

GAIN Capital Holdings, Inc.

First Quarter 2015 Results Conference
Call

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CORPORATE PARTICIPANTS

Glenn Stevens – *Chief Executive Officer*

Jason Emerson – *Chief Financial Officer,*

PRESENTATION

Operator

Good morning, and welcome to GAIN Capital's First Quarter 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 events and results to differ materially, and I refer you to the Company's press release of May 5, 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 would now like to turn the call over to GAIN's CEO, Glenn Stevens. Please go ahead sir.

Glenn Stevens

Thank you, Operator. Good morning and thanks again for joining GAIN Capital's first quarter financial call. The first quarter certainly left its mark for many companies involved in the FX markets and I'm pleased to report that GAIN emerged in a much stronger position on several levels. The review of our first quarter results, we delivered strong growth in quarterly revenue, net income and Adjusted EBITDA on a year-over-year basis. We also increased our scale, and expense management discipline continues, with our fixed operating expenses down 19%. We also successfully navigated the Swiss franc event in mid-January, particularly as a result of our strong risk management capabilities. We've exhibited positive momentum in operating metrics and this points to continued client engagement. We completed right at the end of the quarter, on April 1st, the acquisition of City Index, and that brings our combined annualized retail OTC trading volume to over \$3 trillion and client assets to over \$1.1 billion.

If you look further into how the results came out, our net revenue was \$92.9 million, up 14%; our Adjusted EBITDA was \$19.7 million, up 63%; our net income was \$8.3 million, up 118%. On some of the operating metrics, retail volume was up 40%, our institutional GPX platform volumes were up, futures contracts were up over 50%, and total active accounts were up, as well. On the strength of some key operating metrics, we took our leading retail brand, combined that with our partner relationships, and we saw growth across the board in client assets, total active accounts and total over-the-counter volume. From the commission basis as a complement, we also saw the directions go up and to the right. Our GPX revenue continued to increase quarter-over-quarter and same period year-over-year, as well as our futures revenue.

Particularly, before I hand it over to Jason and go through some more specific financial results, it's important to see that it was a challenging quarter on several levels, but GAIN emerged in a very strong manner, by taking our ability to navigate some choppy markets and also garner some stronger reputation, bring in tougher metrics across the board, which bodes really well for going forward. We can revisit later in the call some of the details of how we'll look with City Index combination, and before we do that, some more details on our first quarter details.

Jason?

Jason Emerson

Sure. Thanks, Glenn. Now, I'm going to walk through in more detail our results in the quarter. Our retail OTC business delivered record customer trading volumes amidst improving volatility. As a result, we recorded trading of \$66.1 million for the retail OTC business, which was 29% higher than the first quarter of 2014. The increased volume was, however, offset by significant one-sided customer trading activity, which reduced revenue captured during the quarter. When we have customers trading in one direction we hedge more volume with a liquidity provider, which has lower revenue capture to GAIN. The commission-based businesses delivered \$28.2 million of revenue. The GTX and futures businesses continue to grow, with revenue up 13% and 60%, respectively, compared to the same time last year. Overall commission-based revenue was down slightly versus the first quarter of 2014, due to revenue from the sales trader business offset by growth of the GTX, futures and the addition of Galvan Research. Sales trader revenue was a lower as a result of repositioning that business in the middle the fourth quarter to enhance its return on capital. Total net revenue for the quarter of \$92.9 million is up 14% relative to the first quarter of last year, driven primarily by higher retail OTC customer volumes.

Let's spend some time reviewing our main expense areas of compensation, marketing and referral fees, and then we'll look at fixed operating expenses on the next slide.

Compensation for the quarter of \$22.1 million is up slightly compared to the first quarter of 2014, primarily due to the impact of acquisitions of Galvan Research, as well Daniels Trading and Top Third. As a percentage of revenue, compensation fell year-on-year, reflecting higher revenue synergy capture from the GFT acquisition and additional efforts to further reduce our operating expense base that we took in the third quarter of last year.

Marketing expense of \$4.6 million in the quarter was down 25% versus the first quarter of 2014, which reflects our ability to optimize our spend and capture synergy from the GFT acquisition, while continuing to expand our account base.

Referral fees of \$26.6 million were up 28% compared to the first quarter of last year. Referral fees are primarily related to our retail OTC business and are largely driven by volume-based arrangements. During the quarter, we saw retail OTC volumes increase by 40% compared to the same time last year. Since the end of the second quarter of last year, we've made progress in restructuring some of our volume-based arrangements in the retail OTC business to reduce the impact on this variable operating expense, and we have more challenging trading conditions which yield revenue capture at the lower end of the \$80 to \$120 range, which helped keep the referral fee margin below 30% for the quarter, compared to the 30% to 32% range we would have seen prior to making these changes.

Together, these factors generated an Adjusted EBITDA of \$19.7 million, yielding a margin of 21% for the quarter. This is up 63% from the Adjusted EBITDA of \$12.1 million and margin of 15% in the first quarter of 2014, demonstrating our ability to generate a modest profit in light of below-average trading conditions, when the retail business generates an RPM at the low end of the \$80 to \$120 range.

Our tax rate for the quarter was 25%, reflecting a combination of higher retail OTC and GTX business outside of the US.

Net income for the quarter was \$8.3 million or \$0.18 per diluted share, up 118% and 100%, respectively, from \$3.8 million and \$0.09 per diluted share in the quarter a year ago. Cash EPS for the quarter of \$0.27 per diluted share is up 69% from the same time last year.

We continue to execute on our revenue diversification efforts through trading in non-FX products by our retail OTC customers, as well as results from our commission-based businesses. Trading in non-FX products, which are predominantly CFDs in indices, equities and commodities by our retail OTC customers, were 24% of retail volume in the quarter. Commission-based businesses delivered revenue of \$28.2 million, which represented 30% of total revenue across GTX, futures, sales traders and advisory businesses.

Lastly, on the bottom right, highlighting our retail OTC revenue per million over the trailing 12 months of \$95, as well as the capture rate for the quarter of \$83, this decline reflects the fact that during the first quarter we experienced above-average one-sided customer trading activity which resulted in customer trades being paired off with liquidity providers, meeting our revenue capture for the quarter, despite the increases in volatility and average per range for the primary currency products our customers traded.

