GAIN Capital Holdings, Inc.

Fourth Quarter Earnings Conference Call

Thursday, March 09, 2017, 04:30 PM Eastern

CORPORATE PARTICIPANTS

Glenn Stevens - *Chief Executive Officer*

Nigel Rose - *Chief Financial Officer*

Lauren Tarola - *Investor Relations*

PRESENTATION

Operator
Good afternoon, everyone, and welcome to the GAIN Capital Fourth Quarter Earnings Conference Call. Today's call is being recorded.

At this time, I would like to turn the conference call over to the GAIN investor relations representative, Lauren Tarola, Senior Account Supervisor at Edelman. Please go ahead.

Lauren Tarola
Thank you, operator. Good afternoon and thank you to everyone for joining us for the fourth quarter and full year 2016 earnings call.

Speaking today will be GAIN Capital CEO, Glenn Stevens and CFO, Nigel Rose. Note that we are webcasting our presentation this quarter, so you can follow along. The slides are also available on the GAIN Capital IR website. Following the prepared remarks, 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 filing with the SEC for discussions of those risks.

In addition, statements during this call, including statements related to market conditions, conditions 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 Stevens.

Glenn Stevens

Thanks Lauren. And thanks again for everybody joining our review call here for fourth quarter and full year.

I'll start by looking back a bit, in terms of the fourth quarter and full year for 2016. As you see on the slide three, our quarterly net income of $20.8 million was a 91% increase year-over-year, while for the full year of 2016, net income $35.3 million compared to $10.3 million for the previous year. We achieved approximately $100 million in adjusted EBITDA for the full year, driven by a strong fourth quarter performance with quarterly adjusted EBITDA of $36.9 million.

We reported diluted EPS of $0.42 for the fourth quarter, $0.67 for the full year on an adjusted basis of $0.43 for Q4 and $0.92 for the full year of ’16. We realized over $45 million of run rate synergies from our city index acquisition. We continue to focus on return of capital to our shareholders with over $20 million in buybacks and dividends for full year of 2016. That represents approximately 45% of adjusted net income return to our shareholders.

We also increased our quarterly dividend to $0.06 in December, that's a 20% increase from 2015; although, while maintaining a strong balance sheet, which positions us well for future strategic opportunities.

Now, if we start to change the lens and look ahead, on the next slide, the main bullets circle around acquisitions have provided gain with scale, a lot of product offering, increased diversity of revenue streams, and a broader geographic footprint. And as a result, we're well positioned to invest now in organic growth.

Our organic growth plan is focused on growth, diversification and margin enhancement. We want to grow share in markets where we already operate, we want to introduce new products and services to diversify into new markets and new client bases. We also want to improve our operating leverage by driving process efficiency. In parallel, regulatory change and market dislocation continued to produce corporate development opportunities and our strong financial position and experience as an industry consolidator positions us well to take advantage of opportunistic M&A. And it's happening now, if you will.

GAIN is working on several key initiatives that we expect will drive a long-term organic growth. As we normally do but with more heightened emphasis; we're redesigning our trading experience with upgraded mobile apps, enhanced tools and trade ideas, easier account opening and more funding options for our clients across the globe; the introduction of a global cross brand affiliate marketing program; and with a newly focused expansion into digital advisory; part of it is the re-launch of our existing advisory business, but also developing new products for those clients seeking personalized trading advice.

An example of our strengthening role as an industry leading consolidator, on the next page is a few outline points. For our recently announced acquisition of the US client assets from FXCM, we successfully transferred 47,000 accounts with total assets of approximately $142 million; we expect in the neighborhood of $15 million to $20 million of incremental revenue for fiscal year 2017 with minimal costs associated with that revenue. This acquisition marks a continuation of GAIN's role as a leading consolidator.

We successfully integrated ten acquisitions over the last five years. GAIN Capital is now the number one by far provider of retail FOREX in the US, with over 70,000 accounts. For more detail on the finances, I'll turn it over to Nigel.

Nigel Rose
Thanks Glenn. So, turning to slide eight and our key financial results on operating metrics. Revenue in the quarter was $116 million, up 13% year-over-year and adjusted EBITDA of $37 million was up 72% year-over-year.

Adjusted earnings per share of $0.43, was up 192% from $0.15 in Q4 of 2015. Our quarterly average daily OTC trading volume was $9.8 billion in retail, down 22% from last year, largely due to the partner optimization activity where Q4 '15 and Q1 '16 saw a number of terminations impacting indirect volumes. In Institutional, average daily volume was $12.8 billion, up from $9.2 billion in Q4 of 2015, driven by strong performance on the ECN platform.

