GAIN Capital Holdings, Inc.

Third Quarter 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 Third Quarter 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, Alison. Good afternoon and thank you to everyone for joining us for our third quarter earnings call. Speaking today will be GAIN Capital 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 can 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 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'd now like to turn the call over to Glenn.

Glenn Stevens
Thanks, Andrew, and thanks for all of you joining us today for our third quarter and year-to-date review. The third quarter showed generally overall low volatility environment. Essentially that persistent lackluster surroundings led to lower-than-normal average daily volumes; it also led to some lower revenue capture, which subsequently impacted some of our metrics, financial metrics for the quarter.

However, in light of that, we did continue to deliver on our strategic plan. We have a $42 million of run rate synergies achieved already and we expect to increase that to $45 million by the end of this year.

Also on the bright spot, it appears that volatility has started to return to a more normal level as we proceed into Q4, and I think many drivers including U.S. election uncertainty and interest rate policy changes and global movements in currencies like sterling and euro are certainly percolating up and appear to be creating a much different environment than we saw in Q3.

However, regardless of the short term, over the longer term our execution of the key initiatives to enhance our customer experience, our engagement, and the long- term value, the creation of our franchise remained intact.

And again, as we focus on the longer term perspective, not just year-to-date but in the quarters coming forward, we’d like to use this opportunity maybe to lay out some of our plans, some of our deliverables and some of the things we actually have achieved through this year as well. Throughout that, we have maintained the strong cash position, which puts us in a great spot to fund new organic and inorganic opportunities.

And also we will go into more detail when we talk about returning more capital to our shareholders by increased dividend and our larger share buyback plan.

But to start out, let's go in some of the metrics. I will turn it over to Nigel to give you some of the details and then we go into some of the color behind the details. Nigel…

Nigel Rose
Thanks, Glenn. So turning to slide four, we set out our key financial results and operating metrics. Revenue in the quarter was $72.2 million with EBITDA of $3.3 million and an adjusted loss per share of $0.12. Looking across the trailing 12 months, revenues are just shy of $400 million generating EBITDA of $84.2 million and an adjusted EPS of $0.65.

Looking at the key operating metrics over those last twelve months, retail ADV has been $11.5 billion, which is a level we expect to revert to not dissimilar to our year-to-date ADV of $11.2 billion.

Turning to slide five and our operating statement and corporate results, starting with retail in the top left box, as Glenn mentioned earlier, the story of the quarter has largely been one of low volatility coupled with low average true ranges or ATRs, particularly in relation to FX. Those familiar with such environments will appreciate how they can generate into low volumes and revenue capture, something that has affected the market making industry in general during Q3.

Although volumes were below management's expectations, we have subsequently seen markets begin to revert back to historic norms so far this quarter, as Glenn mentioned. I believe this would continue as a result of ongoing uncertainty and the impact of Brexit, U.S. elections, and global interest rates.

Turning to specifics, revenues for retail in the quarter were $52.7 million as a result of the lower volumes with reduced revenue capture of $84 against the year-to-date $107. As mentioned, [indiscernible] less volatile markets during the quarter led to low capture in the currency markets, which was offset to some degree by a good quarter from our indices product, highlighting the value of our now much broader asset base.

Work on synergies and partner optimization continues to bear fruit with our costs for the quarter declining 38% over prior year to $46 million, generating profits of $6.5 million. For the year so far, retail profit has improved almost 8% to $74.3 million, with operating costs down 18%, increased margins of 31%, and revenue capture improving 30%. On a trailing 12-month basis, the retail segment has generated almost $100 million of profit with revenue capture of $105, a meaningful improvement of 11% on the comparative period's $95.

Turning to our institutional segment in the bottom left-hand section of the slide, our ECN business continues to grow year-over-year, and volumes in the quarter were up 13% over prior year. This is at a time when most of our major competitors continue to see year-on-year declines as our ECN continues to gain share in a competitive market.

For the year, ECN volumes have increased 7%, while operating costs have reduced 11%. On the trailing 12-month basis, the institutional segment has generated profits of $6 million, equivalent to a margin of 21%.

