very material drop off in general volumes, particularly G10 and such, from Q3 versus Q2, we saw the not unexpected commensurate impact to lower volumes coming out of our...particularly out of our retail traders. But not...most importantly, not just in the geo of ESMA, in all the geos. So that tells us there, well, this isn't an ESMA-related things, this is our traditional sensitivity. Back to that point, that's our traditional sensitivity to volatility, particularly in those G10 drivers. So when those vols go down by 22%, we see activities back off. And had we just seen them back off in U.K. and Europe, we'd say, that looks ESMA related. But since we saw it back off in the US, Asia-Pac and the Middle East and such, then that tells you that it's following its normal trajectory.

Kyle Voigt
And they declined to a similar degree in all those jurisdictions?

Glenn Stevens
Yes, yes, yes.

Operator
And the next question comes from Rich Repetto with Sandler O'Neill.

Rich Repetto
Hi, guys. Good evening. So first question is, like always, how is October looking? What's the outlook on volumes? It looks like some of the other industry proxies are sort of flat with September. But like, how is the GVIX doing, and the outlook on October?

Glenn Stevens
I mean, a couple of weeks in, you have...Rich, it wouldn't be an earnings call if you didn't ask that.

Rich Repetto
Well, we're in the 25th; that's more than a couple of weeks.

Glenn Stevens
No, a couple of weeks into the quarter is what I'm saying. We didn't come out gangbusters in terms of seeing new pockets of volatility show up, particularly in the G10 products. I mean, I think that's evident. You've seen some of the major currency pairs trading relatively in narrow ranges. There have been some trading condition spots in some of the major equity indices. In terms of some of the volumes, I think pulling market moves back in with particularly the US equity market indices, the European equity market indices, metals. There has been some continued movement there. So I think you probably would still categorize this as a mixed bag, and again, particularly evidenced by saying that the G10 is still being kind of sleepy. And if you look at some of the other ones, they actually have had some opportunities. So I think just empirically looking at markets, we are seeing a mixed bag.

Rich Repetto
Okay. And then I guess...so you've talked about the marketing spend and 4Q staying elevated at in around $10 million. So I guess, Glenn, can you talk in how it's been effective with the direct accounts? So can you talk about just the channels and how you...where the spend is actually...where the increased spend, I guess, is going into and how you are getting that, what do you call, positive impact?

Glenn Stevens

Yes, so I think that, across the board, the step function change for us that you see is the material amount of increased spend that we've put into play. And that's our kind of run rate from where we were of kind of, call it, high 20s to 50, let's call it. And so, we've got into that and we also reiterated that we expect to stay at elevated levels or even increase from there. So that's what you see and that's what we disclosed. What you don't see and what we haven't gone into detail is the amount of work and amount of success in being comfortable to be able to do that. This wasn't a season dependent decision to say, "Hey time to load up more our marketing spend."

A fair amount of work had to be done leading up to this for months, doing the data work and doing the deployment exercises to make sure we...to not make sure but at least, well increase the chances that the outcome will be positive and we've seen that. So when you look at the numbers for new direct accounts, they've increased even in an environment, back to my point, of a softer volatility environment in Q3 over Q2. And you look up at those and say, "Gee, okay you are 28% up year-over-year, and you are 23% up in new accounts quarter-over-quarter even when you had a 22% down in the GVIX." So you have to look at both of those together and say, that's a nice metric It is one quarter, but it's a movement in the right direction.

It's not surprising to us because a lot of the testing that we've done, to your question about the channels, was to actually drill down and look out on a campaign-by-campaign basis, geographic driven, customer type driven, and try to find all those friction points in our ability to deliver timely content in an ROI-driven model or manner that says, "Hey, for what you spent right there, how did that work out?" Also, our ability to be more nimble and more quickly optimize the spend so that even though you see the amounts stay high, there is a lot of churn underneath that. Churn in the method of reallocating, adding, subtracting, and to make it a much more dynamic approach is what we are doing now.

And so again, early results are good. We are excited about the prospects…continuing to see those results. I am looking forward to seeing those efforts lined up against a market that's even more interesting. You have a market that's generally interesting, you would like to think that your penetration and your ability to convert customers actually goes up. So when we can see some of the positive movements in a market that arguably trended softer in terms of its allure, right, just let's use volatility as an allure measure. If volatility went down from Q3 to Q2 or from Q2 to Q3, it went down, but our ability to track customers went up.