For the full year, revenues were $412 million, generating adjusted EBITDA of nearly $100 million and an adjusted EPS of $0.92. While adjusted EBITDA and adjusted EPS increased by 20% on a pro forma basis and 38% on an as reported basis for the EPS, revenues were down year-over-year mainly due to the drop in retail volume, partly offset by improved revenue capture.

Looking at the key operating metrics over those last 12 months, retail ADV was $10.9 billion, down 29% on 2015 for reasons previously discussed, while institutional ADV was up 11% year-on-year to $11.4 billion. The increase in institutional ADV was again driven by strong volume in ECN, slightly offset by declining ADV at the swap dealer.

Slide nine looks at the retail segment and its performance, both for the quarter and the year. Amid a quarter marked by increased volatility, we realized revenue of $98 million nearly double the $53 million from the third quarter when revenue capture was slightly lower. Our PM for the quarter came in at $151, taking the full year to $117, 36% above 2015's $86.

Operating costs for the quarter were below prior year despite a 52% increase in marketing spend. As we mentioned on our Q3 call, our intention was to raise marketing investment during the latter part of the year and increased volatility provided the ideal opportunity to do so in Q4. Year-on-year operating costs fell 15% as we successfully completed our City Index synergy plan on time with more than $45 million of run rate savings. Segment profit increased for both the quarter and full year, reaching $41 million and $116 million respectively. Operating margins were also very healthy with 42% in Q4 and 34% for the full year 2016.

Turning to our Institutional segment, this continues to be a focal point for long term growth with revenues up to $8.7 million for the quarter, an 18% increase year-over-year. As was mentioned earlier, this was driven largely by volume increase on the ECN, which was 47%. Over the same period, the ECN's main peer groups saw volumes increased 12% on average, resulting in ECN's market share materially improving compared to Q4 of 2015.

For the year, ECN volumes grew 17% despite the quieter markets we saw in the first half; a change in business mix during the year largely meant that did not translate directly into equivalent revenue growth. The segment delivered full year profits of $5.4 million with margins of 18%. Demand remained strong for the product with a robust client pipeline and a diverse mix of clients in the queue to begin trading.

Moving on to our Futures segment, for the full year, revenue and segment profit increased 5% and 18% respectively with annual operating margins of 10% versus 9% in 2015. Despite a year of low equity volatility, which impacted the indirect business, a strong performance from the higher margin agricultural sector helped drive revenue growth. This is reflected by 12% increase in the revenue per contract for 2016 to $5.79. 2016 saw our Futures business successfully onboard from larger clients, helping to boost client equity 41% year-on-year to almost $350 million, and we now sit within the top 10 of non-bank FCMs.

Turning to look at our operating expenses, for our commitment to expense management, we have seen a decline in operating expenses over the past two years. Q4 operating expenses reflect GAIN's successful execution of the City Index acquisition with synergies of more than $45 million impacting fixed costs. The chart also highlights the impact of our partnership optimization on referral fees, which has served to drive down variable costs. Overall, there was a 10% year-over-year decline in full year fixed operating expenses, while fixed costs for the quarter of $49.1 million were 20% lower than those for Q1 of 2015.

Moving to slide 13 and returning of capital to shareholders. As Glenn mentioned in his opening remarks, GAIN is focused on maximizing our capital deployment strategy. When looking at our liquidity, we focus on four main buckets for capital allocation. First is the required liquidity reserves. As of December 31, 2016, we maintained $160 million of capital in excess of minimum regulatory requirements.

Next is strategic acquisitions; as evidenced through our FXCM transaction, we reserve a portion of cash and maintain a flexible balance sheet in order to capitalize on acquisition opportunities as they become available. Over the past five years, we acquired and integrated 10 companies, and we're well positioned, financially and operationally, to pursue future opportunities of a similar nature.

Return of capital to shareholders is another prominent use of capital with $20 million returned to investors via buybacks and dividends in 2016. Quarterly dividends amounted to $10.2 million with our current dividend having increased to $0.06 from last quarter. Share buybacks have also been a focus, given that our stock price trades at the level where we feel is undervalued and the shares were attractively priced.

In 2016, we bought 9.8 million shares, 8.1 million in equity and 1.7 million in convertible shares. In Q4 alone, we repurchased over 540,000 shares at an average price of $6.46. Our commitment to returning capital to shareholders remains strong, with approximately $21 million of authorized funds remaining for future opportunistic share repurchases.