We continue to enhance our institutional product offering and introduce new higher-value products that should drive both volume and revenue growth moving forward. In addition to adding new products, our ECN business continues to expand its global reach with new data centers in London and shortly Tokyo, enhancing the offering to our existing customers and the capacity to expand our business further in those key markets.

Finally, turning to our futures' segment in the top right-hand corner, revenues of $12.5 million were consistent with prior year, whilst the 4% reduction in operating costs meant the profit improved 40% to $1.4 million, a margin of 11% against the prior year's 8%.

On a year-to-date basis, futures continue to grow in terms of both revenue and profit, with increases of 8% and 24%, respectively, whilst profit margins have improved from 9% to 11%. Finally, client assets have seen significant increases over prior year, up almost 80% at $419 million as we attracted some significant new clients to our futures' offering.

Turning to slide seven, we set out our operating expenses. Q3 saw total expenses of $68.9 million, down 15% on Q2 and 30% below the same quarter last year. We continue to demonstrate execution capability on our various cost reduction plans driven by the City Index synergies, partner optimization, and overall expense management.

Fixed operating costs of $48.2 million represent an 18% drop over the same quarter last year and are down 12% on the second quarter of this year. As mentioned on previous calls, in terms of synergies, not all of our cost base is part of or nor relevant to the synergy strategy. For example, institutional and futures, but also certain aspects of retail, such as marketing and referral fees.

Adjusting those costs from the trailing 12 months of September 2014 derived our starting point of $47.5 million quarterly operating costs as discussed on Q2's earnings call. In quantifying the comparative Q2 2016 costs within our total cost base of $68.9 million, and adjusting for any one-off nonrecurring items arrives at an equivalent expense number of $37 million. This equates to a saving of $10.5 million per quarter, or $42 million on an annualized basis, an improvement of $2 million over the second quarter synergy savings.

As we enter our final quarter of 2016, we remain on track to deliver $45 million of annualized savings with the remainder expected to crystallize towards the end of this quarter.

Moving to slide eight, we set out the operating metrics up to and including the month of October. Volumes in October reflected improving conditions, as mentioned, with both retail and ECN bouncing back from the lows seen during the midst of the third quarter. Whilst that was not necessarily the case for futures, October contract levels were not surprising in light of CME volumes falling 13% month-on-month.

As previously mentioned, active OTC accounts look back over a 12-month period. As such, they continue to be impacted by the action we undertook during 2015 as part of our partnership optimization program. The impact of those effects should roll off in the next few months.

I now hand you back to Glenn, who will take us through the rest of the presentation.

Glenn Stevens
Thanks, Nigel. On the next few slides, we'd like to illustrate some detail behind our efforts and our biggest financial driver, our retail OTC segments. Retail is certainly a core competency,

although it has been increasingly complemented by our futures and institutional segments. Our futures continues to chug along and our institutional segment develops its foundation to take advantage of increased volatility and the commensurate volumes that come with it, we will focus here on some more maybe behind the scenes or in-depth detail on the retail business, so you can get a feel for kind of how our strategy is playing out in terms of acquisitions and synergy capture and integration, and how we focus and pivot and focus on our growth going forward from an organic perspective.

Following the back-to-back acquisitions of GFT and City Index, our focus on our core retail business over the last few years has been on integration and enhancing operating margins. Since we closed the acquisition of City Index back in April of 2015, our key integration priorities included consolidating a single-trading technology stack, which involved decommission of three legacy trading systems, removing duplication, and eliminating tons of complexity in our operations.

We then evaluated our combined business and exited noncore areas, which were either not a strategic fit or contributing at a level which made further investment inadvisable. Acquisitions have provided GAIN with the scale with a wider product offering, with increased diversity of revenue stream and a broader geographic footprint.

Another key focus for integration was the strategy for leveraging our two global brands, FOREX.com and City Index. We implemented a global brand strategy, which eliminated the overlap between the two brands and in markets like Australia and the Middle East and Singapore, we made a choice and we managed to develop a market around those singular choices.

