GAIN Capital Holdings, Inc.
"First Quarter 2014 Results Conference Call"

Thursday, May 08, 2014, 5:00 PM ET
Glenn Stevens
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OPERATOR: Good afternoon and welcome to the GAIN Capital First Quarter 2014 Results Conference Call. Our speakers today will be Glenn Stevens, CEO and Jason Emerson, CFO. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

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 May 8, 2014 and the company's most recent 10-K SEC filings for discussions of those risks.

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

I will now turn the call over to GAIN's CEO, Glenn Stevens to discuss the first quarter 2014 results. Please go ahead, sir.

GLENN STEVENS: Thank you, operator and thanks to everybody joining us for our first quarter 2014 overview and our financial results. I'll start with an overview and go into some more specific detail and as operator mentioned, I'll get on to a Q&A at the backend of this presentation.

From our perspective, Q1 delivered some mixed results in that the low volatility now ranges and this kind of overall lackluster markets limited our ability to capitalize on what we consider a very strong account metrics particularly volume and active accounts. So from a mixed bag perspective, we didn't achieve the financial results that we were expecting going into Q1, but we also see lots of signs in terms of green shoots for the results that we can achieve as the year progresses.

Along those lines, the growth in our operating metrics amid these challenging conditions were very strong on almost every single front or every single measurement in terms of new customers, volumes, client engagement, diversification of revenue, kind of across the board, so as an offset to some of the Q1 actual results, the things that could portend how things can develop for us are quite positive.

On the commission-based business, we nearly tripled year-over-year from both an organic and M&A growth perspective. On our M&A strategy, we've been active; we've been able to convert some excellent opportunities in what we consider a very robust pipeline. We've had three acquisitions year-to-date. Here we are in May and we've done and dusted three already, and all of those are expected to be accretive deals throughout 2014 and beyond, and we also have a robust pipeline that I'll mention further on in the presentation.

Kind of looking back a bit on the GFT acquisition that we made towards the end of 2013, we continue to progress along our plan on expense synergies and also have heightened our laser focus on overall expense management. So we want to continue to capture what we promised, but then pile on with some additional expense management items as well.

Moving on to some of the specific financial and operating results, we had net revenue for the quarter of $75.8 million. Although, again below our expectation for the quarter, that represents a 52% increase over Q1 of '13, so the key thing is perspective in terms of our progress.

We did that while we lowered our fixed operating expenses, not only sequentially lower from our Q4 to Q1, but they represent a 14% decrease year-over-year in terms of the pro forma basis of both of those companies combined, GFT and GAIN. We had an adjusted EBITDA of $9.5 million, net income of $1.6 million and that equated to $0.04 of earnings per share or $0.08 on our fully diluted, or adjusted diluted basis.

Operating metrics that I alluded to before, retail volume $566 billion, with an average daily volume of $9 billion. This is a 34% increase over a similar period last year and up 15% sequentially quarter-over-quarter. Another bright spot was our institutional volume, average daily volume over $21 billion, with $1.348 billion for the period, GTX platform volume of over $1.2 billion and average daily volume of $19 billion.

Futures contracts of $1.6 million and funded accounts of nearly 135,000, again, pretty much to every single point, these are positive metrics from a business health perspective and from our ability to attract clients with technology, with service and with, expertly deployed marketing resources.

Now, for a perspective on the quarter, the next slide talks about market conditions and you know the picture is worth a thousand words. We were bumping along at five-year lows in our currency volatility. Independent reports that have been out recently have talked about volumes being off on some of the inter-bank levels, across the board, we've seen pretty tight daily trading ranges in euro and the British pound, and lot of the other majors. This doesn't create a very opportunistic environment to optimize customer flow.

So in that respect we have seen tight ranges in the majors. The offset to that for us is that we continue to leverage our extremely wide, probably widest in the industry, product mix to soften some of that impact on our volumes. We are able to get picked up by the over 12,000 products that we are able to bring to bear for our clients.

And so, if you look at some of the other markets like equities, they didn't suffer the same pullback in volatility and really tight ranges. They are showing some rebound in those other markets and so we want to be able to benefit from that as we go forward.