And I will now turn you back to Glenn for the closing remarks.

Glenn Stevens
Thanks Nigel, that's great. Before we go on to questions, let me take this opportunity to reiterate and highlight some of our achievements for the quarter, for last year, and more importantly, for our go-forward plan from this point on.

With the FXCM acquisition, we have grown our customer base to 70,000, cementing us as the number one provider of retail FOREX that's in the US market. But our market share is also increasing in our other businesses; on the institutional side and growing our position with our ECN; and also in the futures business as we highlighted, and made an involving regulatory environment in FX trading in prior sales on a relentless culture of compliance; and a sound business model that is highly scalable, as evidenced with the ten acquisitions over the last five years; and most recently, the successful integration and cost reductions around the City Index acquisition.

Lastly, on our financial position; we will continue to deliver on both our organic and inorganic growth initiatives by maintaining a strong flexible balance sheet with excess liquidity and continued capital return to our shareholders.

With that, I'll turn it over to the operator for questions.

QUESTION AND ANSWER

Operator
Ladies and gentlemen, at this time, we'll begin the question-and-answer session. To ask a question, you may press "*" and then "1." If you are using a speakerphone, we do ask you to please pick up your handset before pressing the keys to ensure the best sound quality. To withdraw your question, you may press "*" and "2." Once again that is "*" and then "1" to ask a question.

Our first question today comes from Rich Repetto from Sandler O'Neill. Please go ahead with your question.

Rich Repetto
Yes, good evening. I guess, Glenn, my first question is going to be on the #1 driver here, the retail revenue per million. Significantly, as you put out in the press release a while earlier, you know above 50% above the trailing 12 months. So, I guess the question is what conditions allowed you to have 151 revenue per million? And then what's the environment look like say so far in January and February comparable to the 151?

Glenn Stevens
Sure Rich. So a couple of things, as we've said over time in these calls and in general releases of information, our RPM is an output and the input, the variety of factors, some being general volatility of market, some of them being the more nuanced nature of the trading environments. What do I mean by that? It's one thing for someone to look at a quarter, and say a product, whether it's euro or the S&P or gold, has moved 10% in that quarter. Someone might take away to say, gee that's volatile! 10% move in the quarter that must be good for market making business and trading businesses that are focused on volatility. But not just like GAIN, but in many businesses that are focused on a trading environment or a good trading environment, that 10% can be constructed by a three-day move over the month; a lot of customers weren't engaged; a lot of customers are on the sidelines, didn't really see it coming or what have you; or you have the environment where you get some pretty decent trading ranges intraday, intraweek, two-way flow, convictions that go across each other.

So again, if you are looking to have an alluring trading market, then those are the kind of examples that would drive high customer engagement, high percentage of customers that want to put a trade-on or we get the sociopolitical events that happen. So, we had an election right? Q4 is an election with lots of people who are on either side of the seesaw globally, not just in the US. And I think when you have these types of polarizing events, either a price action or a sociopolitical situation that creates a very healthy environment. So, what we saw, as a kind of a complements event in Q4, was this combination of pretty decent trading ranges spread out throughout the quarter, not just too big kind of disconnects in prices. We also saw a polarizing environment of peoples' opinion and they love to vote with their feet when it comes to a trade.

And then we also saw multiple markets; we saw some movements in gold; saw some movements in equity; saw some movements in currencies. So, because we're set up, right? We've established the Company to be able to take advantage in kind of two ways; on the one hand, the Company is set up to take advantage of moving markets. Now, we love it when you have multiple markets moving. We love it when you're diversified across different products and all of them can move, because many of our peers are singularly focused and they rely a lot. And you've seen GAIN over the years diversify towards other products, not just its reliance on FX. So, as the percentage of FX has decreased, it also means the percentage of non-FX has increased. And that pays off in this kind of a market.

The other thing it gives you is this kind of next step, which says, hey, you have set a great platform to build a scalable business, and you can scale it organically or you can scale through M&A. And that happens too, because we get these disconnects that kind of throws a curveball to a lot of shops that aren't able to manage the risk well. And that's something that, obviously, we spend a lot of time and continue to stress internally. So, I guess looking back, if we ended up with a couple of cherries lining up on the dial that was a good quarter for us in terms of market conditions because of that. So, the RPM is the output but the input was several factors that lined up that, as you know, don't always line up in every quarter; sometimes a few do, sometimes a few don't. In terms of getting into Q1, I think that in general I'm probably joined by a chorus of people who expected a lot of the kind of good trading markets volatility and just mathematical volatility carrying through into Q1. And to some degree we've seen a softening of that in terms of some of the markets, some of the dollar markets, some of the equity markets. We've seen conditions kind of cool down a little bit and we've seen that.