Now, let's turn to our management of operating expenses. As you can see, we've made progress in delivering our reduction of fixed operating expenses from capturing synergies from the GFT acquisition, as well as additional efforts we've taken to manage our expenses. Total expenses have increased over time due to variable expenses that are tied to growth of our revenue. These variable expenses are driven by referral fees for our retail OTC business and futures, as well as sales commissions. We continue to evaluate and optimize these variable expense arrangements.

To help illustrate the progress we've made in reducing our fixed expense base in the retail OTC business while growing the commission-based businesses, we've broken out the core fixed operating expense base from new businesses that we've launched or acquired over the past three years. For the first quarter, core fixed operating expenses of \$27.5 million are down 19% compared to the first quarter of 2014, due to our ability to capture synergies from the GFT acquisition, as well as other initiatives we enacted in the third quarter of last year. Fixed operating expenses are down by 9% versus last quarter, due largely to additional cost management efforts taken in the third quarter, which were partially offset by higher compensation, which typically occurs in the first quarter, related to higher payroll, taxes, 401(k) matching and stock compensation.

Even with the challenging trading conditions we saw in the current quarter, you can see the impact of managing our expense base, coupled with the achievement of synergies from the GFT acquisition, when compared to the first quarter of 2014, total revenue of \$92.9 million, up 14%, total expenses are up only 5%, and adjusted EBITDA of \$19.7 million is up 63%, while net income of \$8.3 million is up 118%.

The acquisition of City Index Holdings will further our ability to grow our key retail OTC metrics, such as customer assets, active accounts and volume, 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 within two years of the closing date, relative to the fixed operating expense base for the trailing 12 months ending September 30th, 2014, will provide additional earnings in more normal market conditions.

Turning to capital utilization return, GAIN is focused on executing our strategic plan of scaling

our retail OTC business, while diversifying revenue across products, customer segments and geographies in a complementary fashion that delivers return to our shareholders. Our first use of cash is to finance customer trading in our retail OTC business, which is deposited at banks and brokers to collateralize customer positions, which is the core business that drives our earnings. Our next use of cash is to acquire retail OTC businesses that we can integrate onto our global platform to deliver scale and lower fixed operating expenses, yielding the ability to drive operating leverage. The acquisition of GFT in 2013 delivered over \$50 million in lower operating expenses over a two-year timeframe and helped to grow our key operating metrics, as well as diversify our revenue both within the retail business by product, adding CFDs, and new customer segments, adding high net worth clients.

The acquisition of City Index will allow us to further expand the footprint and market share of our retail OTC business, which will create a firm that delivered \$508 million in revenue over the last 12 months and Adjusted EBITDA of more than 130 million, or 25% margins, on a pro forma basis, once all integration activities are completed, assuming the midpoint of the synergy capture range and integration is completed within two years of the deal close. We expect the deal to be accretive on a cash and adjusted net income basis to equity shareholders by the fourth quarter following the close of transaction.

In addition to using cash to acquire retail OTC businesses, we've also made strategic acquisitions to diversify our revenue and customer segments. We established a significant presence in the exchange trade of futures business through the acquisition of Open E Cry from Schwab in 2012, and more recently the purchase of a majority interest in Daniels Trading and Top Third. Together, these businesses delivered \$37 million in annual revenue through the end of 2014, with a more significant footprint in what has been a fragmented part of the industry.

Galvan Research, a leading CFD advisory firm, is another example of putting cash to work on strategic acquisitions. While the business delivers strong profitability on a standalone basis, we seek to expand access to their differentiated product through increased trading in CFD products across GAIN's client base outside the US. This will help diversify revenue by type, commission versus trading, and product, increasing CFD trading activity, which is the higher margin product.

Turning to our dividend, GAIN will distribute its quarterly dividend of \$0.05 per share on June 23rd for holders of record as of June 12th. We did not make any purchases under the approved buyback plan during the quarter, but are prepared to opportunistically buy back shares.

Now, let's turn to an update on the City Index transaction. GAIN's acquisition of City Index Holdings positions GAIN as one of the leading online retail trading firms, with over 153,000 active accounts that trade volume of more than \$3 trillion annually and has more than \$1.1 billion of funds on deposit. We closed on the transaction, as planned, on April 1st, with the total consideration of \$148 which was funded by issuing a \$60 million convertible, 5.3 million shares of GAIN stock, and \$36 million in cash. We received \$71 million in cash as part of the transaction, which was required to operate the business, resulting in a net purchase price of \$77 million. As we've done in the past with our strategic M&A efforts, we've structured the transaction across the firm's capital structure, with flexibility on how we settle final payments, in stock or cash, with a goal of increasing shareholder value. We expect the transaction to be mildly dilutive on a GAAP basis for the first 12 months following the deal closing date, and as we progress on capturing synergies, we expect to be accretive on a cash and adjusted EPS basis by the fourth quarter after the closing date of the transaction.

I'll spend some time walking you through the pro forma expense base and synergy capture next.

Let's take a look at our plan for integrating the City Index business and how we're going to capture the \$45 million to \$55 million in fixed expense reductions within two years from the close of the deal. We've taken our experience that we've collected from integrating the GFT business, where we reduced the fixed operating expenses by more than \$50 million from 2012 to 2014, and leveraged the lessons learned there to refine our approach to integrating the City Index business. Our Board of Directors established a subcommittee to monitor progress of integration activities, which are being led by Jeff Scott, our COO, who led our GFT acquisition. We've established a team of senior managers that are dedicating a significant portion of their time to making sure the integration activities take place as planned. Our goal is to bring the two firms together over the next two years, while enhancing customer experience, scaling the retail OTC business to deliver operating leverage and increase returns for our shareholders.

Consolidation of trading platforms is the primary driver that will yield the largest portion of reduce fixed operating expenses. As we go from six trading platforms down to two, we will streamline our technology and operations accordingly, while minimizing the impact to our clients and financial results. Along the way, we'll bring together offices, entities and other operations. In fact, we've already combined our Australia office and efforts are underway to consolidate our offices in London. Overlapping functions will be made as we consolidate trading platforms and operations.

