GAIN CAPITAL
"GAIN Capital Fourth Quarter and Full Year 2013 Earnings Conference Call"

02/27/2014, 08:30 AM Eastern
Glenn Stevens
Jason Emerson

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OPERATOR: Good morning and welcome to the GAIN Capital Fourth Quarter and Full Year 2013 Earnings Conference call. All participants will be in a 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 touchtone phone. To withdraw your question, please press "*" then "2."

During this conference call, management will make forward-looking statements to assist you in understanding its expectations for future performance. These statements are subject to a number of risks that could cause actual events and results to differ materially, and I refer you to the company's press release of February 27, 2014, and the company's most recent 10-Q and 10-K SEC filings for discussions of those risks.

In addition, statements during this call, including statements related to market conditions and the integration of Global Futures & Forex, and based on management's views as of today, and it's anticipated that future develops 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 disclaims any obligation to do so.

I will now turn the call over to GAIN's CEO, Glenn Stevens, to discuss the fourth quarter and full year 2013 results. Please go ahead, sir.

GLENN STEVENS: Thank you, Operator, and good morning to all who have joined our call today. Welcome you to GAIN Capital's full year and fourth quarter financial results conference call. I'd like to take you through some of the highlights, go through some of the specific metrics that came out of our fourth quarter and for our full year 2013. I'll then turn it over to our CFO, Jason Emerson, to go through some more in-depth detail and then touch on some of the strategic developments and then business highlights that we think would give some background and some color to GAIN's full year and fourth quarter.

So, first, on the full-year highlights, one of our primary objectives was to continue to grow the company and have consolidation and acquisition be part of that strategy, and 2013 gave us a successful acquisition of GFT that significantly increased GAIN's product offering and scale, and most importantly, the operating synergies that we modeled into that acquisition are absolutely on track, and in some case ahead of schedule.

We continue to diversify our revenue, with commission-based business representing north of 22% of total revenue. It's important to note that’s up from 3% only two years ago, so the progress there has been excellent. Higher customer trading metrics as a result of more favorable market conditions drove some good results for us for the quarter and for the year, and specifically for 2013, our EPS on a GAAP basis is $0.79 and $0.85 on an adjusted basis for EPS.

Overall, flipping to the next page for some specific highlight, Q4 of '13, and also full year 2013; for the full year, net revenues was $266.4 million, adjusted EBITDA was $61 million, net income of $31.3 million, and EPS of $0.79 on adjusted basis, excluding some one-time and non-recurring charges related to deal acquisition was $0.85.

For the fourth quarter, net revenue was $83 million, adjusted EBITDA of $13.7 million, net income of $4.3 million, and adjusted EBITDA basis or adjusted EPS basis of $0.13. Again, we are happy to present continued positive numbers for the fourth quarter and also for the full year.

In terms of the full year quarterly operating results; for the full year retail volume was $1.8 trillion, up 38%, with average daily volume of about $6.9 billion. Institutional volume, another standout success story of $4 trillion, up over 100%, GTX volume was just under $4 trillion at $3.8 [trillion], and that's up 95%, our futures DARTs were $13,785, and client assets approaching $740 million, up 66% over the previous period in '12.

For the fourth quarter retail volume was $508 billion, again, a clearly positive result over the same period in 2012. That's up 70%, institutional volume up over 100%, GTX volume up over 80%, Futures DARTs up 15%, and funded accounts up 56%, factoring into the acquisition as well.

So it's important there to note that some of this is driven by our ability to position the company to take advantage of improving market conditions. We made that pretty clear in some of our 2012 discussions, if people remember all the way back then, and even in early 2013.

It's important to note that in 2013, overall conditions did improve. They did not go into a relatively strong period. If you look back on the next page, showing kind of a five-year snapshot of where market volatility has been, you can see that we have improved over the doldrums of '12, but we have not got back even into the normalized levels of the last five years or even three years or two years.

So I think that we are looking to illustrate that in a partial recovery if you will, GAIN was able to be positioned properly to take advantage of that, so as customer engagement increases, we were able to see the result on the operating leverage that the business presents, and we're able to see that in the financial metrics as well.

So to breakdown of the business into the sectors that we normally like to just give some color. The first and largest driver of our success is retail over the counter. So there you can see that year-over-year client engagement increased, with volume being up over 38% over 12 funded accounts over 133,000.

Our partner business now represents nearly 50% of retail trading volume, compared to 40% in '12. The pipeline is real active for those partners that continue to establish the leadership position for new entrants on the partnership side that want to come into this market.

One of the key drivers of the GFT acquisition for us was ramping up the product offering. As mentioned in the past, we went from a few hundred to now over 12,000. So having more products like that just gives our clients more opportunity to trade in different types of markets. So oftentimes market volatility will rise as a tide, but in some cases, it's pockets of volatility. So it might be metals, it might be energies, it might be emerging market currency focus, what have you.

But in different cases if you could have a fairly wide swath of products to offer, then it's great win when overall market conditions improve. But having that broader spectrum of products, even if you get a pocket or two or three of higher volatility or higher improved conditions, you can get customers that offering. So it's been a step function for us to be able to engage at a much higher level in terms of the number of products we offer.

In terms of client assets, as we said, we have retail client assets that are just under $600 million as of December 31, 2013.

In terms of commission-based business, we wanted to highlight there that the commission-based business as part of our revenue diversification strategy, continues to gain traction. Commission-based business delivered $60.8 million of revenue in fiscal year 2013. That represents 22% of the total revenue. Again, you have to compare that to previous periods and that number was small single digits.

