GAIN Capital

Third Quarter 2015 Earnings Conference Call

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CORPORATE PARTICIPANTS

Glenn Stevens, *President and Chief Executive Officer*

Nigel Rose, *Chief Financial Officer*

Andrew Guido, *Head of Investor Relations*

PRESENTATION

Operator
Good morning everyone, and welcome to the GAIN Capital third quarter 2015 earnings conference call. Today's call is being recorded.

At this time, I would like to turn the call over to Andrew Guido, Head of Investor Relations. Please go ahead.

Andrew Guido
Thank you, Operator. Good morning, and thank you to everyone for joining us for our third quarter 2015 earnings call. Speaking today will be GAIN Capital's CEO Glenn Stevens, and CFO Nigel Rose. Following this, we will open the call to questions.

During this call, we may make forward-looking statements to assist you in understanding our 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, statements during this call, including statements related to market conditions, the 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 Glenn.

Glenn Stevens
Thanks, Andrew. Good morning, and, as Andrew mentioned, I would like to welcome Nigel Rose, GAIN's Chief Financial Officer. He recently assumed the CFO role for GAIN, and he'll help me walk you through today's briefing.

Today we're reporting a very strong quarter, which reflects our successful strategy execution. As we have stated in the past, we're focused on diversifying retail revenue by product, which includes non-FX CFD products such as indices, single-stock equities and commodities as well as exchange-traded products such as futures. I'm happy to report that this product diversification was a strong contributor to our results, which saw GAIN generate third quarter adjusted earnings per share of 31 cents compared to a penny per share in the second quarter of this year.

In addition to the retail business, we are also focused on GAIN's institutional business, GTX, which provides GAIN with a steady commission-based revenue stream and EBITDA margins in excess of 25 percent. We're very excited about this business and believe it is a driver for future growth in GAIN's results and shareholder value.

We also continue to make great progress on the integration of City Index, our acquisition which closed on April 1st. As Nigel will highlight later in this deck, we are successfully reducing the fixed operating expense base of our combined companies. We are on track to achieve $40 [million] to $45 million of run rate synergies by the end of 2016, which presents GAIN with significant opportunity to expand our margins.

I'll bring you to page 3 and just finish up on — sorry, page 4 — and go through some of the specific results. For the quarter, GAIN generated nearly $128 million in topline revenue, which represents a 15 percent improvement over Q2 and a 30 percent improvement year-over-year growth. In addition, GAIN generated adjusted EBITDA of nearly $30 million, a 23 percent margin, reflecting GAIN's ability to reduce costs and create operating leverage when market conditions revert to more normalized levels. For the quarter, GAIN generated adjusted earnings per share of 31 cents, which is a big improvement over Q2's results.

On page 5, the nine-month financial and operating results, specifically net revenue, $332.4 million — that's a year-to-date number — net income of $7.4 million, and adjusted EPS of 55 cents and a cash EPS of 77 cents. On some of the operating metrics, our average trading volume on over-the-counter products was nearly $15 billion, our average futures contracts of over $35,000, and with our customer assets at nearly a billion [dollars].

I'll bring you to page 6. On page 6, you'll notice we put some information regarding the diversification of our assets. We continue to show strength in our core operating metrics, with over 158,000 active accounts, as I said, client assets of a billion [dollars], and, most importantly, you see the breakdown in our revenues. The breakdown with the different compartments on the revenue composition shows that we have continued to march towards a diversified revenue base. The contribution, not only from FX as it was so heavily relied on in the past, is now made up of different asset classes, equities, indices, commodities, futures, and in different periods and different opportunities they'll all contribute to our total results. The futures business also continues to show strong results, with revenue of nearly $12.5 million and, as I mentioned, the average daily contracts of nearly $35,000.

Another part of our business strategy on Slide 7, is the institutional business, and the institutional revenue continues to grow through our GTX offering. Our GTX is a combination of voice and ECN. Year to date, GTX average daily volumes of $18.2 billion generated $26.7 million in revenue, representing 4 percent growth over the same period last year, all of this while maintaining margins of over 25 percent.

On the strategic plan to grow GTX, there's an organic plan in place. There's a regulatory plan in place. The development of our SEF and our swap dealer offering put us in a great position to operate within what is an environment that becomes increasingly regulated but gives us an opportunity to navigate that labyrinth very effectively. Our long-term focus is on continuing the expansion at ECN while also servicing our existing agency desk clients and being opportunistic to grow that business where we can. We also have the ability to use our technology, which is our own proprietary technology, in a strategic way to create partnerships and bespoke solutions when we need to.