We expect to capture 20% of the \$45 million to \$55 million of fixed operating expense reductions in the first 12 months following the close of the deal. Of this \$9 million to \$11 million, approximately 5% to 10% in the first quarter post closing, 20% to 25% in the second quarter, and the remainder in the last six months. For the next six to 12 months, we expect to capture 35% to 40% in the first six months and the remainder in the last six months.

Now, I'm going to review the combined GAIN and City Index expense base in light of timing of synergy capture, as we execute on the integration plan. The increase in operating expenses arising from the acquisition of City Index for 2015 cover the last nine months of the year and for all of 2016. All figures are net inclusive of synergy capture.

With regard to referral fee expense, the addition of City Index will have a slight impact on our referral fee margin, given most of their business is direct in nature. We expect referral fee expense margin to come in slightly. When revenue per million of the retail business at the low end of the 80 to 120 range we expect referral fee margin to be between 30% and 32% versus the 28% to 30% before the deal. It will fall to 20% to 22% compared with 22% to 24% before the deal, when revenue per million is at the upper end of the range.

Turning to our main operating expense base post the City Index acquisition, we expect to see total fixed operating expenses increase by 60 million in 2015. About half of this increase will come from compensation, with the other half split between marketing and all other operating expenses, trading, G&A, (inaudible 16:26), and so on. In 2016, we expect the total fixed operating expenses related to the City Index acquisition to be \$60 million higher than the combined 2015 expense base for the entire year, with approximately half coming from compensation and the remainder split between marketing and other operating expenses.

Going below the line, we see depreciation and amortization related to ongoing operations will be up \$7 million to \$8 million in 2015, and \$9 million to \$10 million in 2016. Purchase price amortization will add another \$2 million to \$2.4 million in 2015, and \$3.5 million to \$4 million in 2016. With the consolidation of trading platforms, we expect to accelerate depreciation related

to those platforms that we retire in the next two years. For the remainder of 2015, we expect this to be \$18 million to \$19 million, with an additional \$6 million to \$7 million in the remainder of 2016.

With regard to accounting for the impact of the \$60 million convertible note issued with the acquisition of City Index, there are a few key points. The convertible, as part of the consideration to fund the acquisition, was issued with flexible settlement, which means we can settle all in cash, all in stock, or a combination thereof, which has the same terms as our convertible issued in November of 2013. Carrying value on our books will accrete over time and some of that accretion will be treated as non-cash interest expense. As a result, we have additional interest expense in 2015 of about \$3 million and just under \$4 million in 2016.

Additionally, as part of the terms of the convertible, we established a collar mechanism to minimize the dilution in the event GAIN stock was trading lower between signing and close. When we closed on the transaction, the 20-day volume-weighted average price of GAIN stock was \$9.77, so the convertible was issued at \$9.77, above the collar range, with no conversion premium. The maximum number of shares that can be issued, should the firm decide to settle all in stock, would be 6.1 million.

Now, I'll turn the presentation back to Glenn to provide an update on our strategy and wrap up.

Glenn Stevens

Thanks, Jason. As a segue before we get to closing remarks and then get into some Q&A, the next slide is a snapshot of what the two combined companies will look like together. There's some overall metrics in terms of client assets and some revenue and adjusted EBITDA, trading volume and total active accounts. It's just one slice of the combined companies now that we are one entity as of April 1st, but, more importantly, they should be read as a perfect example of the progress we've been making over a multi-year strategy. We have been trying to spread the word on a consistent basis from quarter-over-quarter that our goal as a company is to continue to diversify our revenue base. That means develop different customer segments. That means a customer segment that looks like retail, that looks like institutional, or that looks like something in between that.

We also feel very strongly about building scale. This market has variability inter-period. Whether it's quarter, whether it's year, volatility, regulatory changes, what have you, the scale is key. Particularly when you can use that scale for operational efficiency, you can use the scale to match your costs effectively, and can use the scale to weather challenging periods of market conditions. Also, importantly, is our ability to navigate these opportunities that come up in a market that gets frothy at times. You can't plan when opportunities arise. People didn't expect the SMB event to happen on the morning and the day that it did, but when it did, the companies that were well poised, actively managing their risk and actively setting up to take advantage of opportunities that came out from that, they emerged not only unscathed, but in a much stronger position, and GAIN absolutely falls into that bucket. Not everybody did. As a matter of fact, most shops didn't. So, we're looking at this absolutely as an opportunity to continue to gain ground and continue to achieve milestones along our strategy path.

So, to take us into closing remarks, City is one more example of continuing along that strategy. We would expect to stay actively engaged in opportunities that come up. We want to continue to focus on the cost management. I think we're already proving that by improving our resilience to different periods of market trading conditions, even if you look at quarter-over-quarter with similar trading conditions, in that our revenue per million capture is at the lower end of our

range, it's still within our one-, two-, three-year range, it's at the low end of that range, but the results were absolutely more positive, and what we've been trying to say and trying to illustrate over time is that we want to continue to put in a stronger and stronger base.

So, the reality is our operating leverage is intact. Every time we get a market situation that we can take advantage of, the results will show. When it's an example of lots of one-way trading or our inability to internally hedge a lot of the retail trading, then we want to end up with a higher and higher base, versus a lower and lower cost bases, which, hence, gives you a higher EBITDA margin and you build from there.

It's important we continue to build our cash position. That's one of those scenarios where, regardless of how different regulators globally want to look at this market or make changes, we want to have that resilience, and ultimately the players that are marginal or are already in a weakened position will be forced to exit the market or leave themselves vulnerable to acquisition.

It's also a key take away to look at our brand strategy. We're going to take the best of City Index, combine it with the best of GAIN, and ultimately emerge with a focused effort on very few streamlined trading platforms, coupled with very few strong brands that we're going to leverage globally.

The other part to take away, besides customer segment, besides geographic diversity, there's also the revenue diversification that comes from commission-based businesses, advisory business, exchange products, so, you know, we continue to build the base of which GAIN can build its business, so we're not just inextricably linked to FX exposure. I think that we've demonstrated over the recent years that we've taken a business from a very focused effort on retail forex into multiple levels and we expect to continue to do so, and we have the team in place and the talent from both City and GAIN combined to be able to manage that success.

