

GAIN CAPITAL HOLDINGS
"3rd Quarter 2013 Results"

Wednesday, October 31, 2013, 8:30 A.M. Eastern
Glenn Stevens
Jason Emerson

GAIN CAPITAL HOLDINGS
"3rd Quarter 2013 Results"

Wednesday, October 31, 2013, 8:30 A.M. Eastern
Glenn Stevens
Jason Emerson

OPERATOR: Good morning and welcome to the GAIN Capital Third Quarter 2013 Results conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded. During this conference call, management will make forward-looking statements to assist you in understanding the expectations for future performance. These statements are subject to a number of risks that could cause actual results and results to differ materially and they refer you to the Company's press release of October 31, 2013, and to the Company's Form 10K for the year ended December 31, 2012 for discussion of these remarks. In addition, statements during this call, including statements related to market conditions, integration of Global Futures & Forex, changes in regulation, operator 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 light. The Company may at some point elect to update the forward-looking statements made today, but specifically disclaim any obligation to do so. I will now turn the call over to GAIN CEO, Glenn Stevens, to discuss the third quarter 2013 results.

GLENN STEVENS: Good morning and welcome to GAIN Capital's Q3 earnings call. I would like to thank everybody for joining our call and walk you through some highlights of our Q3 financial performance, drill down into some of the financial metrics and operating metrics, as well as give you some insight as to our strategic thinking and focal points for driving our business forward. We do have our deck available online and I'll be using that as a backdrop for our conversation, after which we'll have a period of Q&A.

Our highlights for the quarter are good. We achieved the second highest quarterly revenue we've had in history at GAIN, driven by increased retail client engagement and more favorable market conditions. A subset of that is that our year to date commission revenue is up 180%, year over year, contributing approximately 21% of revenue. It's important to note that as we talk about diversifying our business streams going forward, we continue to make progress along these lines and for those who have been tuning in as we go along quarter to quarter, you are able to see the progress and we'll highlight that a little more deeply in this deck.

We successfully closed on our GFT acquisition with a realization of expected operating expense synergies under way. We were fortunate enough to commit to that deal even before it was closed, hence giving us a running start. So on the official close, it wasn't from a standing start at that point, we were actually able to run into the starting line, if you will.

The Q3 adjusted EPS is \$0.13, that's up 44%. More specifically, for our third quarter financial results, Q3 net revenue was \$60.6 million that's up 52%. These are year over year comparisons on a quarter by quarter basis. Adjusted EBITDA of \$12 million, that's up 90%, year over year; net income of \$4.7 million was up 42%; and our adjusted EPS of \$0.13 that I just mentioned was up 44%. For the

nine months through the year that brings us to net revenue of \$183.4 million, that's up 54% over the similar period last year; adjusted EBITDA of \$47.3 million; and net income of \$26.2 million with an adjusted EPS of \$0.71. Obviously, the comparison from 2013 is quite favorable to 2012 and there are various reasons for that success, which we can go into in a little more detail.

On the operating results, breaking down some of the numbers behind the output financials – our retail volume of nearly \$395 billion was up 42%; institutional volume was \$900 billion, up 79%; futures DARTs over \$12,000; funded accounts over \$131,000 with client assets of \$684.1 million, up 60%. For the nine months retail volume of \$1.3 trillion is up 30%; institutional volume up 100% to nearly \$3 trillion; and futures DARTs of over \$13,000.

As kind of a backdrop for some context, the next chart shows the market conditions and the take away on this slide is just to get a feel that we have not returned to heady levels of volatility, or what we call good trading conditions from GAIN's perspective. There has been a bit of an uptick off the trough levels that we saw at the end of 2012, but we consider this a glass half full scenario where there's absolutely some room for improvement in trading conditions and we like the fact that we're able to manage some pretty decent results, even to what would consider somewhat lackluster opportunity, and opportunity environment.

As part of our three pillar approach, which we've been touting for several quarters now, the goal for GAIN is to continue to diversify our revenue stream. That doesn't mean to deemphasize our retail business, which has been the cornerstone of our success, but just more about folding in or layering in complementary business lines that leverage our operational expertise, leverage our brand exercise, and leverage our ability to push into different products and geographies using kind of a core competency. We've talked in the past about our concentration being in the high 90s in terms of percent on retail and we continue to move that to where the balance will come from other businesses and those other businesses are going to be complementary in that they're in similar products and geographies, but they'll focus on different customer segments like our institutional business, or like our exchange traded business. So the three pillars, again to remind people, is retail OTC in one, institutional in another, and exchange traded business, fee based business in the third. So, for the retail column, we increased year over year client engagement. Retail volume was up 42%, funded accounts continued to grow, and we'll bolster all that with the GFT acquisition, which we'll drill down some more. Our partner pipeline is very robust, we've had several new partners expected to sign in Q4, but also some that have signed in Q3.

