

GAIN Capital Holding

Fourth Quarter 2017 Earnings
Conference Call

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CORPORATE PARTICIPANTS

Glenn Stevens - *Chief Executive Officer*

Nigel Rose - *Chief Financial Officer*

Lauren Tarola - *Vice President of Edelman*

PRESENTATION

Operator

Good afternoon everyone and welcome to the GAIN Capital Fourth Quarter 2017 Earnings Conference Call. Today's conference call is being recorded. And at this time, I would like to turn the conference call over to GAIN Investor Relations representative, Lauren Tarola, Vice President of Edelman. Please go ahead.

Lauren Tarola

Thank you, operator. Good afternoon and thank you to everyone for joining us for our fourth quarter and full year 2017 earnings call. Speaking today will be GAIN Capital's CEO, Glenn Stevens and CFO, Nigel Rose. Today's commentary will be accompanied by our earnings slide deck, which can be accessed via webcast on our IR Web site now or at a later time. Following their 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. I refer you to the company's Investor Relations website to access the press release and the 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.

Now it's my pleasure to turn the call over to Glenn.

Glenn Stevens

Thanks Lauren. And thanks everyone for joining us today for our fourth quarter and full year 2017 review. 2017 will be marked as a year of multi-decade low market volatility which clearly had an adverse impact on GAIN's performance for both the fourth quarter and full year. With that said, I am pleased with the strategic progress we have made over the last four quarters to steadily improve our business model.

Some highlights, we completed the acquisition of FXCM's U.S. client assets in late last February helping to expand our total client asset base. This was a highly accretive transaction for GAIN with a total cost of \$7.2 million and generating customer transaction revenue of over \$15.5 million and counting. And going forward, we will continue to review strategic M&A opportunities that complement our existing portfolio.

We succeeded in executing several key financing and cost initiatives, bolstering our liquidity position and reducing fixed costs. For example, we established a \$50 million revolving credit facility and executed a \$92 million convertible debt offering in the third quarter of 2017 to retire our existing convertible. And we executed the \$15 million in targeted cost savings, actually achieving \$18.6 million by year end. We also focused on driving organic growth by expanding our product and service offerings, including the launch of our innovative mobile app, GetGo. Also, we initiated the global roll-out of Bitcoin trading with the UK/Europe market, Australia and Singapore, now live.

We are also seeing growth in our retail client assets, ending the year with \$750 million which is up 25% year-over-year. We remain focused on our direct business with full year new funded direct accounts increasing 12% year-over-year. In aggregate, these accomplishments illustrate our commitment to strengthen GAIN's ability to deliver long-term value over various market conditions.

However, we recognize that in order to deliver the level of returns this business is fully capable of, there is still work to be done. Our business strategy for 2018 and beyond remains centered around three primary initiatives: driving organic growth, creating greater operational efficiencies, and reducing revenue volatility with lower period-to-period volatility of results.

To continue to deliver organic growth, we are focused on the following – growing our direct business, leveraging our brand assets and existing global footprint, more specifically, by attracting and servicing two distinct key customer segments, one, the experienced active trader and two, the broader retail investor group, all the while innovating our suite of products and services.

To increase our operational excellence, we are executing on initiatives that include increasing automation and reducing service costs, simplifying our technology stack, rationalizing and refocusing our brands and optimizing our in-sourcing and outsourcing balance. While we believe that these initiatives will lower our costs in 2019 and beyond, we do anticipate some increased investment in 2018, which Nigel will discuss in more depth.

Also, we are focused on reducing the variability of revenue period to period. We will do this by increasing our efficiency of revenue capture, already executing on an AI-driven hedging program to decrease costs and further optimizing our trade flow from our direct or indirect business channel. While we are confident our revenue volatility reduction initiatives will improve our operating performance overall, we do not expect to achieve the full benefits of this until later this year and early into next.

Overall, we believe these three strategic priorities will help us achieve sustained, steady and more predictable organic growth, improved operating margins for the long-term target as previously mentioned of 35% EBITDA and all this leading to a higher market cap and higher stock valuation.

Drilling down further into our organic initiatives, we are focused on growing our direct business, our direct customers historically have had higher margins and longer tenure whereas the indirect business is arrayed across a high number of partners, who often require more bespoke products and services and have generally lower margins.

This focus on attracting direct clients is already showing early positive results. We achieved retail total client assets of \$750 million by year end and, as I mentioned, that's up over 25% compared to full year 2016. When you look at our active accounts on a trailing three-month basis, direct active accounts in the fourth quarter even excluding the impact of FXCM, grew over 5% year-over-year and remain steadily growing.

Additionally, the direct client share of our volume continues to increase, now making up 67% of total volume in 2017, compared to 56% in 2016, and seeing the trend, 71% in Q4 of 2017, compared to 55% in the same period Q4 of 2016.