So, in terms of going forward, we want to continue to use our more recently strengthened competitive position to leverage that. We want to continue to move towards building scale. We want to really take out the synergies that are available to us. We've learned from each one of these acquisitions—and if you look at our track record and you look at our ability to get more effective each time we do this, we expect the results to follow through, and, again, we want to make this so it's almost—regardless of 90-day snapshots of market conditions, we continue to build that base and continue to hold onto our operating leverage to the top side, but build a stronger base, as well.

So, with that, I'll turn it over to the Operator to take some Q&A and we can go from there. Thanks.

Operator

Yes, thank you. We will now begin the question and answer session. To ask a question, you may press star, then one on your touchtone phone. If you would like to withdraw your question, you may press star, then two. If you're using a speaker phone, please pick up your handset before pressing the keys. At this time, we will pause momentarily to compile the roster.

The first question will come from Dan Fannon with Jefferies.

Dan Fannon:

I guess, first, I would just like to talk about the capture rate, and you guys mentioned a handful

of times around the one-sided customer trades in the quarter. I guess, if you could kind of give us a little bit of colour on the backdrop so maybe we could think about ... (cross talking).

Glenn Stevens

Hopefully, we're still connected here. Unfortunately, we seem to be experiencing a bit of difficulty with the Operator to line up the questions. I appreciate your patience and just bear with us, while we sort this out. We are trying to shift over to Q&A mode and we can progress from there.

Operator

This is the Operator. I have reconnected the speakers to the call and we do have a question from Dan Fannon of Jefferies.

Dan Fannon

Can you hear me now?

Glenn Stevens

Yes, I've got you, Dan. Sorry about that. Unfortunately, we couldn't hear you coming in.

Dan Fannon

No problem. Good morning.

Glenn Stevens

Good morning.

Dan Fannon

My first question is around the revenue per million, and you mentioned several times on the call about one-sided customer trades, and I guess I was hoping if you could kind of characterize what drove, like, from a macro-perspective, or some of the trading conditions that drove that more this quarter, say, than versus the fourth quarter, so we can kind of think about it going forward maybe from a modeling perspective.

Glenn Stevens:

Absolutely. One of the challenges, certainly, from a modeling perspective, is trying to find this super highly correlated link between something and RPM, and one of the leading candidates in the past has always been the CBEX, and people look at the CBEX and watch it change from quarter to quarter or period to period and attempt to make a causal link and say, "Oh, CBEX was up X, so RPM will be up X," or vice versa. Unfortunately, what we have been trying to illustrate over time is that although it's a very important driver of what RPM can be, there are underlying factors that often can essentially decouple that link. You could look at the mathematical change or the standard deviation of movement or you can look at the percentage change of how much a price moves. So, in this case, we saw euro—call it factually being more volatile, but the reality is that it was a pretty much one-way move; in other words, the euro depreciated against the dollar and against other items, and that you can see how customers got engaged, so we see our volumes go up—you see the customers were actively trading, so you see our active customer numbers go up, but you don't see that ability as a market maker to have customers trading amongst themselves, which ultimately is our best-case scenario

So, when we have looked at revenue per million captured over the past five years, even 10 years, it does vary or vacillate pretty much between 80 and 120, and we continue to see that cycle. But, one of the things that drives it to the higher number versus the lower number is that

if you look across the board and say, “Hey, what did the CBEX do?” Well, for example, in 2012, we saw a CBEX almost where it is now, of 10.4, and we had a revenue capture of below 80, and we’ve also seen CBEX of 8 and a revenue capture of about 110. So, there are occasions where you get this decoupling.

Okay, so now to answer question as to how do you model it, a couple of things. Number one, looking at the nature, if you will, something of the complexion of the trading, and say, “Hey, did you get a lot of two-way moves? Did you get a lot of other currencies?” Sometimes, the thing that powers our RPM is an across-the-board set of moves. So, you’ll see the British pound move, Canadian dollar move, Aussie dollar move, yen move. In this case, you had a highly focused move, the euro moved quite a bit in one direction, it moved one direction, and it was concentrated within a couple of weeks—I think that really happened. You look at Q1 euro, from 1.50 down to 1.07, that’s a huge move. So, mathematically, it shines up as this big CBEX, absolutely, but the reality is for the market maker who was looking for customers to trade in both directions, we end up having to hedge a lot of business directly and you end up with a lower net RPM.

So, I think what you need to do when you look at this is to start, as I said, with our kind of 95 middle—I try to tell people look at that 95 that’s been trailing one year, two years, three years, and look at it and start it as your origin and say, “Okay, what was the market like? How did CBEX do? What was the nature of the trading?” and then go from there. Frankly, if you’re able to start at that 95 and move up 10%, move down 10%, that’s going to drive the art part of the science.

I think one of the challenges is that a lot of people modeling our business will look at the previous quarter, take the CBEX, if the CBEX is higher, extrapolate that instantly into an even higher RPM, instead of going back to the origins and kind of go from there. However, the great thing about having the euro move is that it does show—and when the CBEX moves, by the way, it shows our increased customer engagement, and the kind of health of our market comes across as a positive, because what do we do? We brought in a record number of assets, we brought in all kinds of strong metrics that bode really well going forward.

Dan Fannon

Okay, that is helpful, and I guess, thinking about—I mean, April and kind of the continuation of what you’ve seen year to date, has that been kind of more of the same, I guess, in the last, whatever, four weeks. Then, I guess, just adding to that, I want to just clarify one of the comments about the City Index deal. Was it said that it will be accretive by the fourth quarter or will be accretive by four quarters post close?

Glenn Stevens

Okay, so in reverse order, four quarters post close. So, I guess that puts us in Q1 of ‘16, because we just closed April 1st. In other words, if you take that and move forward on an adjusted basis, it puts that one year after Q1, right, so the end of—or whatever—sometime during Q1 of—early Q1 ‘16.

Then, the other question you said about April, or kind of continued experience in terms of the market after Q1, yes, we haven’t seen the euro kind of maintain its one-way market. We’ve seen the dollar weaken a little bit, recover again. Again, a little bit more towards a two-way market. The CBEX has held, it’s actually backed off a little bit, but the nature of that trading has become a little bit more two-way, and, more importantly, we’ve seen some of the other products move, as well. We’ve seen cable move a little bit, so (inaudible 31:33), so that’s kind of rounded

out across the board people's trading activity.

Dan Fannon

Great, thanks. I'll get back in the queue.

Glenn Stevens

All right.

