GAIN Capital Holdings, Inc.

Second Quarter and First Half 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Glenn Stevens - *Chief Executive Officer*

Nigel Rose - *Chief Financial Officer*

Andrew Guido - *Head of Investor Relations*

PRESENTATION

Operator
Good afternoon everyone and welcome to the GAIN Capital Second Quarter and First Half 2016 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 afternoon and thank you to everyone for joining us to our second quarter and first half 2016 earnings call. Speaking today will be GAIN Capital CEO, Glenn Stevens and CFO, Nigel Rose. Following this, we will open the call for 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, changes in regulation, operating performance and financial performance are based on management's views as of today and it is anticipated that future developments may cause these views to change.

Please consider the information presented in the slide. The company may at some point elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so.

I'd now like to turn the call over to Glenn.

Glenn Stevens
Thank you, Andrew and thanks for joining everyone. Some of the highlights are as follows. Our results today as posted demonstrate the benefits of GAIN's strategy to diversify across products, geographies, and customer segments. We have continued to execute our strategy over the past few years, through both organic initiatives and strategic M&A. We are also clearly demonstrating margin improvement, resulting from expense management including partner optimization and synergy capture.

Our successful handling of customer trading follow the EU referendum and ultimate Brexit event; highlights GAIN's ability to navigate major market events. We have demonstrated our disciplined and thoughtful approach to risk management doing both unexpected events, like the Swiss National Bank of last year and most recently Brexit.

Our retail segment has delivered solid revenue and segment profit through quality trading volume. And our futures and institutional segments are providing meaningful contribution to GAIN with over 20% of total revenue.

Specifically, in the second quarter the operating results are as follows. Net revenue of $108.3 million, net income of $10.8 million, adjusted net income of $13.1 million and adjusted EBITDA of $27.6 million.

For some key operating metrics, our average daily trading volume on the retail side was nearly $11 billion. On our institutional, similar number, $11 billion. Our average daily futures contracts was roughly $35,000.

For the first half of 2016, our operating results had net revenue of $223.8 million, net income of $19.2 million, adjusted net income of $29.9 million, and adjusted EBITDA of $59.4 million.

For operating metrics, our average daily trading volume on the retail was $12.2 billion with our institutional daily volume of $11.1 billion. And average daily futures contracts of over $36,000 and customer assets of $1.1 billion.

With that, I'll turn it over to Nigel for some more specific detail.

Nigel Rose
Thanks, Glenn. Turning to slide six, we set out the results of our retail segment. The quarter saw revenues just shy of $90 million, reflecting a 2% increase over the prior year whilst for the first half revenues improved 16% to $186 million.

Profit for the quarter was $31.5 million, equivalent to a margin of 35%. This represents a notable 252% improvement over the prior year's $12.5 million offers similar revenue figure as margins more than doubled to 35%. For the six-month period, retail profit was almost $68 million, close to double the prior years and margins in line with the second quarter at 36%.

As a result, for the trailing 12 months the retail segment has achieved profits of nearly $127 million, highlighting the quality and consistency of performance across the period with a margin of 34% being in line with both the quarter and half year.

Our synergy and partnership optimization initiatives focusing on quality of earnings have maintained the progress of recent quarters. In terms of expense management, we remain on track for our targeted $45 million of synergies, having achieved an annualized run rate of $40 million by the end of the quarter, and we will discuss this in more detail later in the presentation.

Referral fees for the half year was $30 million, a reduction of 38% over prior year, and the referral fee per million for the six months averaging $43, reflecting a 21% improvement over the same period last year and in line with our expectations following the partner optimization initiative.

In summary, the results for the retail segment in the second quarter substantiates the success of the focus on quality evidenced by the significant improvement in revenue capture year-over-year to $124.00 and 23% decline in operating costs.

Whilst there remains some discussion of our volumes externally, we can confidently justify our deliberate decision to turn away lower quality volume during 2015 through the substantial improvement and resulting profitability year-over-year.

Moving to slide seven, as discussed on the previous earnings call, diversification has been a core part of GAIN's strategy, seeking to reduce reliance upon any one asset class or product. The pie chart in the top left corner shows the mix of retail revenue by asset class for the 12 months to June 2016. During this period FX accounted for 45% of total revenues, which from a diversification perspective compares favorably to the 53% of revenue generated in the previous 12 months.