I would like to think and it's a pretty easy conclusion to think that when you have a more alluring market because while returns are in the similar levels, then we are well positioned to take advantage of that. So I think, across the board, we've been much more data driven, much more scientific, much more systematic. And it's down to a mixture across all channels, Rich, all geos, all products, both brands. And so, it's got to a much more specific level versus more of a macro approach. This is a much more micro approach to the marketing dollars that are being deployed.

Rich Repetto
Okay. That was very detailed and helpful. Glenn, thanks.

Operator
Thank you. And the next question comes from Ken Worthington with JPMorgan.

Jen Ni
Hi, good evening. This is Jen Ni filling in for Ken Worthington. So I guess first question, maybe a follow-up on Rich's question on marketing spend. Maybe in addition to like, direct and indirect, could you give us a little more color in where you guys are seeing the early successes? Are there, I guess, any regions of the world where recruiting is seemingly more successful and are there...like are the new accounts similar or different from the accounts opened in the past? Thanks.

Glenn Stevens
Sure, Jen. So a 100% of the increase is dedicated towards the direct business in that the ad campaigns, paid search, keyword efforts, even non-digital approach, whether it be other methods of...other mediums, things like radio and print and what have you, all of those are geared towards our branded solutions, so FOREX.com, and City Index. So that's one takeaway to answer your question is that 100% of it has been geared towards the direct business.

In terms of the results, across the board, they've been positive. A couple of standouts has been in…have been in North America, but it's not alone. It wasn't a...it's not a very lopsided approach, we are seeing positive returns across the board. And it's commensurate with the allocation of spend. Keep in mind that the allocation percentages, if you will, aren't static for the whole quarter.

Back to my point to the question earlier from Rich that these...this deployment is dynamic, so on any given day or week or month, the mixture of the increase or the mixture of the assets going to certain channels will be driven by their observed success. And even though the general level, once it's committed to will be devoid and it doesn't mean that the percentages down to each channel, each geo, each brand stay the same, that moves around. But I would say, in general, we've seen progress in all the geos in both brands.

And I would mention that North America probably seems to stand out pretty consistently across the board, what's interesting about that is that keep in mind that, that's a currency-centric market, because you don't have CFDs being traded in North America. And so, it's actually sometimes even a little more challenging to do better in those markets because they are limited. They don't have as a wide a breadth as the UK and Europe does or certain parts of Asia where you are able to market 12,000 products like we can.

Jen Ni
Got it. That's really helpful. Maybe I should be more clear on my second part. So like for the new account, are they very different from the accounts before? Like, in terms of...are the new accounts more kind of buy-and-hold, do they have, like more leverage or more income oriented, like is there any, I guess, difference there?

Glenn Stevens
Well, my first answer is, it's too early to tell. The expectation is no. But I'd say it's too early to tell, because we really started to ramp this in Q2. And so, those cohort accounts that have come in from Q2 who are now one month, two months and three months with GAIN. It's hard to determine if their expectation curves in terms of activity, product focus, volume, the whole experience, is much different because usually, early on, it's kind of hard to tell. And so, I think that we would probably...not probably, we will continue to monitor them as we are now, as I said, being very data-driven. So watch to say you know, three to six months, "Hey, are they tracking similarly or not?"

Now, by the way, if they're not, that's not a problem, it tells you that maybe you have a parallel customer access and that's a good thing, and it may help determine how our products look like, how our service is designed, try to stratify some of our offerings and service levels. But for now, I would say the initial is that they appear to be similar to what we've been drawing the past. So that does help you when you are doing your modeling on how much you spend your cost per acquisition versus your life time value of a client. Those curves in these early days appear to be consistent with our curves that we've experienced in the past.

Jen Ni
Got it. Thank you so much.

Glenn Stevens
No problem.

Jen Ni
And I guess, just another one, maybe GetGo. So the implementation of GetGo in Europe and U.K. has been delayed by ESMA and MiFID. So wondering if you guys could update us on how you are thinking about the rollout of GetGo? Thanks a lot.

Glenn Stevens
So the GetGo rollout in the Australian market is a few weeks old. That was pushed back a little bit. There was a bit of a curveball, and thanks to ESMA and MiFID. Yes, mostly ESMA, really. Those rules, without too much interpretation or notice, derailed the time line for deploying GetGo in the U.K. market. That's on hold for the moment. In a good news, bad news scenario, the plan was always to have that product either incorporated within our existing brands or as a stand-alone brand and to apply it to multiple markets. It's a technology, it's a service, and it's a feature that, again can either work independently as its own kind of standup, pop-up kiosk as a mobile-driven experience or it can reside within both brands, FOREX.com and City, as a unique feature that only we offer to our customers. The determination of that will come as we learn more about the product.