We also wound down a few subscale regional services where we just didn't see sufficient future opportunity. That included FOREX.com, Russian service, and City Index service in Hungary. This is all part of a deliberate plan focused on building a stable and sustainable foundation on which to accelerate future growth. While these actions did lead to some reduction in trading volume, they also brought greater focus to the business and improved the quality of our trade volume.

You can see that demonstrated by an increase in revenue per million with the 2016 year-to-date average of $108 million versus $95 million for the prior year. We also achieved a 27% reduction in referral fees per million, with now a year-to-date average of $44 million versus $56 million the prior year. These efforts have made GAIN structurally stronger than ever, and we are well positioned to invest in new products, services, and offerings to drive organic growth.

By successfully delivering on our synergy target, which has already reduced our run-rate operating expense by $42 million of the $45 million we have targeted, and continue to execute on. We have now in earnest begun the process of reinvesting in several areas that will expedite our future growth, particularly from an organic perspective.

A major element of this integration strategy was technology consolidation. Often it happens behind the scenes and is not easy to identify, but this year we successfully decommissioned several trading systems, as I mentioned. And, aside from the cost savings that you glean, we have achieved material IT and operational efficiency gains across the business.

Ultimately, this frees us up to focus on our efforts, going forward circling, or kind of centering, on a core technology offering. In addition, we have made solid progress on a number of non-integration initiatives this year, all designed to enhance our product and service offering to support our growth efforts for the rest of this year and in 2017 and beyond.

In Q3, for example, we introduced a number of customer-facing enhancements. This included a launch of the refreshed FOREX.com brand, a new dynamic website, and improved experience for customers opening an account with us via their mobile device. We have also made several updates to our trading platform over the year, including better speed and performance improvements, and enhanced deal ticket to launch price and account alerts, and several feature enhancements through our mobile apps.

Trades via a mobile device, now represent between 45% to 60% of volume in our key markets, so obviously we are very focused on enhancing our mobile experience, not just for trading, but across all customer touch points, including the website experience, as well as account opening and funding. We have more service enhancements in the pipeline for the coming months.

For our City Index customers, we just recently introduced lower FX spreads, that was just last month, rolling out our new client portal for those clients with enhanced funding and self-service capabilities. We are also introducing a new charting tool next month.

At FOREX.com, we just introduced an active trader offering. This offers volume tiered incentives and other value-added services to these high-volume FX traders. The new offering is currently available in the U.S. and Canada, but will quickly be followed globally over the next few months. Another area of focus this year has been on strengthening our talent and investing in our digital marketing capabilities.

We have bolstered our team over the past six months focusing on digital marketing and our key markets are the U.S., UK, China, and Australia. These new hires are key to both our acquisition and retention efforts, and they support our ability to ramp marketing and spend efficiently in 2017 and beyond as we deploy those marketing dollars.

On the back of these investments we have begun to ramp marketing spend, and we expect to spend approximately $7.5 million on marketing in Q4, with incremental increases from that in ’17.

So ultimately, we are on about slide 11 at this stage, and to follow along with these bullet points, I think that in the coming quarters, we are focused on leveraging the foundation we have created over the past few years to drive organic growth, all with the intention of growing active clients and quality volumes.

One of the exciting new things we are working on is developing a new innovative trading experience. This will include both a new web experience, as well as, related native mobile apps. We expect to launch the new experience in the UK market first in early ‘17, and we will roll it out to our other markets over subsequent months.

A few other examples of initiatives very near in the pipeline include a new City Index website experience, streamlining our application process, and expanding our funding options for our existing and prospective customers.

Our 2016 investments in data analytics and marketing technology is ongoing, and we expect them and future investments to deliver material improvement in our capabilities that enhanced our understanding of our customers, and allow us to deliver experiences to them. The net results should be reduced acquisition costs and increased revenue per client.

In addition, as we move into slide 12, we are focusing…we are launching a new global…still on 11 there…a new global affiliates program, which will open up a new digital acquisition channel for our brand. Within the retail business for the past six months, we have been working on new opportunity in the digital-investment management space. This basically builds on the assets that we acquired in 2014 with our purchase of Galvan Trading and leverages our core competences, specifically, our routes in delivering online trading solutions to retail investors and our expertise in multi-asset execution.