Optimizing our marketing expense, we use a lot of metrics; we spend a fair amount in marketing, being that we're a very prominent online company, that's part of our mix, but it's not something we use in scattershot form. We try to use a lot of metrics-driven decision making tools in terms of return on our marketing dollars spent with customers, with assets, with a cost for account vis-à-vis the lifetime value of a client. So there're lots of book processes that go into how you deploy these resources because it is a finite resource for us; it's something we have to manage closely and ultimately, it has to be used in a judicious manner across products, across customer segments, and across geographies.

For the next pillar on the commission-based business, ultimately, you can see that 21% of our revenue for the nine months is now coming from that type of business. So back to the point about diversifying the revenue stream, that's a number that's in single digits, low single digits, merely a year or two ago, and so

our strategy to, again, build our overall top line revenue from multiple sources is evident in this kind of progress. And it's important to note that this came even while retail volume has continued to improve and if you look at the significant impact, year over year, or significant progress, year over year, on our retail numbers, we've been able to get this higher percentage of non-retail FX revenue coming in, in spite of the fact that we've had very strong growth on the retail line. So it's not at the expense of in a cannibalistic way, it's in a complementary way or in a way to augment our overall numbers.

Turning to institution volume, it continues to rally. There's a strong pipeline of new customers as our product continues to gain market share and foothold. The proprietary technology that we utilize is really resonating well with a lot of institutional clients, whether they be banks or hedge funds or high net worth, it's a perfect complement to the GFT business; there's a natural combination there with a lot of the customers that they have using institutional type platforms.

Futures account growth was 15%, year over year. Again, that's a business that's kind of a medium term vision for us that we feel like we can leverage a lot of GAIN's strength and be able to bring some value add to the futures business that we think is right for someone to come in and create some disruption, if you will, to bring the service and bring the clients a product that can be sticky and can gain a fair amount of market share in a short amount of time.

At this point, what I'll do is I'll flip over to Jason. Jason joined us recently as our CFO and he's had a chance to meet with some of our analysts and some of our investors, but will become more accessible as time goes on. So, just for this first time, I'll ask you to go easy on him when we get to Q&A. I told him he gets a pass for the first call and then we can go from there. But I'll flip it over to Jason now. He can take you through some of the specifics on the financials and then we'll wrap it up for highlights. Jason?

JASON EMERSON:

Great, thank you Glenn, and good morning everyone. Thanks for participating today. I'm pleased to have such strong results to review in my first earnings call as GAIN's CFO. The last four weeks of working with the team has solidified my view of GAIN as an innovative, performance-driven firm with real growth potential. The third quarter was another period of strong year-over-year comparisons for GAIN, with growth from our core retail FX offering, as well as our commission-based businesses. As Glenn has already noted, we posted 52% revenue growth, which primarily represented organic growth, as we only had four trading days of revenue from our GFT acquisition. Our retail FX business grew 48%, driven by an increase in active accounts, as well as improved market conditions. Commission-based businesses expanded revenue by 133% through growth of our institutional volumes, as well as full quarter from our futures business. Adjusted EBITDA was up nearly twice as much as revenue, which demonstrates the operating leverage inherent in our business model. The adjusted EBITDA figure excludes restructuring and acquisition-related expenses of \$800,000 associated with the GFT acquisition.

In the first nine months of 2013, we've delivered \$47.3 million of adjusted EBITDA, up almost three times from the same period last year, and a 54% revenue increase, while total expenses were up 32%. EBITDA margin in the first nine months almost doubled to 26%, driven by strong revenue growth across all business segments. Net income of \$4.7 million was up 42% for the quarter and quadrupled for the first nine months of the year. Adjusted net income for restructuring acquisition related expenses, we get an adjusted net income figure

of \$5.1 million for the quarter, despite the impact of a one off increase in tax expenses.

On the expense side, in the third quarter, the increase in trading expenses reflected slightly higher percentage of retail volume from our partners, as well as nearly \$2 million in partner fees that we do not expect to recur in future periods, with the closing of the GFT transaction.

For the year, trading expense is up due to both higher volumes, as well as having a full nine months of OEC related trading expenses relative to only having one month for the same period in 2012. Core expense has been relatively contained; compensation and benefits was higher in the quarter and year to date, attributed to the combination of higher bonus compensation, driven by our year to date results, as well as planned investments we've been making in our institutional and futures businesses, bringing in top tier talent to help us build out these offerings to new client bases. Comp expense margin of 25% for the year is down from 30% for the same time in 2012.

Marketing expense is up for the quarter as we invested in regional growth efforts, but down 21%, year to date, as we've been able to effectively focus the spend on geographies with the greatest growth potential. Lastly, in the bottom right, year to date retail trading revenue per million increased slightly to \$101 per million, consistent with the levels we've seen over the last 12-15 months.

