GAIN Capital Holdings, Inc.

Second Quarter 2015 Results Conference Call

August 6, 2015 at 8:00 AM Eastern

CORPORATE PARTICIPANTS

Glenn Stevens, *President and Chief Executive Officer*

Jason Emerson, *Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to GAIN Capital's second quarter results conference call. All participants will be in a 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 and the company's filings with the SEC for discussions of those risks. In addition, the 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 this information presented in this light. The company may at some point elect to update the forward-looking statements made today but specifically disclaim any obligation to do so.

I will now turn the conference over to GAIN's CEO, Glenn Stevens. Please go ahead, sir.

Glenn Stevens
Thanks, Operator. Good morning, everyone, and thanks for joining our earnings call here for the first half of the year and also for our Q2. I'll start by just commenting on the progress on our City Index integration. It's been tracking along really well. We're tracking towards the high end of our expected synergy range of $45 [million] to $55 million. This is perfectly in line with us trying to successfully scale our business. We've started to see record levels of trading volume, active accounts, and customer assets. These are all business metrics showing strength. They're all business metrics that point to a solid going-forward.

Our GTX institutional business continues to grow faster than our peers. We're attracting new participants, we're extending the relationships that we have with our existing participants, and that's on track as well to become a more material business for us.

Over operating expenses, we continue to progress there in reducing our core fixed operating expenses. We've actually decreased 4 percent for the first quarter, over quarter over quarter, and 7 percent for the half over half. Most importantly, that poises us — leaves us poised for improved operating margins and ultimately puts us in a strong position for generating cash.

Although our revenue capture improved in foreign exchange markets and CFDs, we did face a challenging condition in the equity indices and related markets, and we saw that come in below our normal tracking for, let's say, trailing 12 months and kind of relative periods like that. That said we've seen some other participants involved in equity markets also show some challenges there, and it wasn't surprising, given the quarter-over-quarter comparison in terms of volatility being lower, in terms of average trading ranges being compressed. There were quite a few factors that made it a more challenging environment; however, over longer periods, it is in line with our goal to diversify revenue and diversify our products, because pulling back from a short-term period, those are better markets to be in as they're mixed in with our core competency in FX.

That brings us to the next page in terms of some specific financial results. For the second quarter of '15, our net revenue was $111.6 million. That's up 60 percent, and that's up

19 percent on a proforma basis. Continuing down, our adjusted EBITDA was $9.2 million, and the net income, factoring everything in on a GAAP basis, was a negative $8.8 [million].

On our operating metrics, trading volume of $1.1 trillion, up 104 percent, 47 percent on a proforma basis. Our retail futures contracts were up 20 percent at $2.1 million. As I mentioned before, business operating metrics — active retail accounts, up 55 percent to over 157,000 active accounts. Retail customer assets, $1.1 billion, up 32 percent and up 7 percent on a proforma basis. And our GTX institutional volume, $1.2 trillion, an average daily value of $18.3 billion. It's important to take that away into the first half, as I said, pulling back the lens a bit, and you can see that our net revenue for the first half was $204.5 million. That's up 35 percent, up 16 percent on a proforma basis.

You'll hear me refer to proforma quite often throughout this presentation, because I want to give the impression of the combined company. That's the goal of integration, that's the goal of our building scale, that's the goal of our presenting these companies as a combined entity, which is what the successful integration does. It gives us a much larger footprint on the top side, it gives us the opportunity for operating leverage, and it gives us opportunity to create stronger margins by achieving the synergies that we've previously guided our listeners to and will continue to do on this call and going forward.

Our net income was negative $.5 million on a GAAP basis, with an adjusted EBITDA of $28.9 million. Again, those numbers are up materially over the same period last year, and we have a cash EPS of 33 cents, up from 11 cents for the first half.

Operating metrics, consistent with the quarter — for the first half, we're up 70 percent, trading volume of $1.9 trillion, $14.6 billion of average daily volume, retail futures contracts of $4.4 million, up 28 percent; and GTX volume of $2.4 trillion and $18.9 billion ADV — again, all strong metrics that point to a very robust business and point to our ability to minimize, if not eradicate, attrition when we combine these businesses. We have a successful track record here, recently purchasing, acquiring, and integrating the GFT business, followed by now in the throes and in the midst of doing the same with City Index.

The next page, we just talk a little bit more about the scale, and I think that it's important again to take away this concept of building a strong base, of establishing our leadership as a multi-asset provider, a global multi-asset trading company, and the growth and financial metrics across the board, if you look back and you look at trailing 12 months proforma revenue and adjusted EBITDA, there's a company at GAIN that on a proforma basis for trailing 12 months had $539.6 million of revenue and $111.6 million of EBITDA; trading volume of over a trillion; customer assets of a billion in active accounts at or near record levels of over 157,000 active accounts.

Our growing retail business benefits from strong brands, strong reputation, and a diversified geographic footprint. We've integrated futures to some degree, although we have more work to do there, and that again leverages our ability to provide a fully multi-asset strategy regardless of what the regulatory jurisdiction is. So whether that's the U.S. market, the European market, or the Asian market, we have commensurate products, so we can offer a full spate to our customers.

Our GTX, institutional ECN is growing faster than our peers, and people following along can see that there's several recent transactions, you know, valuing very similar businesses at very strong EBITDA multiples of 15 to 20 times. If you look into some of these parts, it creates an attractive value opportunity. There's significant EBITDA generation, it's a diversified product story and coupled with a fast growing institutional offering.