Ultimately, we will provide more detail, but I want to give a little bit of an early look on a lot of, again, the kind of organic drivers and being able to take all those tools we have acquired in the past two years and starting to leveraging, and have them work together, and ultimately provide a seamless experience to new customers and our existing customers to enhance retention. We are also set to launch a new payment service next quarter, and we are looking to accelerate our efforts there over the course of 2017.

In terms of M&A, as it relates to the retail business, we always looked at the value…we always look at and evaluate opportunities. We have a very active pipeline. We've obviously been very engaged and very active in deals over the last few years, but the focus probably shifts a little bit more towards tuck-in acquisitions, kind of specific capabilities that augment our retail offering.

For other business lines, we will look to evaluate a range of opportunities that either help us with scale or maybe add complementary capabilities quicker than us building it ourselves. While we turn our attention to growth, we will not turn our backs on the continued enhancement of margins by focusing on areas that simultaneously deliver in two areas: improved customer experience and reduced costs.

Ultimately, the complementing of our retail business and our institutional business benefit from a lot of the simplicity that we have created in the operational streamlining, all the businesses can hang off the corporate services in the way we are structured, so there is kind of collateral benefit versus collateral damage that comes out of setting up a more efficient structure the way we have.

That brings us to slide 12 on the return of capital, and there actually is a tie-in here, because as part of our broader perspective in building shareholder value over time and not over 90-day chunks. We recently authorized and can announce on this call, that we are going to increase our dividend to $0.06, and we are going to substantially increase our share buyback program to $30 million. That's all been authorized and we will engage essentially immediately.

Up to this point, for the nine months ended September 30, GAIN has returned over $14 million to investors via buybacks and dividends. We did have a slow period in Q3, as we were actively reviewing a number of cash-intensive transactions and other initiatives, so it's going to be good for us to be able to re-engage and bring value back to our shareholders over the coming months.

So with that, I think that brings us to kind of closing remarks. There has been a lot, I hope, that you can take away from this call and providing a little bit more detail on some of our execution strategies other than the headline numbers, like synergy capture and announcing certain acquisitions. There is a method to this madness and there is a tie-in to the process that we are trying to build and we are trying to essentially create an unparalleled offering for these kind of products on a global basis with two super-strong brands that's really up to us to continue to leverage now.

For Q3, the market condition is negatively impacted GAIN and many other brokers in this market. But the good news, as Nigel referred to, the green shoots that are coming out for Q4 are kind of a short-term tailwind that's welcomed, but ultimately isn't what's going to drive our overall success. It's going to be…being able to continue this pivot towards a focus on the customer, developing our abilities to make that ease of bringing on new customers, and building all of our markets in terms of using the two central brands on a global basis.

There is this shift in organic growth that needs a commensurate increase in talent. We have continued to focus on that, and I think it's also a welcomed relief for people to be able to be excited about building new and increasing our exposure versus just hunkering down and making sure you capture all the synergy that you promised everybody.

Our liquidity position remains strong. Evidence of that is, is our willingness to actually return more capital to our shareholders via dividend or much more…much larger share buybacks. And ultimately, we expect to create shareholder value as our primary stakeholder in our business.

So with that, I think we will flip over to Q&A and take it from there. Thanks.

QUESTIONS AND ANSWERS

Operator
Thank you. 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." And at this time, we will pause for a moment to assemble our roster.

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

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

Glenn Stevens
Hi, Rich.

Rich Repetto
I guess the question first is the consistent question on revenue cap. You've had a string of strong quarters, but the low volatility certainly impacted this quarter. But I guess, we thought that the diversification that sort of the ups and downs might be smoothed out a bit. So, can you talk about a range going forward or what you see and say in the current quarter in regards to revenue capture?

Glenn Stevens
So, Rich, without seeing, without coming across to the wise-guy response, the reality is that the same tenet that drive diversification of investment performance, which is why everybody tells you to have part bonds and part equities, doesn't mean that once in a while, as we've seen, they line up and both bonds and equities go down or both bonds and equities go up and so your

whole diversification strategy goes out the window because they don't always overlap at the same time.

