

GAIN Capital

Fourth Quarter and Full Year 2014

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CORPORATE PARTICIPANTS

Glenn Stevens - *President and CEO*

Jason Emerson – *Executive Vice President and CFO*

PRESENTATION

Operator

Good morning, and welcome to GAIN Capital's Fourth Quarter and Full Year 2014 Results Conference Call. All participants will be in listen-only mode. 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 results to differ materially, and I refer you to the Company's press release of February 26, 2015, and the Company's filings with SEC for discussions of those risks. In addition, statements during this call, including statements related to market conditions, the acquisition and integration of City Index, 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 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. Please go ahead sir.

Glenn Stevens

Thanks, operator, and thanks for everyone to join our fourth quarter and full year 2014 earnings call, go through some overall financial reports, turn it over to Jason for more specificity, and then open up to Q&A as the operator guided.

Over the past three years, GAIN has focused on a clear strategy geared towards several focal points that I think we have shown continue to deliver, and we expect to continue to deliver beyond that. These primary points are scaling our business, diversifying our revenue streams across products, across geographies and different customer types while creating operating leverage and tight control of fixed expenses, and meanwhile layering in strategic acquisitions as they make sense at the right time and in the right place in order to continue to grow the business to complement our organic growth which underpins the growth for these years as well.

The fourth quarter results reflect this continued success on executing this plan. We had record revenue of \$114.7 million, that's up 37% and that includes record retail revenue of \$85 million, that's up 39%. Our revenue growth in our commission business is over 30%. Meanwhile our core fixed operating expenses were reduced by 17%, contributing to an adjusted EBITDA of \$35.9 million, up 164% over the similar period last year. During the fourth quarter, we also announced an acquisition of City Index, and that's on the heels of polishing off our integration of our acquisition of GFT the previous year. We managed to finish the year with a very strong balance sheet, including a \$139 million of cash. More specifically, in the fourth quarter on some of the operating results, our net revenue was \$114.7 million up 37% and adjusted EBITDA, as I said, of \$35.9 million; that's a net income of \$17.6 million, for the earnings per share of \$0.41, also showing a cash earnings per share of \$0.49.

Some of our operating metrics. Retail volume \$730 billion. That's an average daily volume of \$11.2 billion. Our institutional volume was up, our platform volume was up, our futures contracts were up dramatically, and our funded accounts were up. Across the board, solid results for the year and particularly for the fourth quarter. On the other operating results for the full year, \$369.5 million of net revenue, adjusted EBITDA of \$74.6 million, and net income of \$31.6 million, with an earnings per share for the full year of \$0.71 and a cash earnings per share of a \$1.02.

For operating metrics for the full year, similarly across the board up dramatically, \$2.4 trillion of retail volume, average daily volumes of \$9.4 billion, institutional volume up year-over-year, futures contracts up over year-over-year, client assets up, as well. Again, everything up and to the right in what we would consider the output of a multi-year strategy that we continue to focus on. Our strategy drives financial performance, it drives scale, it drives diversification.

We continue to execute on our multi-year plan, and you can see a clear progression. On the next slide there is a three-year CAGR of 27%, and that's on revenue, and an EBITDA CAGR of a similar 27% for the same period. Our commission-based business generated over \$127 million of revenue, and that constitutes 34% of revenue. If you look back to where our focus was over 95% of revenue on retail OTC FX, again you can see a clear progression towards a diversification of the revenue underneath. On some charts on slide 6, underneath, you can see that even including a 2012 market that was challenging for basically all financial firms, our revenue and EBITDA progress is clearly up and to the right.

To break it down into some business lines, if you will, the next slide on retail over-the-counter business, you can see the strong growth in the over-the-counter is a combination really a result of the organic and inorganic initiatives that we've taken. Our organic growth was a strong brand replicating our success in different continents and in different markets gets fueled also by strategic M&A. By contemplating, negotiating, and finalizing over six deals in the last 18 months alone, we layer in strategic M&A to help power the organic growth, and you can see that as it comes out in terms of client assets, funded accounts, and average daily retail volume. Kind of a newer star as part of our overall business portfolio is our commission business, and if you look over a couple of years in that, you can see that both organic growth and expansion through acquisition has been a successful combination.

Our commissions business delivered, as I said, \$127 million of revenue in '14. That's versus just about \$61 million in '13, and you go back even a short time before that, and you can see a very dramatic progression. The growth in revenue was driven by organic growth of our GPX institutional business, our expansion of retail futures, and more recently with the addition of an advisory-based revenue stream with Galvan and Faraday that we completed last year. We expect to use a lot of these products and distribute them as we integrate them more fully through the wider audience of GAIN's client base.

Ultimately, GAIN has established a global presence across multiple platforms, asset classes, as I said, geographies, and customer types. We're now diversified geographically and by platform after our humble beginnings as a pure U.S. focused retail OTC for FX business. We're regulated in seven countries, we have customers in over 160 countries. Across 12,500 products, GTX, a business that was not even part of GAIN's portfolio four years ago was from scratch business using proprietary, our own proprietary technology, and that's nearing \$5 trillion of volume for 2014. Our sales trader business was another layer in this part of the GFT acquisition and to add some content and help assist our clients make more informed decisions, we added some advisory content, which is also proprietary and it's an added value service that again, we hope to help ramp up. So let's pause there and turn it over to Jason for some more specific results.