The contribution from indices and equities combined accounted for 35% of revenues compared to 25% in the proceeding 12 months. The chart in the top right corner evidences the focus on quality of earnings, as well as the benefits of diversification. We saw our fourth consecutive quarter where revenue capture was at or above the $100 mark, reaching $124 in the second quarter itself. This has pushed the trailing 12-month average up to $106.

FX saw a strong quarter driven in part by the EU referendum both in the run-up and after the Brexit event itself. In terms of the referendum, the company put a significant amount of focus, effort and resources on managing the risks under a variety of potential scenarios. Heightened volatility around the referendum was anticipated and proactive steps were taken to protect both clients and the firm including increasing margin requirements ahead of time in anticipation of significant market moves on the day.

As Glenn mentioned, Brexit was further evidence of another significant market event that the company successfully navigated to go with last year's SMB event, highlighting that risk management is one of our core competencies. The key takeaway for our retail segment is that this quarter continues to demonstrate the ability to generate segmental profit and cash flow in a variety of market conditions.

Turning to our institutional business on slide eight, the second quarter saw revenues of $7.5 million with profit of $1.4 million. For the half year, revenues are up to $14.6 million with profits of almost $3 million equivalent to a margin of 20%. As a result, revenues over the trailing 12 months of $30.6 million and profit of $7.3 million with a resulting margin of 24%.

ECN volumes remain on the growth trajectory with both the quarter and half year reflecting a 5% improvement over the equivalent periods last year. This at a time when most of our major competitors continue to see year-on-year declines. ECN average daily volume for the half year of $8.2 billion represents an 11% improvement over the average of the last 12 months.

The swap dealer business remains stable with ADV of $2.9 billion for the quarter being consistent with Q2…Q1 2015…Q2 2015, the current half year as well as the trailing 12 months.

Focus continues on extending both the product offering and geographic reach. We are looking to extend products through both ECN and Swap Dealer offerings, and we're successful in securing [indiscernible] license during the second quarter. In addition, we continue to expand our product reach through strategic partnerships. The key takeaway for our institutional business remains the traction being gained with banks, hedge funds, and other professional investors.

On slide nine, we turn to the financial performance of our futures' segment. Revenues for the quarter were a record of almost $13 million, an 18% increase over prior year. Profit was $1.8 million, a significant 80% improvement over prior year, resulting in a margin of 14% compared to last year's 9%.

For the half year, revenues of around 12% to $25.1 million with profits improving 23% to $2.7 million, equivalent to a margin of 11%. As a result, the trailing 12 months revenues have increased almost $50 million with profit of $4.4 million generating a margin of 9%.

Client engagement continues to grow on several fronts. Client assets have grown 80% to almost $420 million following the successful on-boarding of several significant clients during the quarter.

Within the core business itself, active clients have almost reached the 9,000 mark. Average daily contracts are running in excess of 34,000 with the half-year average reflecting a 4% increase over the trailing 12 months. Revenue for contract continues to improve up 10% over the prior year to $5.80 with a half year 12% higher at $5.51. The key takeaway for the segment is that it remains a meaningful contributor to revenues achieving margin improvements as we focus on client acquisition through the direct channel.

Slide ten, sets out our operating expenses. The quarter saw expenses of $80.7 million in total, down 4% on Q1 and over $17 million or 18% lower than the same quarter last year. We continue to demonstrate execution on our cost reduction plan, driven by the City index synergies, partner optimization, and overall expense management.

Fixed operating costs of $54.6 million represent a 7% drop over the same quarter last year and are down slightly on the first quarter of this year. In terms of synergies, it is worth noting that not all of our cost base was part of nor relevant to the synergy strategy. Reiterating the approach we have taken in this area following the City acquisition, our anchor point was the trailing 12 months of September 2014, the period immediately proceeding the announcement of the acquisition.

At that time, the annual combined operating cost of both companies was $400 million with just under half of those costs being relevant to our synergy plan. Institutional and futures costs were clearly not included, there being no overlap with City's operations. However, even within retail there were certain costs that were excluded, such as marketing, where we set the strategic objective of maintaining spend at the combined historic run-rate.