At this point, I'll turn the slide deck over to Nigel, and he can go through some more details.

Nigel Rose
Thanks, Glenn. Turning to Slide 8, I'd like to highlight some of the key figures set out in the table. Total operating revenue for GAIN in the quarter was $127.9 million and $332.4 million for the first nine months of 2015. This is up 23 percent and 30 percent, respectively, driven by growth from the retail business, including futures, coupled with continued expansion of our institutional ECN business.

Looking at the proforma results, year-to-date revenues increased 6 percent to $369.6 million, with EBITDA improving 38 percent to $61.2 million. Proforma operating expenses for the nine months were $308.4 million, 2 percent higher than the same period last year, with the impact of synergies only really influencing the latter part of this nine-month period. This is highlighted by the Q3 operating costs of $98.1 million, 6 percent lower than the prior year's $103.9 million. This is a decrease of $5.8 million for the quarter, equivalent to an annualized reduction of over $23 million. This also represents a 5 percent reduction on the quarterly run rate derived from the current nine-month proforma operating expenses previously mentioned.

Looking to the revenue performance, on a proforma basis, the OTC business experienced a strong period, with quarterly RPM of $98 and revenues up 2 percent on the same quarter last year. Quarterly RPM is exactly in line with the proforma trailing 12 months and it is worth noting that the third quarter of 2014 was particularly strong, characterized by an RPM of $120 on a proforma basis.

Futures also saw a strong performance in the quarter, with revenues 25 percent ahead of the same period last year, while, for the nine months, growth over prior year was comparable at 26 percent. This was driven by increased plant engagement, as evidenced by the 6 percent growth in average daily contracts over Q2 and a 25 percent improvement over Q3 of 2014.

Institutional revenues for the quarter were similar to prior year, although ECN revenues experienced strong growth of 33 percent. This segment of our institutional offering has been performing well, and, for the nine months, ECN revenues have increased 29 percent over the prior year.

As a result of the revenue growth and focus on reducing operating expenses, adjusted EBITDA for the quarter was $29.8 million, a 5 percent increase on the same quarter last year and up over $20 million compared to the same quarter of this year. For the nine months, adjusted EBITDA is $58.8 million, an improvement of 51 percent over prior year on an as-reported basis, or 38 percent on a proforma basis.

Margins for the quarter were 23 percent compared to 8 percent in the second quarter. Taking a nine-month margin, it's 18 percent against the prior year's 15 percent. Continuing to secure synergies through the City Index integration presents further opportunity for improvement of adjusted EBITDA and associated margins.

Successful execution on our strategy of acquisitions, organic growth, and cost reduction saw adjusted EPS for the quarter of 31 cents compared to the second quarter's one cent and the third quarter of 2014's 37 cents. For the year to date, adjusted EPS is now 55 cents, which is up 38 percent year over year.

Turning to Slide 9, we move on to look at our cost base, where we continue to focus on reducing our fixed operating costs while optimizing those costs which are variable in nature. On a proforma basis, fixed costs in Q3 were $59.4 million, 3 percent below the same quarter last year. This takes our year-to-date fixed operating costs to $182.5 million, a reduction of $12.2 million, or 6 percent, over the same period last year, with all categories showing a reduction on prior-year levels.

Annualizing the Q3 fixed cost run rate results in a 12-month figure of $237.6 million, 10 percent lower than that for the full 2014 financial year on a proforma basis. Further reductions in fixed operating costs will arise over the subsequent quarters as integration milestones are achieved. GAIN therefore continues to remain on track to achieve run rate synergies of $40 [million] to $45 million by Q4 of 2016.

Turing to Slide 10, we focus on our largest variable cost, referral fees, and how those costs are being optimized. For the quarter, referral fees were $28.6 million, a 16 percent increase over the same quarter last year; however, on a proforma basis, they are 7 percent lower, while year-to-date referral fees are 9 percent higher at $91.1 million on a proforma basis. It is, therefore, important to understand the driver of this part of our cost base, which accounted for 22 percent of the third quarter's revenues.