And so part of the story here is to look at our business and say the retail over-the-counter business in FX drives the top-line number with the most impact. But it's important that we continue to grow multiple drivers of top line and resulting EBITDA with enlarging the pie at the same time. So it's not a replacement story, it's a growth story, but it's also a diversification story where you have complementary revenue streams.

GTX, our premier ECN platform, continues to gain loyal followers, market share. If you look at the quarterly daily volume of the compounded 14% since kind of a middle of 2011, that's been a consistent story of bringing in new participants, bringing in new supporters and liquidity providers and makers and takers on that platform and knock on wood, it has been a one-way door so far with people are coming in and being really happy with the service and really happy with the technology. And so we continue to expand the base of users. Every quarter we add material participants on that platform.

The Sales Trader business is something that we added as part of the GFT acquisition. It kind of fits into that niche somewhere between the largest institutions on our ECN, but above the retail traders, and so that sales trader business as part of the GFT, represented an 18% growth in accounts since we closed the GFT transactions last September in '13.

So we are happy to fold that business in as part of an integration story but also grow it since we took it in. I think the similar story shows up in futures, where we purchased the unit from Schwab little over a year-and-a-half ago. And we've seen that overall business continue to increase to about 23% year-over-year in client asset improvement. And we do actually see some further opportunities in that market as that's still quite a fragmented retail industry on the retail futures industry.

Next page, just for some specific on our results, Jason is going to take over that on the fourth quarter and financial results.

JASON EMERSON: Great. Thank you, Glenn. I am now going to take you through the results for the fourth quarter and full year in a little more detail. As Glenn noted earlier, net revenue of $83 million during the quarter reflects a combination of our organic and acquisition-based strategy. A retail OTC revenue of $61 million for the quarter was up nearly three times compared to the fourth quarter of 2012, driven by account growth, successful completion of the GFT acquisition, as well as improved trading conditions.

Revenue of $23 million for the commission-based businesses for the quarter was also up nearly three times compared to the fourth quarter of 2012. This growth is the direct result of the GTX business more than doubling, the addition of sales trader business from the GFT acquisition, and a 26% increase in revenue from our exchange-based futures business.

Total revenue of $266.4 million for 2013 is up 76% compared to 2012, reflecting our successful organic and acquisition-related initiatives to grow both our core retail OTC business, as well as expand our commission-based offerings. The fourth quarter was somewhat noisy, with a variety of deal-related expenses and other non-recurring items.

For the quarter, adjusted EBITDA was $13.7 million, with the margin of 16%. The adjusted EBITDA figure excludes restructuring and acquisition-related expenses of $3.4 million in non-recurring items, including a $2 million gain on extinguishment of the note payable entered into in connection with the acquisition of GFT at a discount, as well as the $450,000, write-down of our original $500,000 investment in Kapitall.

For 2013, we delivered $61 million of adjusted EBITDA, with margin of 23% driven by revenue that grew 76% while total expenses were up only 48%, reflecting our ability to deliver operating leverage. Net income was $4.3 million or $0.10 per diluted share for the quarter, and $31.3 million or $0.79 per diluted share for all of 2013.

Adjusting net income for restructuring and acquisition related as well as non-recurring items, we get a figure of $5.5 million and $0.13 per diluted share for the quarter, and $33.8 million or $0.85 per diluted share for 2013. In addition to the adjustments noted earlier, adjusted net income excludes $1.2 million in amortization expense for accelerating the retirement of a trading platform following the acquisition of GFT, which we expect to be complete early in second quarter.

As you would expect, this combination of organic growth in the GFT acquisition has changed the complexion of our expense base. During the fourth quarter, we saw an overall increase in total expenses due to primarily to having our first full quarter of GFT operations under our belt. We have a dedicated effort throughout the firm to achieve our goal of $35 million to $45 million in expense synergies against the pre-acquisition cost base of GAIN and GFT by the end of 2014. The increase in trading expense during the quarter reflects the change in our retail OTC business mix following the GFT acquisition.

As Glenn noted earlier, we now derive a higher proportion of our revenue from the indirect channel, which increases our referral fees. In addition, the strong growth of our institutional business resulted in higher sales commissions, which is represented within the trading expense line item.

For the year, trading expense is up due to a combination of higher institutional volumes, the addition of GFT in the fourth quarter, as well as having a full year of exchange,-based futures business, compared with only four months for the same period in 2012.

Compensation and benefits expense of $22.1 million is up from the same time last year due primarily to the addition of GFT personnel during the quarter. Excluding the impact of GFT personnel, compensation expense for the quarter is up less than 10%, compared to the same period in 2012, and up only 4% from last quarter.

Our headcount reductions took place at the end of October, with several personnel placed on transition plans that ended early 2014, as result. As a result, will see the benefit of personnel reductions realized by the end of first quarter of this year. Due to these actions, we took a restructuring charge of $1.2 million during the quarter.

Year-over-year compensation expense of $67.1 million is up 41% compared to 2012, with margin of 25%, which is down from 30% for the same time last year. Excluding the impact of GFT acquisition, compensation expense is up only 15%, largely due to higher available compensation arising from a significant increase in revenue and profitability, as well as having a full year of operations from our exchange-based futures business.