If you go into the retail page, the next slide, we'll focus in on the retail business. Again, the pictures tell most of the story here on the right, with all the improvements. Year over year, period over period, strong growth in trading volume on the retail business and in futures as well, a fast growing basis of active accounts, and solid growth in customer assets. Again, these are all the goals of the company as we build scale, and we want synergy to enhance our cost basis without impeding our ability to offer more products to our customers and deepen our relationship across geographies with different types of customers as well in different markets. That's a kind of a multi-pronged strategy that we're after here.

The next page, looking to the institutional business, on our GTX, again achieving scale and strong growth. That product — or that platform currently offers FX, commodities, options, and NDFs. It's already established registrations as a SEF and, as a swap dealer, gives us flexibility to offer different markets in different locales. As I alluded to before, we're competing directly with the likes of EBS or Hot Spot, Fast Match and if you follow some of the transactions, either announced or yet to be confirmed there, you can look at some what we consider untapped value in that situation. GTX has been taking market share, and we've experienced a 58 percent CAGR since we started our operations less than five years ago. This is strategic growth on continued organic growth of our base participants. Again, we generally engage with a shop, go in as a foothold, and, what we've seen repeatedly, is expand that relationship with multiple participants coming out of each institution.

At that point, I think the takeaway there, it's important to look at how we're essentially going after customers on both ends. We're trying to push the multi-asset strategy to the retail user, and we're pushing the institutional strategy to the institutional user. They are distinct products, but they're complementary inside of our cost structure, and they're complementary inside of our strategy, and the business metrics clearly indicate the progress we've been making in the quarter and the half and, frankly, over the multi-year strategy plan that we're executing.

I'll turn it over to Jason now to go into a little more detail on some of the revenue and EBITDA performance, and then we can circle back. Jason?

Jason Emerson
Great. Thanks, Glenn. Now I'm going to walk through more detail on the revenue and adjusted EBITDA results on the next slide. As I review the results, I'll do so on a proforma basis, a simple addition of legacy GAIN, legacy City Index, and results from other recent acquisitions for the respective periods, which better reflects the relative performance of GAIN since closing on the City Index acquisition at the start of the quarter. We've included as-reported figures for reference purposes.

Let's start with a review of revenue performance for the quarter and the year so far. We've made a slight adjustment to our presentation of revenue, from trading and commission revenue to retail and institutional categories, on the face of the income statement to better reflect their respective contribution to GAIN's performance. Retail revenue includes trading and commission revenue from our retail OTC and futures businesses, along with our sales trader and Galvan Research advisory businesses. Institutional revenues are comprised of commission revenue generated by our GTX, ECN, and agency sales business.

Total operating revenue for GAIN in the quarter was $105.7 million and $237.2 million for the first half of 2015. This is up 13 percent and 14 percent, respectively, for the quarter and the half year, due primarily to the growth of the combined retail business coupled with the expansion of our institutional business.

Turning to the combined retail business, which delivered revenue of $97.3 million in the second quarter and $218.8 million for the first half of 2015, up 12 percent and 11 percent, respectively, compared to the same time last year, due mainly to the growth of the retail OTC and futures businesses. Our retail OTC business generated revenue of $81.6 million in the quarter and $182.7 million for the first half of 2014, up 35 percent and 29 percent, respectively. We experienced strong customer engagement during the quarter and for the year, as reflected in the 47 percent and 39 percent, respective, increases in retail OTC volumes on a proforma basis.

Looking at the second quarter, the increase in trading volume was more than offset by mixed trading conditions related to index and commodities products, as Glenn discussed earlier. These trading conditions resulted in retail revenue capture falling to 17 percent below the trailing 12-month average. It's important to note that following the acquisition of City Index, the composition of retail trading volumes shifted from 75 percent to 25 percent FX/non-FX to 63 percent and 37 percent FX/non-FX, and, as a result, non-FX products have more of an impact on revenue, which is part of our efforts to diversify revenue.

Moving over to the retail futures business, we saw revenue of $10.9 million in the quarter and $22.5 million for the first half of 2015. This is up 16 percent and 20 percent, respectively, compared to the same time last year. The primary driver for growth was the ability of the business to increase customer engagement through direct efforts, bolstered by more interesting markets for customers to trade versus the same time last year.

The sales business delivered — sales trader business delivered revenue of $4 million during the quarter and $10.2 million year to date. This is down from $14.6 million and $29.1 million for the same time last year. Sales trader revenue was lower as a result of repositioning the business in the middle of the fourth quarter of 2014 to enhance customer profitability and its return on capital.

Galvan advisory revenue of $1.1 million in the quarter and $2.2 million for the first half is down 29 percent and 33 percent compared to the same time last year, given the less robust equity environment.

Moving over to the institutional business, the GTX, ECN, and agency sales teams delivered revenue of $8.5 million for the quarter and $18.5 million for the first half of 2015. This is down 3 percent and up 8 percent, respectively, versus the same time periods in 2014. As Glenn highlighted the ECN side of the business has demonstrated strong growth versus a trailing history.

In other revenue, we recorded a $4.5 million adjustment to our earn out for Galvan Research and advisory, which accounting treatment requires us to reflect as an adjustment to income. The business performed well in the first year since closing but did not reach the stretch targets originally outlined as the year progressed, which accounted for about a quarter of the adjustment. The remainder of the adjustment reflects our current assessment of the earn out to be paid to sellers at the end of the three-year period. The business continues to perform solidly and is a key part of our revenue diversification strategy to engage customers in trading contracts for difference.

It's important to note that we removed the impact of the Galvan earn out adjustment when calculating adjusted EBITDA and cash EPS. The performance of the retail and institutional businesses resulted in adjusted EBITDA of $9.2 million and a margin of 8 percent for the quarter and $30.9 million and a margin of 12 percent for the first half of 2015 on a proforma basis. This is up from the adjusted EBITDA loss of $2.3 million in the second quarter and adjusted EBITDA of $10.7 million and margin of 4 percent for the first half of 2014 on a proforma basis.