As to the indirect business, we have been successfully rationalizing this segment, which continues and resulted in 2017 retail referral fees of \$39.7 million, which was down 28% as compared to 2016. By leveraging our global footprint, brand assets and leading customer proposition, we are well positioned to target two distinct market segments – experienced active traders and a broader retail investor group.

We categorize experienced active traders as our sophisticated high value client base. These customers gravitate to trusted, well capitalized providers and develop long-term relationships. They also trade multiple asset classes and demand high quality tools, competitive pricing and personalized service.

We categorize the retail investors as our customer base that tend to prefer a more DIY approach to trading and service. So, we leverage our high quality easy to use offering for these self-directing traders. These customers offer high volume and they also gain a cost-efficient acquisition by a digital and affiliate channels.

We believe our strategic focus on these two distinct customer segments will yield the highest organic growth returns for our business. Therefore, we continue to develop specific brand and product strategies catered to serve each of these target customer segments. For our experienced active traders, our GAIN Capital brand is best positioned to meet these customers' needs, as it offers a premium service with a full range of over 10,000 FX and CFD markets including equities and options.

A robust proposition for active traders including tools and pricing, a high-touch, tailored and personalized support model and it allows for future product expansion to attract a wider investor audience. In parallel, a large number of our retail clients can be served efficiently with low touch offerings that leverage the strength of the FOREX.com brand and focuses on efficient acquisition and low-cost servicing.

FOREX.com offers customers a user-friendly experience with a heavy emphasis on mobile, delivering FX, cryptos, and even most of the most popular global markets being traded. It has a high-volume, cost efficient customer acquisition model through our digital and affiliate marketing channels with a highly automated, on-boarding and funding experience. FOREX.com also offers an enhanced AI powered customer service model.

Also launched in the UK market in December, GetGo is another attractive offering for our retail investors. It is an innovative trade signals driven app designed for novice traders and those new to the market of trading at all, for a simplified trading experience for non-self-directed investors that leverages our existing offering and our regulatory license located around the globe.

GetGo's algo-generated signals cover over 40 markets including FX, indices and metals. Early KPIs have exceeded expectations in its first full month of launch, including strong CPI figures and installed-to-traded ratio performance, again, beyond our expectations. We are also seeing positive early reviews from users and even a very high App Store rating.

To support the success of GetGo, we expect to ramp up our original marketing budget in Q2 as we continue to monitor closely conversion, funding rates and trading frequency. The global roll out of GetGo is planned for the balance of 2018.

In addition to the launch of GetGo, product innovation remains a core focus for us as it underpins the execution of our broader organic growth strategy and we continue to invest in new products and services. This includes the development of a next generation web-based trading platform, built for speed, simplicity and ease-of-use and fully customizable for different clients and their trading style.

Features of the platform will include a powerful charting tool, smart trade and order tickets, curated market 360-degree views, expanded trade and account alerts, client sentiment capabilities, and also views that include third-party market research analytics.

After launching Bitcoin in the UK and Europe market in December and then moving into Australia and Singapore in early 2018, we are looking to expand our offering to include other cryptocurrencies by the end of this quarter. Stay tuned for launch announcements for Ripple, Ethereum and Bitcoin cash, for example, in the coming weeks. We are also looking to launch a U.S. crypto offering as we navigate U.S. regulatory requirements.

In closing, our financial performance throughout 2017 reflects the considerable headwinds brought upon by a multi-decade low of market volatility. While we cannot influence macro trading conditions, we acknowledge that we need to evolve the GAIN platform as a business to better drive value during periods of low volatility.

This management team, with the board's support, has conviction that the strategy we have now in place will accomplish this goal. I would also like to stress that our strategic focus to deliver more sustainable returns will not hinder our ability to drive outsized growth when high levels of volatility return.

The first quarter of 2018 is already off to a marked improvement as we experience higher volatility levels driven by financial market uncertainty, rising interest rates and a general unsettled geopolitical sentiment.

With that, I will turn it over to Nigel for a review of our fourth quarter and full year results. Nigel?

Nigel Rose

Thanks Glenn. Q4 2017 net revenue decreased 39.8% year-over-year to \$69.7 million as compared to \$115.8 million in Q4 2016.

Full year 2017 net revenue decreased 25.1% year-over-year to \$308.6 million compared to \$411.8 million in full year 2016. Q4 2017 GAAP net loss was \$3.7 million and Q4 2017 adjusted net loss was \$4.5 million. Q4 GAAP EPS was a loss of \$0.08 as compared to a profit of \$0.42 in Q4 2016. Adjusted EPS was a loss of \$0.10 as compared to a profit of \$0.43 in Q4 2016.