Marketing expense for the quarter is up 12%, versus the third quarter, as we invested in regional growth efforts, as well as taking on the GFT brand for a transition period, before we fully combine it with a forex.com brand later this year. Overall, marketing expense came in 17% lower versus 2012, through a combination of efforts to increase efficiency, as well as targeting higher return regions.

All other expenses of $19.1 million were up during the quarter, reflecting primarily the addition of GFT. Excluding the impact of GFT, non-recurring items and purchase price amortization, expenses are up only 11% from last quarter, and up $6.8 million for all of 2013, relative to same time last year, reflecting a combination of investment in technologies supporting our institutional business, an increase in banking fees related to our increased OTC volumes and a full year of expenses related to exchange-based futures business.

We maintain our focus on managing expenses aligned to our strategic initiatives, as well as delivering on the $35 million to $45 million in expense synergies related to the GFT acquisition by the end of 2014.

Lastly, on the bottom right, year-to-date retail trading revenue per million increased slightly to $110 per million, consistent with levels we've seen over the last 12 to 15 months.

Turning to Slide 10, GAIN will distribute its quarterly dividend of $0.05 per share on March 20th for holders of record as of March 17th. We also continue to buy back shares. During the quarter, we bought back 612,000 shares, concurrent with the issuance of the convertible, as well as another 100,000 shares throughout the quarter.

I will now hand the call back to Glenn for some final comments.

GLENN STEVENS: Thanks, Jason. So we touted some of the financial metrics that came out of our business operations, as well as improved conditions, we touted opportunity we have in front of us with completing the integration of our GFT acquisition.

I wanted to touch a little bit on our M&A strategy going forward, because it's important to note that although the GFT acquisition was the largest one that GAIN has made to date, it does contribute to a long string of successes that we have in terms of being an active acquirer and a consolidator in the space, and it's important to note that that's part of our growth strategy going forward.

So we have maintained significant capital levels to fund additional opportunities that arise. We've tapped the capital markets for a successful convertible bond offering in the last quarter. We have some dry powder in other sources as well, so more importantly even than the resources available, is the bandwidth and the operational expertise available, and we have an internal team that is battle tested, frankly, in getting these integrations done successfully. And so the early indication on GFT is that our preparation and our focus on getting the deal done successfully has borne fruit.

Now, as Jason mentioned, you take on a whole bunch of expenses, you take on a whole bunch of people, you take on a whole bunch of products, you have challenges, and again, we are coming out and saying that things have gone as expected in some cases, better than expected, and so it puts us in a position to continue with M&A as part of our growth strategy as a complement to our organic growth.

And that M&A now spreads across several types of businesses. Whether it's a complement to our institutional business, a complement to our futures business, or a complement to our retail OTC business. So now when we evaluate opportunities, it's a broader opportunity set that we are able to have deals brought to us, or go out and seek them ourselves. So we are excited about staying active in that prospect. So overall, we do expect to announce additional transactions over the coming months. So we will keep you posted on those developments.

In terms of our focus for 2014, we’ve spent most of the call talking about lot of highlights and progress in 2013. In terms of 2014, we want to continue to track and nail down the $35 million to $45 million of the expense based reductions by combining the two companies.

We want to continue to grow our commission based business. We feel like that's a very natural progression to our retail over-the-counter business. We want to continue to expand the market share of our GTX offering. I think we absolutely have some magic in the bottle on that platform, and we expect to be a major player in that space.

We are expecting some additional progress in on our SEF registration that was previously mentioned, and we are essentially trying to come out of that market with some unique technology, proprietary technology, and be able to build that business again, looking at this space where we have commissions driving upside, that is a…for the futures business, a margin challenged business. So it is something that we have to continue to add scale.

You've heard us use the word consolidation acquisitions that leads to scale, whether it's retail FX, whether it's institutional ECN type business or whether it's commission-based futures. Scale fits well with all of these, so that is absolutely part of our underlying mantra to make sure we build towards that, not scale for the sake of size, but scale for the sake of operating leverage potential in a better and improved market condition. And also the opportunity to ring some more costs out when you fold in other business and other people.

So we will continue with the strategic M&A, we will continue to roll out the GFT platform across all our offerings. And, I guess, some of the closing remarks, I want to mention that 2013 was not a snapback opportunity in terms of market conditions. They improved, but they haven't improved to the level that I would even argue is kind of a baseline, and I think that our '13 results show our ability to generate material EBITDA and profit levels even when the trading conditions haven't improved to the point of saying that they are really good.

Also think that, as we look at our commission business and we look at our GTX business, we are illustrating our ability to diversify our revenue streams, and lastly, being a successful acquirer is a skill developed over time. We are not new to that game, and we're excited about continuing to show our prowess in that respect.

So, overall, we're happy with our fourth quarter of '13, we're happy with the full-year results. We are keenly focused on building on that positive momentum for the quarters going forward, and I will leave it at that.

We'll turn it over to the question-and-answer session. And we thank you for joining the call today.

OPERATOR: We will now begin the question-and-answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset prior to pressing the keys. To withdraw your question, please press "*" then "2." At this time, we will pause momentarily to assemble our roster.

We have a question from Daniel Fannon from Jefferies. Please go ahead.

DANIEL FANNON: Good morning, guys.

GLENN STEVENS: Good morning, Dan.

JASON EMERSON: Good morning.

DANIEL FANNON: I guess, first on the GFT deal, it seems like you guys are pretty confident of where you are in the integration process. I just wanted to get a sense of it, and I apologize if I missed it, after $35 [million] to $45 [million], where are you now in terms of exiting 2013? And then also, thinking about from a modeling perspective, where we should see the remainder of the expense synergies coming out of which line items?