Our ability to scale the retail business and deliver a reduction of the fixed operating expenses related to the City Index acquisition will enhance our adjusted EBITDA and related margins. If we had fully completed the integration of City Index at the beginning of 2015 and achieved the low end of the $40 [million] to $45 million in annual reduction of fixed operating expenses for the first half of 2015, we would have adjusted EBITDA of $48.5 million and a margin of 21 percent.

Now let's take a look at our acquisition-related items surrounding the City Index transaction that we closed at the beginning of the quarter. During the quarter, we reported $16.7 million of acquisition, integration, and severance items. Accelerated depreciation and abandonment of certain capitalized projects represented nearly $9.5 million of this total and are non-cash in nature. We also recorded $2.5 million of one-time items related to investment banking fees, legal, and indirect tax expenses in the quarter, related to the closing. In addition, we performed our first wave of workforce reductions, which resulted in a severance charge of $1.9 million in the quarter. We continue to reiterate the timing of our synergy capture guidance within two years from closing the transaction, which we back-end loaded at least 20 percent in the first 12 months, with 80 percent in the last 12 months. This will translate into an annualized reduction of fixed operating expenses of $40 [million] to $45 million at the completion of integration.

Our tax rate in the quarter reflects a couple of adjustments that are worth noting. The first is a one-time recording of a deferred tax asset of $1.2 million as a result of a favorable ruling in a foreign jurisdiction to allow loses from a previous acquisition to be utilized against future earnings there. This will reduce our cash tax payments in future periods.

The second is related to accelerated depreciation with one of the legacy trading platforms that we are retiring. Both of these items are positive but have an impact on our effective tax rate as it appears in the quarter. With the addition of City Index, we expect our tax rate to be 20 to 23 percent, which is lower than our previous guidance of 23 to 26 percent.

Turning to the bottom right, we highlight our retail OTC revenue per million over the trailing 12 months of $92 as well as a revenue capture rate for the quarter of $76. As previously discussed, the decline reflects the fact that during the second quarter, we experienced mixed trading conditions with an improvement in FX revenue capture that was more than offset by below-average revenue capture in index and commodities. We expect retail revenue capture to mean revert over time and are focused on reducing the fixed operating expenses of the combined GAIN and City Index business over the next several quarters to reduce the annual run rate of fixed operating expenses by $40 [million] to $45 million to get our breakeven retail revenue per million back down to the level it was prior to the City Index transaction.

Glenn Stevens

It might be worth adding, Jason — excuse me — that, again, part of our strategy, if you look at the short-term focus on a 90-day clip for this revenue-per-million as a measure of our revenue from different products, is that we did see some headwinds in equities for the quarter that we talked about, again not specific to GAIN. We saw a material decrease in volatility quarter over quarter, we saw average trading range decrease quarter over quarter, and this is not in — against, let's say our goal of actually increasing our RPM over time.

So there are two directions we want to do simultaneously here. Number one, we want to lower our cost basis so that our effective RPM will end up in a profitable situation at lower levels, because we're not going to be able to in 90 day clips say that there's no chance we're going to — if you just look at the chart, we're going to see the opportunities for over 100 and under 100 by 20 percent in terms of the RPM in that narrow timeframe. The reason we put in trailing 12 months is to show that it's a much smoother picture over a long term, but it's important to note that with diversifying the product mix, then the actual opportunity to get a higher base of RPM actually increases, so, again, consistent with our strategy of moving our mix away from a super high reliance on FX capture, which actually did improve, actually, this quarter. We saw an — over the short term, some of the non-FX products drag that overall RPM down a little, particularly in a time when acquiring City Index means we had a larger than historical weighting on non-FX products.

So, in essence, we continue to execute on our strategy towards more products, execute on our strategy towards a broader base, and, over time, it's playing out exactly the way we hoped for, which is to have a less — a smaller reliance on FX, a greater reliance on a broad base of products, which ultimately, over longer periods of time, will give us a higher base. If you couple that with pulling some of the costs out, as we expect to do and have already demonstrated, then it leaves you with a lower breakeven level. What we've guided in the past on these calls is that we used to be in kind of the mid-80s of a point at which we would be positive EBITDA/negative EBITDA. We've marched that down over the last two quarters to about 80, marched that down to high 70s, and we've made continued progress now to get that even into the low 70s. So ultimately you're now measuring levels of EBITDA contribution versus positive or negative.

Again, these come out of strong business metrics, which is the part of the business that we focus on. So sorry, Jason, continue.

Jason Emerson
No, that's great color, Glenn. Thanks. Now, let's turn to the next slide and look at our management of operating expenses and the capturing of synergies from the City Index acquisition. As you can see, we've made progress in delivering our reduction of fixed operating expenses from the City Index acquisition as well as additional efforts we've taken to manage our expense base. 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 and futures businesses as well as sales commissions and incentive compensation. We continue to evaluate and optimize these variable expense arrangements.

To help illustrate the progress we've made in reducing our fixed expense base, we've broken out the core fixed operating expense base from selected variable expense items, including referral fees, compensation, and bad debt.

We'll now take a closer look at our main expense areas of compensation, marketing, and referral fees. As we do, we'll compare these expenses on a proforma basis as we've previously done earlier. This is going to help highlight how we're progressing in capturing synergies in our overall expense management.

Compensation of $30.5 million for the quarter and $63.6 million year to date is down 11 percent and 8 percent on a proforma basis, with the decline coming primarily from lower sales trader compensation due to lower revenue resulting from changes made at the end of 2014. In addition, we performed our first planned reduction of personnel associated with this integration of City Index as we consolidate functions and offices to achieve our synergy targets. This action resulted in a severance charge of $1.9 million being recorded in the quarter, which we've broken out separately from compensation expense as noted earlier.