I would've liked to be able to learn more if it was in the U.K. market continuously. We have six to nine months now of experience there, and we don't. So we're starting to get experience with onboarding customers and trading activity and feedback from Australia. But it's…as I said, weeks in. We are trying to see if there's an opportunity to redeploy the product in some form in the U.K. and European market. And then the other markets, like Singapore and other parts of Asia Pac, that's still in the queue to be able to do.

So I would say that, we had a temporary setback. We didn't model much contribution from GetGo as it was because, again, there is a lot of opportunity to learn in that product, because the way that it's mobile only, the way that it has a unique interface with clients and the way that it has kind of a decision-driven swipe environment versus a trading platform, how that ultimately plays out, we are still a strong believer that it's an added-value and a unique feature of GAIN. How it looks to the customer in the end is still TBD for us.

Jen Ni
That’s pretty helpful. Thank you so much.

Glenn Stevens
Sure.

Operator
Thank you. And the next question comes from Dan Fannon with Jefferies.

Dan Fannon
Thanks, good afternoon. I guess, just thinking about the marketing and the spend and keeping it at similar at levels in 4Q. Is there an offset a little bit in your kind of operating model with referral fees, because these are more direct customers. Should we think about that referral fee number generally trending lower or is this kind of a reasonable level?

Glenn Stevens
I think our best bet is that this is a reasonable level. The mix of volume may start to trend even more...less towards indirect and more towards direct if that's growing faster.

Nigel Rose
Yes, and Dan, I think when we gave our first quarter results, we gave guidance in terms of the indirect volume of 20% to 25% of total volume. So you are absolutely right to the extent the marketing initiatives drives direct business and direct new accounts, then whilst indirect volume in itself doesn't change, its share of total volumes should start to move towards that bottom end of that range.

Dan Fannon
Okay. And then, I guess, just a little bit more broadly, Glenn, just in terms of M&A. The environment today, how it kind of fits and what you see out there as potential opportunities or is it something where, you know, you have outlined, obviously, your organic growth initiatives. Is that really the primary focus and we shouldn't be thinking about you as really looking at potential M&A opportunities all that seriously here?

Glenn Stevens
First, let's start with the capability. And I think our balance sheet, particularly after bolstering it with the GTX sale, clearly indicates that we have the capability without even worrying about our stock price to continue to...our track record of being acquisitive. And I think as Nigel pointed out in his notes, we've made 11 acquisitions, at least, since being public. And we are at as strong a position as we've been in a while to be able to continue that if we wanted to do. Now to your question that says: How should you think about us doing that? You are absolutely right, that we intend to continue our hyper focus on the direct business, as long as, we got that investment of time and money continues to pay dividends. But certain situational factors can easily have us dust off our cleats. And when opportunities arise and we have...we can be selective about them and make sure that they're complementary, it's really easy to grab the cleats and get on to that different pitch.

And so, the team and the wherewithal and the experience and the acumen to do those successfully continues to reside within the shop, as is our culture to be able to do that and integrate and the whole bit, because some people are comfortable doing that and some people aren't. So we are not closed off to it at all. We are actually just making sure that we are focused on this other thing and, when something come along, as I said, it's important to know that we have between the revolver and cash and everything else ready to roll. I think that in terms of what's likely, some of the ESMA fallout is just working its way through the system. We are a couple of weeks in, a month or two in. I think you will start to see some opportunities in the European market pop up, maybe in other markets pop up.

And so, yes, I think we'll definitely stay engaged and very much in that loop. But in terms of it being. Let me put it this way, a few years ago, we had kind of some yearnings that needed to be addressed when it came to listed products in the US, when it came to CFD expansion in the U.K, when it came to opportunities in other markets. And so, we were probably out shopping, but so now we are out...we're not out shopping, per se because we filled a few voids, but we are certainly happy to buy something.

Dan Fannon
Understood. Thank you.

Glenn Stevens
Alright.

CONCLUSION

Operator
And as that was the last question, that does conclude the question-and-answer session as well as the call. Thank you so much for participating today. You may now disconnect your lines.