Specifically on the retail silo for us, our growth in funded accounts continues with a 35% year-over-year growth and a 4% growth year-to-date. Again, in an environment where the market isn't extremely enticing with lackluster volatility and now ranges, our ability to attract new clients and new relationships I think speak to the strength of our brand and our ability to reach out to different client segments and in different geographies, and with the very broad product set.

Our client engagement levels is evidenced by our average daily volume, up 15%, compared to Q4, up 34% compared to Q1. Again, this also points to an active client segment and engaged client segment and so positions us extremely well for when markets are a little bit more accommodating, if you will, in terms of being able to capture a larger portion of the spread, then we are in real position to take advantage of that.

And ultimately, you know, our model is situated such that we want to have efficiencies built in and a cost structure built in, so that when markets are tight then you want to be able to deliver some positive results and when markets are little bit more dynamic, then we can deliver much more impressive results. So there is going to be some of that variability built in, but you know, over time, it ends up with good shareholder value being created.

On the sales channel perspective, our mix continues towards maintaining what we consider a pretty optimal balance about an even split, call it 50:50 between direct and indirect. We've demonstrated the ability to retain essentially almost all the partners up from our GFT acquisition and again, I think that speaks to our ability to integrate efficiently and effectively and also offer an even better product than what those GFT partners had before without ignoring the GAIN partners that we had before we were able to consummate the acquisition of GFT.

On our commission-based business and this speaks to our revenue diversification strategy, we have been saying consistently in the past several quarters that we believe GAIN will be best positioned by having multiple sources of revenue and that's going to be from our core competency on the retail over-the-counter business, but it's also going to be complemented materially and in a growing fashion from our institutional business and our futures business. And so if you look at that breakdown, you end up with a retail business that this month's you know, soaring off of 30% participation on the commission-based business, and so, you know, when those are both hitting on all cylinders, we end up with very impressive results and when they are not, one is able to help pick up the other one.

So on the commission-based business; we delivered nearly $30 million of revenue in Q1 of 2014, again in perspective that's almost a triple over $11 million in Q1 of 2013. You look at the growth in volume and market share in our GTX business, and so we've got a real robust pipeline for new business there.

Our technology solutions and proprietary nature of our platform, the reliability and the reputation that continued to build there is getting into every level of participant, whether it'd be money-centered banks or global macro hedge funds or what have you. It's turned out to really be a venue of choice for people wanting to operate in that ECN environment.

The sales trader business which was something of a new ploy for us in Q4, as we took that as part of the GFT business continues to grow. Accounts are up over 50% since we've announced that deal there. And on the Futures side, not yet touted as a hero of GAIN but are well on its way. Client assets are up 40%

year-over-year to $164 million. We have continued to successfully expand through M&A and through some organic growth as well.

So if you look overall, again, on the Futures side, we have a 25% increase year-over-year in terms of assets as I mentioned. But more importantly, take a look at the chart there, and we are going from about 1.3 million contracts in Q1 of ’13, to over 1.6 million of contracts in Q1 of ’14. So not only attracting more assets but the commensurate result in the volumes coming out of those clients is showing up as well.

I talked a little bit about the core operating metrics in some more specificity there. If you look at the trading conditions to come across with client assets increasing and average daily volume on the retail side increasing, I think that when you look at the volume, when you look at the assets, you look at the number of funded accounts, all of them are up into the right. And again, that’s an environment that isn’t even, what I would consider optimal for making FOREX trading the place to be, if you will. And so, as we see all that continue to grow, it kind of lends credence to our model and our approach, and our ability to attract new client relationships and be able to convert them frankly into performance, in future quarters. I think that’s an important takeaway from how Q1 played out in terms of our operating metrics.

It’s also good to note that as we increase the assets, you know, we have estimated that for every 100 basis points of a rise in global rates, you are looking at somewhere around the order of $0.10 of incremental EPS that drops right to the bottom line. As you accumulate these assets, I know that we are not the only ones kind of hoping or banking or expecting some increase in interest rates, but we are more than well positioned for that increase. And, of course, you get the secondary benefit of potential carry traders and more interest as interest rates globally diverge.