Moving over to the marketing expense area, which is largely related to our retail OTC direct marketing activities, we recorded an expense of $8.4 million during the quarter and $17.3 million for the first half of 2015. This is down 12 percent and 4 percent, respectively, driven by the ability of the marketing team to optimize spend in light of increased volatility across markets that have increased retail customer engagement. Referral fees of $29.5 million for the quarter and $62.3 million for the first half were up only 12 percent and 18 percent, respectively, while indirect volumes were up 35 percent for the quarter and 42 percent for the year.

Referral fees are primarily related to our retail OTC business and are largely driven by volume-based arrangements. At the end of Q2 of last year, we started restructuring some of our volume-based arrangements in the retail OTC business to reduce the impact on this operating expense when we have more challenging trading conditions. The result of these actions is that our average referral rate per million dollars traded is down 10 percent compared to the same time last year.

For the second quarter, core fixed operating expenses of $60.2 million are down 7 percent compared to the second quarter of 2014 and down 4 percent compared to the first quarter of 2015, reflecting overall expense management as well as initial efforts on capturing synergy from the City Index acquisition.

For the first half of the year, core fixed operating expenses of $122.6 million are down 7 percent from the same time last year. The acquisition of City Index will further our ability to grow our key retail OTC metrics, such as customer assets, active accounts, and volumes, while diversifying revenue across geographies and products. This, coupled with our ability to reduce the fixed operating expenses of GAIN and City Index by $45 [million] to $55 million during the two-year integration window from the closing date will provide operating leverage as revenue capture reverts to levels we've seen over the past 12 to 18 months.

Now we'll spend some time in how we return capital to our shareholders. On the next slide, we talk about return of capital. GAIN is focused on executing our strategic plan of scaling our core retail business, while diversifying revenue across products, customer segments, and geographies in a complementary fashion that delivers return to our shareholders. We reiterate that our first use of cash is to fund customer trading in our core retail business, which drives the majority of our revenue in earnings. This cash is deposited at banks and brokers to collateralize customer positions.

Our next use of cash is to acquire retail businesses that we can integrate onto our global platform to deliver scale and lower fixed operating expenses yielding the ability to drive operating leverage. We've developed a track record here, first with the acquisition and integration of GFT and now with the City Index transaction as the most recent example of how we're able to target, negotiate, and consummate an acquisition. 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 $539.2 million in revenue over the last 12 months and adjusted

EBITDA of more than $157 million and 29 percent margins on a proforma basis once all integration activities are completed. This assumes a $45 million run rate synergy capture when the integration is completed at the end of the two years. We continue to expect the deal to be accretive on a cash and adjusted net income basis to equity shareholders by the fourth quarter after closing the transaction.

We continue to evaluate target acquisitions that will help to diversify revenue by customer, products, and geographies.

Glenn Stevens
You might mention that we have a track record of successfully identifying, negotiating, and closing opportunities, and that hasn't changed, so we'll stay poised to be vigilant and keep an eye on the market, look for opportunistic situations, and, where they make sense, proceed there. So for those trying to figure out where on the sidelines we are, don't look on the sidelines. Look on the field, because that's where we remain.

Jason Emerson
Great. Thanks, Glenn. Our next use of cash is our dividend and buyback. GAIN will distribute its quarterly dividend of 5 cents per share on September 24 for holders of record as of September 13. Finally, the Board has approved a buyback plan of $15 million, with just under $10 million available for purchase. We did make some purchases during the quarter, and we plan to be more active in the third quarter as well.

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

Glenn Stevens
Thanks, Jason. Consistent with one of GAIN's internal and external mantras of being transparent, there's a fair of amount of information in this deck, and it sometimes can create some noise, but I want it to be clear that we are executing on a very basic strategy at GAIN, that the team is extremely engaged, very busy, but there are some basic focuses that we continue to make progress on that shouldn't get lost in the noise from quarterly or monthly metric releases or press or what have you. And ultimately the company has demonstrated clearly, and will continue to demonstrate clearly, what our goals are and where we expect to be going forward.

And with that, if you follow along with some of the verbiage or points that I've tried to focus on in previous calls, and I'll try to do so again today, I want to see if you can look at all the information we provide and follow the bouncing ball. We've talked about increasing our scale, positioning GAIN as a global leader, as a multi-asset broker, lowering our breakeven RPM from a cost basis perspective, and continually building our — or entrenching our market leadership in terms of retail customers and institutional customers, while doing that in an expanding geographic footprint with multiple products.

And if you stop there, which is a fairly good size mouthful, there's a lot of things to do to get that done, but we're doing it, and the reality is that as we march along and increase our topline and set ourselves up to take advantage of the scale with higher margins and lower breakeven, and we continue to be the consolidator in this market, which, whether it's S&B or regulatory curve balls or required higher levels of capital or difficulties in marketing in different geographies, the reality is that with this scale comes ability. And we have very few peers in this market now on a global basis, and that puts us in a great position to be a market leader and to have pricing power and to increase our ability to generate cash.

So I want the takeaway from an execution standpoint, from a, “Hey, what is management doing here?” to be focused on our achievements, which is the business metrics, our increased client level — levels of client engagement, and our ability to focus simultaneously on an institutional business and on a retail business. And so going forward, we want to continue to provide that information, but if you take the last points, if you will, of my closing remarks, you know, we want to keep scaling our business and building our position as a multi-asset broker; continue to hyper focus on managing expenses and delivering the cost synergies that we promised, which totally makes, you know, the most recent acquisition a no-brainer; develop GTX into a market-leading institutional ECN; start to bear the fruits of an expanding EBITDA margin because of the scale and because of the lower breakeven; and continue to actively review opportunities as they present themselves.