Excluding the impact of the U.S. Tax Cuts and Jobs Act, fourth quarter net income would have been a profit of \$1.2 million or \$0.03 per share. Full year 2017 GAAP net loss was \$11.2 million, while full year 2017 adjusted net loss was \$9.4 million.

Full year 2017 GAAP EPS was a loss of \$0.20 as compared to a profit of \$0.67 in full year 2016. Adjusted EPS was also a loss of \$0.20 compared to a profit of \$0.92 in full year 2016. Again, excluding the impact of the one-off tax charge arising from the new U.S. regulations, we would have seen a full year loss of \$6.3 million or \$0.10 per share.

Q4 2017 adjusted EBITDA was \$7.3 million as compared to \$36.9 million in Q4 2016, reflecting a decrease in year-over-year revenue. Full year 2017 adjusted EBITDA was \$35.1 million as compared to \$99.6 million in full year 2016.

Turning to the retail segment, both revenue and margin faced pressure due to low volatility throughout the year. During Q4, we realized revenue of \$52.8 million as compared to \$97.5 million in Q4 2016. This resulted in a reduction in Q4 retail profit margins to 16%, down from 42% in Q4 2016. During the first two months of 2018, we have seen a return to growth and profitability on both top and bottom line as market volatility increased.

Q4 2017 revenue per million was \$90, down from the unusually strong \$151 in Q4 2016. Given the record low volatility we saw in 2017 revenue per million for the full year was down to \$93 compared \$117 in 2016. We continue to view our retail segment as a key driver of our business going forward.

Turning to the institutional segment, despite difficult market conditions revenues and margins were relatively stable for the fourth quarter and full year of 2017. Q4 ECN average daily volume of \$11.5 billion increased 22% year-over-year as our GTX platform continues to gain market share whilst our full year swap dealer volume remained stable. We continue to see a shift in business mix towards high frequency trading, which has affected our ECN revenue per million during the year.

Looking next to the futures business, revenues were \$9.5 million for the quarter, down from \$10.5 million in Q4 2016. While revenues declined, it is important to note that the market conditions impacting the segment were unprecedented. The VIX remained at record lows in Q4 2017, down 27% from Q4 2016 with the average VIX level for the year at a multi-decade low.

Consistent with January, in February we saw higher customer engagement, increased volumes and the return to a more normal RPM level. During February, retail OTC average daily volume increased 25.7% on January to \$14.2 billion, a 67.1% improvement over prior year.

We are introducing a new customer metric as part of our Q4 and full year 2017 earnings results. Historically we have reported active retail customers on a trailing 12-month basis and will now add a trailing three-month active accounts metric. In line with feedback we've received from analysts and investors, we believe this will provide a more accurate and timely basis for measuring our organic growth progress going forwards.

In February the trailing three-month actives were in line with January at 80,681 whilst being 5.4% above the prior year compared to a 1.8% year-on-year improvement in the trailing 12 months actives. This reaffirms our belief that the new metric is more representative about those business fundamentals.

ECN ADV increased 15.8% in February to a record of \$16.1 billion, a substantial improvement of 45% over the prior year. As with GTX, we have seen an uptick in our futures business with average daily contracts increasing 17.1% over January at 37,596, 21.2% above the same period last year.

As we have discussed over the past two years, particularly following the acquisition of City Index, we have maintained a keen focus on realizing synergies and reducing costs in our business. At the end of 2016, in conjunction with the integration of the City Index platform we announced \$46 million in total cost synergies.

In 2017 we aim to improve to continue our cost base and continue to optimize our cost base setting a target to achieve \$15 million in fixed cost savings for full year 2017. We've surpassed this target, ultimately realizing an \$18.6 million reduction in cost by year end.

While we initially targeted those savings to come primarily from reductions in G&A, comms & tech and trading expenses, some of the additional savings we achieved come from other areas as a result of lower than anticipated financial performance. Offsetting those to a degree were some headwinds associated with key contract renewals together with higher volume performance where institutional segment by which increased costs.

During the fourth quarter of every year we conduct an in-depth analysis of our performance against our strategic priorities and assess how we want to refine them for the upcoming year.

As Glenn walked you through earlier, our strategic priorities for the year include delivering organic growth, improving operational excellence and reducing revenue volatility. These three initiatives are aimed to help us grow revenues and profits and improve margins in the mid and long term. We have now identified several opportunities to accelerate the achievement of these priorities which will require investment in 2018.

As a result, we expect our fixed operating cost base will increase in 2018 to around \$195 million to \$205 million for the full year. Approximately half of the increased costs will come from these investments. The other half will come from adjustments to our business model based on increased volatility. While a majority of the changes to our investment projections will slightly increase fixed costs in the near term, we are confident they will drive the operational efficiency of our business going forward.