So on the one hand; we have a bottom line drop that comes from higher interest rates. And on the second hand, we have this tailwind, if you will, that comes from interest rate divergence. And so, both of those bode well for us; particularly coming off what we would consider a strong quarter for operating metrics.

In terms of financial results, I will turn it over to Jason, to walk us through some of the details there.

JASON EMERSON: Great. Thank you, Glenn. I am now going to take you through the results for the first quarter in a little more detail. As Glenn noted earlier, net revenue of $75.8 million for the quarter is up 52% from the first quarter of 2013. This quarter was impacted by challenging trading conditions facing our retail OTC business, partially offset by continued growth of our commission-based business.

Our retail OTC business delivered solid operating metrics during the quarter, especially in light of the challenging trading conditions. As a result, first quarter retail OTC revenue of $47 million was down from $61 million versus last quarter but up from $35 million in the first quarter of 2013.

If we had experienced trading conditions in line with our trailing 12 months; our revenue per million would have been closer to $108, and we would have delivered $14 million in incremental retail OTC revenue, and an additional $0.16 in EPS for the quarter in similar business conditions. Our retail OTC business is well-positioned with continued growth in our client assets and funded accounts, for when trading conditions improve in the foreign exchange markets.

Commission-based businesses demonstrated continued strong growth with higher revenue across all segments during the quarter and nearly tripling compared to the first quarter of 2013. Our GTX business made great strides, growing volumes and market share during the quarter. In addition, as Glenn mentioned, sales trading business experienced strong growth compared to last quarter.

Finally, revenue in our exchanged-based futures business grew by 13% over last quarter. Strong performance by our commission-based businesses was offset by the challenging trading conditions experienced by retail OTC business in the quarter. As a result, adjusted EBITDA was $9.5 million with a margin of 12%. The adjusted EBITDA figure excludes restructuring, integration, and acquisition related expense of $2.3 million recorded during the quarter.

Net income for the quarter was $1.6 million or $0.04 per diluted share. Adjusted net income for restructuring, integration, and acquisition related expenses we get a figure of $3.3 million or $0.08 per diluted share for the quarter. Adjusted net income excludes $1.2 million in amortization expense which are component of integration cost. This cost relates to accelerating and completing ahead of the schedule during the quarter, the retirement of the trading platform following the acquisition of GFT.

As we have said in the past; we have organized the business to deliver positive earnings when the retail OTC business experiences challenging market conditions that results in RPM at the lower end of the 80 to 120 range that we have experienced historically. Our focus on capturing expense synergies from the GFT transaction, and overall cost management has allowed us to deliver positive earnings in light of challenging trading conditions facing our retail OTC business.

Now, let’s take a closer look at our expense base. We have adjusted our presentation of expenses to provide investors with greater transparency into our business. We have broken out referral fees from the trading expense item and moved sales commissions from the trading expense item to compensation and benefits expense.

Overall, total operating expenses excluding referral fees, acquisition related items of $48.2 million for the quarter, down from $51.4 million last quarter. This savings results from our progress, capturing synergies from the GFT transaction, as well as changes in our business and product mix.

Referral fees are a key expense category: our payments we made to introducing brokers in our retail OTC business, as well as sales trading on exchange-based futures businesses. These arrangements can be revenue or volume based. Referral fee expense of $19.6 million for the quarter was up slightly relative to the fourth quarter. Taking a closer look at this expense, rate for our retail OTC business were up slightly due to higher relative cost of volume based arrangements, when we have lower revenue capture which was partially offset by lower payments made for revenue based arrangements. We did experience a shift in customer mix for our sales trading business which led to incremental referral fee expense for the quarter.

Moving over to trading expenses which comprised brokerage, clearing, market data, and exchange fees, supporting all of our businesses. We saw an expense of $6.3 million in the quarter, up slightly from $6 million in the fourth quarter.

Digging deeper we see $1 million of higher trading expense compared to the fourth quarter, it's driven by greater GTX and exchanged based Futures volumes, offset by $700,000 reductions generated by synergy activities.