I think if you take those underpinnings and use it as a foundation; it bodes well for our success going forward. So, with that, we’ll turn it over to the operator for Q&A. Thank you.

QUESTIONS AND ANSWERS

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

The first question comes from Dan Fannon with Jeffries. Please go ahead.

Dan Fannon
Good morning, gentlemen.

Glenn Stevens
Hi, Dan.

Jason Emerson
Hi, Dan.

Dan Fannon
I guess the first question is around the RPM, and just thinking about some of the comments — the impacts of this past quarter, I think, Glenn, you implied that the core retail FX or legacy GAIN business had an improvement quarter over quarter. I’m wondering if you could flush that out in a little more detail.

And then, you know, looking ahead, you know, just like — do you anticipate with the mix of business shifting more away from retail FX with the combination of City Index, do you expect more or less volatility in this metric going forward?

Glenn Stevens
Okay, a couple of pieces. So around this time last year, we commented about April, saying that we started to see some mean reversion in the RPM, which reflected some improving conditions or environment for FX trading, and that’s continued, actually, through the quarter. What — we didn’t see or anticipate for May and June that you’d see equity markets opportunity kind of not dry up but get pretty soft, which coincided with the fact that we increased materially our exposure to those markets. So timing’s everything, but over the short term, that wasn’t the point.

We weren't trying to make a ten-week trade. We were trying to make a three-year trade. And so, ultimately, in that respect, we did see FX markets improve into Q2, which they — which they continued to do so, and we saw some mean reversion back to — if you look at historical levels of FX, RPM, guess what? In July, we're seeing similar mean reversion for kind of overall RPMs and particularly for non-FX markets as well, and, again, when you pull the lens back over longer terms, you expect it.

Now, the last time I did this in April, I may not have managed expectations well, because it didn't follow through for May and June, so guess what? I don't want to do that again; however, I'm also trying to point out that when you pull back — now this answers the second part of your question — yes, we do expect to narrow the range, if you will, of that. However, I will point to the fact that if you take out the noise quarter to quarter and you look back over trailing 12, trailing 36 months, whatever you want to look at, It's a relatively consistent delivery of mid-90s, and overall we actually expect to see some improvement of that, a double whammy here of quieting some of the noise on the edges. Yes, yes, I believe we're going to reduce some of the volatility there, and, two , trying to — trying to see an improvement in that by adding these other markets, because, historically at least, those other markets have shown to be a higher RPM, those other markets listed as non-FX.

Now, that doesn't mean we're abandoning FX, doesn't mean we're turning our back on that market, but, you know, when FX volatility and opportunity is there, everybody says, "How come you're not a pure FX play?" and when that market goes into the Sahara Desert in terms of an opportunity, they say, "Why aren't you diversifying your products?" Ultimately, for us, it's not about managing RPM. It's about managing a platform that says to our customers, we're a multi-asset broker, and you have to be able to trade what you want, when you want, and so that's got to be our goal, build that customer engagement, build that relationship, build that share of wallet, and then the output per quarter is a — is a blended RPM, but the output per year is for — is for a higher level of EBITDA and cash generation.

So, ultimately, we are seeing some mean reversion in July. We are seeing some mean reversion on the non-FX stuff, and, most importantly, we are trying to march towards — to make your life a little easier, Dan, narrow the variability in the quarter-to-quarter RPM.

Dan Fannon
Great. And then — that's helpful, and I guess you mentioned attrition also, I think in the quarter since they closed the deal. I just wondered if you could put some numbers around how that's occurred or what's occurred, essentially, with your customer base since the close of the deal.

Glenn Stevens
Immaterial and the important part on that one is that we saw similar results with GFT. We go through a tremendous amount of effort and painstaking detail to keep customers happy. What we try to avoid is a scorched-earth approach and say basically, you take it or leave it. We don't want to do that. What we'll actually do is err on the side of keeping the customer happy and then — and then, you know, months later say, "Hey, how can we fine tune that a little bit?" I think the key takeaway is looking at our active accounts going up. If we had any material attrition, you'd see that pulled back, and it's active on a combined basis and active on a proforma basis. So, again, that's a clear indication of us managing a positive experience, and, again, no surprise to our team, because we saw that only 18 months ago with GFT.

Dan Fannon
Great. Thank you.

Glenn Stevens
You're welcome.

Operator
Thank you. The next question comes from Rich Repetto with Sandler O'Neill. Please go ahead.

Rich Repetto
Yeah, good morning, guys.

Glenn Stevens
Hey, Rich.

Jason Emerson
Hi, Rich.

Rich Repetto
I guess just a follow-up on the revenue capture. Are you able to — can we break out what is FX and what's the capture from the non-FX products? And then, I guess also following up, you said, Glenn, you expect to get a higher RPM by diversification, so I guess that implies — I'm not sure what that — because I thought that RPM might be lower.

Glenn Stevens
Okay. So two answers. We haven't decided to break out per product, because even when you say FX/non-FX, then we've got to go into non-FX and say that is it equity indices, is it commodities, is it metals, is it interest rates? Those are all material enough businesses for us to move the needle if one had kind of an outlier, so, again, over a narrow period like a quarter, what I didn't want to get into with each quarter or even each month, when we reduce operating metrics, saying, "Here's — by the way, we have 15,000 products," and so I'm exaggerating, but we're not going to have 15,000 numbers like that. But, for example, in the indices, you know, outside of our norm proforma going backwards, we had, you know, high teens, 20 million bucks less revenue than we have seen historically out of that, so it's not a loss. It's an opportunity that wasn't there normally, and that's enough to move the needle down for our RPM.