Finally, non-staff related variable costs within retail were also excluded, such as referral fees, which were subject to a separate non-integration related optimization plan. Removing those costs from the $400 million arrives at a figure of $190 million or $47.5 million per quarter. This is where we sought to derive the $45 million of annual synergies from.

In identifying the comparative Q2 costs starting with a total operating costs of $80.7 million, this becomes $39.5 million in removing institutional futures, retail marketing, and non-staff variable costs. That equates to the synergy saving of $8 million per quarter when compared to the $47.5 million starting point I mentioned earlier.

As mentioned at the time, our annual run rate savings at the end of Q1 was $36 million, which have increased to $40 million by the end of Q2 equivalent to $10 million per quarter.

Clearly the additional $4 million of annual synergies secured during the second quarter were not all not all [indiscernible] at the start of the quarter, but occurred evenly throughout the period. Hence, on average, Q2 itself only benefited from roughly half of the additional $4 million synergy savings. Therefore, adding in the remaining $2 million benefit arrives at the full quarter run-rate saving of $10 million or $40 million on an annualized basis.

Turning to slide 11, consistent with our last earnings release, we were also reporting our operating metrics for July. Turning to the retail OTC volumes in the top left corner, Q1 saw the final migrations from the legacy GFT trading platform and associated partner terminations, which is followed by a volatile April. Since then retail ADV has stabilized over the past three months at around $10 billion to $10.5 billion mark. Whilst this is below the same period last year, as we discussed earlier in the presentation, we have seen significant improvement in revenue capture year-over-year coupled with a material decline in referral fees per million. As a result, we believe we have achieved that base level of quality volume from which we will look to grow going forward as we begin to increase our marketing spend back to historic levels.

Moving to the bottom left chart, this shows ECN monthly average daily volumes. The volatility caused by the EU referendum saw this metric spike in June, so it's not surprising to see that July was lower. This has been consistent with those of our competitors that have announced so far this month. That said, with the exception of the unusual volatility seen in June as well as January, ECN volumes continued to exhibit an underlying upward trajectory over the period covered by this chart.

Moving to slide 12, this sets out an update on our return of capital. During the first half we have been active returning $12 million to investments…to investors, through buybacks, both equity and convertibles, together with dividends. During the second quarter itself as part of Brexit preparation planning, we scaled back our activities purchasing almost 276,000 shares representing just over a third of the activity in the half.

In terms of dividends, we announced a $0.05 per share quarterly dividend, which will be paid on September 30 for those on record as of September 13.

I'll now hand it back to Glenn to conclude today's presentation.

Glenn Stevens
Thanks Nigel. In closing and looking to the future, both Q2 of ‘16 and the first half of this year demonstrate the financial strength and operating leverage of GAIN's business. This is our fourth consecutive quarter of adjusted EBITDA over $20 million. Our trailing 12-month results show revenue of $452 million, net income of over $31 million, and adjusted EBITDA of over $110 million.

Looking forward, we are targeting margin improvement in the second half of ’16, as we continue to focus on expense management. Part of this strategy is to focus on growth and new customers, new assets, new products with an eye on continuing our emphasis on growing high-quality volume.

Both in the management of the January 15 Swiss National Bank Event and the more recent June EU referendum Brexit, highlight GAIN's risk management as a core competency. Our leadership in risk management was in evidence again during the Brexit event. We saw nearly double our normal volume of retail and institutional trade around that period with a nearly 50% spike in our previous highest number of concurrent users on our system.

Both of those are just examples of our ability to stress test and our ability to anticipate some of these events that are expected, and some that are not expected. Also, as a result of GAIN's cost reduction, and ability to generate significant net income and EBITDA, we expect to drive significant shareholder value, ultimately combining our demonstrated strength in cost control, risk management, and our focus on margin expansion with new customer growth. We are expecting a bright future. And at this point we are happy to turn it over to the moderator for Q&A.

QUESTIONS AND ANSWERS

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

And our first question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

Rich Repetto
Yes, good afternoon Glenn. Good afternoon Nigel.

Glenn Stevens
Hi Rich.