Jason Emerson

Great. Thanks, Glenn. Let's take a closer look at the results for the quarter and the year. Our retail OTC business delivered strong performance for the quarter amidst improving market conditions, which drove client engagement. As a result, we achieved record revenue of \$85.1 million for the retail OTC business, up 33% versus last quarter and 39% higher than the fourth

quarter of 2013. The retail OTC business is delivering operating leverage from the combination of our solid operating metrics and our ability to successfully integrate the GFT business and capture fixed operating expense synergies as market conditions improve towards more normal level. In addition to the record performance of the retail OTC business, the commission-based businesses were \$29.9 million of revenue, down slightly versus last quarter, and up 30% compared to the fourth quarter of 2013. When we look at the Firm in aggregate, total net revenue of \$114.7 million in the quarter is up 11% versus last quarter, and 37% relative to the fourth quarter of 2013. For all of 2014, we delivered revenue of \$369.5 million, up 38% from \$267.6 million in 2013, reflecting on the execution of our plan to scale the core retail OTC business as well as diversifying the commission-based businesses through organic and inorganic initiatives.

I'm going to walk you through some of our primary expense areas of compensation, marketing, and referral fees that impact our results, and we will look at fixed operating expenses on the next slide.

Compensation for the quarter of \$28 million is up 10% compared to last quarter, primarily due to an increase in bonus compensation as the Firm delivered strong financial performance, and up 18% relative to same time last year due primarily to the performance of the commission-based businesses as well as the impact of acquisitions. Compensation margin of 25% is flat versus last quarter, and down from 28% the quarter year ago. For all of 2014, compensation of \$99.5 million and margin of 27% is up 34% relative to 2013 on an as-reported basis. Taking out the impact of commission-based businesses and acquisitions, total compensation is down 11% on a pro forma basis.

Marketing expense of \$4.1 million in the quarter was down 15% versus last quarter, which reflects our ability to optimize our spend during more favorable market conditions, and down 36% from the fourth quarter of 2013, largely driven by synergy capture from the GFT acquisition. For the year, total marketing expense is down 9%, reflecting our ability to optimize our campaigns for the retail OTC business, and down 25% on a pro forma basis demonstrating our ability to capture synergies from the GFT acquisition.

Referral fees, which are largely driven by the retail OTC business, of \$25.2 million and margin of 22% were up 2% compared to last quarter. This reflects the ability for us to generate operating leverage on our volume-based arrangements when we experience revenue capture in the retail OTC business above our trailing 12 month average. Referral fees for the year were up due primarily to having a full year GFT business coupled with the increase in the futures business.

The combination of improving trading conditions driving customer engagement for the retail OTC business along with the performance of the commission-based businesses as well as managing our expense base generated an adjusted EBITDA of \$35.9 million, yielding a margin of 31% for the quarter. This is up 24% from the adjusted EBITDA of \$27.5 million and margin of 27% last quarter, and more than two times the adjusted EBITDA of \$13.6 million and margin of 18% in the fourth quarter of 2013, demonstrating our ability to drive significant operating leverage with the return of more normal market conditions, and executing on delivering synergy capture from the GFT acquisition. For all of 2014, GAIN generated \$74.6 million of adjusted EBITDA, up 22% from 2013, and this is up 41% on a pro forma basis, reflecting the impact of synergies achieved in 2014.

Our tax rate for 2014 ended up at 29%, down from 31% at the end of 2013. For the first quarter of 2015, we expect our tax rate to be between 26% and 28% prior to the close on the City Index

transaction due to the growth of our business outside of the U.S.

Net income for the quarter was \$17.6 million or \$0.41 per diluted share, up from \$15.3 million or \$0.33 per diluted share last quarter, and up more than four times the \$4.3 million or \$0.10 per diluted share in the fourth quarter of 2013. For 2014, GAIN generated \$31.6 million in net income, up slightly compared to last year on an as-reported basis. Cash EPS for the quarter of \$0.49 is up 17% from last quarter, and demonstrates a cash generation ability of the Firm as we scale the retail OTC business and build our commission-based businesses.

Moving over to the bottom left hand of the slide, we continue to make progress diversifying revenue within the retail OTC business as well as through the growth of revenue from commission-based businesses. Trading in non-FX products, which are predominately contracts for differences in indices, equities, and commodities by our retail OTC customers were 28% of retail volume in the fourth quarter, that's up from 14% a year ago. Total revenue from commission-based businesses is up 30% compared to the fourth quarter of 2013. Overall, our efforts to grow commission-based businesses are yielding tangible benefits as can be seen by annual revenue of \$127.1 million, up significantly from the \$60.8 million for 2013. A key part of our strategy is to expand in commission-based businesses in new products, customer segments, and geographies to generate more stable revenue and reduce the volatility of earnings in the Firm overall. Last thing on the bottom right, highlighting our retail revenue per million over the trailing 12 months of \$97 is consistent when you look at our retail OTC business over the past 2 to 3 years.

Now let's turn to our management of fixed operating expenses and our ability to deliver on synergies from our strategic acquisitions in the retail OTC business. In an effort to illustrate some of the initiatives we're taking to control our expense base in the retail OTC business even as we grow the commission businesses and make targeted acquisitions, we have recently broken out the fixed operating expense base to give more of an apples-to-apples comparison. As Glenn noted earlier, part of our strategy is to build scale of our retail OTC business in terms of our key operating metrics of customer assets, funded accounts, and volumes through acquisitions, and deliver operating leverage by lowering the combined fixed expense base. Our ability to successfully target, acquire, and integrate firms in this space can be measured by the progress we have made with the GFT acquisition, which we closed at the end of the third quarter in 2013, as well as the announcement to acquire London-based City Index in the fourth quarter of 2014, which we expect to close in early Q2 of this year. When we announced the signing of the GFT acquisition, we set a goal to reduce the combined gain in GFT fixed operating expenses by \$35 million to \$45 million when compared to 2012. As you can see, we achieved a \$53 million reduction of the combined gain in GFT fixed operating expense base when comparing 2014 to the end of 2012, exceeding our target when adjusting for variable expense as well as direct expenses related to new businesses.