We expect the 2018 investments in organic growth and revenue volatility reduction, together with savings from the operational excellence initiatives to begin kicking in during 2019 and take full effect in 2020. As such, we anticipate our fixed cost in 2019 to fall below the 2017 level with 2020 dropping meaningfully below that.

Turning to variable expenses, as Glenn noted, we are focusing on growing our direct business while only selectively investing to grow our indirect business, which will likely cause a further reduction in our referral fees. To that point, subsequent to year end, we are pleased to announce that we finalized an agreement with Barclays to provide direct service for their CFD and financial spread to customers under our own City Index brand.

As a result of this transfer, these clients will be recognized as direct accounts rather than indirect accounts further reducing referral fees and the overall composition of our indirect business as a proportion of total client accounts.

Turning to capital expenditure, over the past few years we've seen this expense increase largely as a result of the integration work associated firstly with GFT and then City Index. 2017 saw a CAPEX decline for the first time since the GFT acquisition from \$23.9 million in 2016 to \$20.9 million this year, a reduction of 13%. We expect this expense to continue to decline over the current year and beyond to the levels previously guided of \$3 [million] to \$4 million per quarter or \$12 [million] to \$16 million on an annual basis.

Lastly, we know U.S. tax reform has been a topic of interest of late, so we wanted to take a moment to comment on our anticipated tax rate for 2018. Given our profit expectations for

2018, we are forecasting a tax rate of around 18% to 19% for the year compared to the previous guidance of 21% as a result of the new lower rate of tax in the U.S.

Moving to our capital deployment strategy, we continue to focus on four key pillars, required liquidity reserves, strategic acquisitions, quarterly dividends, and our share buyback program. GAIN continues to maintain a strong liquidity position, which as of December 31st was \$216.1 million. With our \$92 million convertible senior notes offering and \$50 million revolving credit facility, which can be expanded to \$75 million, we have even greater flexibility to score our M&A strategy and invest in the business moving forwards.

We also remain committed to actively returning capital to shareholders, including through dividend payments and share buybacks. As such, our quarterly dividend of \$0.06 will be paid on March 30th. Share buybacks continue to be a strong focus particularly as we feel our shares remain undervalued.

Including our convertible refinancing and share buybacks, for the full year 2017 we repurchased over 3.7 million shares at an average price of \$6.82 for a total of \$25.8 million. Excluding the share buybacks associated with the refinancing in August, we repurchased more than 1.6 million shares at an average price of \$6.80 for a total of \$11.3 million.

We did not repurchase shares during the fourth quarter of 2017 as we felt the share repurchases through the third quarter, combined with those in conjunction with supporting the refinancing of the senior loan note in August, achieved a satisfactory level of buybacks for the year. In addition, we felt this was prudent in light of the increase in net share price that we saw in December.

As we continue to see the value in buying back shares, we've recommenced our share repurchase program in 2018 and have approximately \$13.3 million authorized by the board remain available for buybacks.

And with that, I now turn it back to Glenn for closing remarks.

Glenn Stevens

Thanks Nigel. I'd like to add that despite fluctuations in market volatility, we will continue to activate in areas we feel will drive value, specifically investing in organic growth, driving operational excellence and reducing revenue volatility. These areas of focus, coupled with our commitment to optimizing capital allocation to drive shareholder value, make GAIN an attractive value proposition for investors.

Based on the early positive indications of the 2018 market environment, supplemented by the groundwork we have laid in 2017 to achieve our strategic goals, we look forward to reporting on our progress in the coming quarters.

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

QUESTION AND ANSWER

Operator

Ladies and gentlemen, at this time we will begin the question and answer session. If you would like to ask a question, you can press "*" and then "1" using a touchtone telephone. To withdraw your question you may press "*" and "2". If you are using a speakerphone, we do ask that you

please pickup your handset to ensure the best sound quality. Once again, in order to ask a question, that is “*” and then “!”. We will pause momentarily to assemble the roster.

Our first question today comes from Kyle Voigt from KBW. Please go ahead with your question.

Kyle Voigt

Hi, good evening. The first is on the operating environment. Obviously, you are seeing a lot of growth in February in terms of volumes. Could you just provide a little more color like where exactly, is it the CFD business? Is it the FX business? What asset class? And then also, can you maybe tell us how your clients fared during the severe volatility we saw in February, I guess if any...did many get stopped out, I guess if you could just let us know how your retail client assets have changed thus far in the quarter as well?

Glenn Stevens

Sure Kyle. A couple of things, we've probably broadened your perspectives since we put out metrics for both January and February. There were some similarities in terms of overall volatility as an elevated level of both the VIX and CVIX and ATR that we like to use as three drivers of a shape of the market trading environment for us. And both January and February exhibited similar characteristics.