Turning to the next slide, we see that GAIN continued to make progress in diversifying its revenue base into both institutional and futures. In 2011, GAIN was very much a retail FX shop, with 97% of our revenue coming from the Forex.com platform. We defined the three pillars of GAIN as retail, institutional and exchange base trading and set out to enhance our revenue by adding commission based offerings to reduce the impact of FX volatility. In 2012, we really built up the institutional business, adding a voice desk and new GTX clients, with volume more than doubling to \$2 trillion and revenue almost tripling to \$12 million, even as many of our competitors reported falling volumes. We also made the acquisition of futures brokerage OEC late in the third quarter, adding another source of commission based revenue, taking the total commission based contribution to 13%.

Looking ahead to 2013, you could see that the commission component now represents 21% of revenue. GTX volume is doubled from a year earlier, while revenue is \$21 million, compared with \$12 million for the same period in 2012. OEC has made a meaningful contribution to revenue of \$16 million for the year. So we're looking at significant growth for both businesses, both in dollar terms and as a percentage of total revenue. We've said in the past that we expected commission revenue to represent around 20% of the total for 2013 and we're on track to achieve that. Long term, we expect both futures and institutional FX will continue to grow.

On the institutional side, we have several competitive advantages: our differentiated GTX platform, an experienced sales training team, and now the GFT sales trader business. For futures, we're working to build out the offering, leveraging a wide range of both partner and direct client relationships from our core retail FX business. Strategically, these businesses tend to be much more revenue sticky than retail OTC trade. So the growth in commission business is very important as we diversify our revenue and improve our resilience in times of lower FX volatility.

Turning to the next slide, we have a financial review of the GFT acquisition. The purchase price was broken down into \$40 million cash plus \$3.6 million of GAIN shares and seller financing of \$33 million. It's worth noting that there's no prepayment penalty on the seller note and shares are subject to restrictions with regards to how much can be sold over the next 24 months. In this transaction, there are multiple areas where we expect we can achieve synergies, including headcount, technology, marketing, real estate, and other areas, for a total of \$35-\$45 million in the first 12 months following the close. We've already made progress on this front when earlier this month we enacted a planned headcount reduction across GAIN and GFT, which combined with departures since December 31, 2012, have lowered headcount by 22%. So we've gone from nearly 700 personnel between GAIN and GFT combined, to 545 through the end of October, with slightly more than half of the reductions being made this month. A portion of the reductions we made last week shows up in our results as a \$400,000 restructuring charge with additional expenses that will hit in Q4, as well as into 2014. We do also expect to unlock some regulatory capital synergies, freeing up cash on the balance sheet in the medium term, though it's important to note that it's not included in the \$35-\$45 million figure, which is all expense related.

We expect to make further progress in the fourth quarter and that the transaction will be accretive, excluding onetime charges related to the acquisition and significantly accretive for the full year in 2014 as we realize the bulk of the synergies.

Moving to the next slide, we've provided some more details on the performance of both GFT and GAIN for the year. We completed the acquisition of GFT on September 24th, so we had 4 trading days of contribution, which amounted to \$2.8 million of revenue, or about 5% of total net revenue, and \$700,000 of EBITDA. On the table below, we've broken out the performance of GAIN and GFT. In the year to date, GAIN has post revenue of \$183.4 million with an adjusted EBITDA margin of 26%. GFT revenue is \$88.2 million, or about half of GAIN's revenue for the period, and a 13% increase, year on year. On the far right, we estimate the performance of the two combined companies for the year, assuming we achieve 75% of the midpoint of our \$35-\$45 million expense synergy estimate. The result is a significant increase in scale. Revenue grows by 48% to \$271.6 million and we maintain our adjusted EBITDA margin of 26%, but adjusted EBITDA is now \$70.5 million, compared with \$47.3 million for GAIN as a standalone company.

I'll now hand the call back to Glenn to discuss some of the strategic aspects of the GFT transaction and how it'll transform the firm's scale, business mix and product offerings.

GLENN STEVENS:

Thanks, Jason. If somebody doesn't have the idea that there's a lot going on at GAIN by this point, then you haven't been listening closely enough. I haven't figured out how to pay people time and a half because everybody's really busting it, but in a good way. The specific highlight with the GFT acquisition in Q3 has really been a culmination of a lot of hard effort, a lot of hard work and a lot of effort, basically to bring us a step function trajectory change to — we like to call this a transformational deal for GAIN and I believe that it is because the people and the products and the geographic dispersion, the cost synergy, the new level of revenue — we crossed a milestone from an asset perspective on our balance sheet of a billion dollars. I mean, these are all kind of highlights that provide a look into what we feel like the future holds for GAIN in terms of being able to escalate our rate of growth and emerge as truly a leader in this space globally

and I said for a multitude of customer segments. So I appreciate some of the detail that Jason put together to try to share with the listeners on this call and for our investors and our stakeholders. But the important take away is to look at this to say, okay, we looked at this deal as an opportunity to kind of jet fuel things at GAIN while our organic growth machine is still very healthy and well intact and it's important, though, to say that it complements well with M&A strategy. So, to delve in a little bit from kind of a business perspective or strategy perspective on GFT, I want to reiterate some of the things that we put out back in Q1 when we said, we announced this deal at the end of April and had a brief look into, hey, why are you doing this? And, look, GFT is a company that I think did a lot of good things, but combined with GAIN, it gets to migrate to great things. And in terms of where we are, if you look at the scale perspective, it gives us a 13 run rate over \$360 million revenue, client assets of nearly \$700 million. We've gone from several hundred products to 12,500 financial markets that we offer products into, just look at the product depth of breadth, OTC, FX, CFD, spread betting, FX options, binary options, I mean, you can keep going on it. So we want to be able to use those levers, fashion the right offerings, the optimal offering for our clients in different places and for different people.

The business mix gets us to where our strategic goal was, which was kind of a 50/50 split in terms of indirect and direct business and I think that's key there. I use the words "gets us to our strategic goal". We put out strategic goals that have generally three-year time horizons. We adjust those annually to see where they need tweaking, but, if you move to the next slide and there's a series of pie graphs there, I want to show the migration from when we look at a target and we look at what we think is an optimal strategy, we know we have two ways to get there. We grow internally organically or we grow by strategic M&A. And, in some cases, like this one, we're able to take a bit of a leap forward versus an incremental step forward. You look over at some of the pie charts, look at GAIN alone. Our direct business was 63% of our business, with indirect being 37%. Look at the complementary mix at GFT, with the colors kind of in an opposite setup there and then, look at the result where it says PF GAIN Capital; let's call that pro forma for now. Look to the right on the trading volume, importantly, look at the breakdown between retail, institutional, and then lower left, client assets, that's just a nice graph when your number jumps up like that.

On the revenue contribution, same idea, the commission revenue continuing to become a more prominent part of our mix and we think that bodes well for us, in terms of delivering more stable results over time.

In terms of the idea in our retail OTC business, which is still by far the biggest breadwinner of the family here, the volume by product impact on the next slide shows that the non-FX and the FX business for GFT is much more prominent in non-FX than it was at GAIN standalone, so, together the mix brings that non-FX business to nearly 23-24%, whereas that number was sub 10 for GAIN. And so, same idea, when you have trading conditions that may not be ideal for FX, it doesn't mean that there aren't some trading opportunities in other products, whether it be metals, energies, indices, what have you. Yes, it's possible for the trading conditions to be lackluster across all markets or, for that matter, be really robust across all markets. But generally speaking, portfolio theory tells you it's a mix of kind of hot items and items that aren't hot and, if you're in all those markets, then you stand a better chance of being able to glean positive revenue results across the board.

So, going back to where what GAIN does for us looking forward, the next slide is titled "The GFT Positioning for GAIN for Growth in 2014 and Beyond." Again, we

get an immediate scale increase but that generally begets more heft and gives the ability to attract more clients, be a thought leader and be a market leader in many ways. It also lets you attract more prominent partners and, as I said, with the scale, in terms of products and global footprint, that's important in diversifying our revenue streams.

This is one example, and a good one, of a successful process by which we identified a valuable acquisition. We're able to, I believe, get some really good terms for the deal, close it, and then hit the ground running on a strategic operational implementation of it. Because, ultimately, you can have really good ideas, you then need to identify the opportunities to make them happen and then you need to make them happen. So, we're in, we're deep in the stage of that third piece of making it happen and the team that's dedicated towards it now and the planning in place and, frankly, the progress that's already been made. Jason alluded to making some efficiency cuts in terms of head count; we're doing much more than that in terms of data, in terms of infrastructure, in terms of offices, all kinds of things. And so throughout the next several months, that's going to be a heightened focus for GAIN and making sure that we extract and position ourselves for as much value as possible for doing that. However, it doesn't put us on the sidelines in terms of strategic priorities going forward. The good thing about having done a series of acquisitions over the years, GAIN has and will have a history and a strategic priority at making opportunistic situations that fit within a strategy. So, when you look at us compared to other people who are active in the space, we try to evaluate every opportunity that makes sense as a puzzle piece so that when you step back and look away, the puzzle piece, the lines go away and you recognize the picture. And so, for this one, we said, hey, there're a lot of benefits here and the numbers make sense and we have the operational excellence to get it done and, by the way, this shouldn't knock us out of the box to be able to look forward. So, for that, we want to keep looking at — we've been able to conclude four successful transactions in the last 24 months. I absolutely can sit here and say we have a robust pipeline with potential acquisitions currently being reviewed. We've continued to return capital to shareholders, which, once again, we approved a \$0.05 quarterly dividend this quarter; our share repurchase program is still in place and we want to continue to build a diversified shareholder base. It's important for us, for all our stakeholders, existing and prospective, to know that we're here for the long run, we're here to build value and on all those levels, we want to be able to, frankly, build something that the stewards of which, myself and my team are for this overall value proposition. You touch all the items, right? You make sure your core business works, you make sure your strategic M&A is working, you make sure you manage the numbers well and you make sure that your transparency, your message to the street and your acceptability to the existing shareholders and prospective shareholders is there; and you build a clientele, if you will, that are customers of GAIN or investors in GAIN are proud to be part of it and, again, that has a longer term value. We want to be able to look back at this several quarters into the future now and say, gee, a lot of the right moves were made and followed through on.