GLENN STEVENS: So we haven't provided guidance in terms of kind of a monthly or a quarterly scorecard as to how we are progressing. Let me break it down this way. We offered up the fact that we said kind of within one year, four quarters of the acquisition, which was essentially at the beginning of Q4, the last few days of September, so essentially, the end of the Q3, beginning of Q4 of 2013. We offered up the opportunity, we said that we expect to create run rate synergies of between $35 million and $45 million. We've stayed consistent with that messaging because as we model out each attribution of cost savings or synergy, then we would provide updates if we were deviating from that. So the first clear message you should have is to say, over the year, that's on track.

The other thing I had mentioned is that it's not linear. So on some cases, it's not going to be those 12 months divided -- $40 million middle divided by 12 months, and it's X per million. It does have some ebb and flow; however, not being cute, it's trending towards earlier loaded than back loaded. I know we don't expect the synergies to all roll in, have the run rate get to that $40 million lower by day 364.

So I think ultimately a couple of situations; for example on the marketing side, when we came out of, when GFT came out in 2012, they were spending $15 million or so on marketing. We took that number down not to zero, because there are some remnant properties that we want to be able to leverage, but that number comes down by 70% or so. And so that happens over three to six months. Then, you have on the comp and bend side, we have a reduction force of about 90-odd heads, but it was phased out. Two-thirds of them were released in last quarter, fourth quarter of '13 and then the remaining people stayed on for varying periods of transition, might be three month, might be six months.

So I guess what I am getting at, in some cases we've already identified the synergy and booked it. So, for example, we've already combined the office staff in London, in Tokyo, in Singapore, in Sydney. And so you have some lease payments that you terminated early. You have some opportunities that things have to roll off from a service provider or technology provider contract.

But when we've made that decision and those people, for example, have been communicated to, or those bodies have already been moved into the same office. That's why we're very confident sitting here and say, okay, the schedule is on track or actually ahead of track.

But in terms of the actual numbers, when they hit, I would say that if your modeling goes, it's not linear, it's trending towards the earlier part of the whole year. But most importantly is to say, to look out in the future years, achieving that, achieving that $40 million middle of -- I'll say $40 million middle instead of saying 35, 45 same thing. But ultimately we fully expect to achieve that run rate increase or improvement by the end of this year.

DANIEL FANNON: And then, I guess it would be helpful, then, how should we think about the core gain expense growth rate just in a normal basis as you kind of invest in and look at the business?

GLENN STEVENS: So fair question. The mix change requires some investments in people, nothing materially crazy on OpEx or CapEx, but I'd say that if you look at some of the revenue mix with Sales Traders coming in, some of the commissions on that level might be higher than we've seen in the past on some of the retail business scaling, but we've factored that in, because it's variable in nature. And so that's a good thing. It's not a fixed-cost increase. But I would say that that's probably the only change in terms of gains makeup, I don't know if you want to add anything, Jason?

JASON EMERSON: I guess the other item is, given the business mix, trading expenses right now, referral fees are within the trading expense, so you'll see that as you saw in Q4, continue at those similar levels.

DANIEL FANNON: Okay. And then just lastly, on the M&A front, I guess, can you talk about the competitive nature for potential deals and maybe some contexts around the size of potential transactions that you're looking at now that your GFT was bigger than you've done before. Does that allow you to go up larger as you go through this integration, or is this something where right now you're looking more at smaller kind of tuck-in type deals? Thanks.

GLENN STEVENS: I think the answer is both Dan. We have a very active pipeline and very active communication network. We have been investing in our ability to evaluate these companies, and, frankly, even on our own side, investing in us being on the right side of compliance and legal and infrastructure and kind of across the board. That does put you in a positive light. So when you're entertaining a conversation with a potential acquisition target or with a partner or JV, coming in as we had, kind of taking the high road and being pretty steady for some time now, I'd say that does open us up for those partners that are concerned about reputational risk for those partners that see us as a diversified platform, it puts us in a good position to initiate and continue that conversation. I think, also, we are establishing ourselves as a good player in this market.

And so as I mentioned a little bit earlier, not all of the deals have to be seeked or sought out by us. They are actually brought to us as well, so it's a combination. So in that light, no, I wouldn't say that GFT -- if anything, GFT has emboldened us to be more comfortable with larger deals. Our history in the past was for smaller deals. And it's actually proven out our model to be able to equip and integrate and plan for and execute on bigger deals. But I would say in this case, if you look at a snapshot today of our pipeline, we have a full kind of corp. dev. meeting weekly that has an active database that we go through and kind of a bit of a science that we've tried to evaluate opportunities and move them up or down the curve that makes them more interesting or less interesting, kind of an attractiveness basis.

But, ultimately, I see those now, including deals that are of the size or even larger than GFT, and deals that are smaller than that obviously, and also deals that tuck in, which we do try to look for a strategic fit first, and price second. What I mean by this, we're not out as a vulture to try to pick something off. We are out, first, to say, how do we round out our product offering, how do we do better in geography, how do we do better with a customer segment that maybe we are not doing the best we can do with now. And so Sales Trader is a great example. We didn't have that middle sector, we had the ECN growing, the retail established and that presented itself.

So I think what we do there is, whether it's in futures or whether it's in content or whether it's in mobile capability or whether it's just another sizable player in our traditional retail space, those all make the grade. So, sorry to give you an all-encompassing answer, but ultimately, I think, actually we've honed our skills to evaluate these deals and so they're all on the table now.