So I guess what I'm getting at is that FX improved, but it was more than offset — FX improved, Q2 over Q1 in terms of rev capture, but non-FX —– and in this case, primarily equity indices were enough to buffer that to some degree.

And then in terms of higher, the reason I said that is because historically, if you look back and we're able to model those products, a higher reliance on non-FX products would have yielded a higher RPM if you go back trailing 12, trailing 24, trailing 36. So I don't know if that holds going forward — none of us do — but historically that just does, yes, actually give us an opportunity for generally a higher RPM over a longer period of time. That's part of the reason, besides engaging with the client more, that's part of the reason we've expanded into that product line aggressively.

Rich Repetto
Okay. All right. That helps. And then I guess — I know we're only expecting a small amount of the $45 [million] to $55 million in the synergies this year, but, Jason, I guess you said you're on track — get a feel for how much, you know, is in the run rate here right now?

Jason Emerson
Well, just to clarify, we are going to capture $45 [million] to $55 million over a two-year integration window, which will translate at the end of two years to a $40 [million] to $45 million run rate. And so what we talked about at the end of Q1, we guided that we would capture 5 to 10 percent — you know, take a step back — we're going to capture 20 percent of the $45 [million] to $55 million in the first 12 months post close, call it $10 million, and the remainder, the other 80 percent, in the last 12 months. And we talked about capturing 5 to 10 percent of that first $10 million in the first quarter, which, if you look at our fixed operating expenses and how they've fallen, Q2 versus Q1, that 5 to 10 percent number, we're in that band. We're actually at the upper end of that band. So we're tracking in accordance to our plan as Glenn highlighted, and we feel comfortable that — with that guidance, you know, at this point.

Glenn Stevens
And some of the delay, Rich, comes from — and when I say delay, the timing is because there's a platform retirement process, and, guess what? Going back to this idea of really creating a smooth transition for the client, you can do that one of two ways. You can pull the plug and then take a just absolutely crap load of incoming calls saying, "What the hell happened to my platform?" Or you can set up an orderly transition, retire the platforms over time, manage people internally so that they're reassigned and talent is used well, rebrand or reposition the branding so people understand what's going on. So, again, a lot of the work — a lot of the work gets done early, and a lot of the result shows up, you know, six — in that [unintelligible] period of kind of six months to 12 months. That's when, really, the bulk comes out.

So, again, I like to say it's all according to plan, but it is, and that's — and that's why some of the capture — I think we mentioned a portion of that $50 million middle will be picked up this quarter — next — sorry, Q3 and Q4, the bulk kind of coming the first half of '16.

Jason Emerson
That's right.

Rich Repetto
Okay. I guess what I took from that, as you laid out the numbers, Jason, is that you're up to close to $5 million in the run rate. Is that fair to — that's half — that's 10 percent. Ten percent would be the $5 million, I believe, right?

Jason Emerson
No, so it — of the $10 million we guided for the first 12 months, we talked about in the first quarter following close, we get 5 to 10 percent of that $10 million in that quarter.

Glenn Stevens
Right, so $5 million

Jason Emerson
$500 thousand

Glenn Stevens
4Q

Jason Emerson
$500 thousand to $1 million, right, exactly.

Glenn Stevens
Yeah, 5 bucks to Q3 — Q2.

Jason Emerson
Yeah.

Rich Repetto
Okay, 5 to 10 percent of the $10 million?

Jason Emerson
Correct.

Glenn Stevens
Yeah.

Rich Repetto
Okay. All right. I guess next question, Glenn, you said you needed to do more work to — on the futures side of the business, and can you just expound on that, what you were talking about?

Glenn Stevens
Yeah, sure. Yeah, that's about branding, that's about customer experience, that's about just providing a unified onboarding. You know, it's really about empathizing with the customer who wants to trade beyond FX, and ultimately U.S., that's our opportunity for expanding our footprint. Outside the U.S., our CFD market lines up right, makes sense. Inside the U.S., futures are the way to go there, and so, you know, we're two years into a multiyear plan of expanding our footprint in futures. We continue to — we continue to build that, and I think that, look, we established the company on this core competency around retail FX. The two things that made total sense for us to bolt on was, was non-FX products, and that had two pieces, which was CFDs outside the U.S., futures in the U.S. And then the other piece is to bolt on the GPX business, which said, "Hey, look at those customers on the institutional side, because that's a proper complement. They need their own unique environment."

So to answer your point about the futures, that's — a lot of that work has to — has to be — proprietary technology, has to be, you know, really marketing-driven to say how do we make it easy for that customer to open? You know, you do have the challenge sometimes of multiple regulators, cross-collateral opportunities, a lot of — a bit of a labyrinth to walk through, so it's taken, frankly, a little longer than I may have liked, but I think it's proceeding nicely, and we see that in our assets under futures increasing, in our contracts under futures increasing, and also, you know, these are things that don't have to be fixed, they need to be enhanced. It's — that's the key, is to make that experience such that somebody comes away and says, "Oh, that's a multi-asset broker." The good news is that nobody in the U.S. is even doing that so well, so our ability to be a leader is still sitting there on the table for us to go out and grab.

Rich Repetto
Okay. Thank you. And one last thing on — for me on the — it's more on the global and the geographic diversification, so post quarter end, you know, you had the — China pull back, a retrenchment, so I'm just trying to see what impact that might have. And then — and a follow-up to this sort of understanding where the business is on the indices. Where would that be more weighted to if we're down $20 million? Is that in — are the indices way more — you know, focused in one specific area versus another, globally?