Operator

Thank you. Once again, as a reminder, if you would like to ask a question, please press star, then one on your touchtone phone.

The next question comes from Niamh Alexander with KBW.

Niamh Alexander

Hi, thanks. Thank you for taking my questions. Can you hear me?

Glenn Stevens

Gotcha, Niamh.

Niamh Alexander

Okay, great, thanks. So, with respect to the rate card, as well, just—I think Dan asked a lot on how the current business is doing, but with respect to City Index, help me think about the fee mix there, too. I would expect CFD to be higher fee than FX, as well. I apologize if I missed it earlier, but if you could give me a sense of how to think about the mix shift there.

Glenn Stevens

Good question. So, City Index has two particular facets to their business that we believe are underlying positives for us, and one of them is that they are much more reliant on the direct business, and so their brands and their customer acquisition is more heavily focused on direct; meaning that they're reliance on partners and affiliates is less than GAIN, so it means that moving forward we end up with a higher concentration, higher percentage of direct versus indirect in the retail business.

On the product mix, they also have a higher reliance—that'll move us to kind of a—we're probably 70/30 now in terms of FX heavy and we're going to end up more like 60/40 in terms of FX heavy, so it's another positive move in the right direction in terms of diversifying the products that drive our revenue; and, to your point, yes, many of those non-FX products can offer the opportunity for higher revenue per million, so the blend is something that's a positive slant for us.

So, those two things taken away from City, in terms of how their business is made up, one is they have more direct business, and, number two, they have a higher mix or higher percentage of non-FX products. So, both of those blended into the total end up in a positive way; in other words, your kind of referral fee per RPM and your general RPM are both moving to a positive direction.

Niamh Alexander

That's helpful. Is there a way you can kind of just give me a range of—I know some of your competitors talk about the CFD relative to the FX. Is it fair to think of it as maybe 1.4 times, the typical FX profitability or ...

Glenn Stevens

The only challenge there is the breakdown, because in some cases, things like single stock CFDs and things like some of the non-equity CFDs, whether it be energies or metals, or things like that, yes, they'll probably come in at kind of—maybe 1.2/1.3 kind of range, being higher revenue per million. However, some of the more higher volume, the higher volume traded products, like indices, whether it be the DAX or FTSE, or what have you, can be a little less positive because it's generally a more competitive market that way.

Niamh Alexander

Okay, fair enough, thank you much. Then, if I could just move over—the sales trader business, I know you've been transitioning that business, you've kind of cut back on some of the services, cut back on the some customers, basically, but I'm just wondering have you kind of found the floor now? I think we thought we were there last quarter, but then, you know, we'd estimated too much growth, you know, to kind of level out this quarter, when it clearly dropped a lot. I'm just wondering are you about done with that shift now or should be expect more decline in that revenue stream?

Glenn Stevens

The short answer is, yes, we do believe that that's found kind of its bottom level. To be fair, we didn't really start to make that shift in earnest until we were midway through Q4, so most of this was expected because of the focus we put on that business, and the bar or the threshold we put into want to service it, and so, at least maybe internally, none of this was unexpected, in terms of where we would come out. Yes, actually, you can expect to see kind of a combo here, where you bottom out and then you start to kind of really fill the coffers, to some degree, with maybe a slightly different type of business.

I mean, the reality is that that sales trader business looks a lot more like retail, on an uber basis, anyway, than it does our GTX platform. One of the reasons we try to break out the ECN volume and revenue is such that that's a very specific business with a specific client base, and the sales trader business is much closer to having a higher touch, higher value retail customer, and I expect that as our reports going forward with Citi Index folded in, that we'll have that business be part of those overall metrics, instead of lumping it together institutional. Because, frankly, there's an identity challenge there right, because in some ways their size and their variability and their profitability can look like institutional, but the truth is their behavior, their service and the products they trade, and the platforms they use, can often look more like retail, so it's harder to categorize that way, but we feel like it's cleaner to organize the GTX business, when you look at our peers and you look at the pure customer and services they're offering, and it's apples-to-apples, and we moved the sales trader to the other business.

But, again, to kind of refocus the answer on your question, yes, that was in line with our expectations. We started at mid-Q4. We do fully expect that to be bottoming out, you know, and build it from that base.

Niamh Alexander

Okay, fair enough. Thank you, Dan, for clarifying there. With respect to introducing brokers—I know you talked earlier about the benefit of City Index with the referral fees coming down, but I think there's probably an opportunity during the quarter to maybe go after some of the IBs of a competitor. How has that progressed or have you picked up a few new business providers there?

Glenn Stevens

Partners can be categorized in a myriad of types or buckets. On the one case, you could have someone who's a pure IB, or introducing broker, who says they have a cadre of customers that they want to introduce to a broker and get paid for that referral, but it's their reputation that's exposed when they pick their own broker. So, for them, GAIN emerging as the most solid provider—I mean, we're clearly a global leader at this point in this field. We've clearly navigated through a challenging period, in terms of how we treated our customers, and how we've built the business, how we came out in terms of a risk impact, so that one took care of itself, where many of those IBs, not to be taking away from our sales and service team, but we put ourselves in the position to be the recipient of those IBs. So, there's an example, yes, that's a positive. Going after it is probably less important than being there for them.

Now, another type of partner, if you will, is a white-label partner, or someone who has a much more intricate level of service involved, whether it be technology sharing, customer service, on boarding, collateral management, all kinds of pieces that can fold into a relationship. Those are stickier. Some of those are absolutely reviewing their choices now and saying, "Gee, are with the right provider?" and those are ongoing discussions. For us, frankly, we want to make sure they make sense for GAIN. We want to make sure that they're complementary in terms of what they offer. We want to make sure that they're cannibalistic to our business in terms of how we're growing our direct business and the products that we're in.

So, I think on the IB business, very much a welcoming recipient and proactively courting that business. On the white-label or partner business, now that we've built some scale, even more scale, it's important for us to evaluate each one of those opportunities in their own right, and because they really do get pretty complicated, so you kind of want to make it work, not just for partners' sake, but you want to be strategic, you want there to be a benefit long-term that comes out of that relationship.

Niamh Alexander

Okay, thank you. I'll get back in line.

Glenn Stevens

Thank you.

Operator

Thank you. The next question comes from Walter Winnitzki from Buckley Capital.