For the quarter, fixed expenses of \$30.1 million are down 17% relative to the fourth quarter of 2013 due primarily to synergies achieved from the GFT transaction. Fixed operating expenses are down 3% versus last quarter due in part to cost management efforts taken in the third quarter incremental to the GFT acquisition, which were partially offset by somewhat higher operating activities. For the year, fixed expense of \$128.6 million are down \$27 million and \$53 million compared to \$13 and \$12 respectively on a pro forma basis. Looking at the fourth quarter, you can see the operating leverage that comes from the achievement of synergies from the GFT acquisition with improving market conditions as the retail OTC business delivered record revenue. On a consolidated basis, we had a revenue of \$114.7 million, up 37%, total expenses are only up 11%, and adjusted EBITDA of \$35.9 million, up more than 2.5 times when

compared to the fourth quarter of 2013.

The acquisition of City Index Holdings will further our ability to grow key retail OTC metrics such as customer assets, funded accounts, and volumes, while diversifying revenue across geographies and products. This, coupled with our ability to reduce the combined fixed operating expense base of GAIN and City Index by \$45 million to \$55 million relative to the trailing 12 months ended September 30, 2014, will provide additional operating leverage in more normal market conditions. Turning to Return of Capital slide, GAIN will distribute its quarterly dividend of \$0.05 per share on March 23 for holders of record as of March 13. We did not make any purchases under the approved buyback plan during the quarter, but are prepared to opportunistically do so. Thanks. I will turn the presentation back to Glenn.

Glenn Stevens

Thanks, Jason. Obviously that's a lot of information, a lot of detail, so fortunately this call is recorded and our notes are posted on multiple sites, so we encourage people to go through it because to boil it down, pretty much every number that was supposed to go up went up, and every number that should go down, like expenses, went down. So overall it's a pretty solid story for the quarter and for the year, and more importantly for us, our continued execution on a multi-year strategic plan.

Next section I wanted to focus on was an update for the City Index acquisition that we mentioned in Q4. That is absolutely on track for us to close that in the coming weeks, and we're excited about bringing that group of people and brands and products into GAIN's fold. Next slide shows a little bit more detail there about what the combined company may look like, and it's important to note some of the scale items. You're going to end up with revenue that's nearly \$500 million, with pre-synergy EBITDA of \$90 million, and you can see a post-synergy number of about \$140 million, with customer assets of over \$1 billion. These are all pretty heady numbers, and continue to show our success in terms of, as I said, strategic M&A coupled with organic growth.

There is another slide that speaks a little bit about the breakdown in terms of retail trading. City Index is primarily focused on retail trading, and what's important is that we want to layer these M&A efforts in strategically, where they make sense, and so whether it's diversifying our revenue or it's enhancing revenue or it's a geographic push or it's a product push, there is method behind the madness, and more recently as I get into the next slide called Looking Ahead there has been, thanks to the Swiss franc event, a lot of heightened scrutiny on this industry and on some of the players in this industry, and we try to take an opportunity to pull the lens back a little bit particularly in this deck, and on this call, to not lose sight of the fact that we have, through a lot of rhetoric, noise and what have you, continued to progress, continued to grow the Company, continued to say what we're going to do and then do what we said we were going to do, and so in that respect I think we have delivered on just about every front on that, and we see no reason why we won't continue to do so. It's important to note because the Swiss franc event was a shock to many in the market, but this really wasn't a shock in terms of inside of GAIN. It was an exciting situation, it was an intriguing situation, but we didn't dodge a bullet or make a good call or luck out. We have a tremendous amount of focused experience inside our shop, including myself and the head of risk alone we have 60 years between us in FX, and combined 15 years at GAIN of retail, and prior to that over 15 years of inter-bank experience, and you can't always put a price tag or value on that until you need it, and so, these kinds of proactive approach with risk management, with looking at our client base, with looking at the businesses we're in, the geographies we operate in, the regulatory environment these all are data points and you put them into a portfolio and you do regular, constant, vigilant analysis and

it helps guide your decisions about where you should be, how you should be acting, and what you should be doing to take care of your customers and I think we do that as part of our regular routine. You come in, you grab a coffee, and then you do all these things. You don't wait for a rogue wave and then hope to react. And so, inside of GAIN, which I believe is a unique benefit and frankly a competitive advantage, is our proactive approach to looking at this market holistically, looking at our plan strategically over multi-years, and when you have a 90-day period that doesn't line up perfectly, I just ask that our constituents take a look back and say okay, from a perspective of slightly broader view, GAIN is continuing along its positive path. And so, for us, when we see a Swiss franc event like that, it's an opportunity to shine, frankly, but it wasn't something that came across in terms of the specific event and the timing. Yes, sure, that was unexpected. But we clearly demonstrated that months in advance, we were contemplating these kinds of situations and we will continue to do so.