Glenn Stevens
Sure. So first half of the question is that it's possible, but anecdotal for now, that the retrenchment in equities in China, for example, is a potential benefit for us, because one of our competitors is a very strong one-way equity market, because why are you trading FX? Why are you trading metals? Why are you trading energies if equities are just "buy" and it doubles, right? So all of a sudden you don't buy and it doesn't double. Someone who is an active trader or a speculator turns their eyes to other markets, and so in that respect, there's a potential positive fallout, and I think, again, some of our metrics are proving that and we're seeing increasing product numbers, customer numbers across the board. So in a — in a positive outcome after maybe a negative environment, that's okay for us. We're not — we're not a Chinese stockbroker. We offer our products in Asia, but they're — they're primarily geared towards non-buy and hold Chinese-listed equities.

The second part of your question, in terms of that, is actually mostly DAX focused, because the DAX is a super popular index that we saw as we've become a larger player in Asia, particularly with taking in City Indices. The DAX is really the proxy for the equity markets that a lot of individuals trade, and, you know, the DAX saw a pullback in vol, the DAX saw a pullback in ATR, and also if you look at the trading of kind of shape of how that market over the quarter — you know, it wasn't really advantageous for market making in terms of that. So a lot of things pointed — but I'd say the biggest culprit, if you will, was the DAX. It wasn't 18 of the 20, but it's the most out of that.

Rich Repetto
Okay. Thank you very much.

Glenn Stevens
Sure, Rich.

Operator
Thank you. The next question comes from Kyle Voigt with KBW. Please go ahead.

Kyle Voigt
Hey, good morning, guys.

Glenn Stevens
Good morning, Kyle.

Jason Emerson
Hey, Kyle.

Kyle Voigt
I just had a couple of questions, I guess. First is on the GTX business. Can you just remind us, is that business currently a completely standalone business? And then also if you could just give us some more color around the operating margin in that business as well.

Glenn Stevens
So, yes, it's a distinct business, Kyle, and such that it has a proprietary technology platform, completely geared towards providing an ECN venue for the participants in that market. It's got its own registrations with a SEF and with a — with a swap registration. It's got its own management staff, if you will, you know, the whole bit, team resources, offices, locations, sales force distribution, architects and technology. So, so we don't stick them in another — you know — you know, put a red tape and let their IDs not work. They are part of GAIN, but the point is that it absolutely is a siloed, focused effort, because our estimation is that the institutional users, banks, hedge funds, real money, what have you, need a specific focus, which is different than a GUI experience and being able to point and click on a retail platform. You can — you can see some people who have tried to gussy up a retail platform and call it institutional, but it's not true DMA, it's not true depth of book, it's not true participant to participant. GAIN's involvement in that business is operating it as an institutional venue.

Now, it does — it does have the ability to have some unique liquidity pools in it. GAIN is able to — GAIN retail is able to tap into the depth of liquidity in GTX and use it as a hedging vehicle. I said in the past on the last call, that we saw the strength of that during the S&P crisis. Having at our fingertips an institutional ECN was a — was a real benefit to us, and so in terms of that, that's how it's set up.

On the margin part that you mentioned, if you go back to the GTX slide, there's a trailing 12-month EBITDA margin that's about 30 to 35 percent, but what's really important there is that as the scale folds in and volumes increase and our participants go higher, it's one of those things that makes sense for that margin to expand very quickly, because you put in some basic requirements for compliance, for staffing, for technology, and you're able to build on that very quickly. And I want to qualify, you know, as the — as GAIN retail is a customer of the ECN, it is just that. It's one more participant. The benefit is it's another participant with, as I said, liquidity going into that system which other institutions like, but it lines up just like any other centrally cleared participant. We centrally clear all of our trades in there. There's no — there's no GAIN operating as a clearer. It's important to take away that that ECN uses money center banks globally to essentially clear every trade.

Kyle Voigt
Okay. Thanks. And I guess just turning to the regulatory environment, I mean, can you just give us an update on the regulatory environment? Are you hearing anything out of the regulators in the UK or Europe to suggest they want to limit leverage going forward?

Glenn Stevens
So let me first say that from a regulatory situation, we look at that as I — as I like to say, as an opportunity, because we have navigated the regulatory environment globally very effectively. We've stayed on the right side, we have great relationships with our regulators, they're ongoing, they're cultivated, we're very transparent. We actually have a focused effort to make sure we do that. We have very regular conversations. Whether it's with the powers that be in D.C. or in Chicago or in London or in Tokyo or in Singapore, there's an open dialogue globally, and, for that reason, I'd like to think that we have a pretty decent finger on the pulse for future developments. And to date, we don't see anything pending. We don't see anything as a dark

cloud or even as a positive, if you will. It looks like most of the regulators are in listening mode or in discussion mode. Frankly, with GAIN coming through the S&B so well, it's given us an even stronger ability to share ideas. And the NFA, for example, recently launched a couple of new policy changes, and I like to think that we were part of those earlier conversations to suggest that. So the larger firms in this situation clearly have an advantage, and that's where we are. So, no, I don't see any dark clouds, but I think we're in great shape to see them early.

Kyle Voigt
Okay, thanks. And then — if I could just have one for Jason, and just I appreciated the color around the referral fees and that the average referral rate per million was down year on year, but if we're just modeling the referral fees, just percentage of revenue I think was around 28 percent this quarter, so like what is the new range we should be thinking about going forward? I mean, is that range lower now than it was previously?

Jason Emerson
I guess I'll go back, Kyle, to the guidance we provided back in Q1, and that still holds. With the addition of City Index now, which was more of a direct business, ultimately our referral fee margins have come in, right? So when we have more challenging trading conditions, which translates into a lower revenue per million for the retail OTC business, generally our referral fee margin will be higher, and that's what we saw. I think that we said it would be 28 to 30 percent, and we ended up right in that range when our revenue per million was down and at the low end of the — of the [indiscernible] curve.