DANIEL FANNON: Great. Thank you.

GLENN STEVENS: Good, Dan.

OPERATOR: Our next question is from Rich Repetto from Sandler O'Neill. Please go ahead, sir.

RICH REPETTO: Good morning, Glenn. I guess the first question is on GFT. Can you go through what the revenue and EBITDA contribution in that quarter was in 4Q?

GLENN STEVENS: Yeah, I mean we have that broken out, I believe, for the quarter.

JASON EMERSON: For GFT?

GLENN STEVENS: Yeah, for GFT.

JASON EMERSON: GFT's revenue was approximately $24 million for the quarter and had a negative EBITDA for the quarter of approximately $3 million.

RICH REPETTO: Okay.

JASON EMERSON: And just to complement that answer, if we look at GFT year-over-year, GFT's revenue for 2012 was approximately $99 million. The revenue for 2013 came in higher that level, driven by a combination of the core retail business, as well as the sales trader business growth.

RICH REPETTO: Okay.

JASON EMERSON: And the loss that we disclosed through the 8ks of $31 million, they came in with clearly much lower loss in 2013.

RICH REPETTO: Got it. Thank you, Jason. And then I guess you talked a lot about the trading expenses and commissions, and how would you model that? It doesn't look like now it's purely tied to retail. But would you look -- like it was 43% of retail revenue, 32% of your non-interest revenue. How would you sort of guide people as the model sort of transforms a bit here?

JASON EMERSON: Yeah, it's currently disclosed. Trading expense does include a lot of items in terms of guidance range, in terms of margins between 27% and 31% depending on business levels. And so that's how I would model that as at this point. We are evaluating how we enhance disclosure around referral fees and so on, so more to come on that front.

GLENN STEVENS: Yeah, so I guess just to add to that, Rich, there is a little bit more granularity coming out in the next quarter, just because, to your point, trading seems to kind of lump a lot in there, and so we are trying to break that out, so it's a little bit easier. But the stat that just Jason gave you look back onto what Q4 and '13 looked like.

RICH REPETTO: And you are saying 27% to 31% of non-interest revenue or total revenue -- net revenue or what?

JASON EMERSON: Of net revenue.

RICH REPETTO: Okay. All right. And then I guess, Glenn, so, strong rate per million in the quarter, and I am just trying to understand, it wasn't great volatility, and then you are seeing some -- not only a little color on how you got -- I think we are calculating 121 for the fourth quarter, and then sort of the trends in the first quarter, given all the emerging market currency volatility in late January and early February.

GLENN STEVENS: So I guess the comments on that, as I have already said in the past, that we always consider the output of revenue per million as one factor of our overall ideas of what the trading conditions are, or market conditions, and volatility is one thing. But, for example, if you look at the -- you mentioned emerging market currencies. So, for example, that's a product that is fairly narrow in terms of customers that want to be able to trade that, even the product they are able to offer. So if dollar Turkey is moving, dollar RMB is moving, the Argentine peso is moving, access, in general, to customers is not as broad based as when the Euro moves or when dollar/yen breaks out of the range.

In addition, the benefit of having a wider product offering also means that we get a mix shift, whether it's into equity indices or the whole CFD business that we have been touting as part of the GFT acquisition and broadening our product. So, I guess what I will go back and say is this cuts both ways. But if you look at fourth quarter and say, gee, it didn't seem like that was that volatile and your RPM was pretty good; true but you have a lot of products that are factoring into that now. You have a lot of customers segments, a lot of products that factor into it. Same thing to Q1, you say, damn, you know, gold moved or dollar Turkey moved or nat. gas moved, but can you take that and want to be able to interpret that. So all I am trying to say is that every one of these periods, whether it's a quarter of even a year, there are a lot of drivers that provide market conditions improvement. And the point I was trying to make is that in '13, the market conditions improved but not dramatically. And I think it was important for us to demonstrate that we didn't need a dramatic improvement over 2012 to be able to produce some decent results. And am I sticking to that story to say that, generally speaking, in an improved environment, we will do better, but on any given short period, we don't want to just say, hey, RPM is going to come from this, because the CVIX moved. Again, these are all kind of a combination of factors.

RICH REPETTO: Let me try one more -- kind of have to say yes. The CVIX is -- now we are down to 7, you know, 7.5, below 7.5, so we are approaching, like, you show in your chart, 3Q and 4Q, 2012 levels. And I guess my question, would you characterize the overall trading environment as fair, improved, or deteriorated, I guess?

GLENN STEVENS: So I guess a couple of things there. I mean I think that if you look -- you said improved or worsening or relative to what. Relative to Q4 of 2012, that was a real doldrums, across the board; right? In any market and equity, fixed income, FX, what have you; there wasn’t really a lot of excitement to sell to customers at any level, whether institutional, futures, or retail product. So I wouldn't say that we are there. I would say that, yeah, on one measure, the CVIX has not carried through some of the positive momentum we saw in December and January, has not carried through, where it's a real frothy market. But, again, our retail FX revenue now coming -- more like 80% of it is coming from where that number used to be 95% or so, and so we are trying to look broader. So I appreciate the reference to CVIX, but as I said, we are actually trying to look across broad now and say, hey, how are we doing on institutional side, how are we doing on the indices business, how are we doing in metals and softs and things like that? So as we continue to broaden our business base -- for example, we are in the 25% range coming from the U.S., where it's tightly focused on retail floor. And that leaves to 75% outside the U.S., which is trading on a much wider spectrum of products.