Typically, it is volumes from our partners that drive this part of our cost base, hence if these costs increase, that should be reflected through increased partner activity. As you can see from the chart on Slide 10, partner volumes have been growing throughout the period. Meanwhile, the table on Slide 9 shows referral fees have declined in both of the last two quarters. The retail business accounts for 83 percent of total referral fees, and in terms of their cost per million of partner retail volume, we can see from the green line on the chart that this metric has been reducing consistently since the third quarter of last year. For Q3 2015 we paid $47 for every million dollars of partner volume, a 37 percent reduction from Q3 2014's high of $75. Since then, referral fees per million have declined and most recently have ranged between $50 to $60 per million. The remaining 17 percent of referral fees derive from our futures business, which, during Q3, they equated to 40 percent of futures revenues.

Turning to Slide 11, GAIN continues to generate significant cash flow by leveraging its sufficient levels of capital expenditure. This allows the business to scale organically without the requirement for commensurate levels of investment in capex.

In terms of our cash usage, we reiterate our first priority is to be able to fund customer trading in our core retail business, which drives the majority of our revenue and earnings; secondly, to acquire businesses that we can integrate to deliver scale and further reduce our fixed operating expenses, thereby driving operating leverage. We continue to evaluate targeted acquisitions and investments that will help to diversify revenue by customer, product, and geography.

Our next use of cash is for our dividend and buyback. During the quarter, we purchased more than 224,000 shares at an average price of $7.75, for a total investment of over $1.7 million. This is the most active we have been in any quarter, and we expect to continue to repurchase shares under the terms of the buyback during the fourth quarter.

Finally, GAIN will pay its quarterly dividend of 5 cents per share on December 22 for holders of record as of December 11.

Now I'll turn the presentation back over to Glenn for some closing remarks.

Glenn Stevens

Thanks, Nigel. By many measures, this is a strong quarter, and, as Nigel noted, we continue to demonstrate cash flow from operations, our progress towards synergy capture, and overall diversification of our retail revenue.

If you look at our run rate revenue, GAIN is demonstrating over $510 million of revenue and nearly $120 million of EBITDA. This gives an indication of our forward earnings profile and actually should improve as we execute towards achieving our $40 [million] to $45 million in run rate synergies.

We will continue to invest in our GTX platform to develop it into a market-leading ECN, and also, as noted, our ability to generate cash flow from cost reductions and margin expansion, coupled with efficient capex spending, gives us an opportunity to finance further acquisitions and/or return capital to shareholders.

It's a good start, combining with City Index and diversifying our business while building other parts of our business. And, at this point, I'd like to open the line for questions.

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 your 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.

And the first question comes from Rich Repetto of Sandler O'Neill.

Rich Repetto
Yeah. Good morning. I guess the first question for Glenn and Nigel is the — sort of the age-old question, about the sustainability of the revenue capture, and I know, you know, the $98 [million] is the last — the last 12 months sort of adjusted average, but, given the mix, should it be — that range should be — should it be a little bit tighter, should we expect a little bit less volatility in the rate per million going forward, given now that the new business mix? ***

Glenn Stevens
So, Rich, I think in a general — a general understanding, the answer would be yes, given that if you were to break up the future into four quadrants — you used to have two quadrants, where basically FX could end up, as we've seen, being very strong or very weak in a particular quarter, right? And so then — so then we have this challenge of the variability to say, "Hey, you're coming in at $70, or are you coming in at $120?" And I think now we have four quadrants, because with a very material part of our business coming from non-FX, all those break-ups between equities and currency — commodities and energies and such, now you end up with all four lining up to be — asset classes to be very strong, so you're in the upper quadrant or all four in an unlikely situation becoming weak. But you end up with two middle quadrants that say some do better, some do worse, so, yes, in theory, if you think of a normal distribution; we ought to have results that get clustered towards a tighter middle.

So I guess what I'm trying to say is it was slightly more binary. As we've seen over longer periods, it normalizes in the mid $90s, but you can have these extremes at $120 or $70, and now, with having a broader asset class, you end up with a higher propensity for those to cluster towards the middle, so, yes, my answer, in general, would be by having different asset class mix, you ought to end up with smoother. That said, it doesn't mean you eradicate the opportunity or situation where all four line up and you end up with higher on the extreme, or all four line up poorly and it would be a lower extreme. Just in theory, your value set should have more values clustered around the middle.

Rich Repetto
Got it. Okay. And then — and then just a little bit of, you know, insight at how it's looking so far quarter to date here, you know, with, you know, a month — a little bit over a month into the quarter? And then also, I just — if you can just comment quickly on that, but then moving on,

GTX, you know, you've given us a lot of information. Could GTX be spun out separately from GAIN?