Rich Repetto
Hi, Glenn. The first question is on the…you know your reference to high quality volume and your overall retail revenues were a little bit better than we anticipated, but the difference being the volume was down, but the revenue capture was up. I mean, could you get into more detail on what you mean by high-quality volume, what are you accepting less of, what are you looking to get more of, and can you maintain this? What's the new band on this retail revenue capture?

Glenn Stevens
So stopping short of saying we've established a new band on revenue capture. I think it's a combination of factors, one of them, as we've been trying to telegraph or put out for the last couple of quarters, is orienting our indirect business on the partnered basis and say, hey we need to manage our payment per…what's the stat Nigel…

Nigel Rose
Referral fee per million.

Glenn Stevens
Referral fee per million, right? And so the idea is to look at those deals that we had from legacy GST, from legacy City what have you. And I think, ultimately once you create some critical mass or achieve some scale you are able to be more selective, and you are able to identify certain deals that make sense and some that don't. And so on the one hand one of the biggest drivers for that quality, if you will, is that referral fee per million but managed in a holistic perspective to say, let's pay attention to it.

The other one is expanding the product mix, looking to CFTs, looking to indices, looking to equity-rated products, those all have generally higher P&L per million over time. And so, again, can we say; hey Rich, change the band. Not necessarily, because as we know there is variability built into all of these products. However, historically products in conjunction with FX over a long period of time will outperform that. So as Nigel highlighted earlier in the discussion, it's an opportunity to be able to take a look at it and say, hey, when some products like FX are slow and customers can step up and be active in these other products or vice versa. And then also the diversification paying off to say, let's take a look at these different assets, let's take a look at these different drivers.

So I want to stop short of just saying here is our new range, but I think in conjunction and kind of consistent with what we've been saying, is to say, look, organic initiatives, strategic M&A, they are all designed around different geographies, different customer segments, and different products, if you will, to help drive this. We even see that within our futures' business, we see that to some degree within our institutional business creating a mix, for example, an institutional that many of our peers don't have. We don't just go after hedge funds, HFT's, and banks. We are able to fold in other types of users that might want to be able to access ECN direct market access and they'll generally be a higher revenue per trade, you know, kind of scenario. So I guess the guidance, if I will give you, is that we were expecting, hoping, and gearing up towards trying to build a stronger yield per volume done. So the general volume for volume sake is not an internal mantra for us. It's supposed to be growing value and growing margin.

Rich Repetto
Okay, I guess I interpret that, at least a tilt upward on the revenue per million, I guess.

Glenn Stevens
Rich, over time, yes. The caveat is to say tomorrow morning for an hour as you know that this business…I can't say, yes. Every quarter going forward you should model in a 15% increase. What I can say is that over time by design we are supposed to be trying to improve that. And look, we've showed by pulling back the lens], we've shown the consistency to be there over longer periods. We go back a year, two, three, it's been pretty consistent. Does it have an upward tilt recently? Yes. And have we changed our business a little bit over the last year or two? Yes. So, let's hope we can have more of the same.

But, again, as we both know, you can get into the same time the [indiscernible] gets quiet the regular [indiscernible] gets quiet, and then unless oil or metals are moving what are customers supposed to do? I don't want to sit here with you are saying to me, I'm not saying you would, hey, where is that higher RPM we counted on? Because in short period that's where some of the volatility is, but it's the overall trends we try to focus on.

Rich Repetto
Understood, okay.

Glenn Stevens
Okay.

Rich Repetto
And then the follow-up question would be on the…I guess balancing your comments, Nigel, on marketing spend, I'm not sure what you meant you'd…I thought I heard something about increasing [indiscernible] spend to target the higher quality volume, but at the same time the expense management…the expansion of margin in the second half and, of course, I guess the remaining synergy realization. So just trying to get a little bit more clarification there on what you mean on the expense side.

Nigel Rose
So in terms of the marketing comment Rich, it's very…I mentioned early on the synergy discussion, our intention was to maintain marketing levels in the long-term, the combination of both the City and GAIN pre-acquisition levels. For a variety of reasons we haven't done that and that's been a conscious decision, but we feel we are kind of reaching the point now where we can start to increase the spend back towards those levels because we've done a lot of work

to get us to a better place to better reap the rewards of that increased spend and flying back to the quality comment as well, if that answers the question.