In terms of the specifics around the asset classes, we actually see in many cases consistent volume increases when we put out our aggregate volume, not per asset class, but we actually have seen the contribution not being just one asset class like FX or indices or metals, everything seem to have had its day through the first couple of months in terms of we saw some moves in gold, we saw some moves in indices, we saw some moves in major currency pairs, euro and sterling. And so, I would say that it was a fairly broad-based participation level for both January and February so far into the quarter.

In terms of how our customers fared, other than the fact that we haven't and don't offer any kind of VIX-related products, we didn't have any of those vacuous situations that were highly publicized when you had that 4% move. So, I pull it back to that to say actually, we didn't have any 10% or 20%, really violent moves that was anything outside the norm for our customers. So, in general, I would argue that they fared consistently with good trading markets and didn't necessarily get stuck in any real problematic situation.

Kyle Voigt

Okay, a couple of more from me. One is on the indirect volume. I think it was down to 29%. It sounds like this is going to tick down further with the Barclays deal. Could you just help us frame the quantity like how many more percents we should see that tick down in 2018 and like where should that settle over the next 12 to 18 months?

Nigel Rose

Yes, hi Kyle. If you look at the pie charts on the slide five, you will see 45% in Q4 '16 of indirect 29% in Q4 '17 as you mentioned there, the change with Barclays that volume there becoming direct rather than indirect, will see a tick down again during the course of the current year. I think our expectations are it will probably settle around a 20% to 25% mark of total volume as that settles down but also as the direct business grows as well, which on its own if indirect business stays the same whilst the direct grows, then clearly the share of direct will pull.

Glenn Stevens

And I think important to note that the Barclays business in this case was a re-class because in a successful agreement that we had with them based on their own projections, more and different requirements and a lot of those scenarios, they were more than happy to actually have us service those clients on a direct basis. And so, going forward even though it's a core tick down and indirect, it's a commensurate tick up indirect because we're able to change to that business over in a positive way.

Kyle Voigt

Okay and then lastly, I just want to touch on the regulatory environment. Could you just give us an update there, I think the consultation period ended I think either late January early February as was proposed the 30 to 1 to 5 to 1 leverage limits. How are the talks with ESMA progressing and where is industry helpful that ESMA will kind of shakeout in terms of the leverage limits? And then lastly, it's really just, how much of your revenues...could you quantify, how much of your revenues would be impacted by any of those CFD FX related leverage loan that ESMA would put in place?

Glenn Stevens

So two items there. On the one hand in terms of the progress, the original guidance from ESMA in this case, which appears to have taken a lead role relative to FCA, relative to the FCA is that ESMA, yes, has concluded their consultation period. We've actually been privy to direct discussions with them recently in recent weeks. They're still shaping their opinions, still shaping the policies. We do expect some guidance in the coming weeks to say, hey, here's where we think we're going and then there will be an implementation period beyond that.

And so ultimately, there is two variables here. One of them is the suggested changes to lower leverage environment as you suggested and that's still to be determined. The other one is around the suitability of the client and the suitability of the providers. So in many cases where the capitalization and the rigor applied by the providers, that puts a shop like GAIN in a good position vis-à-vis a lot of the smaller players who can't actually provide the capital base and the ability to disseminate information between different types of clients and be able to do all that upfront checking, if you will and have the technology investment necessary.

So that's not really just fluff. The reality is that the bigger, more well-capitalized, established companies are going to be able to deal with these requirements better. Whether they are reporting, whether they are information, whether they are all kinds of things that will make the regulators feel better. That's actually a positive.

In terms of the leverage, yes, as we've said in the past and as a pull-throughout there, we do expect a lower leverage environment overall, but to some degree it will be muted because when it comes to suitability cuts in this called "professionals" types limit risk accounts. Those customers for example that are considered professionals are almost zero impact. And customers that aren't will have different mitigating factors to bring them up the curve and such. So, I think to some degree there is still devil in the details here to say the headline number of lower leverage, but with what, and so those are the details that I think still have to emerge and we're still commenting on. But in many cases, as I said, the larger more established players actually will fare better to our competitors. And in terms of the impact, as we have stated in the past, GAIN vis-à-vis our peers is impacted to a much lesser degree at this stage given our diverse customer bases in the U.S. in Asia and UK, Europe.

Kyle Voigt

So do you have the percentages of revenues that would...

Nigel Rose

Yes, of course, I think we've mentioned in the back end of end of last year, that at that point roughly 20% of our global revenues came from the UK market, although as Glenn says to the extent that we have professional clients in there, they will not be impacted by the leverage changes. And as you can probably imagine with an 80-20 rule in terms of the type of customers and the amount of revenue they generate, clearly, it's less than 20% that potentially could be impacted by these changes.

Glenn Stevens

Yes, that's right. So, it's a fraction of the fraction of that 20% for example.