So, before we get to Q&A, just in terms of some closing remarks, this quarter is another opportunity to showcase some of our upside and showcase some of our ability to take advantage of reasonable trading conditions, of market consolidation opportunities. I think that, for the quarter and for the year to date, particularly relative over 2012, which was challenging on many levels, it's important for people that stuck by us and for people that bought into the timing of our story, it's a good one. And, ultimately, you know, GFT is one piece of the puzzle, it's not the end all, be all, but it's gone really well and it should have, it

should be sending a signal that we're good at this and that we made a good choice with this, but also that our core business continues to move in a very strong fashion. So, in terms of just summing up the quarter, the quarter has a strong story for us to tell. Year to date is a strong story for us to tell. But most importantly, it sets the table for us being able to tell a good story going forward, as well. So, with that, I will go to Q&A and then we can wrap it up from there. Operator?

- OPERATOR: Yes, thank you. We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. And the first question comes from Rich Repetto with Sandler O'Neill.
- RICH REPETTO: Yeah, good morning, Glenn, good morning, Jason, and congrats on a strong quarter here. The first question is, in your brief, there's just a sorta admin, but your briefs are real quick but the tax rate, the tax rate was significantly higher than what we anticipated. Could you just go over that?
- GLENN STEVENS: I'll start and Jason can add if you like. To clarify on that one, we, there's a one off item in there that's putting a bulge in the rate for this quarter. I think, whether Jason mentioned or not, kind of going forward, the full year is much more normalized for our expectations. You want to add to that?
- JASON EMERSON: Sure, sure, Rich, so we had two events in terms of we've adjusted our effective tax rate for the year based on what we see the business levels going into the end of the year, so our effective tax rate is 31-32% based on business bubbles and the impact of the onetime tax event, which is historic and doesn't impact, is not something we foresee in the future, has an impact of approximately \$1.1-\$1.2 million in terms of that tax expense that you see in the income statement.
- RICH REPETTO: Okay, I'm sure we can get more detail offline. Second, I guess the revenue cap should, Glenn, 121, there's just a few different questions in regards to that. Did this include that couple million onetime partner fee? And then, where are we running in October and then how's the revenue capsule look, combined with GFT? It looks to us like it might put pressure on the retail, but institution will be higher, is that sort of the right view?
- GLENN STEVENS: So, a couple things. There were not any abnormal impacts on the RPM. I think that one of the reasons we continue to highlight kind of our trailing 12 month average is because there has been and we wouldn't be surprised if there continues to be oscillation around that kind of a number, that sine curve, or cosine curve, don't test my old geometry knowledge on that one, but you can see that it does continue to oscillate in kind of a symmetric fashion and so the 120 is well within that range that we've been posting for several years, not just twelve months going backwards. So, no, there's no onetime item that would cause any kind of a weird hiccup; it's just kind of part of our thing there. I mean, we, one thing that we did have but it wouldn't be in that quarter is that there was a GFT payment. When we migrated over some of their U.S. business back in November, we had a revenue share in place with them that would go away, or has gone away once we closed the deal. But that's, that wouldn't do anything to cause a big hiccup. So, ultimately, the numbers that you're looking at are clean numbers and, again, I would argue well within kind of our normal range of output there that we've talked about. So not too much to read into that other than the kind of the normal variability in the short term, quarter to quarter, but, most

important, we focus on, hey, how's it looking over the last 12 months and it continues to chug along at a reasonable number.

RICH REPETTO: Okay, so that's the comments on October, that's it's chugging along at a reasonable number?

GLENN STEVENS: No, no, I'm saying that's a comment on, I'm saying on the quarter. When you said, look, is there anything that's one off that would have to come in or go out of to affect that number up to 121 and I'm saying no, that, as we continue through the year and looking back, there isn't anything that caused the uptick for the same reasons I'd be sitting here to say there isn't anything weird thing that causes something that's below the 100. It's part of our business that we continue with this oscillation around kind of a pretty consistent number of around 100.