So overall answer is you're right, not just the CVIX, general frothiness is not there in this Q1, where we go, wow, what a fun, exciting market. We haven't seen interest rates break out. I think everybody thought that we're finally done and Janet and crew are going to come in and really make things roiled. That hasn't happened. Equity markets have continued to kind of trade back and forth in the last couple of weeks or months. So, no, we are not in an environment that I'd consider strong or trading conditions, but we are not there either.

RICH REPETTO: Okay. All right.

GLENN STEVENS: 2012, is what I'm saying. So I guess my answer to your question is, yeah, we would have loved to carry through some momentum and see a much more interesting trading market, which we are not getting. But I guess what I'm trying to say is that -- and I that CVIX is a proxy often used for the engagement levels in currencies. But, number one, we have to think beyond currencies now as a provider; and, number two, even with the CVIX, be wary of saying that, like I said, dollar Turkey was moving around a lot, because the opposite will happen. You could have the emerging market be quiet, and you can have some decent moves in Euro or yen, and that can drive client engagement, because that's who they know. They're paying attention to Google and Apple moving around, not some small companies that are off the radar.

RICH REPETTO: Got it. Thanks very much.

GLENN STEVENS: Sure, Rich.

OPERATOR: Ladies and gentlemen, again as a reminder, if you would like to ask a question, please press "*" then "1" on your touchtone phone.

Our next question is from John Dunn from Sidoti & Company. Please go ahead, sir.

JOHN DUNN: Good morning, guys.

GLENN STEVENS: Good morning, John.

JASON EMERSON: Good morning.

JOHN DUNN: All right, you talked about opportunities for consolidation in futures. Can you sort of talk about what the landscape of that industry looks like in terms of size of players and how fragmented it is?

GLENN STEVENS: It's interesting, John, because that market really shows the full range of large established market players. Point to like an R.J. O'Brien who has established themselves as a big provider to partners, introducing brokers and referrals and things like that. And then there is a lot of mom-and-pop shops that have five, ten people in it, with $10 million of revenue that just eke out of living every year. And so I think we see both sides of that. My feeling is that adding value was very difficult when they were two extremely dominant players in the market. So I harken back to, unfortunately, what are two dirty words now, Refco and MF Global, but the reality is that when they had their futures business and they were dominating that whole landscape, I would argue it wouldn't be a strategically decent opportunity for Gain to dabble in there. Because I felt like those two companies had such a strong command over what an industry looked like. Well, for making lemonade out of lemons, they're both gone. And so the landscape, in my mind, hasn't reorganized yet. And so I feel like for us to fold in some of these products, look at the U.S., which, other than retail forex, doesn't have that other set of products like CFDs that you're able to offer every place else but the U.S., and so if we're going to continue to be a global provider of these non-U.S. equity-based products, then we have to have a complement to retail FX in the U.S., and so futures make sense.

Now it's a tough market, because the margins aren't there, with all the exchange-based stuff and the CME having a stranglehold on how tickets are processed and all that. So it does cry out for some scale. It does cry out for some integration and cutting costs out of it. And so that's the reason why it's on our radar. We made a foray into that space when we bought OEC from Schwab about a year and a half ago. And that was only supposed to be a first step. It wasn't supposed to be the end step. And so for us, even though that business has grown modestly in terms of metrics, the number of customers and assets, it needs some complements, and so that's why other future firms are on our radar. I will say that it's not likely for us to make a big-bang move in the future space in terms of a really large player. So I guess if you look at the learning curve quickly, and you look at how we moved up the food chain on the FX piece and made some small acquisitions, tucked them in, bought on assets or did small deals and then got comfortable, and we're able to do a large deal at GFT, it's probably not a terrible parallel to draw on the futures side to say, hey, let's do some deals so we can establish our comfort and our knowledge base and then maybe down the road, if there is a big bang opportunity or a large opportunity, we'd consider it. But I think it's fair to say that if you dissected our corp dev pipeline right now, they are smaller ones, and they are retail focused in nature because we think it complements what we already have as an offering.

JOHN DUNN: Got you. And then can you just talk a little bit how GTX might be taking share for some of the big guys, given the headlines going on there?

GLENN STEVENS: So not to prey on what makes for good news copy, and there's a lot of chat about things going on the bank side in terms of this space. For us, we wanted to bring to the market an alternative technology offering that, frankly, added value. And the entrenched players, like an EBS or like some of the single-bank platforms, I think had a bit of a steady state going on, where they had a solid product. They had a very strong incumbency using them. We needed to be somewhat disruptive. I think we're establishing that fact. We didn't come in with also ran.

I would argue that we were a little bit late to begin back in 2011, when we said let's bring this entrant to market. But being late is okay as long as it's better. And I think we're showing that now. So, yeah, I would probably characterize what's going on the bank side as a potential tailwind for us, frankly, because if we're able to establish the fact that as an alternative platform, that's unbelievably transparent and flexible and fair, then I think, yeah, it only is a benefit or positive for us.

So I'm not looking to prey on a negative situation, but if you had to characterize it, I'd say that it does put us in a good light as an alternative with some of those single-bank platforms or some of the entrenched incumbencies that may have to hit some headwinds.

JOHN DUNN: Great. Thank you very much.

GLENN STEVENS: Good, John.