Kyle Voigt

Okay. So that 20%, was that just UK clients or was that broader Europe?

Glenn Stevens

That's broader Europe yes.

Nigel Rose

Yes, UK and Europe.

Operator

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

Rich Repetto

Yes, good evening. The question, Glenn is, you've talked a lot about how you did better with volatility in volumes as well in January and February. Just trying to get a feel for the revenue per million compared to say either 12-month average or 4Q because it's a little more difficult like you pointed out, the volatility in the CVIX is different than the volatility in the VIX?

Glenn Stevens

Yes, so in one of our slides there, we refer to a comment at slide five, what we call our GVIX we pointed out and we have mentioned in the past that the GVIX is a custom measure we use that combines the CVIX with the VIX, as it applies to a GAIN's volume. And so, as you mentioned both of them have impacted and in some cases VIX equity driven would fly around and you'll try to draw conclusions for GAIN or the CVIX will, and try to draw conclusions for GAIN. But, since we have material drivers in our business from both equity related products in the indices and currencies, that's why we created the GVIX and so we put it out there. So, on the one hand, if you look back at '17, I referred to a multi-decade low, as you can look back in the VIX pre-1990, that's as low as some of those VIX measurements were for all of '17, which even got lower as they trended into the back end of '17.

Obviously, we have seen a reversal of that for Q1 so far and I think in terms RPM our trailing 12 months is 93 now. I would say that at least here we are partially through Q1 with still a third to go of the quarter, but we had provided indication or guidance to use in 105 and I think it would safer to say that that's a better measure for where we feel like we're trending versus going back to the trailing 12 months of 93. So, if you looked into the super low RPM for example, the trailing 12 had that Q1 in it of 63 that dragged down the longer term 100 to 110 stuff. And so, I

think if you lose that Q1 of '17 and replace it where we are today, we are trending back towards the guidance we gave earlier.

Rich Repetto

Okay, that's helpful. And then, I caught on a little bit here afterwards, but this the whole strategy to reduce revenue volatility and the investments that are making in. Could you elaborate a little bit more on when you really think the AI driven hedging program and the cost of hedging but maybe from a quantitative standpoint as well?

Glenn Stevens

Yes, sure. So, I will see what I can do to bring up to speed on that one. Like everybody else embracing our ability to look at all the data we take in from trading and from P&L behavior and market conditions and volatility, one of the things that obviously we would consider a hamstringing in the past is that it's hard to predict quarter-to-quarter over these short periods what the RPM is going to look like,

Rich, you're always spot on in trying to get a feel for it and we always try to point back to those longer terms. As I mentioned, you look at one, two, three-years and you see the trend, they are relatively smooth, you look quarter to quarter and they aren't. And so, it makes for a challenge for yourselves and investors and anybody else to say, "Hey what's the next quarter going to look like, even though we try to say look beyond the quarter and look back at ten quarters or six quarters or four quarters?" And as we say in slide 25 you know the one line that goes back over time is a heck of a lot smoother than the quarter to quarter one.

So, we've had examples of 150s and 60s over the same period of four quarters, that's hard to do. So, what we did was brought in a quant team, hired some really good talent. Some of them out of the bank, some of them off the street, Wall Street that is, and basically said, "Let's spend some more time trying to figure out the best way to optimize some of our hedging practices in terms of in terms of managing risk, in terms of a more efficient hedging."

Ultimately, the volume driven retail revenue actually isn't as variable quarter-to-quarter depending on how you're able to hedge, and so the concept of being hedging more efficiently to tighten that relationship between retail revenue and our hedge cost is something you'll see you might have heard references to what we call CTR, customer transaction revenue, that's something that some of our peers in the UK use. But ultimately, what we're seeing is indications that with a lot of we probably spent a good six to nine months doing some pretty extensive modeling, and we're starting to see some of the benefits of applying that those practices and applying the technology to our practices now. And that's why we can pretty comfortably say we're expecting to see the benefits of that going forward. It doesn't necessarily raise the whole tide, although indications are that could be, but to start out with it's about reducing some of that noise quarter to quarter.

Rich Repetto

Okay, that's helpful Glenn. Thank you. That's all I have.

Glenn Stevens

Okay, thanks.

Operator

Our next question comes from Dan Fannon from Jefferies. Please go ahead with your questions.

Dan Fannon

Thanks. Glenn, if you could talk a bit about just M&A and how the opportunity set today looks versus I guess a year ago and what we've seen in previous periods?