Glenn Stevens
Yes, and I guess Richard a little bit if I may add is to have our cake and eat it too, we are hoping to continue tight focus on cost control and increase marketing because our cost marketing is a big a component, but there are a lot of other costs too. And so, what we are hoping is we can keep a close eye on general cost levels but also, as Nigel said, ramp marketing spend because it makes sense. Not to mention, you can't always be incredibly dynamic with your marketing resource allocation when it comes to daily, weekly, or hourly. But when you look at opportunities in the market and you say hey, are we going to generally have higher levels of volatility and FX or are we going to have certain geographic regions where we are making strides? We do want to bring that up.

There's certainly a linkage between marketing spend and results, and you just have to balance it right. And by the way, when you get a market event like Brexit, you know, you want to be on the front of mind of customers because it's not just Brexit that happens, what it does is, it raises the kind of notability in somebody's head anyway and says: I want to have one of those accounts. So you want to be there when they are looking for you after Brexit.

Rich Repetto
Okay, in a general, you know, if market conditions didn't change dramatically, can you sort of quantify what type of increase you'd make in marketing?

Nigel Rose
Yes, I mean it's…we are not talking sort of huge increases, but it has been running, you know, below where we had historic spend. So maybe sort of 5%, possibly 10% on sort of historic run rates, which as I say, were lower than where we were prior to the City deal for various reasons.

Rich Repetto
Got it. Okay, thank you very much, very helpful.

Glenn Stevens
Okay, great.

Operator
Our next question comes from Kyle Voigt of KBW, please go ahead.

Kyle Voigt
Hey good afternoon, thanks for taking my question.

Glenn Stevens
Hi Kyle.

Kyle Voigt
I guess, I just have one on the core retail volumes. Obviously, it's been a challenging operating environment for industry wide FX volumes, but still just looking at your average daily volumes in the second quarter. I think they were down, somewhere around 39% year-over-year versus the second quarter of last year. I know a lot of that is related to terminating those underperforming partners, but it's still a significant number…numbers, just kind of optically looking at it at first glance. And I guess looking at July, I think it was your lowest monthly ADV since mid 2014. I

guess, I am just wondering if you expect volumes to stabilize, and then grow from here, and then if so, if you could just tell us why you expect that. Thank you.

Glenn Stevens
So maybe I'll take a crack and then Nigel can fill in the holes. He eluded…both of us eluded to some of the quality aspects of volume going forward and Nigel got into a little bit more detail. But I would argue Kyle, you answered your question a little bit in that much of that 39% is by design. And what I mean by that is, a lot of the legacy businesses that we inherited as we did the strategic M&A over a couple of years was right to be cold], and we went ahead and did that but in a methodic and kind of measured way. It didn't happen…when you want to capture synergy costs you have to be a little bit more ruthless, because you want to say, look, there is no reason to have two offices in Singapore and two offices in Sydney, hack them up get them together and get going. You might ruffle a few feathers and burst a few bubbles but you've got to go do it.

When it comes to some of these volume relationships, you want to be a little bit more measured in your scrutiny and say, wait, is there another way to reformulate this, there is another way to attach it, does it really not make sense? And what part of our justification I would argue is the margin and the EBITDA coming out in the other end. So you are right, if our volumes are down, but if you look at our margin and you look at our EBITDA production, you would have to some degree, say yes, it's helpful that our RPM capture went up, but that's also a function of some of the volume that we addressed, and if you look at our revenue, sorry referral per million, I can't get that metric straight…referral per million number being managed down materially over time that's also an output.

So I say that, look, we…to answer your other question, yes, Nigel mentioned we believe that we've reached a bit of a stability point, which is illustrated by the last few months on the chart…in the operating metrics charts, and that's part of our growth initiative going forward is to build volume with an eye on quality and say, let's go.

So I think that number one, yes, we have high expectations going forward, and I think also I think that we want to be able to say, look, increase the marketing spend so that will help. You know, continue diversification of our products and our customer segments and also this time be a little bit more selective and say, hey, let's add the volume where it makes sense. Nigel, I don't know if you want to add anything?

Nigel Rose
Yes, I think that's absolutely right Glenn, and in terms of the marketing point, it's targeted specific marketing as opposed to just let’s say increased marketing spend. Where it makes sense to do so in places where we believe we will get a good return for it, and as Glenn touched on earlier, to the extent things are going on in the market so people have an interest in, then that's a good opportunity to ramp up spend during those periods.