Glenn Stevens
So — okay, I'll answer both questions. You know, in terms of common carry on the quarter, again, I think we normally just point to the three things that drive our business in almost any product, right? You look towards what your overall levels of volatility are, you look towards the nature of that volatility kind of one way or two ways, what have you, and then the average trading ranges which build in as well. I think that, in general, the products are mixed. We've seen some of the — some of the products behave consistent with Q3, we've seen some of them depart, so I think kind of an overall answer is that — is that, again, the same details that drive — that drive our regular quarterly returns in each asset class, now you just have to pay attention to four asset classes instead of one, I guess, I would say. So we'll come out with our normal stuff, you know, but looking at the VIX, looking at the CVIX, looking at the ATR for all those products, you know, we've seen — we've seen different product classes actually behave a little bit — a little bit different.

In terms of the GTX answer, so our focus is on growing it organically. I think that having our intellectual property in place, having our ability to focus it and move it towards what customers need, being able to compete with what I would argue is a fairly narrow set of providers now — there aren't 50 providers of this product — we're lucky in that we did a lot of the heavy lifting early, with getting our staff registration done, getting a swaps dealer registration done. I mean, there's a lot of hurdles to get over to get that all set up right, and that's all done. That said, to unlock the value there, then I think we've shown to be opportunistic on an M&A front or corp dev front, or whatever you want to talk — however you want to treat it, but — so we certainly are having our consideration set, things that would unlock value for that, but our first order of business is to continue to grow the participant base and the volumes, and, frankly, the breadth of the user base, not just a concentrated set of, let's say, banks or high-frequency guys or what have you.

Rich Repetto
Got it. Okay. That's helpful, and I guess the very last question is on the — on the expenses, I get the $23 million annualized run rate down on fixed expenses, so are you telling us that, you know, we're basically a little bit — maybe halfway or maybe just a tad more than halfway through the cost synergies, or — incrementally, I guess, is the question, how much more do — or what's being backed into that $40 [million] to $45 million? How far are we along?

Nigel Rose
I think there's — as ever, there's a number of moving parts within a — within our fixed cost base, and it's important to note that some of that reduction has been a conscious reduction on the marketing side, which we wouldn't envision continuing next year, so I think, you know, as we've said before, we're on track with our original plans. There are some other moving parts within that, such as the marketing number, which we don't expect to reoccur next year, but we're still very confident of hitting our run rate synergies of $40 [million] to $45 million in the timeline we set out.

Glenn Stevens
Yeah. And I guess I'd add that the original guidance we gave was to kind of get 20 percent in this first year and then 80 percent in the second year, and, by some measurements, we're ahead of that track, but, as Nigel said, in kind of a gross basis, with some items that we wouldn't — we almost would penalize ourselves and not count them towards synergies — we're actually

coming — we're coming in ahead of schedule on a total cost reduction basis, but on the ones that we would internally classify as synergy, we're on track, so I guess in one way — in one way, we're actually, yes, to your point, a higher — a higher savings capture, and in other ways, if we want to have a strict definition of — related to synergies, we're on track. So both of them are positive. It's just that we're actually — we're actually internally holding ourselves to two levels. One of them is to say, "Hey, when it comes to things like marketing spend, we're going to be opportunistic there. When it comes to things like synergy spend, you've got to be ruthless and say, 'Stick to the plan and get on track.'" So in both cases, I think we're actually delivering as promised.

Rich Repetto
Got it. Got it. Okay, very helpful, and thanks.

Glenn Stevens
Thanks, Rich.

Operator
Thank you. And the next question comes from Kyle Voigt with KBW.

Kyle Voigt
Hey, good morning, Glenn, Nigel. Congrats on the quarter. Just so, I guess, starting on referral fees, good progress on bringing that down over time. Is this primarily just from renegotiating contracts, or is there some volume mix that's been benefitting you as well? And then just the second part of that question is, you know, where do you think that this retail referral fees per million metric can get to over the next few years?

Glenn Stevens
So on the first question, the answer is, yes. In terms of renegotiating a series of contracts. We, as I said, inherited hundreds of partnership agreements that we inherited. We had many in place. We inherited a whole slew from GFT, we inherited some from City, and so the — the — the concept was twofold. Number one, try to put a very fair, equitable lens on the existing ones, go back to those partners and say, "Hey, for long-term sustainability, for mutual benefit, we need to revisit these," and we did. And in some cases, that created better terms for GAIN. In other cases, where we just, frankly, came to an impasse and said these deals don't make sense on a net rev capital efficiency basis to GAIN, we terminated the agreements. So they don't — they have a — they have a short-term impact potentially of pulling down topline, and, by the way, this isn't new. This has been happening for over a year, but net-net they're actually a positive. So, yeah, what you're seeing is the combination of renegotiating many existing ones, terminating, let's call them, non-performing, and essentially going into that thing to make sure we're positioned properly going forward. I don't know if you'd add anything, Nigel, on that.