RICH REPETTO: Okay, okay, and then the, my last, the last question in regards to GFT. I know you put the contribution for the five days, or whatever it was, included in the third quarter, but if we back into numbers, we thought the GFT was positive for EBITDA in the first half and it would imply that GFT for the full quarter on its own had a significant EBITDA loss in 3Q – is that correct?

GLENN STEVENS: I'd say that as their business for Q3, going back into their financials, they have been dancing around flat, which I think we have guided to, in terms of that. They lost some money in Q3, as we got into the last stages of being able to get the deal closed. There were some revenue challenges that they may have had just from a partner or capital perspective, when we were trying to get the deal done at the last few weeks there, just to make sure everything was dotted and crossed. I would argue they were not operating at peak efficiency, not to mention you have tons of uncertainty for employees on their side. They absolutely were not running at optimal levels but I think the reason why we showed the slide that said here's where GFT was, standalone, frankly, I'm not going to sit here and defend their operation because I didn't run it back then like me and my team run it now. Our goal is to get to that point where you look to the far right and say, hey, I think it's important that when Jason was going through the stats, he said, look, we're assuming capturing 75% of the midpoint of our synergy, so it's not even, I would argue, a very opportunistic or a very positive or optimistic target. He went in with what I thought was pretty reasonable and said, let's say we take the midpoint of the 35-45 we've been guiding to in terms of synergies, let's say we captured $\frac{3}{4}$ of it, look at the results that it gives you. So, you're right, they did not have a great Q3, but commenting on it doesn't seem overly beneficial because we weren't able to exact much influence, frankly, on business, on people, on flows, on customers, the whole bit.

RICH REPETTO: Okay, that helps.

GLENN STEVENS: I guess, Rich, what's most important, it's no lasting damage to GFT and no lasting damage to GAIN. They're getting to their final stage of their race, if they limp home it's fine but there's no injuries to Achilles, hamstring or anything like that and, most importantly, we get the athlete into the house and then we coach him our way.

RICH REPETTO: Thanks for the analogy, Glenn, I appreciate it. Take care.

OPERATOR: Thank you and the next question comes from John Dunn with Sidoti & Company.

JOHN DUNN: Hi, congratulations, guys, on closing the deal and congratulations to Jason on his new seat.

- GLENN STEVENS: Thanks, John.
- JOHN DUNN: So you guys talked about your pipeline of new GTX customers. Could you talk about what like the — that is stickier revenue, what's the timeline of courting those customers? Like, how long does it take, what do the discussions sound like?
- GLENN STEVENS: It's good. It's a good question because it's absolutely more arduous than your standard customer. I mean, so, a retail customer gets attracted to our product or our site and, for the most part, drives themselves home where they're able to open the account fund and our job is to make that runway as slick as possible so there is no impediment to their progress. On the institutional side, it's a higher touch process, as you said, the customer is stickier, more valuable over time and it really is a relationship we have to establish. They have to get comfortable with our technology, comfortable with the value add that it offers, comfortable with all the piping involved and, just in terms of flows and clearing and reporting that's necessary, fold into that all kinds of SEF stuff and other kind of regulatory hurdles in some markets and it makes for quite the amount of work. And if anybody gets to know an institutional trader, you should know that there's a lot of inertia there and when anybody upsets their daily routine that could start with what's in their coffee, to end with where their seat is on a train, it's unsettling and so you have to get over that. You have to truly show value, you have to show opportunity and you have to be able to prove your ability to be really a good offering. And so, to answer your question, we've seen those processes take a year. They never take less than a month. I'd say ball park, they're in a 3-6 month range, that's probably the sweet spot to actually getting somebody from an initial pitch to an initial trade, that's probably the right timeframe. But it does vary as long as a year plus and, as I said, I've never seen anybody get onboard inside of a month or two.
- JOHN DUNN Gotcha and then do you guys have a longer term goal of the revenue mix between retail and institutional?
- GLENN STEVENS: So we have put out to we're at, eventually, 50% of our business would come from OTC retail and 50% would not. And so, we put that in a little over a year ago as a goal and I like to think that the strides we're making have been very good and very promising and the important part, as I said, is it's not a goal in and of itself, because theoretically I could chop half of the retail business off tomorrow and that would really move the numbers for this strategic goal. So the percentage isn't the goal. The percentage is at a higher lever. The near term goal was probably to say, look, get that to 30% and then go from there. It's kind of like the direct and indirect mix. We want to continue to evaluate what the optimal mix there is. There's a lot of benefit to the retail OTC business. It's got some good margins, it's got some growth, it's got ability to garner a lot of market share, but it has variability built in. On the institutional side, as we talked about, it's very difficult from a pipeline conversion perspective, it costs more money per account to bring in, but it's got stickiness, it's got less variability quarter to quarter; so, everything's a mix of that. So I'd say, ultimately, if you fast forwarded, I don't know, you want to call it a year of two or three and say what would GAIN look like? If that 50/50 mix was out there, I think both types of business would earn their keep and absolutely belong in a positive mix. But, more importantly, is that you're growing them versus the outcome percentage.
- JOHN DUNN: Gotcha, all right, and then on the M&A side, it seems like you guys are pretty well set on the product side. Can you talk about the potential deals you're looking at

now and just elaborate on the robust pipeline and what type of deals you might look at?