And on the other side, when we do have more hospitable trading conditions and our revenue per million is, you know, above our average or around our average, you know, you will see that referral fee margin drop down in kind of the 22 — the 20 to 22 percent kind of range. So that hasn't changed, you know, significantly.

Kyle Voigt
All right. Thanks.

Operator
Thank you. The next question comes from Patrick O'Shaughnessy with Raymond James. Please go ahead.

Patrick O'Shaughnessy
Hey, good morning, guys.

Glenn Stevens
Hey, Patrick.

Jason Emerson
Good morning.

Patrick O'Shaughnessy
Going back to GTX, what is your patience level in terms of owning this asset yourself versus finding some — a buyer to monetize it and realize the value that you kind of figure is trapped there? And I guess a similar point is, you know, to what extent does it make sense to grow and nurture GTX before even kind of contemplating spinning off that asset?

Glenn Stevens
Very good question and something that makes it to our management lunches on a regular basis. Ultimately, we don't — we haven't built GAIN to sell it, which means we haven't built GTX to sell. However, I think we have a pretty strong track record of being open minded when a capital market opportunity exists, and so if it's — the whole point of CorpDev is if you look at, you know, eight deals in the last three years, that probably means that it's 5X that eight of number of opportunities that get seriously evaluated.

And the first way we evaluate these opportunities is are they strategic? And as I've tried to lay out earlier, our strategy is to focus on the retail client and the institutional client with unique offerings, unique efforts, and then what can fit into that? And there are some ancillary opportunities, whether it's Galvan or whether it's other advisory businesses, you know, wherever it makes sense. But if you look at the history of GTX, we started with a petro [phonetic] license and migrated into outright ownership of the IP, built on that IP, started to staff people up, and started to get the traction, and have continued to do so. We believe similar in the retail market, where you're going to end up with this very small cadre of global leaders, the plethora of institutional platforms will also have to end up with a few identifiable leaders in that space, and, obviously, we want to be one of them.

That said if there's an opportunity on a strategic basis for someone who is in need of our technology, our scalability, and our rapid growth, and we are in need of their geographic penetration, customer penetration, if we can get distribution faster than we can organically, then absolutely we have a chat. So I think in terms of monetizing the — what we consider untapped value in there, it's actually more about accelerating that value creation, and, if that makes sense, then we'll entertain it. If not, then we won't.

Patrick O'Shaughnessy
Okay. Great. Thank you. And then my follow-up would be, you know, so a few quarters ago, you know, currency volatility was terrible, and we were talking about how some of the smaller currency players just didn't have the scale to survive, and, obviously, until this picked back up — and presumably some of those smaller competitors are doing better. So what does the M&A landscape look like right now?

Glenn Stevens
So two things, Patrick. You know, it's interesting you mention that about the different currency payers, and Rich asked the question earlier about FX and non-FX RPMs and how you manage it and how you model it. I actually would have added to your point there that even within the currency payers, there are RPMs that move around, and you have different — they don't always trade the same. You didn't specifically say it, but, actually, we have had situations where a dominant currency like the euro won't be very interesting, but the supporting cast of cable, Canada, Aussie, what have you, will move all over the place, and that's more than enough to provide an opportunity, you know, for our business.

So, so on the one hand, if you have a regional player who — for example, in Japan, the yen is a dominant currency being traded by a Japanese-focused shop, and if yen doesn't perform well in that quarter, currencies in general could do well, but that Japanese firm may not, because their primary focus is in the yen, and so they have a situation where a rising tide doesn't float all boats, because they're parked in the wrong harbor, right?

And so in this case, yeah, a quarter doesn't change much for these firms. I think it might give them, for lack of a better term, a stay of execution, but it doesn't always give them a long-term viability change where all of a sudden it takes a discussion off the table. Also, the germination period of these discussions is often months. Is there an opportunity, does it make sense, what does diligence look like? And so it usually bridges a period long enough where — one to three months, you know, yeah, it might put a little wind in somebody or take the wind out of somebody for a short period, but it's usually not a big impediment to a negotiation.

And, lastly, I'd say what's not going away is the benefits of scale, what's not going away is the challenges of regulatory, what's not going away is the share of voice in a marketing basis. You have to have a certain level just to frigging get heard, so I think that the smaller firms have a bigger challenge from a breakeven perspective, so even when markets don't improve or improve a little, they still aren't able to get over that hurdle. So I think overall it doesn't really change that much over the medium term — maybe over the short term, but the M&A environment, which I would argue probably improved there for us after S&B, hasn't like reversed course and say, "Holy crap, everything's super expensive now." I still think opportunities are out there, and it's important for us, though, to do it in a measured pace. And, yes, I did make a point of saying that we're still a very active participant, but it's got to make sense. We're not — we're not looking at things just to — just to buy them. They want to fit right.

Patrick O'Shaughnessy
All right. Great. Thank you very much.

Operator
Thank you. This concludes our question-and-answer session.

Glenn Stevens
Hopefully, I got through.

Operator
I would like to turn the conference back over to Glenn Stevens for any closing remarks.

Glenn Stevens
Operator, bring back that last call.

Operator
Okay, I'll try bringing him back. One moment. Mr. O'Shaughnessy, you're back in conference.

Patrick O'Shaughnessy
Oh, I didn't have any further questions. Thank you.

Glenn Stevens
Oh, perfect. Okay. Thanks, Patrick.

Operator
Thank you. Over to you, Mr. Stevens.

CONCLUSION

Glenn Stevens
Okay. So it looks like that wraps the questions and I'll just close by saying thanks for joining, and hopefully we can follow up as necessary. Have a great day.

Operator
Thank you. That concludes our conference. Thank you for your attendance. You may now disconnect your lines.