We've also, fortunately, as I said a competitive advantage been able to positively take advantage of a bit of a disconnect and a tumult in this market, and so we've seen a sizeable increase since the events of January 15th. We've seen a very significant increase in average daily volume, you know, we're up 24% for this period where we've seen funded accounts dramatically increase, and so I guess some of the fruits of the labor of doing a lot of that grunt work over time pays off when these waves hit, if you will. As I mentioned, we're on track for our City Index acquisition, that's kind of coming weeks. Again, important to look at our client asset target over \$1 billion, our synergy target of \$45 million to \$55 million, and a nearly \$500 million top line business to demonstrate scale. It puts us in an enviable position to deliver earnings growth and to deliver significant value for our shareholders, for next quarter, for next year for going forward.

Again, we operate daily but we try to make sure we keep our eye on the prize that's a broader perspective. There is a lot of experience built into my Management team, and a lot of key people across the shop globally. We've grown from a local focus to a global focus, and I think it bodes well for how we deliver for our stakeholders. Ultimately, you put the work in and then you want the outcome to be positive, so before we go to Q&A, I'm real proud and real happy that we're able to post record results across the board in a lot of the financial details. We continue to manage and move along a successful M&A strategy. It's something that we've managed to continue along for multiple years.

We always get asked the question, when we finished the acquisition of GFT, hey are you guys done, or on the sideline now? And the answer was, let's do three more deals and then do City Index, and then when someone says, but are you keeping your eye on the prize? We want to make sure we deliver lower fixed cost and better metrics in terms of customers and assets and number of customers and other products. So there's a lot, there's absolutely a lot of balls in the air, but if you have the right group and you have the right focus, you can deliver on that. And then ultimately, when there is a shock to the system and that leaves you as an opportunity to step up, that's what we're doing at this point now. So ultimately with that, I will turn it over to Q&A, and I think we can wrap up after that. Operator?

QUESTIONS AND ANSWERS

Operator

Yes, thank you. We will now begin the question and answer session. To ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster. And the

first question comes from Niamh Alexander with KBW.

Niamh Alexander

Hi, good morning. Thanks for taking my questions and congrats to such a strong finish to the year.

Glenn Stevens

Thanks, Niamh.

Niamh Alexander

Sure. If I could, I guess with respect to the Swiss franc move, and it seemed to us in the equities world and that the effects were, but it was a very unusual move for start, but it was really kind of flagged and showed how much leverage there is in the system, and, you know, especially for retail investors, and in the U.S. we've seen the regulators already kind of moved to limit caps, and then I know you yourselves have already kind of done it, and had done it in advance of the Swiss move, as well. But what about in Europe, where, you know, that's where most of the leverage is allowed and maybe in some parts of the Asia, is there anything moving on the regulatory front there or have you, what have been the headlines, what have been the concerns issued by the regulator, what kind of change are you kind of looking for there?

Glenn Stevens

So I think taking a little bit of an opportunity to put some glasses on and look through the smoke or the haze a little bit. The one thing about this particular trade, it was highly focused amongst a very narrow group of participants. I think there are not just anecdotal, but public facts available that show what a concentration it was, and you're right, there was a use of leverage; there were some people who got caught on the wrong side of it, what have you. But it was, in terms of percentages, really narrow numbers of accounts, and so even when you look at some of the shops that announced some losses 90% plus of those losses came from count on two hands, count on one hand, not in the thousands, not even in the hundreds, in the single digits. So, when a regulator has an opportunity to breathe and start to ascertain what actually happened, they can see that this was a very narrowly focused group in the Swiss franc product that got caught on the wrong side of leverage, you're right.

So, I think that, not I think, our discussions, which have ensued since the event, with regulators in the U.S. and in Europe and in Asia has not been one of whiplash or panic. The regulators, to their credit, have been pretty mindful about saying well let's get some of the details, let's see actually what happened, and should that cause a seismic change in our policies or procedures, because overall if you look at markets, the euro Swiss, for example, for 20 products, of top 20 products of volume didn't even make the cut on the Top 20, so in terms of open interest and in terms of volume, I think it's important that I think it's the principles that drive it, and if you look at some of these regulators, particularly in Europe where they have a lot of experience with this product, they take a principle-based approach. They look at it and say, hey, what actually happened? What's going on? That wasn't a non-major, if you would have had, for example, the Russian ruble go into a situation that was challenging, or the Mexican peso you're really are starting to kind of narrow down in terms of that. So I think that's what kind of key. So, no, short answer. I don't see any knee jerk, I don't see any major thing occurring. It really feels like more like they are taking a task of let's see actually what happened and what it could mean. And they have a pretty seasoned view there, and a pretty decent understanding. So, the guidance so far, and my expectation, our expectation to date, is that we don't expect anything material to change.

Niamh Alexander

You don't expect, okay. Fair enough. Thank you Glenn, I appreciate your sharing. And then, you know, with City Index just about to close, you've had quite a few months to work on the integration and I think we talked about before how it's different than in the U.S., so you can really get in there and kick the tires even before you close. So, are you still feeling good about 20% in the first year and 80% thereafter in the second year, or do you think you might change the mix, the synergies?

Glenn Stevens

So changing the mix, I'm not sure I'm totaling following.

Niamh Alexander

Oh, sorry, I'm not being clear. I just mean in terms of how you're going to accomplish the synergies with the timing, I think yourself and Jason had said you expect to get 20% of the synergies within the first year and then the remainder in the second year.