Nigel Rose
Yeah. I think, Kyle, in terms of the second part of that question, where do we see them going, I think, as Glenn says, this has been going — a conscious exercise has been going on for around about a year, so I think we're probably in the position now where we've secured most of those benefits, and we're not likely to see the dollar per million go much below current levels.

Kyle Voigt
Okay. That's really helpful. Thank you. And then just turning to GTX, as a follow-up on that, you know, revenue's up, I think you disclosed 4 percent year on year, so we're still seeing some growth in 2015, but this has been kind of a bit below the historical growth rate that we've seen

over the past few years. So, Glenn, is there anything specific that you can point to for why we're seeing some slower growth this year, and is there a catalyst that you see to kind of reignite this growth going forward?

Glenn Stevens
Okay. So, again, not obvious, but, as we mentioned, our GTX business is comprised of both the ECN, pure ECN, plus agency. And in this case, Nigel alluded to a little bit the ECN numbers, you know, look more promising than the agency business, and, really, that's our focus. The agency business is an opportunistic business for us, where we brought in some teams, they have had some industrywide challenges for products that go through over a SEF, can go through a swap dealer, and, like I said, we're in a good position to capture a good portion of that business, but there hasn't been as much growth there, and on the ECN side, if you break it out, the quarter-over-quarter increase — not — sorry, quarter over — period-over-period is 33 percent higher and year-over-year is 29 percent higher. So if you — if you actually strip out the focus on the platform itself, the growth is quite strong. Overall, it looks a touch muted, and that's because it's a little flatter on the agency side.

Kyle Voigt
Okay. Thanks. And then just the last question from me is just on the client assets. It looks like they're down pretty meaningfully, I think technically around 11 percent quarter on quarter. Can you help us understand what caused the large decrease quarter on quarter? Yeah, that's it.

Glenn Stevens
Some of that — yeah, sure, Kyle. So some of that is going to be built into our exposure to other asset classes. I think in line with what some of the pure equity brokers have, when you see equity markets pull back — and in some cases, obviously, global equity markets pulled back in Q3, you'll just see a mark-to-market portfolio decrease in some cases for customers that can have a long bias. So when we were predominantly FX, you wouldn't see this as often, because it's hard to be long on something, right? You know, you're long dollars, you're long euros, you're long yen, what have you, but there is a natural bias for metals, energies, indices, individual equities — there's a long bias. Yes, some customers will be short, obviously, but there is a long bias there, so when those markets retreat, naturally you're going to get some pullback. So that's part of it. You know, part of it is heavier volatility. Some people often will trim their speculative accounts, but I think it's comprised of several factors, but one of them that's kind of somewhat new to GAIN is having exposure to these other asset classes. When you get a natural pullback in those levels, you have lower — you have lower portfolio values.

Kyle Voigt
Okay. Thank you.

Glenn Stevens
Sure.

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

Patrick O'Shaughnessy
Hey, good morning, guys.

Glenn Stevens
Hey, Patrick.

Patrick O’Shaughnessy
So I appreciate the new slide you guys — or the new chart you guys have on Slide 6 detailing the revenue composition and the OTC segment. And so the question is, you know, it’s kind of striking that in some quarters FX is a relatively small contributor to the total retail revenue pie, and in the third quarter, I think it was about 30 percent of your total OTC retail revenues. So does the notional volume traded metric still make sense, given the current business mix? Is it apples to apples to say notional of FX, notional of indices, notional of commodities, or are we starting to kind of put apples and oranges together with that number?