So look, we don't normally comment on any given quarter until after the third month when we put out our metrics, and then in the third month of the metrics we'll put a little quality around it. We're not there yet. We still have another piece or a chunk of this quarter to go. So, we'll hold off on that. But I will say, just kind of empirically, if you look at comparing some of the markets for Q1 versus Q4, some of the fall through in some of those markets that created that real heady environment, we didn't see replicated again in Q1, so far.

Rich Repetto
Okay, okay. And then I guess another question, Glenn, it's a little around the accounts. So, I thought in the press release it talks about, I think 20, puts you to 47,000, the migration of 47,000 customers on February 24th. And I guess the question is your active accounts from the monthly metrics only went up by 6,000. And just trying to understand the numbers, the new account numbers versus the migration numbers?

Glenn Stevens
So, I think there was only maybe two trading days in February that that we would have captured. So the first thing is when we migrated that, as you said February 24th was a Friday or what have you. So, that takes you to the first trading day they could have traded would be the 27th, which is Tuesday the 28^{th}, so to be fair it's only capturing two days in that month. We saw…you know there were 26,000 active accounts in Q4 for FXCM so that's the last number we see reported by them. If you use that as a guide to come over and say hey! For activating clients while transferring them successfully, those are the kind of numbers we look for. To be honest, I wouldn't use the 6 to extrapolate much of because as I said it's really only two days.

Rich Repetto
If the…you wouldn't use the word…

Glenn Stevens
We didn't pro forma, sorry, so Rich we didn't pro forma the active accounts, if they were active at FXCM through the whole month of February except for the last two days we wouldn't have picked that up in our numbers, that was just our numbers we showed and two days of FXCM numbers. Does that make sense…maybe?

Rich Repetto
Yeah, okay so we're counting, the migration isn't necessarily equate to active accounts is what you are saying?

Glenn Stevens
Right, exactly…exactly.

Nigel Rose
The 47,000 migrated wouldn't automatically become 47,000 actives.

Glenn Stevens
Correct and again you know if you…correct. The 47,000 accounts represented for Q4, 26,000 active accounts for FXCM for them in Q4. We didn't pull them into our numbers. We won't start pulling them into our numbers really until March.

Rich Repetto
Okay, alright. And then I guess you know the ECN volume, it is growing, but as you suggested you know the mix has changed overall for the year. It caused revenue headwind. Can you explain that more, how much it's grown versus the competitive environment and then about this business mix.

Glenn Stevens
On the one hand, we have compared quite favorably to our peer group in terms of year-over-year growth and quarter-over-quarter growth in terms of sheer volume numbers so in a good way I think our ability to garner increased market share has been a materially positive one and also just looking at the numbers that are reported by our peers we outperformed essentially all of them. Now on the mix that Nigel referred to, a good chunk of the growth came from HFTs and so the higher frequency guys by design generally pay on a low scale of……costs or commissions if you will. So…when their percentage of our volume increases then again an output is that our overall revenue per million goes down. And that mix can shift because when different types of customers who will more often, our prime clients or GTS direct clients or hedgers or what have you, those guys will generally pay more per million and if they are in an active period which is a certain type of market that they will be active in, we will see our RPM go up. So again having this kind of mix of clients, if they all move together then it won't move much at all, but that RPM can go down and go up based on the mix of the client type.

Rich Repetto
Okay and well the very last thing and I won't go on, but do you think you are attracting a higher mix of HFT to get the bonds than your peers because if your peers went up the same amount of volume and then if that's true what are you doing to attract that type of customer.

Glenn Stevens
Well, that's interesting Rich because I would say in comparing our kind of standing potential customer mix in terms of having a predominance of that HFT. I am going to argue we probably have some of the smallest percentage of overall clients. If you took our client base and you compared it to our peers and you compared it to an EBS who caters to really, really the bank and HFTs that you compare it to a hotspot who at least traditionally compared to HFTs.

I don't think any of us break our percentages of what the client types look like, but I just think, anecdotally, because of gains juxtapositioned with our ability to provide prime of prime services with our ability to attract different types of clients, with our ability to attract some clients that used to be prime brokerage customers of the big money center banks but you know those banks publically pulled back from a sector of that market so we picked up some of that business.