Glenn Stevens

Oh, yeah. Sorry, okay I was thinking more product and things like that. So, that's correct. I think, there are a couple of factors. You have customer attrition, which we have shown to be very sensitive to, and so for the GFT acquisition, which was the closest facsimile to the City acquisition in terms of size and scope and product focus, was extremely low. Partners was zero. For direct customers, it was really small single digits percentage. So, that's not by luck. That's by focus to say what could we do to smooth the transition for clients? In some cases, if they stay on the same platform because we're keeping it alive, then the transition really should be easy because you tell the customer nothing's changed except now you deal with a much more reputable, well-capitalized, public company. Other than that, everything is going to be the same for you in terms of your experience. Where we have to transition the customer, then we have to do all the behind the scenes work to make it really key. So I think that the way we're looking at capturing the synergy is that it's back loaded, not to the back end of '16 but it's kind of back loaded into '16, so there is a stub in '15, because if we close the end of this quarter, or, I think the first part of second quarter or early April, then you get, you start to get in earnest, we're not in a vacuum with speaking with them. We're inside their offices. We're cooperating at a lot of levels. But the acceleration in terms of the real synergy capture, the platform migration, and the vendor migrations that happens in Q4 starts to happen in Q4 of '15, and then really kicks in in the middle of '16. So I think the phase, it's, if you've to put it in five chunks it would be kind of like Q4 and then 4Qs of '16, and I would probably look at that way as the bulk of it all happening in five chunks, Q4 of '15, four quarters of '16. Jason, you want to add anything to that?

Jason Emerson

No, I think you've covered it well.

Glenn Stevens

Okay. And it's important to note that City's performance has been improving as well, so there's a double reason for us to not tread with concern about upsetting the apple cart, but tread preserving both. In some cases you have a weaker participant and you're okay to kind of kick them to the curb, but in this case they're both, obviously GAIN, but City is kind of holding there as well. So we go ahead and we say let's rationalize what kind of debt accounts, what kind of platforms are underperforming, get everything together and come out with the best of breed on both sides.

Niamh Alexander

Okay, great. Thanks. I'll get back in line later.

Operator

Thank you. And the next question comes from Mike Adams with Sandler O'Neill.

Mike Adams

Good morning, guys. Congrats on a very strong fourth quarter here.

Glenn Stevens

Thanks, Mike.

Mike Adams

Not a problem. So another question on the M&A environment. So appreciate some of your comments already, Glenn, but you also had a deal that priced about a month ago or so a hotspot being acquired by Bats, a pretty favorable comp for your institutional business as well as some other peers that are out there. Then on the flip side we got some of the shake out from the turmoil and the Swiss franc. Just could you talk to maybe the quality of franchises where you're having conversations today, and generally where the bid-ask spread is? I think in the past maybe you color coded the pipeline a bit for us. Maybe that would help us get a better feel for things.

Glenn Stevens

So in terms of the bid-ask spread, you mean in terms of where pieces of our business would rely, or, I'm not —

Mike Adams

More, more, you know where you find a platform attractive versus where sellers are willing to price these things.

Glenn Stevens

Oh, got it. Okay, fine. So, well it starts to become a bit case by case. Now, in the situation that you mentioned, unfortunately for the masses or the vast majority of shops in the Swiss franc event, it didn't create a favorable outcome, and in that case I think that pushes those negotiations, those discussions, into our wheelhouse, if you will. I think if you came out of the full year '14 and fourth quarter without having that disk location, then it was a relatively, GAIN wasn't alone in having a strong year. We were alone in having an extremely strong year and continuing it, but, not alone, but on the upper echelons, if you will. But it got kind of reset, and so we ended up kind of lopsided situation where two things happened.

Number one, peers that would normally compete for an opportunity with us are in a weakened position, bottom line. I mean, we expect more shake outs to occur. We see some weaker players that are still struggling to kind of get their houses in order, they're not all public and so there is situations that we can say, hey let's see how things shake out over the next weeks, months, and things roll through for challenged capital situations, challenged client situations, whatever it may be, and so I guess this is one of those situations where we could actually have the market come to us a little bit versus us have to being super aggressive. Not to mention, we're weeks away from closing a rather large deal for us, and so it doesn't put us in the shed but it lets us be a touch patient and opportunistic. And so I will say to you that that opportunity for being opportunistic is better now than it was four months ago only because the combination of some firms are in a challenged spot and other firms who aren't in a challenged spot but

aren't in a position to be as aggressive or capable to do deals. Just simple as that. So I would say on your bid offer curve, things have come, if we're in a bid have closer to the bid instead of us having to step up to the offer.

Mike Adams

Got it. That's great, Glenn. And then, related to this, on the balance sheet, looking at your liquidity at quarter end, a pretty nice uptick. I think \$118 million or so of free cash. Where are you comfortable sort of maxing out your leverage in terms of how much capacity do you have there to do another sizeable deal?

Glenn Stevens

So that's a function of your ability to generate cash, and I think we highlighted that. Jason mentioned it, that you get to refill the coffer so it's not a one and done when you do a deal. I think that as with the confluence of our stronger balance sheet, that also means your access to funds is better with a stronger financial performance, it means your opportunity to tap into capital markets is stronger, so all those things kind of have a virtuous cycle in terms of on a positive basis. We've shown the ability to be quite creative over the last multiple deals in terms of the structures, whether it's earn out, debt, equity, cash, whatever it may be, and so I think that's helpful for us because we don't have to go into a deal and say that looks like it's too much. Yes, it looks like it's too much to write a check, but it may not be too much to put a structure around.