Compensation and benefits expense of $21.8 million is down from last quarter, as a result of the combination of synergy actions, as well as the shift in clients and product mix in the sales traders business resulting in lower commissions. This is offset by higher GTX compensation, resulting from increased business, as well as higher expenses typically experienced in Q1 due to higher payroll taxes and 401(k) matching with bonuses payments.

Marketing expense of $6.1 million for the quarter is down 6% versus last quarter which reflects ongoing efforts to enhance our spend, as well as some work on synergies with more to come later this year as we transition the GFT brand to forex.com. All other expenses of $17.6 million excluding, acquisition, integration and restructuring related expenses are down 8% during the quarter, reflecting progress and capturing synergies from GFT. During the quarter, we initiated a range of other cost management activities outside of our GFT synergy efforts that we expect to provide additional cost savings in the second quarter and beyond.

Lastly, on the bottom right, the trailing 12 months of retail trading revenue per million decreased slightly to $109 per million, as a result of the challenging trading conditions we discussed earlier. When trading conditions improve our ability to generate higher revenue capture on our reduced cost base provide the opportunity to deliver increased operating leverage.

Turning over to the next slide, the GFT acquisition provided GAIN with ability to expand our product offering, geographic footprint and revenue diversification, such that, we are able to operate on a much larger scale. The core operating metrics of the customer base: we acquired a strong based and we've completed the decision-making, and in many cases have taken the actions required to reduce the annual run rate expense base by $35 million to $45 million relative to the combined GAIN and GFT businesses.

We achieved more than $4 million in annual run rate expense reductions in the first quarter, relative to the fourth quarter across multiple areas. We expect these efforts to yield more than $16 million dollars in savings for all 2014. Headcount reductions in the fourth quarter result in lower compensation during the first quarter with additional savings to be captured next quarter.

Our marketing teams started transitioning the GFT brand to forex.com, the transition which will continue through the third quarter. On the technology front, we made progress in exiting legacy GFT infrastructure which resulted in lower expenses during the quarter. Synergies related to platform consolidation will be later stage savings given the work required to complete this initiative.

We completed the UK office consolidation during the fourth quarter and the Tokyo office consolidation early in the first quarter, with both contributing to lower occupancy expenses during the quarter. We have taken actions to lower the cost of our Singapore and Sydney office locations which reduced our operating expense in the second quarter and beyond.

Finally, we have achieved certain reductions in administrative costs, which range from professional fees to travel during the first quarter relative to the fourth quarter. Looking ahead to the second quarter, decisions already made to reduce these expense categories, we yield an additional $4 million to $5 million in lower operating expenses in the second quarter. Adding this to the $4 million achieved in Q1; we are on track to retain $28 million to $30 million in cost savings in 2014, excluding referral fees. So we are on target to deliver annual run rate expense reductions of $35 million to $45 million by the fourth quarter of this year.

Overall, we are pleased with our teams progress in delivering forecasted synergies from the GFT acquisition, which as trading conditions improve will drive operating leverage.

Turning to the next slide, GAIN will distribute its quarterly dividend of $0.05 per share on June 20 for holders of record as of June 12. We did not make any purchases under the approved buyback plan during the quarter, but are prepared to opportunistically buyback shares.

Now, I'll turn the presentation back to Glenn.

GLENN STEVENS: Thanks, Jason. Now, the one of the if you will, silver linings that come out of a less than ideal trading environment in terms of the quarter is M&A opportunities. And I think our disciplined approach to corporate development where we try to couple our strategic fit with making sure we maintain reasonable valuations has paid off.

As I said, we've been able to identify, negotiate and close three deals year-to-date. GAIN has likely the most robust pipeline that we had in a long time, and when you have this environment that you are able to approach complementary businesses that don't even necessarily have to be replicating your existing businesses but are complementary. I think we've illustrated our willingness and ability to integrate businesses that whether it would be a new product type in the US, with listed exchange based Futures or an advisory business with Galvan or we are able to incorporate a larger deal like GFT. These are all examples of different client segments, different geographies, different product sets. And I think having that metrics approach to the M&A pipeline first of all builds your reputation as a high level operator.