So what I'm getting at is that for us HFTs are relatively a merging piece of our business which says that as we have been able to provide the services and the technology expertise and the pricing frankly then we are able to attract that business. So yes, it has the detrimental effect of driving down the RPM but ultimately when those other clients are more active in different types of markets then we will see the benefit come from that too.

Rich Repetto
Okay, thanks for taking all my questions and thanks to a very upside quarter compared to the prior quarters.

Glenn Stevens
Thanks Rich**.**

Operator
Our next question comes from Kyle Voigt from KBW. Please go ahead with your question.

Kyle Voigt
Hey Glenn, hey Nigel. Good evening. I just wanted to ask one…it is on the regulatory side so the UK move to limit retail leverage for CFTs has made some announcements there and then Turkey moved to limit retail leverage in FX and now there is some news article stating that Ireland and Spain maybe next in capping retail FX leverage and then on top of this I think there has been some advertising bands in a few countries across Europe. Can you just talk about the current regulatory environment and how you expect to navigate all the challenges that may be ahead.

Glenn Stevens
So this is kind of a classic if you know the term Weiji [ph]**,** right, the risk and opportunity. So in the one situation there has been some recent announcements about contemplation of what you just said. That isn't new by the way because earlier in '16 there were missives coming out of Germany, coming out of France, coming out of Belgium, different places, and we have seen it years ago in Japan, we saw it five years ago in the US. So these are scenarios that cycle through and I'm not being dismissive of them but ultimately when you have disconnection in the market like SMV or a situation like a company needing to bail out or what have you, you will have a scenario where regulators almost feel compelled to reassess the situation and so the part that's the risk is to say, well, will they overshoot the runway and in a good way the regulators I have to say appear to be very professional and very measured in their focus to the point where they are an example of the FDA. Soliciting input from the global leaders, we are part of a small group that's helping to provide feedback and guidance and input into what we hope is a sensible outcome but it's not just a hope that you are in a black hole, it's in a hope in kind of collaborative effort.

So I think that that bodes really well for how if there even are going to be any changes how they are going to impact firms and the clients. And by the way, anything we can do to shore up this market and make it even more viable, more transparent and more comfortable for global customers to trade in, then that's all a good thing. Now, here's where the opportunity part comes in. Those firms that have challenges to deal with regulatory changes that have to have new reporting responsibilities, or have to have more flexible margin, will have to be able to apply different settings for different customers and different products. Those shops that aren't as well capitalized that aren't strategically designed to kind of react and have the resources, yep, there are going to hit some headwinds but for us that's our opportunity and that's why when you see these things occur, there is a often a following disconnect and that might be three months later or it's a year and a half later but the reality is those marginal shops first get put on notice and then second become interesting discussions and so I think that's the good benefit about being a global leader, being a dominant player in certain markets whether it's the US or Asia or what have you in UK, Europe and so that's where on the short term you know you rightly said hey what do you think about these curtailments. We look at them and we size them up and then we say hey! What opportunities might that bring and I think we've actually shown that. That's has been way more on the opportunity side than it is on the headwind side.

Kyle Voigt
It sounds like that you believe that there could be these opportunities ahead maybe for M&A if that poses challenges to some of your peers that maybe less transparent or currently less regulated or don't have the scale that you have. So how are you thinking about capital deployment at this point in terms of saving some reserves and some cash in order to do M&A versus the buyback? How are you weighing that because it sounds like you do think there is some opportunity for M&A going forward?

Glenn Stevens
It's a great question and we have I think have a bit of a track record as kind of viewing potentially disconnecting situations as opportunity and so when we do that we will try to keep as much powder dry as possible partly for the unknown of what capital requirements might be. So, it becomes kind of a ho-hum for us, when there's an adjustment or when there's M&A as you said. So, prior to Brexit, prior to the US election, prior to any new rules that might be coming out, we may make short-term decisions to maintain, let's call it, above…if you want to use the word optimal or baseline, we'll maintain a liquidity above those limits, just so we're able to act quickly.

Because sometimes being more nimble on some of these deals, I think FXCM is a good example of being able to work quickly through a situation gives you a leg up. And if you have to go and try to arrange financing, that never happens quickly. So, if you have it handy, that works. So, to answer your question, we try to pick and choose our spots, but in an anticipatory fashion. So we'll size up a situation, whether it'd be a regulatory change, a capital change or a market disruption, and say, hey! That could bring opportunities, why don't we be ready for that.