GLENN STEVENS: Sure. So what we've kind of stuck to in the past and the people have heard me say our three P's of people and places and products. We try to make sure that it strategically fits into one of those items. And so people can mean that either it's a talented group, whether it's the sales people, products people, and that's bringing a group or a team in-house. So we recently bolstered our futures business by bringing in a group from Pioneer. These guys focused on a different set of clients than our OEC folks focus on, so we thought that'd be a good complement. There's an example of bringing in people. But then the other part of the people is how do you access the customer segment, so that could be regional that can be high network versus small retail root of the market. So I think at this point, there's still opportunity, even though you're right, we've achieved a much more comfortable state in terms of products. A few hundred felt good to us because we used to have a few dozen, but now 12,000 feels even better than a few hundred. You're right, the added benefit of going from 12,000 to 15,000 or 20,000, I would tend to agree with your idea that says it's probably not as big as going from a few dozen to a few hundred or a few hundred to 10,000. But the reality is that in these scenarios where we could build our business to stronger way in the Middle East. If there are parts of Latin America where we need to be with a better representation, if it is a segment of clients; so in those cases, absolutely, we'll re-look and we are looking at acquisitions that make strategic sense. So, just because the products are robust now and just because we have the world covered pretty well, doesn't mean there are lots of opportunities for us. I just want to make sure that they fit in, in terms of product or in terms of people, either getting people or customer segments or in terms of places from a geographical perspective.

JOHN DUNN: Gotcha and then, just lastly, in the same vein, if volatility stays, towards the lower historical range and that continues to hamstring the smaller players, can you just give us color on how you plan on taking advantage of sort of the pressures on the smaller end of the segment?

GLENN STEVENS: The environment to operate business in, if you just look at the U.S., for example, the regulatory floor for effort and headcount and wherewithal just look at our success in becoming a swap dealer and our success at getting posted as a SEF. There're a lot of these hurdles that are hard to do on a small scale. They require energy. They require resources. They require expertise and so, whether it's institutional or retail or reporting requirements for a regulator in the U.K., what have you, those are the kind of things that put a lot of pressure on the margins and on the ability for a smaller player to operate. So I think in some of these cases — and, look, even GFT, which was a pretty good size business, it made way more sense to be part of GAIN than it did to be standalone. So, if you narrow that scope even further and say how about a company half the size of GFT, it makes even more sense. So, in some cases like that we want to be able to fold in a potential partner, if you will. We think that the sum absolutely is worth more than the parts and it does help, to be frank, that some of the external pressures on these shops just make it a good business decision to join with GAIN. Not to mention, as one of the few public shops in this space, we are able to be way more transparent about who we are and how we're doing and that just gives more comfort for someone to say, yeah, I'll join and I want to be part of that upside and I want to be part of the transparency. Whereas private to private is sometimes a pretty sticky situation and we get to come into a discussion pretty open.

JOHN DUNN: Gotcha. All right, thanks for taking my questions and congratulations.

GLENN STEVENS: Thanks, John.

OPERATOR: Thank you and the next question comes from Patrick O'Shaughnessy with Raymond James.

PATRICK O'SHAUGHNESSY: Hey, Happy Halloween, guys.

JASON EMERSON: Thank you!

GLENN STEVENS: Thank you! I'm dressed up as a CEO today, Patrick.

PATRICK O'SHAUGHNESSY: I'm dressed up as a tired analyst. So, first question is, with GFT, can you talk about the attrition that you've seen from those accounts? Is it coming in line or better or worse than your expectations and what's the customer experience been like so far for those guys?