So for example, in some of the dead doldrums of particularly of August when we saw oil in a flat range hadn't shown any bounce back. We sold gold in a flat range, we saw euro in a dead flat range and actually a two-year low-vol and CVIX for some of the majors there. What I'm getting at is you had almost lined up across the board that kind of low volatility and ultimately, if you even look at some cases where we actually had some bright spots on the RPM, with index being a little bit higher, but because of our product mix, sometimes the higher products as it stands today with our percentage mix are enough to offset the heavier ones. And for GAIN we have a heavier reliance historically, and it's been getting less over time, but we have a historically heavier reliance than some of our peers on FX, and FX was the lowest RPM environment if you will than anything else.

Index a little bit better but just about everything else is pretty quiet and again to kind of broaden the lens a little bit, if you look at some of the…as I know, you follow more closer than I do. We look at the some of the investment banks and trading shops coming back with, some of them had bright spots, they were all in fixed income. Unfortunately, our customers and retail customers don't trade fixed income. So for the one thing that actually kind of moved around perked up, there isn't really a retail market for that yet, whereas everybody else who focused on either equities or commodities or metals actually was faced with the similar scenario.

So, I'd say, boss, yes, the goal of rolling out this decision-support tool and helps and things like that ultimately will increase the percentage of non FX products that get traded by our customer. So whilst we continue to grow the City index brand, as we continue to make our platform much, much boarder in terms of the product it brings to its customers our reliance on FX ebbs over time, it doesn't decrease, but the other ones increase. So by design and by most modeling, that should smooth out some of the RPM, just because we are less reliant on FX.

And then, the second part, if I was to give you some kind of guidance there, we are probably in the 95 to a 105 target range if you will, make sure I go on record as saying, it doesn't mean it's impossible to come above or below that, because we've shown both. But it is more likely we will smooth into that scenario. And I won't even argue that even in this quarter's RPM, it was lower but it was 10% or kind of 12% of these kinds of numbers, even though we had this heavier…with FX pretty much being in doldrums. We didn't…you look back at some of our quarters and when we were like really purely FX, we would have had a 72 to 73, and now it's an 84 or an 85. So that's already showing kind of that benefit of what you talked about there. I don't know, Nigel, you want to add anything.

Nigel Rose
Yes, I'd just add to that, Glenn. Back to my comments earlier, that we typically tend the guide towards looking the trailing 12 months basis and not get too excited about what's going on in the quarter. So trailing 12-months basis we are at 105 as against the 84. We just happened to see in the quarter based on the conditions that we saw there and the trailing 12 months…the equivalent trailing 12 months going back a year that was 95. So back to Glenn's point about we were seeing bottoms at around 70 to 72 and we are 84 in the quarter, we are now averaging on a 12 month basis a 105 and a year ago that was 95.

Glenn Stevens
And Rich, you could have asked the same question at 124 and I have to give you the same answer, it's more fun that way but it's the similar scenario.

Rich Repetto
I think, I did ask that. Next question is…and I apologize for not getting this myself, but looking at or trying to understand slide five, Nigel, and you have the different segments and you report each segment profit. So I'm trying to reconcile the four segments you have. You know, retail, institutional, futures, and corporate, and the segment profits for 3Q. And it looks like you add them up it comes to a positive number when that's not what you reported consolidated for the quarter?

Nigel Rose
Now the consolidated adjusted EBITDA is $3.3 million, which I think is set out on Slide 20, we reconcile through the various segments through to the operating loss. So if you add up the segment profits, that gets you to $3.3 million, which is the adjusted EBITDA number. And then from there we then start to strip out depreciation and all of the items below EBITDA, you should get back to the $4.5 million operating loss for the quarter.

Rich Repetto
So segment product is adjusted EBITDA, then?

Nigel Rose
Yes, that's right. Yes.

Rich Repetto
Okay. Okay. And then, I guess, the last question, Glenn. Is it possible to sort of just ballpark break out the exposure of the RPM to indices versus FX? Like is it approximately two-thirds FX, one-third exposure to industries, or, I'm not sure about that?