Glenn Stevens
And by the way Kyle, we are not allergic to more volume, we actually encourage it, want it, and are hoping to get to higher levels by design. Not hoping I shouldn't say, planning on it and executing towards it. We just took an opportunity to tune things up from an efficiency standpoint.

Kyle Voigt
Okay, understood. Just a couple of housekeeping questions, maybe for Nigel, just on the remaining expense synergies, where exactly should we look to see those come through the…what expense line really should they come through?

Nigel Rose
Yes, I mean we've still got two trading platforms, so we are still looking to combine that into one. So they'll be features of that final integration that will drive costs out. There will be some to do with technology IT, small amounts, trading costs a little bit in G&A and some more to look at under the staff area as well.

Kyle Voigt
Okay, and then lastly from me, it's just customer cash was up 20% quarter-on-quarter, just wondering if you could explain what that was related to? Thanks.

Operator
Once again, if you have a question, please press "*" and then "1".

Glenn Stevens
Kyle, do we still have you on the line there?

Kyle Voigt
Yes, did you hear that last question or no?

Glenn Stevens
Yes. You asked about the customer cash being up, so you are including the futures customer cash in there as well, that's total customer cash, right?

Kyle Voigt
Yes, the $1.06 billion, yes.

Glenn Stevens
Yes, we had a couple of…there was a…there's been some recent traction on the futures' side with attracting some larger customers bringing in assets, and so that's kudos to those guys and kind of several months of work towards bringing in some relationships that often the bigger ones take longer to develop. So there's about a $200 million increase on that side. That explains the bulk of the increase.

Kyle Voigt
Okay, thank you.

Glenn Stevens
Sure.

Nigel Rose
Yes, just to add to that Kyle, on the retail side you look at the client assets there and not surprisingly for the same reason volume is down, they are down, but actually where we are looking at volumes bottoming out, what we are seeing in client assets, if you look to that Q1 2016 number, you will see an increase through into Q2. So we are starting to see some lead indicators that would suggest we will be expecting to see increased volumes in future months.

Operator
Our next question comes from Patrick O'Shaughnessy of Raymond James, please go ahead.

Patrick O'Shaughnessy
Hi, good afternoon guys.

Glenn Stevens
Hi, Patrick.

Patrick O'Shaughnessy
So just to follow-up on that question on the big increase in your futures' assets; would you expect that ultimately the trading activity in your futures' segment increases commensurate with an increase in assets or are these maybe some clients that a lot of assets are maybe not going to trade with the frequency as the existing client base?

Glenn Stevens
On the future side. So the reality is that those…the answer is: it depends. And I say it depends because the assets are sizable, but these are customers that use futures as part of the hedging strategy, so part of it is going to be driven by their needs with other products that they are investing, that are listed equity related and things like that. So they are not as much in the pure speculation mode that people come in straight into futures. They are asset-manager type customers, companies, and so that's…that will work in as kind of result. What I am getting at is, it's not as predictable to say: hey bring in new direct individual customers that you can kind of almost linear, have a linear, relationship to the trading volume. This one would sit outside that linear relationship and say we brought this asset in, that will translate into a 30% increase in that.

That doesn't mean that it shouldn't be a tailwind for our futures volumes and revenue, but it's not as linear if you just wanted to extrapolate and say if I brought in that many assets…because it's not number of customers, its amount of assets.

Patrick O'Shaughnessy
Got it, okay. And then, to follow-up on the question on trading volumes, and so not just specifically looking at you guys, I should specify on foreign exchange volumes or OTC, but, you know, you look at what FX kind of reported in Saxo, and everybody was kind of flat to down sequentially in the second quarter, and you look at institutional platforms and those were down sequentially in the second quarter. And you look at the landscaping and say: oh CVIX was actually up a little bit and obviously we had the Brexit event. So what do you think is out there that was kind of maybe restraining currency traders in the second quarter?