Walter Winnitzki

Yes, thank you. Good morning. My questions also are on City Index. Maybe you can discuss a little bit the trading environment that you saw in Q1. It looks as though sequentially both trading volume and revenues were up a little bit. However, the EBITDA was down. So, can you talk a little bit about the trading environment, what drove the EBITDA down, were there some one-time charges, or anything associated in that. Then, maybe also I can ask is was the one-way trades in any way impacting that business? Then, second, if you can talk about kind of going forward the segment of the market that you hope to carve out in that area and whose trading platform you're going to be using. Thanks.

Glenn Stevens

Sure. So, on the one hand, although City has a higher portion of their business coming from non-FX, it doesn't mean that FX is not in a prominent position. It's less prominent than GAIN's present mix, but it's still a big chunk of their business. So, when the revenue per million

opportunities in Q1 were not there as much as they were in Q4, some of the commensurate lower top line revenue in City was not unexpected. So, in this case, they may have been slightly more resilient because of their higher reliance on non-FX products, but because they do have a big portion coming from FX, their version of revenue per million was lower. So, again, that kind of tracked, maybe in a slightly muted effect, but tracked GAIN's performance in Q4, in Q1, in terms of those numbers. So if you look at their revenue, Q4 was \$43.3 million and for Q1 it was \$37.2 million, so about 15% drop, if you will, in terms of their top line capture, and that's going to be as a result of the more challenging RPM environment.

In terms of the second part of your question, one of the strategic benefits to City isn't just our ability to extract synergy value, but it's also to leverage some of the brand strength that they've developed over time in complementary regions for us. So, in places like Sydney and Singapore and obviously in the UK market where City has been a long-time revered brand in that, we're absolutely looking to take advantage of that. In addition, they have some proprietary trading platform software that we're already in the midst of rolling out to use as the cornerstone of our retail strategy. So, I guess the four benefits benefit that come out with them is the financial benefits of just building scale and extracting synergy; the second one is being able to leverage the product mix, if you will, that they already are exhibiting; the third one is being able to use the brands that they have globally; and the fourth one is being able to take the existing technology that they have, which we would argue is in advanced stages of working, so it's a step function improvement for us, being able to adopt them. However, we're not going to try to keep everything running. Part of the streamlining benefits or the synergy benefits that Jason alluded to earlier will have to come from consolidating trading platforms, and so we have an aggressive timeline over the next four quarters to take those six platforms, if you will, down to probably two or three. So, that's going to throw off a lot of savings and a lot of tactical streamlining, to give us the ability to innovate on other levels.

Walter Winnitzki

And the decline in the EBITDA, if you can just discuss that?

Glenn Stevens

Their decline in EBITDA basically came from their revenue, so again hedging.

Jason Emerson

It was mainly driven by the \$6 million drop, just over \$6 million drop in revenue, experiencing somewhat similar conditions from a customer trading perspective. In addition to an increase in operating expenses, there was increase in compensation related to some bonus compensation in the quarter. Their year-end is March 31st, 2015. They'll be moving to GAIN's year-end process. So, they had a year-end bonus that was recorded in their fourth quarter or our first quarter.

Operator

Thank you. The next question comes from Howard Jones with Jones Capital management.

Howard Jones

Good morning, gentlemen. Can you tell me if there were any shares purchased in the quarter, buyback?

Glenn Stevens

No, we didn't end up buying back any shares in the quarter, but we do continue to tweak our share buyback model. Frankly, by making sure we had the proper amounts of capital available

for the City Index acquisition, that was the priority. Although we have an open and active authorized share buyback in place, was and still is, particularly during Q1, in order to close the deal, we wanted to make sure we had all of the cash available. Also, the way the stock traded, we want to be mindful of it and we want to use it as a resource, but we want to be opportunistic in that respect. We're not out there to necessarily trade our own stock and we do believe that it's a good investment to buy it, but ultimately I'd say our stock buyback as a use of cash is behind opportunistic core development.

Howard Jones

I thought after the Swiss franc situation there was a knee-jerk reaction for three or four days in there, after you came out and said that GAIN was not hurt that bad and the price was down a little bit, so I thought that it might have been opportunistic in that situation. At least to the amount of maybe offsetting some options that were exercised and different things like that from you guys, I thought you might have an opportunity to maybe offset some of that with a buyback.

As far as moving forward—so could you fairly say EBITDA margin for City Index is going to improve on a quarter-over-quarter basis from this kind of low level?

Glenn Stevens

So, two things. Just to talk to your first point there, we do establish a preset plan in terms of stock buyback. It's got rating, it's got amounts, it's got an authorized purchase dollar commitment, it's got ranges built in, so as I said, it's not something that we are necessarily managing on an hourly or on daily basis. In terms of any options related to company stock, there's no connection on that one. It is something we pay attention to and it is something we consider a potentially good use of capital, and as I said, it's something that we'll be vigilant about going forward.

In terms of city's EBITDA margin, I think, most importantly, we're not going to look City, their margin, at GAIN, their margin. As of April 1st, the companies are combined and a good portion of our efforts now are to put those books together, financial books, operating plans, technology, people, offices, it's a true integration across the board, and so we will fully expect that within nine months, we hope, that you would not be able to discern GAIN or City. It won't be referred to that way. It's our company combined. So, I don't think there's any plan—there isn't any plan to manage a CITY EBITDA. There's a plan to improve GAIN's EBITDA, of which City is part of.

Howard Jones

Yes. As far as the numbers you guys did for the first quarter, would you characterize it as being very hard for all of the analysts to figure out this euro one-sided trade situation and come up with a reasonable estimate that you guys did for the quarter? I know you mentioned you just can't go by the metrics that are published on a monthly basis, but this evidently wasn't telegraphed very good, or as an option of going forward through the quarter, you guys could probably see something that was going to happen like this, and I don't know why the analyst numbers across the board have been rising, and now here we go with another PR that GAIN misses EPS, blah, blah, blah, so I was just wondering if your communication in those regards would be improved a little bit going forward. Do you want to comment on that, please?

Glenn Stevens

Yes, I hear your concern. I think that the hard part—keep in mind to constantly measure this business is 90-day chunks. Again, if you look at, hopefully, our ability to communicate more effectively going forward to show the different businesses and show the different outcomes, I think that again there's a hope or there's an endeavour for people to look for a direct correlation.