Glenn Stevens
Yes, so I guess there is a couple of ways to do that. I mean, on the one hand, we could do a kind of on a volume basis. We could turn around and say that generally speaking, going back a few years, the volume of FX for us has probably gone from three quarters to more like some 45 percentage these days. And so, in terms of an exposure, just vanilla, that's as I said it used to be call it 65%, 70%, its now 45% FX and the rest obviously is non-FX.

And then, within that non-FX, because you asked specifically about indices, indices is probably about a third to half of that number. Again these are kind of ballpark numbers. Now, they will shift over time when two things happen. Number one, when one of those market starts to move, guess what, customers go where the action is. And so, in any particular quarter, if we were to see FX really start to percolate, then all of the sudden we are doing more like 50%, 60% of FX volumes because they've spiked up.

In this case, FX was really quiet, so guess what, customers then turned and they look over and indices moved a little bit, Daq moved a little, the Dow moved a little, you know, NASDAQ moves a little, what have you and so we saw it that there. But generally speaking, we probably moved from core 65 to 45 in FX, and then that indices probably went from zero to in the kind of 20%, 25% range, and within that, that will probably move five at least 5% either way on a slower high market, does that kind of answer your question?

Rich Repetto
Yes. And the remainder, if FX is 45%, indices is at 20%, 25%, on a retail basis so…

Glenn Stevens
Well, you have metals, commodities and individual equities because don't forget outside the U.S., we have our customers trading gold, silver, and oil and individual equities, those kinds of things. So those all makeup, those all makes up the non-FX and indices trading.

Rich Repetto
Got it. That's very helpful. Thank you.

Glenn Stevens
The other 45% was broken up a third, a third, a third. You could kind of put it's not going to add to a 100, Rich. But if you put 10% on those three buckets, 25% on the indices, and then 45% on equity, that gets you pretty close to a 100, and all of those will move a little bit.

Rich Repetto
Got it. Very helpful. Thank you.

Glenn Stevens
Alright.

Operator
The next question will come from Kyle Voigt of KBW. Please go ahead.

Kyle Voigt
Hi, good evening.

Glenn Stevens
Hi, Kyle

Nigel Rose
Hi.

Kyle Voigt
Hi, just first question, actually maybe I guess a three-part question around capital deployment. On the liquidity slide, I think you show $171 million of liquidity, but I think you also like to hold some amount of cash as a safety buffer above that regulatory capital. So the first question is: What is the amount of cash you'd like to hold above the regulatory capital level? And then, secondly, on the authorization of $30 million for the repurchase plan, can you just help us understand how aggressive you are willing to be on buying back shares here, given where the stock is trading? And then, lastly…sorry, I can ask one more…

Glenn Stevens
Okay. No, no, I've got to take notes, now, Kyle. Go ahead

Kyle Voigt
And then, just how do you weigh those repurchases against doing tuck-in deals right now versus investing for organic growth?

Glenn Stevens
Okay, that's fair. You are getting to my limit of recall, that's why I brought the pen and wrote it out. So look, on the first one, not to give you an evasive answer, but the reality is that that

buffer is going to move around a little bit. So if we turnaround and we say look, there is kind of $60 to $80 million of free cash that we would consider truly unencumbered free cash. Then that starts out as our war chest, if you will, for these tuck-ins.

Now look, we don't have the luxury today of a currency with our stock. I'm very reticent if not completely against using what I would consider far too expensive an asset right now with our stock to do any kind of deals. But, to be fair, our team has been pretty good about being creative and creating earn-out structures and alternate type of seller financing, things that doesn't preclude us from doing a deal, just because we will have to do it all the cash and we don't want to do with stock right now.

So it doesn't knock us out of the box for those kind of scenarios. However, when it comes to stock, we'd have to triple this before I'd feel more comfortable about saying, you know what, it's not a bad vehicle to consider as part of the mix. So with that said, that kind of 60 to 80 today on a balance sheet item is what we would consider at our disposal, and that essentially doesn't impinge on any operational item, doesn't impinge on any buffers, doesn't impinge on any other flexibility we want for that liquidity, including capital returns. So there is that number.