Glenn Stevens

So sure Dan, a couple of things, you know the M&A pipeline for us, I think we have pretty much demonstrated is always an active one, and we are proactive and reactive as opportunities arise and that doesn't change. The ability to act on them though has strengthened for us as our balance sheet has improved certainly last year over the previous, and then we layer that into getting the convert all squared away, so there's no overhang there and also establishing \$50 million credit lines so that gives us an additional flexibility. I would argue that we don't necessarily have a well valued currency in our stock and that's one of the things that helps wanting us to drive what we would consider a more accurate reflection of the value of the Company. But, there are plenty of other levers to pull. So, in terms of the environment, some of these regulatory changes and some of the kind of general push, I would argue towards the larger more established firms, I think bodes well for opportunities for us where you have fragmented markets.

Now, the U.S. isn't one with a dominant provider in this market. But, if you look at UK/Europe, if you look at spots in Asia, there are definitely pockets of opportunity that are starting to show their way where a regulator has said, "Hey, here is the way you have to treat capital or here is a certain reporting which might sound trivial." But when you ask somebody to completely redo their technology stack, who use to run super lean and super light and all of a sudden have to provide all that extra information that a regulator wants, it's debilitating to a small shop. And that forces them to maybe look for an opportunity to exit or merge or what have you. And so, I would say that we fully expect in the coming months for opportunities to arise. We have a pipeline now that we are even looking at. I don't have anything eminent necessarily but there hasn't gone a year in the last five where we haven't done at least one and sometimes two deals, and I don't expect that to change.

Dan Fannon

And then as a follow up, Nigel the fixed cost guidance of the \$188 [million], \$195 [million], what does that revenue environment assume, kind of thinking about it? And is there flexibility, like should we see that, I know there's very low component in addition to the fixed, but just trying to think about what could be swing factors within that range or above and below it?

Nigel Rose

Sure, as we've said, we call them fixed costs but within there, there are some elements that are variable. So, for example, within G&A, we've got banking fees, which is what we pay our provider to the customers depositing and withdrawing. In trading experiences, we've got clearing fees which is what's driven by the volumes gone through there, GTX and then futures business and also within staff costs we've got variable comp in there. So, to the extent there are variable elements and volatility in revenues and volumes increase, then we will see those components within the fixed cost base increase, and in the same way during 2017 we saw them decrease.

So that is what we are suggesting by that part of it. Then in terms of the other increases, it's just some of the things that Glenn was talking about – investing in our growth initiatives but also the revenue volatility, in terms of staffing systems et cetera and our operational excellence as we start to look – each year, as we have taken cost out of the business, the next year it gets

slightly harder to define. And so, you have got to make fundamental changes within the organization in order to get the next bit of cost out and that sometimes can have overlaps in terms of as you pivot from one organizational structure to another, you don't just flick a switch and suddenly you've got a different structure than you had yesterday. It takes time to pivot into those and during those periods of time, we are going to have some duplication of costs. In terms of investing in the Cryptos, investing in the GetGo's, it's as much from marketing but also from a technology side as well.

Dan Fannon

Got it. Just one more from me on the behaviour of the GetGo customer. I know it's really only partially rolled out in the fourth quarter and you have a got a big roll out this year, but can you talk about the profile of that customer in terms of activity versus someone that's not using that program? Some expectations around the ramp of that.

Glenn Stevens

So, it's interesting, Dan, to see the initial reaction. Again, we are still in the small numbers, our measurement scenario relative to overall customer base, but we're certainly starting to see it build a little bit of a data set and a sample set that shows that the customers are generally more active. The customers have a higher app install ratio, the funding ratio is high too.

It is neat for us because this is our first mobile-only entry. There is no desktop, there is no paperwork. Everything is mobile, a mobile connection with a customer and so we are seeing some of that engagement, which is ironic. There is no personal touch. It is all mobile, it's all AI-driven and it is all feedback loops driven, per customer. So, we are seeing engagement levels. We are seeing funding levels. We have seen a bunch of those activity levels be higher.

The difference, though, is that some of the customers generally come to a little bit smaller. I don't know if you had the opportunity to check out the app after finding out about it, but you will notice it is designed for somebody who is, as our tagline likes to say, "You don't have to be a trader to trade the markets" and that's the whole genre of it.

So the ultimate personality of that customer tends to be someone not who is actually looking for guidance but who says "I am new to markets in general," so the retail investor that comes here and says, "I want a simple trading experience, I don't want a big dashboard, I don't want a lot of flashing lights" and so that's the profile we are seeing so far.

It's interesting that you mentioned customers that don't use the app. So far actually, we haven't even put the effort into trying to do the cross sell because we want to get a relatively pure feedback as to how that product is doing standalone. So even though it resides inside the FOREX.com brand, GetGo is a standalone app, per se. Eventually it can be either a tool that supplements a customer's trading experience or becomes a cross sell but for now it is embryonic in its own way. We want to be able to see what the profile of the customer look like there.

Dan Fannon

Got it. Thank you.

Glenn Stevens

Sure.

Operator

Once again, if you would like to ask a question, please press “*” and then “1.” To withdraw yourself from the question queue, you may press “*” and “2.”