OPERATOR: Our next question is from Patrick O'Shaughnessy from Raymond James. Please go ahead.

PATRICK O'SHAUGHNESSY: Hey, good morning, guys.

GLENN STEVENS: How are you there, Patrick?

JOHN EMERSON: Good morning.

PATRICK O'SHAUGHNESSY: I'm doing well. So my first question is, I'm just looking at the minimum regulatory capital requirements that you guys talk about on Slide 17, I think it is, and also get dropped about $10 million versus the third quarter. Is that some of the capital synergies that you were talking about with the GFT deal that you've been able to extract out over the last few months?

JASON EMERSON: Yes, Patrick, it's a partial achievement of those capital synergies. Again, that's not related to the 35 to 45. We will see additional synergies as we continue the merger of our UK-based entities, as well as our U.S. entities share from a regulatory standpoint.

PATRICK O'SHAUGHNESSY: Okay. And do you have a sense for how much more you'll been able to free up in terms of regulatory capital?

GLENN STEVENS: Well we're always looking to optimize, Patrick. So we're looking at a range of $5 million to $10 million in additional capital synergies.

PATRICK O'SHAUGHNESSY: Okay. And then, as you're looking at and thinking about M&A, how are you thinking about the capital that you have available to do that? So I guess you have your cash on your balance sheet, you have your credit facility, which I believe you still have $50 million available under that. How are you thinking about, do you use cash versus shares, maybe raise more debt for deal? How are you basically thinking about how you would use capital for further M&A?

GLENN STEVENS: So I think that I mentioned a bit about having some dry powder, which you alluded to. We continue to work on keeping our credit facilities updated. In terms of that $50 million that you mentioned, that went away when we did the GFT deal. We're in the process of replenishing that as we speak. We did, as I mentioned, have a successful convertible offering, which, like anything else, kind of establishes you as a participant in that market. And so I think our track record is a good start there.

I think, ultimately, Patrick, we have the ability to tap capital markets. I think the way to do it is in conjunction with a tangible deal that makes sense to use it. I think that if we're able to go back in the market, whether it's primary -- or, you know, once all of these sources of capital are available to us now I would argue, because number one, we've established ourselves; number two, we have a sound business in place by being able to illustrate the integration successfully the way we did.

I think when you go back to the market in the future and say, "Hey, we have this other idea," when you have a track record, it makes it a lot easier. When it's the first time, it's harder. When it's not, the times after that we've already greased the skids there. So I guess I would say, yes, for the smaller type deals, we have sufficient resources at hand today. For the larger deals that are also on our radar now, we will likely be using capital markets for that, and our own stock. As the currency of our stock continues to improve, then that's also at our beck and call.

PATRICK O'SHAUGHNESSY: Got you. Thank you for that. And the second question from me is for Sales Trader, so if we assumed GTX kind of has the same revenue capture, kind of 7 to 8 per million that it had last few quarters. I think that implies something like an

80-per-million rev capture for Sales Trader. One, is that kind of broadly correct; and, two, is that a kind of a good run rate to think about going forward?

GLENN STEVENS: So I'm not sure how you derived the calc. on that when you mentioned it. But, number one, that business ranges because of the services provided by the sales trading, or it's the higher touch business. It's a pretty wide array of products offered. So kind of depending on if it's a single stock future or if it's indices or if it's currencies or if it's an API going through us so it really kind of varies. I'd say that you probably -- oh, you're probably more like in the 50 range, 45/50 range if you had to put it in aggregate and say here’s what it applies there. So from the modeling purposes that's probably more likely.

But I guess it's important to note that the product mix and the different types of customers that are served in that segment is pretty wide. It's one of those ones where mathematically, yeah, I think if you use $50, you're probably okay, but just keep in mind that it does-- it is pretty wide.

PATRICK O'SHAUGHNESSY: Okay.

GLENN STEVENS: You know what, Patrick, it's kind of like when people say on our retail business, hey, your average deposit is $7,000, I don't know if we have anybody with $7,000. We have, like, tons of people with two and tons of people with 20, so the average is 7. But I don't know how many people are actually there. So in this case we do have a bit of spray in terms of Sales Trader, because it comes down to the value-add, the product that the customer trades. But in aggregate, I think that would be reasonable guidance.

PATRICK O'SHAUGHNESSY: Okay, appreciate that. And then lastly from me, as you look at the regulatory landscape right now, is there anything out there that kind of causes you to lose any sleep? And it seems like the FCA is maybe stepping up some there oversight. And certainly they just levied a fine against one of your competitors. Anything out there that's really concerning to you right now?

GLENN STEVENS: No. I think it's one of those situations where you make decisions based on your infrastructure, based on your approach to the markets as kind of, frankly, a level of scale that you can be very aggressive or very conservative, and I don't think we are on either end of the scale. And I'd like to think that we've optimized our commercial attitude, but stay on the right side of those finds. So, no, I don't -- other things keep me up, but mostly they're under ten years old. So the people under ten years old have nothing to do with regulatory issues we sell.

I am not concerned about that stuff. I think we keep a close eye on it and, frankly, we have invested a lot in the infrastructure and the technology, and I think that we've taken an approach that's more cooperative with the regulators, versus combative. And so that doesn't always mean that there aren't things that come up, but I can say when you ask me, "Hey, what's perception?" my perception is we do try to work very closely with the regulators, have an open line of communication, and that's globally, whether it's FTA or CFTC or in Japan, what have you.