The second piece is, in terms of deploying aggressively…look, as I mentioned, we took a bit of a hiatus in Q3 not by design but by choice, I guess, because of certain opportunities that presented themselves. And so, again, being judicious, we said, you know what? We started the quarter, let's consider our options, just what you said, what's the best use for right now? That said, that's where we made the point of saying not only are we coming back, but we've doubled our authorization of buyback.

This is by far the biggest buyback authorization we've ever had by an order of magnitude. And now the restrictions on us will be our daily liquidity, certain activity rules, but other than that, I think we are fully planning to deploy in an earnest fashion as we can without being irresponsible. But we certainly believe it's a great value here, and it's a great opportunity to help our existing shareholders out and frankly putting money where our mouth is and say, this is an under-valued asset, let's take advantage of it. Now, what was the third one?

Kyle Voigt
It's just weighing those repurchases against doing…

Glenn Stevens
Oh yes, no, like I said, so maybe I'd address that by saying for the amount of free cash, that ends up not having to be an either/or. We get to be able to look at deals for the most part at that level of cash usage and not have to step on other activities.

Kyle Voigt
Okay. Alright, thanks. And then just one more, if I could. You laid out a number of organic growth initiatives in the slides, so I guess maybe this one for Nigel. Should we expect a ramp in CAPEX heading into next year? And how should we think about the operating expense base over the next 12 months given the initiatives that you've laid out today?

Nigel Rose
I don't think we would necessarily expect to ramp in the CAPEX space. I think probably what we've been doing for the last one-to-two years is combining, integrating businesses to get to a position now where we are able to do this with no further investment. We've kind of laid the groundwork and we've put in the investment, and now we are ready to leverage that. So, we

would expect CAPEX on a normalized basis to come down from the sort of $20 million that we've seen in the 10-Q for 2015 to lower levels than that going forward.

In terms of the operating costs, I wouldn't expect to see much movement there. We'll see some investment in the staff, as Glenn mentioned, and we will see the marketing spend as well sort of go back to the more normalized levels that we've seen in prior years.

Glenn Stevens
Which are higher.

Nigel Rose
Which are higher than what we've seen in the current year.

Glenn Stevens
And, look, the reality is, Kyle, that anybody who can tell you they can do all things at the same time is, I don't think, being honest or being practical. And so, we spend some time integrating, as I said. Not everything is outwardly visible when it comes to systems and people and responsibilities, so you have to ask those people to focus on that job and get it done. And then many of those assets can now be redeployed in a customer-facing, tangible, witnessable kind of stuff and say, oh, wow, your mobile experience is better; your funding options were more; your website is new.

All of those things, many times are the same people who you say could you go figure out how to integrate those two CRMs? Could you go figure out how to integrate those other things? So, the reality is, we can spend more…now we can spend more on marketing because we have the ability to deploy. And we can spend more on people and spend more on products, because we are not spending the money on third-party integration to help and, frankly, even staff that was focused on that. Now, for those people that can pivot, it works great and we ask them to…we don't ask everybody to do two jobs. We ask them to do a job well, and then we ask them to do the next job. So, the next job is the concept of pivoting even more towards organic growth.

Kyle Voigt
Okay. Thanks for taking my question.

Glenn Stevens
Sure.

Operator
Again, if you have a question, please press "*" then "1." Our next question will come from Dan Fannon of Jefferies. Please go ahead.

Dan Fannon
Thanks for taking my questions. I guess, just looking at slide eight and looking at the October metrics, just want to correlate that with the commentary that October is getting better or the fourth quarter has been better, or is it more the election is obviously still on the come, so many things still have to happen. So the backdrop, do you think, is it poised to get better as opposed to it actually really improving?