GLENN STEVENS: Fair question and I'm pretty unequivocal about saying better than expected, but not entirely unexpected. And what I mean is, is that number one, being able to start working with GFT as early as last fall, it gave us a lot of insight into how their processes work and how their system works and what the highlights are for their product mix globally. So, as I mentioned earlier in the call about taking over their U.S. business, again that was something we did earlier this year and so we got additional insights. So, by the time we actually closed the deal and have migrated customers, we were pretty well versed. We were very — we understood GFT language better than we would have, had we come in cold. On top of that, we were able to, in our strategic plans, because of their product breadth being larger than GAIN, we're keeping their platforms. So their DealBook platform is the lead platform for those multi product scenario, so from a customer experience standpoint, let's think about that. I'm a customer that trades on a platform with a company with a certain size balance sheet, wherewithal and transparency. Now, I'm going to trade on the same platform but everything else is better. So, what I wanted to be the same, stays the same and what I would have liked to have been improved, got improved. So, if I'm keeping the relationship people that are key; they stay in place. If I'm keeping the platform in place where there's no change to their experience, but now I'm increasing all the kind of subtle, intangible stuff, totally makes sense to do that. The other part is that the sales trader business is a core competency of GFT. That's kind of a higher touch relationship business. That group has remained completely intact and so those relationships that were established at GFT have maintained and transferred over and, again, that salesperson isn't put in a tough compromising position to say, hey, please stay tight with us but you can't use all the platforms that you were. No, he's able to say please stay tight with us, here's all these better things about the combination, oh, and by the way, your day to day experience doesn't change. So, although the attrition level hasn't been meaningless, it doesn't surprise me, either, because, by design, we were fortunate here, but a lot of the reasons for customers to stay intact, has done so. Partners, same way and we've sent a strong message out to GFT's top partners that they're in a better situation now than they even were and we spend every day proving that to them and so I'm really comfortable with how that progress has gone, in terms of the transition.

PATRICK

O'SHAUGHNESSY: All right, that's helpful, thank you. And then, just kind of bigger picture as you look at retail foreign exchange volumes in particular. You've been in this game for a long time, what are some of the potential catalysts that you think could be out there to move the CVIX back up? Do you think it's going to take the end of quantitative easing? Do you think it's going to take some sort of market meltdown or what can kind of come around naturally that is going to act as a catalyst to boost retail trading activity?

GLENN STEVENS: Well, I'll take your reference to my age as a positive compliment, but you know what? We have seen periods of lackluster CVIX as a proxy for volatility. Again, I'm in this market since 1985 and there have been protracted periods of a year, two, three, where major components of the market, be it a major currency pair or a major interest rate policy, can last a year or two and create kind of a lackluster environment. So, what will it take, good question. If I knew, I would pull the lever and hit the button, but, but to be fair, I think there's a couple of things. Yes, you're right; the uncertainty over the QE policy has paralyzed, I think, a lot of people. Maybe it's one of the reasons why equities kind of have continued to rise because, as you stand on the sideline you say, well, let's buy those companies that are making money because it makes sense. The interest rate business in FX is more closely linked, I think, than people give it credit for. What I mean is, you've heard about the carry trade a lot, but the carry trade doesn't beget tremendous volume increases, but it brings participants in and they have an opinion and they say, well, I don't know about the currency but I could short yen and buy kiwi because I can pick up the interest rate plan, but I changed my mind three times this week about whether I like that trade or not, and, presto! You have somebody who is an active participant. We don't have that. The QE kind of going one way or another, frankly, I think would help a lot. I think it's the uncertainty is what causes the problem. That can't last forever and maybe if we don't spend another three months, I'm talking about a government shutdown and the whole bit, then we'll get our you-know-whats out of our you-know-what and be able to move forward there. But I'd also say that something else that it will help is that these, this is slightly longer term, but if you look at the RMB or you look at the Indian rupee, those are products that will come online and will trade, absolutely. It's a question of when, not if, and those are huge markets with lots of participants and lots of potential volume and so, if you look at some of the NDF market, which for the most part, our retail customer customers aren't able to participate in, but institutional guys are, we have a bit of an expertise niche at GAIN and GTX being able to offer the NDF trading, you can see, if you think about kind of the professionals getting into a market sometimes ahead of the retail users, you can see the uptick in trading a lot of those NDF products and some of those, not all of them, but some of those will come online. So we actually may not even have to have this catalyst for the euro to break out, for dollar yen to break out. It'll be a mid or second tier set of products, FX and otherwise, that'll get people moving. And then the last thing I'll say, Patrick, is that one of the reasons why we want to make sure we continue to round out our offering with non-FX products is just because, if I'm wrong and things don't improve in terms of trading conditions in FX, we'll hope that opportunities pop up in energies, metals, indices, interest rate driven products. So, that's part of the reason for the diversifying the revenue base, as well.

PATRICK
O'SHAUGHNESSY: All right, very good, thank you.

GLENN STEVENS: You got it, thank you.

OPERATOR: Thank you. Again, please press star (*) then one (1) if you would like to ask a question. All right, there are no more questions at the present time so I'd like to turn the call back over to Mr. Stevens for any closing remarks.

GLENN STEVENS: Thanks, Operator, and thanks again for everybody that joined us for this quarterly recap and we appreciate your interest and your follow up and have a good day.

OPERATOR: Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.