So, where are we comfortable? Look, in this day and age, you don't even have to say no, in almost any situation that makes sense strategically because there is abilities to be creative, to tap into outside funds that aren't even sitting in our balance sheet that makes sense. I mean there are all kinds of ways that when you're successful and when you're doing, when you're executing on your plan, then your options just get broader. And when you're not, your options really shrink. It's a shame, but it usually all goes in one direction, and we're in the right direction and so you're able to tap into a lot. And when it's gone in the wrong direction, everybody says, if you want to try to borrow money when you need it, good luck, but when you don't need it it's really easy to get as much as you want. And so in that case, I don't think we're hamstrung at all, given our balance sheet. As a matter of fact, obviously it's improved; we've bolstered our balance sheet quite significantly. We've added cash and we're generating cash, but that's, even in terms of a larger scale, I don't see any issue there. What's more important to us, and always has been, is how does this fit in and how will it help drive our success going forward? Not, oh that's cheap, or, oh that's for sale. Its, here's our plan, here are the holes, here the opportunities, where does it plug in?

Mike Adams

Great. I mean, maybe something to quantify it a little bit going, because I understand what you're saying, but I'm looking at slide 13 and we're talking about adjusted EBITDA post-synergies with the City Index deal of somewhere around a \$140 million of EBITDA. So, are you comfortable running that leverage at 2X EBITDA, 3X? I mean something to quantify maybe bit for us.

Glenn Stevens

Where you are is what we've discussed internally. That 2 to 3 feels like a comfortable range, if you will. I think we've never really wanted to get out in front of our skis above that. Some companies do, we haven't. Below that's probably too conservative, because we have faith in our business. So, yeah. I think actually if you didn't say it, I would have said that.

Mike Adams

Great. And then a couple of questions specific to the fourth quarter, here. One, maybe if there is one area where we could nitpick a bit it would be on the futures commissions business, OEC. You know, we saw revenues for that business come down a bit. It looks like the revenue per contract can press pretty significantly quarter-over-quarter. Any color you can give us there on what was driving maybe modest revenue weakness in 4Q?

Glenn Stevens

Absolutely. So you know our futures business is made up of multiple components. We started with our OEC acquisition, and that was primarily an exclusively broker-driven business for retail clients trading across gamut of futures products. We've layered in Daniels Trading, who was a direct sales, is a direct sales operation for our proprietary platform, and we also layered in Top Third, TT. Top Third focuses on Ag customers. If you look back to Q3, TT had a record quarter there, so for Q4 they are one piece of the pie. They happen to just come back to their kind of normal projected seasonal growth pattern there, and so all we did was have a cooling off, not a trend, not a reversal, but if you look at it again from a slightly broader perspective, they had a breakout quarter, brought in a bunch of clients, those clients didn't leave but Ag customers, for people familiar with that, are seasonal and so they had a record step up in there and so that was a primary driver of in terms of smoothing a little bit, in terms of Q3 and Q4 for futures.

Operator

Thank you. And the next question comes from Patrick O'Shaughnessy from Raymond James.

Glenn Stevens

Hi Patrick.

Patrick O'Shaughnessy

Hi guys. So another question on the regulatory front. On January 31st, the CFTC restricted credit card deposits in the U.S., and I know you guys have talked about foreign and you kind of indicated you didn't think it was much of a risk, but now that you've had few weeks since that rule went into place, any impact on the business?

Glenn Stevens

We have seen customers be very adept at using multiple, as we expected frankly, using multiple avenues to fund. We continue to roll out alternative e-payment or e-deposit opportunities for them, and so there is a plethora of options available these days for making it pretty seamless that don't have to be built, designed, and tested by GAIN.

There are third-party vendors all over the place because the payment space is just going bonkers in terms of options available. So short answer is no. We did see, as you expect, we did see U.S. deposit through credit cards dry up because we had to close it down, but the pickup across the board more than offset it. As a matter of fact, as we said even I think the short answer is that we saw such a pop after the events of January 15th, that it's a net positive. The hard part is going to have to look into more days and weeks to say well, if that change filters through the system a little bit, what lasting impact did it have? But initially, zero. And the reality is that the vast majority of our customers are able to fund other ways, and so by us beefing up ACH deposit processes and being able to get the KYC done very smoothly, being able to process debit cards, being able to process wires, what have you, and there are ways to provide incentives as well. So you waive wire fees, you cut down transaction fees. There is ways to kind of smooth that alternative, and we continue to look at it. So, no, we are not seeing any major impact yet from shutting down the U.S. credit cards.

Patrick O'Shaughnessy

Gotcha. Thank you. And then, my follow-up question, certainly the new account trend, I think, has been pretty favorable for you, but the client assets were down pretty substantially quarter-over-quarter in the fourth quarter. I'm guessing some of that is to do with translation back into the U.S. dollar, but can you kind of talk about the little bit of divergence in those trends that we've seen?

Glenn Stevens

So one of the things that, I guess I could have gone to more detail, but mentioned with our ability to work with City Index before we close is, it's a benefit you get frankly by doing UK or European M&A that you don't necessarily get with U.S. M&A. U.S. M&A you pretty much have to stay in the dark until the day of closing and then you go in, and other than your due diligence to negotiate the deal, you pretty much have to wait until last day to get in. At City, we have been working closely with them for months now. So the combination between GAIN and City on the retail side is to be able to take this kind of holistic view, from just, I would call it business optimization. You're able to look at it and say, hey, let's see all of our businesses whether it's sales trader, whether it's retail, whether it's futures I mentioned already. That's actually continued to trend in the right direction. But on the other businesses, part of your daily routine is to look and say, hey, where are we supposed to be engaged, where are we supposed to be optimizing our balance sheet, and our overall profitability, and frankly the cost of doing business with different types of customers. So if you optimize to risk, you optimize to the margin, you optimize for hassle factors, if you will.