Glenn Stevens
So one of them is that I don't believe there was a pundit alive that didn't say you should be sitting on your hands pre Brexit. So there was so much uncertainty and so much kind of guestimates and it's being done about what the fallout could or could not be that in multiple products. So it's not just FX, but in other products as well. You had everybody who could…and had a listener or a following, say: just ride this one out. And so, that wasn't just an hour a day or 24 hours before Brexit, it was kind of leading up to it. So that's one piece, I think, that had a bit of a dampening effect. And then also for the quarter, May was a bit lackluster actually on the CVIX perspective, and even just on markets in general moving. So I think that if you combine

kind of May doldrums with some June advice that said sit on your hands, that probably across the board dampened activity levels across the board.

Patrick O'Shaughnessy
Okay, got it. That's helpful. Kind of a question about the general competitive landscape institutional ECNs. Obviously I think you guys have seen some nice traction, Fastmatch looks like it's done pretty well, and then you have kind of the big incumbents and maybe struggle a little bit, maybe a hot spot out there. What is the general environment like in terms of going after these customers and what are the implications for pricing?

Glenn Stevens
So obviously there was a bit of a price war going on with the back unit strategizing towards a land grab and also Fastmatch. And at least on Fastmatches perhaps they…to be fair, they definitely showed some traction, but on a relative basis they are only getting back some of the volumes that they lost after SNB, where they got literally gutted with their association and things like that. And so, I think part of the Fastmatch traction is just getting back to where they were Q1 of 2015, and that would be the only one actually that outperformed in terms of volume up.

So, for us, look, the…I think that the challenges on the bank side is they are still sorting out what the best place is to be in source, outsource, I mean, you look at virtues [ph] new deal or things like that, I think banks are still deciding how engaged, how involved and to what level they want to be. That's only one component of customer for us. It's not going to be an easy slog in the respect that there is all of this market share for all of us to grab. But I do think we are starting to see a narrowing or a winnowing of the providers and certainly don't see any new ones on the horizon.

And so, probably a bit of jockeying about, and I would argue that I like our prospects because, you know regulatory restrictions on banks is challenge as well. But we are one of the few that aren't just focused on banks. I'm going to go out on a limb here and say: we are clearly the most flexible provider of this product, because of parent gains association. We are able to offer anything from prime to prime, to voice agency to our SEF regulated, our Swap Dealer regulated, a lot of those kinds of things, whereas some of the other providers are much more narrowly focused and more singularly focused on the guys like the banks and the HFTs. So I guess on a regular…on a relative basis, I like our prospects.

Patrick O'Shaughnessy
Got it. And then, I guess the last one for me kind of on a similar vein, so that’s and hotspot have talked about launching trading in outright forwards. Is that something that's potentially interesting to you as well or is that just a tough nut to crack?

Glenn Stevens
No, that's a good question, Patrick. And it's actually beyond beta testing for us. We've actually already printed forward trading in our SEF. We got our full registration in June. So first part of June we got the full registration there. And we were able to launch printed trade in the forward side. So that's a ramp opportunity for us and why? Because I think it's going back to that plus FX options or these kind of holistic approach. So when you go into someone and you say…you don't just have to do this with us. I think that's where it belongs. I think that the forward market is super lucrative, high margin, and a growth opportunity by itself? No. But do I think it should be part of our full group and back to this idea of diversifying products and things? Why not? And the truth is, if interest rates are going to move around, Bank of England just surprised people earlier today, then forwards are going to move and people are going to have to do

something about it. So I think if you were launching a business, I wouldn't. If you were singularly going after that market, I wouldn't recommend it. But as part of augmenting an existing service like we are, yes, and we are there.

Patrick O'Shaughnessy
Got it. That's very helpful. Thank you.

Glenn Stevens
Okay.

Operator
Our next question comes from Dan Fannon of Jefferies. Please go ahead.

Dan Fannon
Thanks. I guess just with you guys getting close to realizing the synergies here and just thinking about M&A again. Or is there an environment where you could see yourself being active here over the next kind of 6 to 12 months or is it still more internal focus on some of the things that you are talking about with regards to customer, focusing on the right customers, and some of the futures opportunities and other organic initiatives you have?