Everybody wants to be able to take one metric and have an output and say “here’s what it means,” and we’ve seen a lot of analysts, as they learn about this business and as the mix changes over time—I would argue you’ve actually missed on both sides. We’ve come in stronger than expected. But, most importantly, I think if you look back into our analysis and you look particularly back into the revenue per million, you can see that over periods longer than one quarter—so for those investors that have been with GAIN over time, and you look at our revenue per million over a year, two years, three years, we’ve been pretty tightly wound around a mid- 90s RPM, and if you extrapolate from that—what we’re hoping we can maybe be stronger about communicating, is to use that as the origin point, not use the previous quarter, either down at 81 or up at 120, but to start with 95 and then peel back the onion a bit and say, “What was the quarter like? Where was the movement? What kind of movement was it?” and be able to move it from there. Then, ultimately, if you took that 95 and you moved it 10% either side, then, frankly, it would be hard to be too far off.

So, again, this is a business that isn’t easy or obvious to model in very short periods of time. For example, some of our peers that are UK-based report twice a year, and so the variability from quarter to quarter doesn’t even show up that way. It’s part of our lot in life, being listed in the US and having that insight. Again, if you look back, which is why we put the graph in our report, is to show that, yes, here’s where it was over the last 90 days, for lots of reasons, but pull back the perspective just a little bit and look over a year, and you can see that the consistency is actually there, and if you take that—more importantly, you have to look at this and say, “Well, where were they in the past when they were at 81?” For example, the last time we were down in the low 80s, I explained to people that our breakeven RPM used to be between 83, kind of 83/84, and now it’s more like mid-70s. That means if it’s the same scenario in a challenging market or not, our profitability would actually be higher, and that comes from scale and that comes from expert cost management, frankly, and what I’ve been trying to tell people in previous quarters when we’ve had 80s and 82s, is to say we’re going to continue to build the profitability from a lower level. That doesn’t mean we take away operating leverage on the top side. It means you’re able to produce positive results at lower levels.

So, if you look at our chart, we have varied between kind of 80 and 120 on several occasions, both directions, and I think that, hopefully—again, as people understand our business and understand our model better, the analyst coverage will get more comfortable using that as a starting point and moving from there.

Howard Jones

Okay, thanks for that, Glenn. Can you give us an idea where we might see one more acquisition or a small acquisition to fill in some gaps here that you might want to go into some different areas that you guys are not in now? I read a quote from yourself, I believe it was when you were over in the UK, that you’re looking to fill a couple of spots possibly in the future. Can we see one of those maybe before the end of the year or no?

Glenn Stevens

No, I wouldn’t put a time on it, but I will say that I think every time someone thinks that we’re on the sideline or out of the activity running for corporate development, we continue to prove them long. If you look at six deals done in the last—inside of two years, I think we have continually proven to be very pretty active, opportunistic, and, frankly, successful at being able to identify an opportunity, find a willing participant, negotiate successfully, and then close the deal and then integrate the deal. That’s not a skill set that’s going to go away. It’s just going to be something that’s going to continue to be refined.

So, to answer your question, I wouldn't not put "by the end of the year" on it, but that doesn't mean it's out of the question either, because some of these deals can be a tuck-in, they can be a complement to an existing business, whether it's a geography or whether it's a product type, like futures, or whether it's something in the institutional space. So, to be fair, do I see an opportunity to do another large-scale retail like we just did with City or we did with GFT? No. If I had to handicap it, I wouldn't put a high percentage on that one today, because, frankly, the integration is the hard work after you do the headline announcement of doing the deal. But, that doesn't mean there aren't a bunch of other deals in the pipeline that have conversations and have opportunities. So, I think that's probably the mix there, is to say, no, we're not on the sideline as being acquisitive, but I think if you had to put probabilities on it, you know, it's important for us to really successfully integrate, because all of the benefits from Citi will come from us getting the deal done. I don't think the deal is signed and official. I mean the integration of the platform, the synergy capture and the brand management.

Operator

Thank you. The next question comes from Patrick O'Shaughnessy with Raymond James.

Patrick O'Shaughnessy

Hey, good morning.

Glenn Stevens

Hi, Patrick.

Patrick O'Shaughnessy

So, a question on the City Index franchise, as you guys are taking it over. What's the state of the health of that franchise? I did notice that it looked like equity ticked down a little bit further in the first quarter. I mean, is it broadly stable at this point?

Glenn Stevens

Broadly stable is a good remark, Patrick. A couple of things. Number one, the deal gets announced, the psyche is emerged. We were, although not in control of the company, certainly exerting a fair amount of influence over their spend on a marketing basis. It's important we wanted to optimize their business across the board and say, "Hey, let's look at how many IBs make sense in there, those relationships, should they be continued or not, let's look at dormant accounts, let's look at a lot of things." On the one hand, there's a limit to what we could get done before the deal gets signed. You can't go in and truly make changes. On the other hand, you don't want to sit idly by. So, I'd say in certain cases where they were able to do some housekeeping and some tuning up, we encouraged it and were supportive of it, and then we kicked it into high gear once the deal gets closed.

So, the short answer is, yes, real excited about integrating their business, it's in good shape, they did a nice job of putting it on stable footing and going from there. If you look at measures in terms of the customer their engagement, it's up across the board in terms of volume, and things like that, active accounts. On the other hand, not taking it as is but actually doing some housecleaning and polishing was a good thing.

Patrick O'Shaughnessy

Gotcha, thanks, and the last one for me. When you kind of put on your long-term hat and you think about what GAIN can be over time, when you think about its potential, is that mostly coming from higher trading activity or is it coming from higher revenue capture in the more normalized environment, a combination of the two, kind of where do you think the long-term

upside comes from for the GAIN business model?

Glenn Stevens

Across the board, I think that good old-fashioned operating leverage with scale is definitely there. Just the fact that we can continue to leverage the foundational business in terms of regulatory, in terms of senior management staff, in terms of our locations geographically, regulatory capital, all of those things, this is definitely a business that benefits from scale, even marketing voice, and so that's number one.