Glenn Stevens
I think that’s right. I think you, frankly, hit the nail on the head in terms of us trying to convey the focus really being on what our — what our revenue contribution looks like, what our total revenue make-up looks like, and really just, you know, sending out accurate volumes isn’t a great indication, because, back to this concept of the nature of a market, what it trades like, and people are really active in FX or what have you, it’s really how much money could you make from each product across the board, what does the mix look like, right, and so, ironically, we left — we added that new chart, which I think we would argue is more — becoming more important as a piece of communication to say, “Hey, how’s GAIN making their money, and how much money at they making?” And to some degree, we left the old chart in there just so the people who were attached to it didn’t say, “What happened to that RPM thing?” But if you really look at RPM, I don't think it’s nearly indicative or representative of where the company is focused and growing than that chart above is, so, yeah, I guess I would say to you we can’t argue there. And, you know, as market conditions change from quarter to quarter, as opportunity changes from quarter to quarter, that mix is going to move around, which, by the way, that’s why we didn’t just put out Q3. We put, you know, six quarters’ worth so you could get a feel for it, so I don’t know if, Nigel, you want to add —

Nigel Rose
Yeah. No, the only thing I’d add to that, Glenn, is you’re right, a win/win game was very much an FX-focused business. Revenue per million and volume were meaningful metrics, but I think now with the broader products [unintelligible] class, it could get a little muddled, and I think, you know, you only have to look to someone like an IG, who I don’t think report RPM numbers in the same way that GAIN has done historically, to recognize with a broader asset class and a broader mix of business, these numbers may not be as meaningful as they perhaps once were.

Glenn Stevens
And I think that our commentary, you know, as we’ve — as we’ve started to provide on a — on a quarterly basis, you know, the monthly metric attached to the commentary, by design, has to — has to be a little bit more organized towards what our — what our revenue mix looks like, if you will, you know, versus saying, “Hey, here’s the RPM,” because guiding you guys straight to RPM isn’t going to be as helpful.

Patrick O’Shaughnessy
Yeah, I appreciate that. And then with the quarter-over-quarter growth in indices, obviously third quarter was a very big quarter for the indices volumes. Was that anything particular that you guys did, any new initiatives, or was that just a function of equity market volatility was a lot higher in the U.S. and to some extent, elsewhere around the world, and people just thought that was a more attractive asset class to trade?

Glenn Stevens

A combination of the two, for sure. On the one hand, when we spot an opportunity, we'll try to funnel assets. We can be somewhat nimble, not on a super short-term basis, but over a quarter, we can be a little bit more nimble in terms of marketing assets towards pitching towards a specific product. I mean, we're — we're — we're able to — clients will look — clients can trade all those products inside our platform, right, and they'll — and they'll gravitate towards what's interesting. And so whether it's a shiny ball or a spinning top or a market that's moving around, we want to be able to offer all the products out there, and that's the beauty of migrating to the — to the City platform G2. That's the beauty of having your margin be able to apply to any product you need it to. That's the beauty of having the fungibility in your account to say, "Hey, metals are moving, oil's moving, the DAX is moving, the euro's kind of flat right now, I'll get back to that later." You don't have to do anything other than just click on a different box and express your opinion. So, number one, the client is self-selecting based on the market. They go ahead and do it. Number two, marketing doesn't put in a year-long strategy and then take off, right? They — they — they are watching this stuff, and we can orient banners, we can orient search, we can orient different assets to pick up on stuff and say, "Hey, if nothing's going on in a certain product, then back off, and if something looks really exciting, get involved." So I think it's the combination of, first, the catalyst is, is there an opportunity there? Second, do we have the ability for a client to express their opinion by themselves? Third, do we make sure we point the — the — the marketing asset gone towards that opportunity and try to amp it up? I think it's the combination of all three.

Patrick O'Shaughnessy
Yeah. I appreciate that.

Glenn Stevens
Sure.

Patrick O'Shaughnessy
M&A, are there targets out there that are still very much focused on foreign exchange and don't have the diversification of you, so if you look at their third quarter, they were probably in a world of hurt, or are most of the companies that you'd be looking at kind of a relatively similar product mix to GAIN at this point?

Glenn Stevens
So the answer is both. Both, in that regionally, we've seen companies that specifically cater to a certain geo or a certain market segment, will come out and say, "We're just going to do currencies, we're going to be a meta shop, and we're going to be just in the Middle East or just in Japan," or what have you. And so, yes, in some of those cases, they're like we used to be, very singularly exposed to that — to that product. They may not even have that many currency pairs. They may be focused on just the majors, and so they're going to have that natural exposure to even wider spreads of an RPM. The flip side is if you have a company that's developed a wider product set, then, you know, they're going to look like a smaller version of — of — of what we have. And I — and I think that, you know, the breadth that we have in each one of these asset classes, for example, with individual equities or with different DAXes — in different individual equities, I mean, there's over 12,000 products, right, and so you can have the ability to kind of pretty much offer whatever people need. Oftentimes it's not easy to get that many products. Someone may have equities, but they'll have 20 instead of thousands, or if they have indices, they have two, as I said.