And so, we've got somebody who will go knocking on Nigel's door and say, hey look, we want to be able to be in a good situation to react. But, that's where we look back and say, hey, look at 2016, we had a solid year in terms of generating cash, and we made sure we returned a good chunk of it to our shareholders. But, of course, we left ourselves some flexibility and every time there'll be a situation where we don't need as much flexibility, we'll focus on returning it. And every time it looks like there's an opportunity, well the whole reason is to do it is to reinvest so there is more to turn back later.

Kyle Voigt
Okay, that's helpful. Then last from me, just a quick one for Nigel. Are there…is there an update on plans regarding the coverts that expire next year? Thanks.

Nigel Rose
Yes. I mean, Kyle it's a good question. We have plenty of time. It is next year, as you say. But obviously, it's something we're conscious of and not ignoring, so we are looking at what options we have available to us, and how we might approach that well in advance of needing to make any firm decisions around those converts next year.

Glenn Stevens

That's one of those ones, just to pile on it, because to say, hey! November of '18 certainly gives you plenty of runway to operate within, but if you set up right, as Nigel said, and market opportunities or situational factors make it that we want to go early, then that's why it's on kind of a short radar for us. But that's where we’re paying attention. We're looking at the market to say, hey, if a window opens that makes sense, we go. And if not, that's okay. We have plenty of time.

Kyle Voigt
Got it. Thank you.

Glenn Stevens
Okay.

Operator
Our next question comes from Jerry O'Hara from Jefferies. Please go ahead with your question.

Jerry O'Hara
Great, thanks for taking my question. Just actually a quick one probably for Nigel here, just saw the marketing spend ticked up quarter-over-quarter a little bit more than we anticipated. But, also noting from your deck that you're, I guess forecasting, bit of a pull back. So, I guess maybe if we could get a little bit more color on what drove the quarter-over-quarter increase for starters? And I guess what areas you may be pulling back on in early 1H 17, just for context will be helpful. Thank you.

Nigel Rose
Sure. Yes, I mean, I think I mentioned as we went through the deck. We always were looking at…we were conscious, we held back our marketing spend because we were still integrating businesses, and we wanted to make sure that all our ducks were lined up before we spend too much or invested too much in marketing. Q4, so as we said, toward the end of last year, we were looking at consciously ramping that up.

And as Glenn described, the conditions in Q4, the market conditions, were…made good sense that we not only ramped it up, but actually we probably went above and beyond what we were possibly expecting to spend in Q4 to take advantage of those market conditions. Because I think as Glenn said before, nothing is going on in the markets. You can spend a million dollars and get minimal return whereas if there is activity in interest for that same million dollars, you will see a much better payback. So, it's really market conditions that drove the increased spend in Q4 of this year. And for the same reason, as Glenn mentioned earlier, we're not seeing those same conditions in Q1 so far. And therefore, we’ve sort of taken some commensurate measures around our marketing spend just to reflect that. I don’t know, Glenn, if there is any?

Glenn Stevens
No I think that’s…yes I agree.

Jerry O'Hara
That makes sense, and that’s helpful. I guess one, just a follow-up on the M&A side, kind of disconnected M&A aside; perhaps you can talk a little bit about your focus going forward. Obviously, a number of deals, ten deals in the last five years; you’ve taken out obviously one of your biggest US competitors or at least a portion of it. Maybe you can talk a little bit about

where the focus is going forward, whether it be either pace or geography or even size, to give us a sense of how you're evaluating that.

Glenn Stevens
You probably stole half of my thunder, our thunder on your answer in that we do actually look at it in kind of the multi-layer or grid scenario, the way you said it where it’s pace meaning, how soon are we available, let's start with that one. As I mentioned earlier on a question, the benefit of maintaining sufficient liquidity to run your business, and be opportunistic with M&A, it’s just that. So, we can’t dictate the pace. The pace is often dictated by us, something happens an opportunity for a market disconnect, or what have you, disruption, then we want to do that.

So, in terms of pace, I guess my answer would be that we're prepared to move quickly, but we’re in no rush and so there is no over-urgency to have to get something done or we’re compelled. But, we're certainly ready, willing and able. And by the way, we maintained an active pipeline. So not all of this is in reception mode, we also actively look, which leads me to the next point to say, where do we look. You also said, used the both terms geography and kind of product/customer segment. So, having the three segments distinct as we do in our futures business, in our retail OTC business and in our institutional business, they all present different types of opportunity for growth through strategic M&A.