Number two, you take the strong investments and, frankly, the critical mass of the technology and build a multi-asset strategy on top of it—because we can end up with a higher share of wallet per client, then that just means our engagement with that client needs to have more activity with us, more assets with us, and, frankly, just become more valuable. It doesn't mean that your cost of acquisition goes up. That's the beauty. Your cost of acquisition stays tends to say relatively same, but the long-term value of the customer goes up.

So, how do I see our business model? It's not scaled for scale's sake. It's scaled for margin and opportunity's sake. I think the other thing is to say RPM can come out higher because you have a customer who is now engaged with you. It's almost an RPM per customer, which is an RPM per market, because an RPM per customer doesn't sit on the sidelines when FX isn't moving. If you have more than FX, that client can now trade FX with you, he can trade equity indices with you, he can trade metals, energies, and what have you. So, that's a benefit.

The other part of this scenario, if you will, is you become a more attractive partner for IBs and for other participants in this market, because, frankly, there are fewer and fewer truly strong well-established providers now globally and we are one of them. It's just concentrating into a smaller and smaller bucket of providers. So, for us, I think if you look at some of the peers we have that have much higher valuations out there, global providers in the active trader segment, with multi-asset offerings, they are absolutely being rewarded with tremendous values, at multiples of GAIN, and yet they aren't multiples of GAIN in terms of scale and top line and number of customers and customer assets. So, for us, once that gradual realization takes place, for us being considered amongst our peers, then we've started to make traction with our investment audience and with our—because we're already take traction with customers already, we're already making traction with our brands and with our customers and with our engagement. So, ultimately, the recognition comes on the other side of it and valuation will be there as well, but for us, our goal is to continue to build the business from within, and that means streamlining. That means, as I said, make progress, so that regardless of whether we're in an 81 RPM environment or an 115 RPM environment, that the operating leverage is there, of course, on the higher level, but on the lower level we're not breaking even, we're not losing money, we're actually having 15%, 18% returns, and when things are kicking, you're in the 30s.

The whole idea is to shift that curve of outcomes, financial outcomes to the right, and we've continued to that. Synergy capture and scale are two primary drivers, but scale only has a couple of pieces, which is how you diversify your revenue—that means amongst products, customer types and geographies, and so that's what we continue to do.

Patrick O'Shaughnessy

All right. Thank you.

Glenn Stevens

Sure.

Operator

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

Jamie Yackow

Hey, guys, good morning.

Glenn Stevens

Hi, Jamie.

Jamie Yackow

Good morning. So, Glenn, I'm just wondering, just given—and you touched upon it a little bit with comparable valuations being significantly higher, but just given some of the transactions that have taken place over the last 12 months, I'm curious if you guys have an NAV that you wouldn't mind sharing, and to an earlier point, my rough NAV suggests you guys are trading at a huge discount, and so why not be more opportunistic with the buybacks? Thanks.

Glenn Stevens

Sure. So, a couple of things. Look, again, buyback is one of the tools at our disposal, but as I mentioned, as a priority, it really does come behind liquidity, and liquidity for strategic acquisitions, because our goal is to build value over the medium-term, if you will, and so buying at seven, buying at nine, buying at 11, whatever it is, ultimately, it best serves if we can use that same cash for purposes of acquisition or for purposes, frankly, of having profitable liquidity when markets spike or change or customer engagement varies. So, by no means are we allergic to customer buybacks, and we've been bought back in the past—and by the way, we're only recently into a better position in terms of liquidity. It wasn't that long ago that two much of our float was locked up either by kind internal holders, or what have you, and over time we've had some of our long-standing early investors, you know, 15 years in, be able to distribute some of their shares, and only recently had the float become more reasonable, in terms of what's available. It was below 25% a year-and-a-half ago and now it's about 50%, but it took a long time to get there. So, I guess being too aggressive and sucking all the liquidity back out doesn't exactly help the story, either. But, more importantly for us, it's, frankly, a prioritization of use of capital, and right now I'd probably put buyback at a least a third, which would be behind liquidity and behind corp debt, and then I guess you should say we have to stay committed to our dividend, so I might even put it fourth.

Jamie Yackow

Sure, that's fair. What about the net asset value? I mean, is it fair to say that you think that you would agree that you guys are trading substantially below fair value?

Glenn Stevens

I wouldn't argue with that view at all. As I said, I think that the easiest way to do the comparison is to look at the scale of our business just in terms of metrics and number of customers, number of assets, opportunities for growth, and compare that to those provided that, if you will, are similar on scale, but with completely dissimilar, much higher valuations.

Jamie Yackow

Okay, and just on that front, just given some of the multiples that some businesses have traded hands, would you guys—I know you guys are actively looking as an acquirer, but would you look to divest any of your business lines?

Glenn Stevens

No, I don't think we are at the stage where any of our business lines are mature enough to be a full standalone business we'd look into spinning off, and I think that it's kind of complementary ecosystem, if you will, that the customer has to be able to deal with at several levels. I mean, look, the idea is to optimize the businesses across the board, whether it's the partner business or institutional or exchange products. They're not yet there. Sales trade is a good example of that. We said, "Hey, let's optimize it." It's not a divestiture or selling it, but it's a focus on making it fit well within our strategy. It's not a whole business. It's kind of part to the business that makes sense to keep it. So, that was part of GFT's portfolio of businesses, and after having some time to rationalize it and say which parts fit in and where should they be optimized, that's kind of how that went. If you look at the growth opportunities, particularly in GTX and in futures, those are two that businesses that are in their early stages of being able to be streamlined and grown.

Jamie Yackow

Okay, thank you. I guess my—just the last question was just—I may have missed it, but when you spoke earlier about how the market was trending in April, correct me if I'm wrong, but you said you expect a recovery to kind of in the mean in terms of RPMs?

Glenn Stevens

Yes, actually, specifically, what I said was we've seen more two-way trading in products, not just—well, euro, yes, and also is in some other currency pairs, well, which was dissimilar to what we saw for a good chunk of Q1, which was dominated by euro and dominated by being a one-way trade.

Jamie Yackow

Okay. All right, thanks, guys.

Glenn Stevens

You got it, Jamie.

Operator

Thank you. As that was the last question, I would like to turn the call back over to Management for any closing comments.

Glenn Stevens

Thanks, Operator. Thanks for your patience today with our technical challenge and we appreciate you joining the call. Have a good day.

Operator

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