So I think the answer to your question is on the smaller ones, look, there's definitely an economy of scale here where you could invest in new technology, you can have the — these products are not that easy to roll out. You have to do everything right to get a new product out to market, and so that kind of curtails some of the ability for some of these guys to offer that. So I think that the ones that are singularly focused on FX could be, you know, on a target list. And, by the way, they could actually be singularly focused on non-FX and in a different type of market could be a target in that respect.

Patrick O'Shaughnessy
Okay. Gotcha. Appreciate it. And then the last one for me quickly on the expenses, we saw an uptick in G&A this quarter. Was there something unusual going on in that line item?

Nigel Rose
Yeah. I mean, there were — as ever, you can have sort of the old one-off that crops up that flashes through your expense base, and that's really what we saw in G&A. If you look at the previous quarters to that, they're all sort of around the $14 million-a-quarter mark, so, you know, we would expect that to continue going forward.

Patrick O'Shaughnessy
All right. Thank you.

Glenn Stevens
Thanks, Patrick.

Operator
Thank you. And, once again, if you would like to ask a question, please press star, then 1 on your touchtone phone. And the next question comes from Jon Segal with Hybridge Capital.

Jon Segal
Hey, guys, how are you?

Glenn Stevens
Hey, Jon, how are you?

Jon Segal
Doing well. Congratulations on what I guess we would characterize as a spectacular set of results. I think that — I guess the key question we have is, as a business, as you continue to execute well and the business continues to perform, you're not seeing that translate into the pricing of your securities. And so as we sit here today, we see a business that's trading at between two and three times EBITDA, four times cash EPS, and I think if you value the GTX business based on where comps were trading, you know, you'd basically be getting the retail business for one times cash flow. So as you're building this big cash balance, how should we think about what you can do to better demonstrate to the market the earrings capability of the franchise?

Glenn Stevens
I don't think we're legally allowed to bang people over the head, so that's off the table. I would — so —

Jon Segal
We're trying to figure out if we're missing something, frankly, because it seems —

Glenn Stevens

So, no, no, and that's — and that's a fair question. A couple of things. Number one, we have to build consistency, right? There's — one of the reasons why we've moved towards a more — a greater transparency is to actually have people understand how we make money, where we make money, and what the expectation's to be. So I think if you look over time, in the last year particularly, we've added more descriptive and specific commentary every quarter with our metrics release. Every single quarterly report, we've added deeper transparency. We never go backwards, we always go deeper.

We do need to unlock some of our value on the GTX platform. I think that's been a below-the-radar asset inside of GAIN, and, as you said, in the last six to nine months, there's been some comps that we can clearly point to and say, "Well, [unintelligible], don't believe us. Believe somebody else." The other thing that's taken us some time, but I would argue in an effective mashion [sic] — fashion is to broaden our product mix. You know, the reliance on FX is a good one when it's good, and it's a challenging one when it's challenging, and we're trying to reduce that. The other thing is to grab synergy. You — when we announced the deal, call it nine months ago, I guess, even a year ago at this point, almost, we said, "Here's the synergies," and maybe that's less believable than, "No, no, here are the synergies we already captured versus here's the synergies we're going to capture." So maybe a part of this, Jon, is a show-me situation. To be fair, there has been some challenging environmental, I would call them, exogenous shocks that we couldn't control. We've seen some peers run into some pretty serious hurt. We've — we've — we've seen companies, public and private, run afoul of risk management and what have you, and some of that, you get caught with a broad brush no matter what you do.

And so part of this is going to be time. I truly believe that part of this is going to be time, and I think — and I think building our investor base, building our share value every day in terms of how much is trading and — and — and the value of what gets turned over brings in also participants that may be wary, and you have to — if I say it — if I can — wear down the wariness, and that comes with results, that comes with executing, and that comes with delivering, and so, you know, I can't guarantee — and sit here and guarantee that we're going to have rock star quarters, you know, one after another. The point is that the body of work needs to continue to build and show value, and then I think if you look — you said it, if you look at GAIN and you look at the multiples and you look at how we're valued, I think there's a fairly obvious story that people will comfortably have to grow into.

Jon Segal
No, that's helpful. That's very helpful. Thank you.

Glenn Stevens
You got it.