Glenn Stevens
So, we don't…I'd try to stay out of the hope business, and so I'm not hoping that the environment is improving. We are witnessing improving. I mean, if you kind of look at even the

movement starting in August, which was quite the ebb in terms of activity and volatility and average trading range and just customer engagement in general. And, again, this isn't a GAIN-specific item; it was market-specific. We started to see some increase of that in September, and my commentary was that we are seeing that continued increase into October. So, granted, it's one month out of three, but as a harbinger of the quarter, it certainly appears that August was the anomaly out of the last six months, not September and October.

Dan Fannon
Okay. And then I appreciate all the color on the initiatives and kind of new enhancements and things you guys are rolling out and focused on. I guess, how do you think about payback on these or success, or how should we measure it from our seat in terms of maybe, in terms of reallocating those expense dollars or initiatives or time that you are spending on these, if they are not necessarily driving a level of growth that you are looking for?

Glenn Stevens
Totally fair question. So, in the environment of a normal market, right, so, we'll use…the one assumption we have to make is normal. We are not going to say highly volatile, real exciting, super engaging. We are also not going to say a month like August. So, we are going to go back trailing 12, so use that for RPM, use that for partner revenue per million, or [indiscernible] per million, use that for average trading range, use that for ADV, or average daily volume. Use that as kind of a normal baseline. If you use that as a normal baseline, the things that we use as our kind of internal measurement sticks is to say, let's look at active traders; let's look at new accounts; let's look at quality volume; all in the context of those scenarios. I mean, if you for some reason repeated three out of the next four months look like August, where absolutely nothing was going on, the reality is, new tools, new levels of engagement, new marketing spend, it's just not yielding as much.

By the same token, we are going to be more than rewarded if we are on the ramp in an environment that is increasing because all of a sudden you get a double whammy. You get fruits for the work that you've done plus this better environment. I'm not saying to bank on either. I'm saying that if you want to measure how we are doing, you basically over the next several quarters you need to look at average daily volume, our total customer assets, and active clients. You look at those, and then you say how are we doing? And then you can either give me grief or pat me on the back.

Dan Fannon
Fair enough. And I guess just one more on the capital return. Why now on the dividends? It just seems if you look at your stock, granted, you have excess capital, you talk about the buyback. It just seems like the dividend at this point versus just putting more into the buyback would seem like a better use of capital as opposed to that. But I guess just some thoughts around the dividend and why now?

Glenn Stevens
Totally fair. I think the primary take away from this is to look at the percentage of deployable capital that we put toward the buyback versus the dividend. On the dividend, we haven't changed it in six years. We are going from $0.05 to $0.06. I would not position it as a demonstrative material move. It's an increase as part of our commitment for those that have been holding our stock to get paid more over time, right? And so moving it up by the percentage that we did, the 20%, is to send a message and to also just reinforce that patience.

And in terms of the buyback, as I said, you look at that one and we've doubled it and, look, reality is, look at our market cap. Look at the amount of shares we are going to be able to aggressively get in there and buy. Then on a relative basis, I wouldn't look at it as kind of dividend increase and buyback; I'd go lower case dividend increase and I'd go uppercase exclamation point buyback. So, that's kind of the message. The reason we did both is because there is going to be other people in this audience that have talked about by dividend form they'd like to see more. So, we are also addressing shareholder response and inquiry and things like that. But I would say emphasis-wise it's kind of like two-thirds/one-third.

Dan Fannon
Got it. I'm sorry, one more. Just on the expenses I got the message on the marketing going up to $7.5 million in the fourth quarter. Anything else? And we have the additional synergies coming out, but I guess anything else seasonally or otherwise you would point out to think about going into the fourth quarter, Nigel, for just your expense base?

Nigel Rose
No, I think you've probably caught sort of the two moving parts there. We will ramp up the marketing expenditures, as you mentioned there, and we will secure the remainder of the synergies. Aside from that, I don't think anyone is expecting anything different than we've seen to date.

Glenn Stevens
And I guess I just wanted to add, Dan, just like I said in kind of a relative basis, I could have been clearer. We are adding $15 million of our buyback, we are adding $2 million to our dividend, so just in terms of order of magnitude where we are putting the emphasis, and you could take that away.

Dan Fannon
Understood. Thank you.

CONCLUSION

Operator
Thank you. And 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 your lines.