Glenn Stevens
I don't know, Dan. I think it's kind of an across the board. I don't know if it's any one of those singular ones. I mean, I don't know, Nigel, if you have a different viewpoint on that one. But I think ultimately, it's…we want to be opportunistic, right? And so, if we look at the products, and we look at the ability to extend our offering or kind of leverage what we have already, that's when we want to step up. I've mentioned in the past that if we are being…you are able to be…you shift from strategic-driven in some cases and to being opportunistic when you already have established a foundation or a base, right? So when we first got into futures, I'll use this example, we said we want to get into futures, so it was strategic driven. Then we said, let's go ahead and take care of that. So the other thing, I guess in a product extension mode is our payments business, it's nascent for us right now, but we've actually gone into beta and we've actually tested with actual trades and we have our licenses done, the website is up, and we will be making more of an official launch in the very near future. But, there's a product that, is it anything material that Nigel is going to tell? No, but it hopes to be, and part of that product extension might be something that includes strategic M&A or opportunistic M&A and also an organic effort because we already have dedicated staff internally and proper licenses. So that's probably a good example of us kind of creating a little echo system and leveraging it that way.

Now to mention, you might guess, we get a fair amount of traffic when you own the websites, forex.com and foreignexchange.com, if you are in the FX remittance business. So that's why we have to have a team always focused on M&A, and they'll remit changes regularly as we kind of throw things into their office and say, okay guys, here's what we are working on commercially, go find something that makes sense.

Dan Fannon
Okay. And then, Nigel, I guess, just as the corporate cash went down about $100 million quarter-over-quarter. Can you talk to that please?

Nigel Rose
Yes. I think when you look at cash…looking at the cash number itself can be misleading because, there is a number of factors within that broker cash, client cash et cetera. So I think

when you look at…I think there's a slide in the appendices which looks to their liquidity. You'll see on slide 17, we've got $179.4 million of liquidity against $178.6 at the start of the quarter. And you might ask, what you have made, you know, you have made $59.00 of EBITDA during the half year. Where has that gone? And there's a number of places that that has gone and they are all valid. For example, we've invested $12 million in CAPEX as we continue to work towards being able to integrate our trading platforms and secure the final synergy benefits of the City deal.

As we mentioned earlier in the presentation, we spent $12 million on buybacks and dividends, $3 million on convertible loan, no interest. As we mentioned, in our Q1 earnings we had the legal settlement, which we paid for this half year. And you'll see on slide 17 our regulatory requirements have gone up $9 million, which is always a good thing because that means what you've got is you are holding more positions than you were at the start of the period if your regulatory requirements have gone up.

So we generated $59 million of EBITDA during the half. You need to look at all of the sort of various components of cash and not just cash, but receivables of brokers as well. And then understand the non-EBITDA or cash elements that would flow through to be able to fully appreciate what's going on with the underlying cash number and how that's moving.

Dan Fannon
Well, that's helpful. And I guess, just one more on the kind of profitability of your customers. I guess, is the turnover where loss rates and within the kind of retail segment changing as you have or improving with regards to your customer base today versus say a year ago?

Glenn Stevens
I don't know. Well look, a couple of things drive turnover, and some of them are hopefully under our control and some of them aren't. And so, I don't want to get into attributing the change in that rate because if it's all of what we can control, because in some cases if you have either markets that go into doldrums, you have customers that tire and they don't terminate but they are going to go on holiday. Or you have markets that are quite frothy and it intimidates customers for being involved, heavily engaged.

For us, it's about emphasizing the resources towards increasing our decision support tools, so we have to get in there. We have a bunch of things in our pipeline now that are focused on giving customers more tools, some of them are content-oriented, some of them are actual decision support tools, and modeling and things that they can kind of DIY but with assistance. And really that's the whole concept too is that if you end up with… when markets are more frothy there's a spread capture opportunity in that respect and when they're not, then we've seen that case too.

So, I think what I'm trying to get at is there's a lot of drivers and for customer retention, for loyalty, that's about…that's about the old fashioned things like service, innovation, and technology. For the other parts of it, they're more market-driven. So, I guess we keep a close eye on it and we pay attention to it and I guess we are really only trying to address the items that we think we can control. Does that answer your question?

Dan Fannon
Got it. Yes, yes, thank you.

CONCLUSION

Operator

Thank you. I am showing no further questions at this time. Ladies and gentlemen, that concludes today's call. As a reminder, this call will be available for replay via telephone and on the GAIN Capital IR website. We do thank everyone for your participation. You may now disconnect.