So an example, City Index instituted, which this wouldn't be clear because they don't file publically, but after Q2, for example, they started to initiate some activity fees, which we've seen providers do from time to time, so as part of the clean-up, as part of the advance positioning to get the companies together very clearly, they have put some activity fees in, and so we didn't see an unexpected drop, we saw an expected drop in some of the housekeeping accounts going into Q4 from City. And on the sales trader business, again, that was a business we absorbed, or as part of our acquisition of GFT a year prior, again in advance of getting a shop even bigger and cleaned up, we looked at some of those accounts and looked at some of the inactivity fees would address retail. The sales trader business is kind of one by one because they are larger accounts, and over time you're able to make some evaluations and say, you know, just like we did with euro Swiss and say let's raise some hurdles, let's make some situations less attractive, or more optimal, then some of the result is you have some of those clients not want to be with you. So if you charge somebody an activity fee, they turn around and say well I'm not doing anything and I don't want to pay these fees so I'm close my account. We didn't break ground on that one, a lot of our peers have been doing that for a while and so we were happy to support City that was a joint decision, joint effort, if you will, across the board. So for those types of accounts on the retail side and the sales trader side, it's a proactive approach to continue to optimize our business and going forward, and so we didn't have to wait till April 1, whatever it is that we go live with the acquisition, it's a ramp up and it's a much smoother transition into being two companies combined together.

Patrick O'Shaughnessy

Okay, appreciate that. And I think you kind of combined two separate topics, one being the City Index trend, the other being the sales trader trend. So just to follow up on the sales trader, are you continuing to refine/optimize your criteria because we did see a pretty substantial drop in assets there. Your ADV was down I think 27% year-over-year in the fourth quarter. So is that an area where basically you're continuing to identify customers who aren't necessarily profitable

for you and that's what's driving those decreases?

Glenn Stevens

I think strategic optimization, strategic proactive clean up, as I mentioned, isn't new. But they take a focus point, and so the timing is about right to look at our GFT business, brought the whole business in. The concentration, the focus on day one is no attrition. So we had no attrition. We maintained all of our partners, we maintained all of our sales trader business, we had super low single digit, low single digit attrition on direct customers.

As we gear up for another acquisition, it's better to go in lean and mean than have to do kind of double noise reduction, and so we used the second half of 2014 to do a lot of evaluation. So the first half of 2014 is assimilation, the second half of '14 is evaluation, and so yes, in some cases, sales traders are interesting because there is bunch of relationships, there's bunch of customers, but they are on the larger size. So you look at their business and you say, well what kind of margins do you expect, what kind of financing do you expect, what kind of product access do you expect, what kind of pricing do you expect? And then you run it through your own sausage maker to say, is that a business, is that particular business a business you want? And we're in a fortunate circumstance to be I don't want to use the word picky, but to optimize, and so I think the results are what we say, hey, by focusing on the business that makes sense the results follow through and they follow suit. And so, when beggars can't be choosy, you're right. We're not in the begging situation, and so in this case, I think it's kind of our MO, if you will, is to say when we do M&A, you do the diligence, you get comfortable to a degree with the whole pie, you take the whole pie, and then you evaluate what's in the pie once it's yours. It's a much more official or efficient opportunity to evaluate what you have when you own it versus in the period what rising up to it. So in that case, GFT is a perfect example, and that probably focuses on the sales trader piece, and on the City piece, as I said, we've been really fortunate to work very closely with them in advance, and so I think the combination of the two is what we're seeing there.

Patrick O'Shaughnessy

Gotcha. And then a last real quick one for Jason. You guys talked about how you're basically going to forgive the bad debts by people who got caught by the Swiss franc move. So, what's the ramifications on your bad debt provision for the first quarter of '15?

Jason Emerson

So in terms of that provision, that would be approximately \$2.5 million to \$3 million that we would have in Q1 that related to customers that we forgave that went into negative equity positions.

Patrick O'Shaughnessy

All right. Thank you.

Glenn Stevens

Thanks, Patrick.

Operator

Thank you. And once again, as a reminder, please press star (*) and then one (1) if you would like to ask a question. And we do have a question from John Dunn with Sidoti & Company.

John Dunn

Good morning, guys. Just wanted to ask on the commission side of the fence, you talk about a

strong GTX pipeline. Just talk about the rationale and background for those customers, switching over?

Glenn Stevens

So, it depends who you ask. If you ask our sales team, which we have bolstered more recently in the last few months, they're going to have to say it's all them. If you ask the people that have been working towards making sure that product sells itself and that our balance sheet is attractive and that our firm's reputation continues to emerge in a positive way, then you could attribute it to that. I'm going to take the high road and say it's a combination of all three, so I don't get anybody upset inside the shop. But ultimately, it is a combination of those three. We have continued to bolster our sales group. We brought in some senior people over from Knight's Hotspot group. We brought in some other people from some other shops. We continue to bolster that globally, in Asia and Europe and the U.S.