On the institutional side that may be trying to build scale, because the margins we’ve modeled out would improve. With that kind of scale, you can build organic scale or you can build M&A scale. There may be one or two opportunities that are possible there. On the futures side, we’ve already demonstrated in the short-term by building our business with modest blocks at a time, if you go back when we started with the Open E Cry business from Schwab, we subsequently in about four years built that business into a 5x of the size that we first bought it, it was kind of a $10 million top line business to a $50 million top line business. But, more importantly, we went from $10 million of kind of flattish to down a little bit of EBITDA to look at it more like 10% margins. There is no reasons that that can’t go higher, and coupled with a little bit of tailwind from some interest rates, that helps too. So, that’s one where we keep our eyes and ears open, or actively look and say what makes the complementary fit. It might be some technology built in, it might be a certain customer segment, what have you, but that’s one. And then on the retail side that one can be situational or geography.

So situational, FXCM is good example where we had an opportunity to work out a deal and it went very well. Geography wise, our business is driven by…generally speaking, three main areas in the US in Asia, and in UK, Europe. So, just by probability, the likelihood of doing a deal in one of those three geographies is higher than in some of the, if you will, secondary markets for us. They’re not secondary markets, but they’re secondary markets for us. And so, I would say that we will look in those geographies and we are looking in those geographies, and we do have an active pipeline for where it makes sense. So I guess the answer is we play chess on three levels, which is at the pace of which deals get done, with the geography of where deals get done, and operating three segments, three distinct segments within our business, does give us three different types of deal that can get done as well. So, I hope that I answered the question.

Jerry O'Hara
No, absolutely, thank you. That was helpful.

Glenn Stevens
Okay, great.

Operator
Once again, if you would like to ask a question please press "*" and then "1", to withdraw your question you may press "*" and "2". Our next question comes from Nick Toor from Luzich Partners. Please go ahead with your question.

Nick Toor
Hi guys. Thanks for taking the question. First of all congratulations on the FXCM acquisition, seems like a terrific deal for the Company. Would you mind giving us a little bit of color on, you have mentioned in your press release that it sort of adds roughly $50 million to $20 million to the bottom-line. What assumptions in terms of customer retention or other main assumptions that you're using to make that projection?

Glenn Stevens
So, Nick, just to clarify one. We mentioned $50 million to $20 million of top-line actually, what we call the incremental revenue for '17. But, given the minimal costs, then that's just one point of clarification. We also…when we modeled this business for us, we kind of used the combination of the information available from FXCM. And so, we said, as I referenced earlier, let's see how many active clients are there in Q4, that's the most recent info. Let's look at the amount of assets that came over, that's the $132 million, $140 million of assets that came over. Let's look at a different kind of metrics that they produced. And then what we did was applied metrics from our internal operation that says, let's look at what it might do to our average daily volume, let's look at our activation, let's look at churn and measure those two together. So, to be honest, it's really a hybrid in terms of modeling. How we came out with that incremental revenue is really a hybrid of the information that they've been providing in their disclosures and the information that we've been providing on our disclosures. That's really the model.

Nick Toor
Got it. Just a little clarification and that was helpful. My understanding is that FXCM was always sort of a price-base competitor and lower revenue per customer. Have you assumed a more normalization to your levels, and have you assumed that the market environment, as a whole, improved now that somebody like FXCM is no longer in the mix.

Glenn Stevens
When you actually factor in all-in, whether they're commission basis or spreads, or what have you. I think that it ended up being a pretty similar pricing level. If you assumed similar pricing, it's kind of in a real apples-to-apples scenario, sometimes to give them credit there can be certain visible differences. But the reality is you do the actual pricing and the revenue capture, they're more similar and maybe appear to be more different. So, I would say, I guess the answer is no. We don't see a huge disruption in the market, because they actually weren't that far removed from the market.

Nick Toor
Okay, okay. Fair enough. And then in terms of your institutional segment and your futures segment, you had lower margins this quarter than previous quarters or for the full year. Is there anything, in particular, that made those margins come down? Or is it just quarterly fluctuation?

Glenn Stevens

Quarterly fluctuation, because of business mix; because one of those things where we do have different subdivisions, if you will, within futures; whether it's Ag; or whether it's financial futures; or whether it's hedges; or whether it's our direct broker-assisted business. All those clients have different profiles when it comes to revenue per contract. And so, if it's a quarter in which your Ag customers are really busy then that'll move it one way or another. So I don't know, if you want to go through an example.