It makes discussion more amenable. It makes deals come to your doorstep besides the ones that you seek out. And ultimately, we consider that an absolute part of our growth strategy going forward. It doesn't mean we are deemphasizing organic at all and I think a lot of our customer metrics for Q1, show that on the organic side, we continue to make positive strides. But we think that it's a two-pronged approach, and so, M&A is absolutely one of our drivers.

So again, some specifics there; on the futures side, we announced an acquisition of a 55% ownership of both Global Asset Advisors and Top Third Ag Marketing in early March. One of them strengthened our direct offering. On the futures side, this is one of the most prominent users of our OEC platform and they have an expert sales channel intact and we want to be able to create some revenue synergies there, not just cost synergies in terms of leveraging GAIN's footprint with Global Asset Advisors' sales engine if you will. We also were able to bring in some expert talent on that side to help consolidate our Futures operation and propel that forward.

The Top Third Ag business gives us a new client base, agricultural hedges and again, these were all people that have exposure to FX, to commodities, to different types of markets, and so, a perfect fit for us, whether it'd be on the institutional side, sales trader side or the retail side.

In terms of the Galvan Research business, the idea there is to add some content. Galvan has been very successful and over the last decade, being able to deliver a high-quality service outside the U.S. And we want to be able to tap into that reputation and that service and again, use our infrastructure, superimpose the smaller business on our bigger footprint and end up with a win-win. That's a full acquisition in that case and we expect that to close in a couple of weeks.

The future pipeline, as I mentioned, not just for Futures but overall, remain very robust. We have several transactions in various stages of negotiations, and we expect again, using our disciplined approach to be able to deliver some more accretive deals in the coming quarters.

So ultimately, as I get to closing remarks, again, not thrilled with our financial results for Q1, but very happy with the underlying metrics that portend for positive things to come for GAIN, being able to gain market share at all levels, being able to continue our growth in our institutional business, continuing on what we promised in terms of diversification of revenue stream, delivering on our M&A strategy and delivering on our cost synergies from our recent larger acquisition.

So you know, we have to be able to position the company to do well when markets are optimal and do okay, when markets aren't. But you also don't wait for the market to dictate how your results are, which is why if you compare where GAIN is now to where it was a year ago, I think we've made tremendous strides in that direction. And so we are really looking forward to build on some of the underpinnings that we've put in place to-date.

So at that point, I think I'll turn it over to the operator for Q&A and welcome your questions.

Q&A

OPERATOR: Thank you. 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 pickup your handset before pressing the keys, to withdraw your question, please press “*” then “2”. At this time, we will pause momentarily to assemble our roster.

The first question comes from the Niamh Alexander from KBW. Please go ahead.

NIAMH ALEXANDER: Hi. Thanks for taking my questions. And, Glenn, if I could, new to the story, the capture on the retail OTC business and are you still feeling that this is a good range, I mean we are seeing such low volatility and you know, the lowest we've seen in quite some time. I'm just trying to get a sense is that kind of 80 to 120 still a good range, or should we be thinking about maybe that moving a bit lower for a time, it's actually, you know, a good month behind in the quarter already so far into 2Q.

GLENN STEVENS: Fair enough, Niamh. I think that this market has been very susceptible to every time that it looks frankly on both sides of the pivot. Every time that it looks like it's supposed to bounce along at 80 and stay there forever and this time it's different, it isn't. And every time it's at 120 and seems like it's going to stay there, this time it's different and it isn't. If you look back, our capture has been pretty consistent even beyond the chart that we showed. Probably, we go back two years. You could go back four or five and that pivot is pretty consistent. And so, I don't see a reason why we would get away from the, if you will, cyclicality of the variability as it vacillates around the pivot. The hard part is to figure out which quarters you end up with, we've seen both sides of it on multiple occasions. Markets do break out. Catalysts that I would have thought would've driven it, whether it'd be US interest rate policy or emerging market strife or things going on in Russia. I would argue those should have been catalysts for some of the big guys, the major currencies to move out of their tight ranges and it didn't. But you know, I am approaching 30 years in this markets and I have seen both side of this, and it continues to confound you know, the kind of cyclicality of it. So I guess, to answer your question, no, this will change. The hard part is to figure out, when it does and what drives it and to see this for example is one indicator, but it's a lack of trend, its average trading range. Again, I use the opportunity to say though, the part that we can control, the underlying business metrics, diversifying our revenue, bolstering the new customers that come in, as long as those continue to improve than I like the overall health. But I think that, no, I don't see any reason why we depart from that, but fair enough, it doesn't mean that that just because we hit 80 that we got to be 120 for Q2.