The product is one of those scenarios where it gains traction and it gets on people's radar as the average daily volumes continue to increase. So you get into a higher and higher echelon of participant in that market, and so that's the part where it sells itself, because you have some situations where if it's not doing enough business or it's kind of an also ran, then it doesn't matter how good of a sales person you are, you can't get it done. So in terms of that case, I think that the multiple cylinders are what's driving that forward. We're excited about the pipeline because the traction, the sales cycle for these customers is long. So this isn't necessarily driven by the Swiss franc event, this isn't driven just out of Q4. A lot of these relationships are 1, 2, 3, 6 months, 9 months in the pipeline, because there are coding to APIs, there are agreements that have to be signed with central clearing parties, and all that kind of stuff. So very different sales cycle, almost a software-type sales cycle really, and so what we're seeing now is that what's most important to me is that the future pipeline stays robust because it will continue to fuel. Because the one good thing is we see almost zero attrition in terms of active participants once they use the platform, once they are involved in our eco-system, they don't leave. So the question is to get them active, get them live, and then it kind of goes from there. So I think there is a lot of reasons why we're being chosen as an alternative. It's proprietary technology, it's very flexible, it's very good scope for things that they need, the product mix that's offered on it is quite broad, and most importantly, when we've had few shocks to the system, knock on wood, we've fared extremely well during all these events in terms of uptime reliability and liquidity that's on the system.

John Dunn

Understood. Thank you very much.

Glenn Stevens

Thanks John.

Operator

Thank you. And the next question comes from Albert Jones from Jones Capital Management.

Albert Jones

Yeah, hi gentlemen. Good quarter. Just one question, is GAIN Capital open to acquisitions to being acquired itself, since you guys made it through so swimmingly through the Swiss debacle, and or would you rather kind of go on the growth path that you're doing at this fast rate and go it alone?

Glenn Stevens

So generally we wouldn't comment on, I guess, discussions or opportunities that were in the mix, but I guess I would add that what we tried to exhibit today is not necessarily a pat on the back, but is a little bit more detailed and a little bit more access to what our plans are for going forward. I think that my team's job is to execute our plan. We want to be able to distribute what our plan is, and then follow through on it. So I think our focus really is on saying how do we scale our business, how do we grow our business, and continue to refine our strategy going forward. That's pretty much what we do. You don't know what comes in over the transom, but we do strongly believe that an alone strategy has shown its results, and ultimately the stakeholders or the people interested in purchasing our stock will recognize that, as well. I mean, I'll flat out say that if you look at our multiple and if you look at our valuation, it's a mismatch, it's a mismatch with the numbers that we're putting forth and our ability to exhibit executing on a strategy. So for now that's what we do, stick to our plan.

Albert Jones

Well, I totally agree with the valuation scenario. If somebody came in, I'm sure there would be great premium. Otherwise, the Board will look at that and decline anything like that. So, thank you for answering that question, and that's all I have.

Glenn Stevens

You're welcome. Thanks for your interest.

Operator

Thank you. And we have a follow-up question from Niamh Alexander with KBW.

Niamh Alexander

Hi, thanks. Jason, for the modeling purposes, and I know traditionally you haven't given guidance, but can you give me a sense of how to think about a good growth rate for the core fixed operating expenses? I know we have to build in City Index, but just with so many deals recently it's hard to get to the core growth rate. What's a good range to think about?

Jason Emerson

Well in terms of Q1, one of the things we're going to do is after we close on the City Index deal, we're going to spend some time, we're going to help you work up and plan your model. So we're going to put together some information and plan a session, an analyst session, at some point after we close, and we'll work on that. But in terms of a growth rate, we try to maintain our fixed operating expenses kind of where we saw them in Q4 of this past year. There are some items in there that fluctuate. There are some bank fees and so on that do somewhat fluctuate with business levels. So, it's, call it a couple of percentage points, but it should be right around where we saw Q4, and then when we get in with the City Index transaction, we will provide some updated guidance on how the fixed operating expense base will look post close.

Niamh Alexander

Okay, that will be helpful. Thanks, and we'll wait for that.

Operator

Thank you, and next question comes from Jamie Yackow with Moab Partners.

Jamie Yackow

Hey guys, great quarter.

Glenn Stevens

Thanks Jamie.

Jason Emerson

Thanks, Jamie.

Jamie Yackow

Just a housekeeping question for me. I may have missed, it but did you guys give a pro forma free cash flow available as if City Index was closed at the end of the quarter?

Jason Emerson

No. No, we didn't provide that with the materials today.

Jamie Yackow

Is that something you could provide?

Glenn Stevens

I guess I don't know, pre-closing I don't know if, we try to put in pro forma scale but not having their stuff, I mean it would, I don't know if it's one of those things that we can create there, but I mean, it's, if we can. Let me think about that, basically, but ultimately free cash for GAIN as a standalone was \$65 million. It's only go up from there with City, but there is a lots of bibs and bobs. After the close, we're going to be able to say, hey here's our free cash, because it's right after the quarter. I mean, as it's scheduled now, it's literally scheduled for early Q2, so that's probably the bridge of the time that makes it necessary to put it into Q2.

Jamie Yackow

Okay. All right guys. Keep up the good work. Thanks again.

Glenn Stevens

Okay, thanks Jamie.

Jason Emerson

Thanks, Jamie.

Operator

Thank you. And as there are no questions at this present time, I would like to turn the call back over to Management for any closing comments.

CONCLUSION

Glenn Stevens

Thanks, operator. I'll just wrap up. I again appreciate peoples' interest in following along with our story as we continue to execute, and have a great day.

Operator

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