Nigel Rose
No, I think that's right. And I think year-on-year the fixed cost base, the cost base of those two businesses, institutional and futures, is pretty constant and pretty flat and something we keep an eye on. And so it really comes through, as Glenn was mentioning earlier about institutional. You see the volume growth depending on which sub-segment of the segment that volume growth comes from. It can impact the RPM and therefore the revenue, and therefore the profit margin.

Nick Toor
Got it. Okay. And then last one from me. Looks like you might be seeing some high interest rates going forward. What is the sensitivity to your business for these rate increases?

Nigel Rose
Again, that's something that we obviously are aware of and focus on as we think through what impact it can have on our business. And so if interest rates went up globally by 1% looking at our mix of business, retail, futures, in particular, and then we believe that that would add something in the regions of $0.10 to our EPS.

Nick Toor
Got it. Okay. Great, thanks. That's very helpful. Thank you. That's all from me.

Glenn Stevens
Thank you.

Operator
And our next question comes from Ben Rubenstein from Riboti. Please go ahead with your question.

Ben Rubenstein
Hi Glenn, hi Nigel.

Glenn Stevens
Hi.

Nigel Rose
Hi.

Ben Rubenstein
Did you guys go into what the after OTC accounts were for February without FXCM?

Glenn Stevens
Did we go into what they were without FXCM? I believe, no. Our metric for February was a total active account measure. That was for, oh, that's looking back for the year, right.

Nigel Rose
Yes, that's a trailing 12 months, which is, as Glenn mentioned earlier, it includes two days of FXCM. So didn't or I mean they wouldn't really have materially impacted that number. So, the majority of the growth would have been non-FXCM, because in that, whatever it was 19, 20 trading days of February, only two of them would have had any FXCM customers to speak of. But also recognizing those customers would not be used to our platform having just migrated across. So, we did see a lot of calls coming in from them to understand walk throughs in the platform, et cetera. So, even though there were two days, those two days would not be as active as we would expect them to be going forward, as these new customers get used to our platform…

Glenn Stevens
Yes, so if you look at the Jan number of 127 and look at the Feb number of 133, the attribution of the 6,000 of more actives is a small piece of FXCM and it's really just gained growth of active customers; new customer being brought in and existing customers trading.

Ben Rubenstein
That's great. Then I guess sort of longer term, whether that's through the end of this year or looking at three years, five years, do you expect to have to grow the number of active accounts?

Glenn Stevens
Absolutely, I mean look, there is a couple of ways that happens. On one of them of course we'd expect with our incentives to activate the transferred clients. So, we activate 47,000 clients. We want to activate as higher percentage as possible. And as Nigel said, we spend a lot of time beefing up our customer service, people servicing at longer hours, people servicing through various mediums, whether it's chat or calls or email. We divide the whole series of videos that are on our, accessible on our website and through links now. We're running 5 times the amount of webinars that we were prior to this.

So, we can get people comfortable and activated fast. That's one driver. Now to be fair, those customers came over as a lump sum and that's a step function pot [ph] that we should see. I wouldn't classify that as organic growth, I would classify that as acquisitive growth. And on the organic growth, as we referenced in our deck, there is a series of initiatives that…look on the one hand, there is one of the questions from Kyle mentioned, regulatory requirements that need a lot of work to stay compliant, and again being able to deal with that and having the wherewithal, it's helpful for us. But there is another set of strategic initiatives internally that have to do with all the trading….the customer experience; the trading experience; the platform; our mobile capability; our funding options; all those things that make a customer want to engage with a company. And so for us at our base, we're an online business. We're an online business catering to customers. Whether they are consuming our research or our charting, or our information, or whatever might be or just doing trades, the client experience is the focus. That's the thing that these guys got to do that.

And so ultimately, even ramping that with this…we talked about digital advisory and those capabilities. And there is some benefits, I mean, having a halo effect from the FXCM deal where you become clearly the market leader in a big market like the US, there is some global repercussions on that one, because these customers pay attention across the board. So, long answer. But short answer is, yes. Absolutely expect more active accounts both from organic and acquisitive. And part of it is by the work we're doing internally, and part of it is reactivating, as Nigel mentioned, the customers that just came over two weeks ago.

Ben Rubenstein
Sounds great. Thanks.

Glenn Stevens
Okay, great.

Operator
And ladies and gentleman, at this time, and showing no additional questions, I would like to turn the conference call back over to management for any closing remarks.

CONCLUSION

Glenn Stevens
Okay. Thanks for joining today's call. And I appreciate your interest. Have a good evening.

Operator
And ladies and gentlemen, that does conclude today's conference 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.