NIAMH ALEXANDER: Okay, fair enough, thanks, Glenn. And then on the expense management and really good progress with the GFT, which is great to see and then the guidance for another $4 million in the next quarter. But your release and also your prepared remark kind of hinted at some additional expense saving over and above the GFT? What more can you share with us there and maybe what areas do you see some additional, or have you identified some additional cost savings and if the magnitude or range that you can give us a sense over there?

GLENN STEVENS: Okay, so a couple of items on that. Well, number one, the reason for reporting the progress on GFT so that people don't forget about it well, that's reason why we came out six months ago and said, we fully expect somewhere between $35 million and $45 million of an overall run rate improvement over a year and you don't want to put out numbers like that and hope they go away and people forget about them. We are bringing it back to the front because we fully expected to deliver and we are. You asked about some above and beyond, well, I'll probably get in trouble internally here. But on the expense side, I am more than comfortable with what you have done for me lately. So in terms of $34 to $45, that's got it through Q4 into Q2 and things that are on track to happen with dates, with contract and with things that are in place, but have dates to roll-off. Now, it's a focus on to say, okay, what else do we have? So part of that is frankly, re-treading things that we looked at and said, well, it looks really efficient if we take the GFT item and the GAIN item, and keep one and half. Well, maybe the answer is one and quarter out of two, not one and a half and so you get to revisit some of these.

The second part of it is looking at some of the things that we didn't necessarily factor in, which is being a bigger participant with the combined operations, whether it would be on brokerage fees, trading costs or whatever they might be on Telco, on infrastructure, guess what, when you become bigger player, wasn't that long ago that when we called AT&T, they didn't pick up the phone and you know, we pay a lot more money than that we did a decade ago and now we have a rep. And so my point being that some of the items that weren't easily identifiable until we put these businesses together, now are showing themselves, and so, to give you some guidance, you know, they are of magnitudes that's material. I can say that. So you know, I think that we still want to focus on delivering the numbers we said for GFT. But the reason we mentioned it, is because they won't be trivial. We are going to provide more information as we get into Q2 because we will be able to nail down that. And so, I think, I got a little bit less to tell you. But in terms of you know, the actual, we didn't put it in our presentation to throw away, but we will probably have more clarity and a little more magnitude as we get into Q2.

NIAMH ALEXANDER: Okay, fair enough, thanks. And then just lastly if I could, when I look at the just financial for entire organization and some really nice growth in the commission businesses, which in theory are easier to predict and little bit more stable. So we'd like to see that progression. But its also, you know, the lower margin business, is that fair and you know, should we think about maybe kind of some more even with the kind of core expense reduction with the deal? You know, these referral fees and your trading expenses will when you grow, if you continue to grow the commission because the EBITDA margins are lower, the core operating margins are lower and it's a mix shift towards the commissions as well as deals, is that it?

GLENN STEVENS: Fair enough, Niamh. I'm going to give you a half right on that question and that is, you look at GTX versus Futures. On the GTX side, you know, we are pretty comfortable with that business operating above 30% margin and so, I wouldn't think that that's going to be a drain in our margins at all. If you look at the sales trader business, that generally speaking it's got kind of 20 handle, it's the Futures business that we are hoping with some scale and with some remix of direct business versus indirect business that plans out of the single digits into the low double digits. And so, yes, I don't think our Futures business is ever going to challenge our institutional GTX platform as a higher margin business, just because of all the clearing fees and the things that get stepped on in that industry.

Our GTX business, as the volumes grow and as our market share grows, there is operating leverage there because it doesn't mean we are hiring more compliance people, we not hiring more people to manage our newly anointed staff. You know, those are things that happen once and then have step function advances. So I guess, again, to answer your question on the commission business, it's probably half and half. Yes, the Futures, if they grow together and kind of lock step, then you won't have a margin drag because, the higher margin GTX will offset the lower margin Futures.