I think that there is a causality here between staying out of the press on those negatives and the efforts that you put in. I like to think the work that we put in is driving our ability to make sure we stay on right side of those situations.

PATRICK O'SHAUGHNESSY: Got you. Appreciate it. Thank you.

GLENN STEVENS: Thank you.

OPERATOR: Our next question is from Brian Gonick from Senvest. Please go ahead.

BRIAN GONICK: Hi. Good morning, guys.

GLENN STEVENS: Good morning, Brian.

JASON EMERSON: Good morning, Brian.

BRIAN GONICK: Will you provide revenues and EBITDA for GFT in the quarters this year?

GLENN STEVENS: No. I think that teasing them apart, Brian, is not a helpful process, because we are working towards being able to pull the costs out by combining the operations. And as I mentioned, there are certain things that GFT brings to the table in terms of product mix and customer segment and partners and geography, but they are designed to fit, in an intertwined basis, with what we do.

BRIAN GONICK: Okay.

GLENN STEVENS: So this next year it should become completely blurred that you don't know who is coming from what.

BRIAN GONICK: Right. So if it's $10 million a quarter in cost savings, and based on your comments, maybe you're a third of the way there, that would imply roughly $6.5 millionish further cost saves, let's say. And if I look GFT, you said EBITDA was negative $3 million. Would be normalized "EBITDA" be closer to $3.5 million positive? Is that the way to look at it?

GLENN STEVENS: A couple of things, let me take a stab at this, and -- oh, go ahead, Jason. Oh, I was going to say that, first of all, in terms of the linear aspect of saying, hey when you capture the cost, like I mentioned earlier on the call that it's not as spigot that has $10 million per quarter. What we have said is that by the end of this year, our run rate will be -- based on where pre-acquisition was, our run rate will be $40 million, $35 million to $45 million lower phased in; right.

In terms of putting that against GFT EBITDA, on the one hand, as I mentioned, what we wanted to illustrate there is that we bought a business that was in a challenged state in 2012. We took it over in the fourth quarter. Our goal here to integrate the two businesses, keep the revenue part of it intact -- and obviously this isn't the Holy Grail, but keep the revenue part of it intact and reduce the cost to the point where –they're an accretive business, and we are getting there. We're getting there, because if you just look at fourth quarter alone, where we had something to say about it, the numbers start to normalize.

And I am not saying that a $3 million drag is something we want to hang around. But what I am saying, if we compare it to the -- I don't know -- three times that of the previous quarter, previous year, it's obviously an improvement.

So, as an overall operation, I don't know if you can net a quarterly synergy with a quarterly EBITDA, but I will say that net-net by this year, they will be a positive contributor on the revenue side and on the EBITDA side. And part of that reason will be because we're taking out synergy. But taking out synergy means cost reduction in gain, cost reduction in some GFT, is kind of net number. We are not looking at GFT to say, hey, turn that into a profitable business, because that business should be indiscernible as a standalone within six months.

BRIAN GONICK: Okay. Your tax rate in the quarter was 38%, relative to a 30% rate for the year. What's the right sort of normalized tax rate, do you think, this year?

JASON EMERSON: In 2013, we had some one-time items that bumped up our effective tax rate for the full year to 30.5%. For 2014, I would use 28% to 29%. We're looking to optimize our transfer pricing and tax through our various jurisdictions, whereas Glenn mentioned north of 70% of our business is done outside of the U.S. So the right range for this year at this point is 28% to 29%, and as we make progress on those efforts, we'll get you more color on that.

BRIAN GONICK: Great.

GLENN STEVENS: Although, Brian, it is a focus for us to improve that. So I think that Jason is tossing out the safe bet. But it absolutely is one of our internal focuses to say how do we get that 10% to 20% better than that.

BRIAN GONICK: Great.

GLENN STEVENS: But from a modeling perspective we don't want to get out and ahead of our skis. But, it's not something that we're resting on our laurels to say 28%, 29% is fine. I don't believe that.

BRIAN GONICK: Okay. And last two questions, what was the average price you paid for the stock you bought back in the quarter, and what will the fully diluted share count be for Q1?

JASON EMERSON: I think that the average price we will disclose -- I don't have it in front of me here, but we will disclose that as part of our regular filings. So we were actively participating throughout the quarter, so I can tell you that. So if you look at the range of the quarter, you're going to get a reasonable idea of where we participated. The actual figures we will be positing, so you'll have all of that. What was the second part of the question, Brian?

BRIAN GONICK: What's the fully diluted share count going to be for Q1?

GLENN STEVENS: That's a good question. By the way, it will be in the 10-K, the other stuff.

BRIAN GONICK: Yeah.

GLENN STEVENS: But the fully diluted part…

JASON EMERSON: Yeah. So we're at 42.6 right now. It will go up slightly. We can get to you on that.

BRIAN GONICK: Okay. Okay. So 43, let's say, for round numbers.

JASON EMERSON: You could round it up to 43, that’s safe.

GLENN STEVENS: Yeah.

BRIAN GONICK: Okay, great. All right, thank you.

GLENN STEVENS: You got it, Brian. Have a good day.

JASON EMERSON: Thanks, Brian.

OPERATOR: At this time, this will conclude our question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

GLENN STEVENS: Thanks, Operator. So, again, thanks everybody for joining today. Hopefully we were able to give you some color on our progress for Q4 and through 2013. And I do more importantly give some perspective on our opportunities presenting us in '14, and our excitement about going after those. So thanks for joining, and have a good day.

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