Operator
Thank you. And the next question comes from Zach Arrick with Senvest. Please go ahead Mr. Arrick. Your line is live.

Brian
Hi, Glenn. Sorry, it's Brian, actually.

Glenn Stevens
Hi, Brian.

Brian
Could you quantify of the $40 [million] to $45 million of the cost savings out of the City Index deal, how much of that you've actually saved in the quarter?

Glenn Stevens
So I guess the way that we've calculated to date, there's a couple of things there. How much we've saved in the quarter? Keep in mind that, as I said, the guidance we put out, which we're totally on track with, was to say, call it, $45 [million], call it 20 percent, is what we said we'd save in the first year. That would be 9 million bucks for the first nine months, right, and then the balance for all of '16, which means — excuse me — by the time you get to the end of '16, your run rate — you know, your run rate savings at that point modeling forward, is $45 [million]. In terms of capturing it, the only part about, you know, which quarter it gets captured in, when you do comp and ben, when you do retirement of a platform, when you do service contracts that get cut out, there's some phase-out there. There's severance, there's all that. So I think what we've said is, "Hey, since we closed on City April 1, we have nine — almost nine months year to date. We're north of nine million bucks in the till." I mean, it's actually north of that on a run rate basis, but I will say this, when we book a savings, if we — let's say we've terminated X amount of staff, right, there is — there is no more obligation to them, but that would include, let's say, paying a retention through December, or if a service contract is now — or a lease is terminated, it doesn't mean you don't have to pay for it through November, and then it's terminated.

So I think from an accounting perspective, and I don't know if Nigel wants to correct me on any of this, but the booking of it is that we have a combination of cost savings. One of them is just opportunistic cost savings, which we mentioned on the marketing side and things like that, which may or may not be recurring. The synergy stuff is recurring. That's a new model basis, and for up to this point, we realized north of $9 million of recurring savings. In terms of a book number, like in the till. I don't know if I have that — have that accurate number. I don't know. Nigel, would you add anything to that? Oh, sorry, Bri.

Brian
I guess what I'm trying to understand is if we did $30 million of EBITDA in the quarter, right, and quarterly savings are ultimately going to be, round numbers, $11 million out of the deal, have we achieved, say, $2 million of that in the quarter so that I have another $9 million of EBITDA that I could effectively add to the $30 [million] we just did? So I'm just kind of trying to do a proforma, if you will, for all the cost saves.

Glenn Stevens
Yeah. No, that's fair. So if you're working backwards, you know, yes, at 11 million bucks a quarter, when we reach our synergy — full synergy capture is accurate. So let's just say [unintelligible], if you're at — if you're at, let's call it, two bucks, you're at $28 now, you should — you should be modeling at that point $39, right, $28 plus $11, Q1 of '17. I mean —

Brian
Okay

Glenn Stevens
I mean, carrying your logic — carrying your logic there.

Brian
Okay. That's basically what I'm trying to get to, is sort of like a proforma as if all those deal costs were achieved today, given the — you know, all things being equal, we have another —you

know, today, this Q3 is sort of sustainable, we'd be looking at close to $40 million of EBITDA in a quarter, and that's $160 million annualized.

Nigel Rose
So, yeah. I mean, just looking at the table in Slide 9 maybe to help — was — if you look at the fixed costs, $59.4 million this quarter against $63 million in Q1, which is probably a — you know, the starting point, because we hadn't really begun executing on any of the synergies, because it predated the completion of the deal. So that's a reduction of $3.6 million between Q1 and Q3, and I mentioned before, of which $1.6 million is marketing, so if you strip that out, then it's a $2 million reduction —

Glenn Stevens
That's about where he's at.

Nigel Rose
Yeah. So a $2 million reduction.

Brian
Okay.

Nigel Rose
If you're looking at $11 [million] at the end game, $2 [million] and $11 [million] is about 18 percent.

Glenn Stevens
Right.

Brian
Okay. Great. That's very helpful. Thanks and a great quarter, guys.

Glenn Stevens
Thanks, Brian.

Operator
Thank you. And I'm showing no further questions at this time. I'd like to turn the conference back over to Mr. Guido for any closing remarks.

CONCLUSION

Andrew Guido
Thank you, everyone, for participating today. Just a reminder that this call will be available for replay on our website and via telephone. We will also be posting a transcript of the call on the website when it becomes available. Thanks again for your time.

Operator
Ladies and gentlemen, that concludes today's presentation. We do thank everyone for your participation. You may now disconnect.