NIAMH ALEXANDER: Okay. Thanks so much. I'll get back in line.

GLENN STEVENS: Sure, Niamh.

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

RICH REPETTO: Yes, good evening. I am just trying to see, Glenn, you know, what the trend is, in April. I know, it looks, it appears soft, and your peer reported this morning that retail trading was down 18%, just trying to see if that's a fair proxy for you as well?

GLENN STEVENS: So…no, I wouldn't say, it's an accurate proxy for us, you know, in some cases, you know, just as a point of comparison our metric, as I said, you know, continued in a positive fashion for the quarter. No, April hasn't stepped up to reverse the trend in terms of overall volatility or now ranges. We don't have different currencies than anybody else or different clients than anybody else for the most part. But I wouldn't say that April, from a metric perspective, was as dramatic in that respect. You know, we are probably tracking to half of that. But to be fair, it's a continued softness in terms of Q1. We have not seen a turnaround in terms of, frankly, overall market conditions, trading conditions.

RICH REPETTO: Okay. And you said half of that, were referring to just the retail ADV then?

GLENN STEVENS: Correct, that's the number you quoted, yes.

RICH REPETTO: Yes, okay. And then, I think, I understood this, but on slide ten, when you talked about $4 million in cost saves in the first quarter, $4 million in the second quarter, and you got…I thought you said $28 to $32, that's just…these are just GFT, this isn't the incremental cost saves you talked about earlier?

JASON EMERSON: That's correct, Rich. It's GFT related only, so the $28 million to $30 million is the realization in 2014 of our, you know, GFT synergy efforts. And as we highlight, we achieved the run rate base of $35 million to $45 million in the last quarter of this year.

RICH REPETTO: Okay. And then one last thing here, you know, we appreciate you breaking out the referral fees and the trading expense and commissioned. Could you better go over us or help us, you know, what are the key drivers on how to model out, you know, those lines independently?

GLENN STEVENS: So I mean, I guess, from the specifics standpoint, you know, we break it out, so when you say line-by-line, I am not sure, maybe Jason, you got a different perspective?

JASON EMERSON: Can you can clarify, Rich?

RICH REPETTO: Yes, I guess to see whether, you know, like say referral fees, it is probably some percentage of institutional commissions. And, you know, I am just trying to see whether you can narrow it down further than that or which institutional commission or is it just going to…is that just the easiest way just the percentage of institutional commission revenue, the referral fees?

GLENN STEVENS: I mean, if you are talking about as a percentage of total revenue, I mean, you are in that kind of range of kind of 25 you know, as a percentage of revenue in terms of referral fees, is that what you mean?

RICH REPETTO: Yeah. I guess, I am just asking if it's best to look at as a percentage of just institutional commission revenue, is that…I guess, that's where it's all coming from the institutional or also retailer, you know, referrals too?

JASON EMERSON: So Rich, to break…the referral fees is comprised mainly of our retail OTC, volume based and revenue based. And then, if you look at the next largest amount is on the exchange based Futures. And in this quarter we had, as I mentioned during the presentation, we had an increase in partner base or introduced business to the sales trader business, which you know, was…it was an increase in this quarter versus Q4. So we don't breakdown the exact percentages, but overall, if you look at ranges from 25% to 30% of our operating revenue.

GLENN STEVENS: Yes, non-interest revenue.

JASON EMERSON: Yes, non-interest revenue, you know, and that fluctuates depending on volumes and market conditions.

RICH REPETTO: Okay. That's fine, I got it. You know, it's best to do the overall operating.

GLENN STEVENS: Correct.

JASON EMERSON: At this point, that's the best way to go.

RICH REPETTO: Okay, that's all I had. Thanks, guys.

GLENN STEVENS: Okay. Thanks, Rich.

OPERATOR: Again, if you have a question please press "*" then "1." Our next question comes from John Dunn of Sidoti. Please go ahead.

JOHN DUNN: Hi, guys.

GLENN STEVENS: Hi, John.

JASON EMERSON: Hi, John.

JOHN DUNN: On the institutional side, you guys talked about how you are taking share in GTX. Could you just give us a flavor of how you are doing that way…how are you doing that also who might you be taking that from?

GLENN STEVENS: So, I think we take in on several fronts. Number one; there is this natural momentum that you get when you break certain thresholds from a volume perspective. What I mean by that is that, there are market participants that only want to be on your venue, when your venue is considered material. So it's almost like on the equity side. If a new participant comes in, whether they are in exchange or dark pool or what have you, until they get to certain levels of volume the larger players don't bother giving them any screen real estate. And for us, until we started to approach, kind of double-digit billions per day, and now $20 billion per day, you start to attract other users who…I am not going to take credit away from my sales people because they will be up for, but the reality is their sales pitch becomes more sticky when they are able to go in there and say, try us out very few people are using us, which used to be the case because you were new.

Now, it's, hey, let me show you what you are missing, we are doing a material amount and the reality is that when you have, you know, kind of a multi-dealer scenario, other dealers want to be part of that venue. And so, some of this momentum begets momentum. And I guess, the example that I would give you is that when you raise money in a hedge fund, the first $50 million is hardest to get, and from $50 million to $250 is a little easier, and from $250 million to $3 billion, to some degree is a hell of a lot easier. So in this case, we have this momentum, and some of it is just market participants saying, I don't want to be left out, I should be part of that, and for good reasons. So now why? Because the technology is proprietary, so we are not doing and also ran white label of somebody else's stuff.

Number two, it's been lauded and extremely well received in terms of its flexibility, its reliability, and its ability to provide solutions whether someone wants a custom application or specific guidelines in terms of the liquidity pool that they want to be constructed. So there is a lot of ability to tailor to the users that I think a lot of our peers can't do. And then other part is, as a company, we, you know, got out early in terms of being a registered swap dealer, and then being an approved as a SEF participant. And frankly, all the things that we are supposed to do as a qualified well regarded participant, doesn't hurt matters either. So I think that if you couple the reputation with the flexibility, with the technology, with the growing momentum of more and more users joining the fray, if you will, that's all the tailwind that drives it.

In terms of who we are getting it from, I can't quantify to say such and such a customer came from such and such a venue. However, the biggest players out there, whether it's ICAP, EBS or Reuters or so, we've seen some of their market share slipped some degree. I don't know if that's the market share we are getting, but I can say that our users were up 41%. So it's not just people being more active with us. It's actually the broad spectrum of users increasing at the same time. So I think that the biggest participants' is a fairly narrow group, some of that I mentioned and I would say that for now, that's probably the bulk of the market share that we are grabbing.

JOHN DUNN: Got you. And then on M&A, can you give us a sense of where pricing…what pricing looks like now on deals versus say you know, three months ago?

GLENN STEVENS: So I think that you know, you are dealing with human beings and when you come out of it, the answer is, it depends. And I say that because it's such a business that like our retail OTC part of the business, they are looking at the same market that we are, and so the Q1 is softer than Q4. So if it's a business focused on that, they may want to take a longer term view, but they may not be able to do it.

And so if their own financials are such that they don't have that leeway, they may have to basically deal with the sobering fact of, I need to do something now unless things improve, and I don't want to wait around for things to improve, so I would say that that price point is softer now than it was six months ago.

However, if it's a business, that's a little less related, you know, the Futures business hasn't really softened to a point where all of a sudden somebody says, oh gee, this is a lot softer or if it's an advisory business that's healthy, or if it's a technology company, that's focused on mobile or what have you, I would say the opposite is true. There is a little bit more of increase there. But some of the businesses that suffer the same challenges that we do in terms of retail OTC effects business, yes, those are softer. The other ones, I would say, it's kind of a case-by-case basis.

JOHN DUNN: Got it. Thanks very much.

GLENN STEVENS: Sure, John. Thank you.

OPERATOR: As there are no further questions, this concludes our question and answer session. I would like to turn the conference back over to Glenn Stevens for any closing remarks.

GLENN STEVENS: Thanks operator. Just close by saying, I appreciate you joining our call today and we are looking forward to the follow-up. Have a good evening.

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