Our next question comes from Patrick O'Shaughnessy from Raymond James. Please go ahead with your question.

Patrick O'Shaughnessy

Hey, good afternoon guys. So, you guys offer Futures trading and you offer cryptocurrency trading, is there any opportunity for you guys to offer the cryptocurrency Futures trading on CBOE and CME, those products that they have launched?

Glenn Stevens

Through of FCM Patrick, we do actually provide access to customers already to trade those products as they are offered. When that was first initiated or first offered, we channelled customers who asked about it right to our FCM there. I will say that maybe almost by design the CMA put a relatively high threshold for the individual. If it is a five coin minimum with 40% leverage, Bitcoin is trading it at 10,000 bucks, \$50,000. You are talking about \$20,000 of margin. That's already puts it in the upper echelons of a “retail product.”

So yes, we have it, yes, we offer it but until two things – until either that product itself comes out with a Bitcoin mini or other changes, I don't expect it to be really retail friendly. That's part of the reason why we are looking at supplement or complement or in parallel leverage our existing Crypto products in the U.S. with the product that is more retail friendly that resides more in our FOREX.com environment, so that's the goal for that. But the Futures version is still out there. I think I would take a stand here though and say it's not super retail friendly given what I mentioned.

Patrick O'Shaughnessy

I know that the CBOE contract size is essentially smaller than the CME contract size and it's at least directly more retail friendly. Are you seeing an attraction with that one or is still the same case where overall the capital you to put up the trade and it is still pretty rich?

Glenn Stevens

I think it is still pretty rich Patrick, fair point. But it is just not to the point we have a customer, if you think about it, I don't have stats. I don't have stats industry wide yet but I can tell you, in our own experience most people buy fractions of coins, and so the bulk of that trading is in fractions of coins and so I don't see where it would be any different in the US, which is why the traditional and former traditional, but the other avenue of using a coin exchange if you will, where you can buy fractions, is a better option or as to work better a more popular option for a retail customer.

Patrick O'Shaughnessy

Got it. And then speaking of your FCM and Futures trading is an opportunity for you guys with the VIX Futures Trading obviously that's been an asset class that has grown a lot but it also strikes me as largely institutional so are you guys seeing any activity there?

Glenn Stevens

That is a product that as a FCM was never very heavy with us in terms of A) exposure, or even B) customers who like trading, so if you look the cross sections of our guys, a good chunk is Ag hedgers, a good chunk was individuals. The trading in the VIX Futures arguably in some good way actually was in a dominant part of those products for us. I am not so sure. I will say that

we offer it, but we don't have particularly aggressive terms on it. It wasn't something that we thought we wanted to differentiate in a certain way against other providers that provided as well so that said to your point, you know the way this year is starting with the VIX being an example of a product that's really moving around at least our initial reaction is that retail seems a little disconnected about being able to get comfortable with it.

There just isn't enough information on how to trade where it seems like those customers, particularly ones that got involved, and frankly got burned in this last move, probably are more reticent because we don't get a lot of incoming, we always check popular search terms on our own websites and incoming enquiry into our sales reps and things like that. Interestingly enough, VIX trading is pretty low on the list.

Patrick O'Shaughnessy

Okay, great and that's helpful, thank you. And then last one from me, also on the regulatory environment. So in addition to ESMA out there with their proposal you have a consultation paper out there from IOSCO and I think in some ways maybe the IOSCO consultation paper proposes things that make it a little bit further than ESMA and also has more of a global reach than ESMA, so what's your take on the process or how that's going to develop and what the implications might be for GAIN?

Glenn Stevens

So, I would say that as it stands today for the most part at least our takeaway in terms of commanding change in those markets, ESMA, it used to be that for UK and Europe and even to some degree followups from Australia and Hong Kong and even Singapore and a little bit Japan, that FCA was pretty much the spearhead for changes. I think you can clearly see that the U.S. and the UK mostly operate independently, both directions. The U.S. did what they wanted to do with Dodd-Frank and such and trying to figure out how they want to be able to do the commodity modernization act and UK FCA would pretty much always beat to their own drum as well, right?

But what we have seen now, and I believe that it is an outcropping from the politicization of the Brexit move and all that, the FCA clearly has taken a much lower profile and said, "Look, we are going to see how Brexit shakes out and what that means" and ESMA stepped into the void. I think you see that the Chairman of ESMA, the ESMA crew and even their kind of policy missives have been much more vocal and our personal experience in meeting with both of those regulators in a fairly regular accessible basis. ESMA is spearheading things now I would say in that region. In terms of IOSCO, I think that the teeth there have shown to be more of an opinion body and a thought there doesn't appear to be any driving for change.

Nigel Rose

Yes, and it is not the same dynamics as you see between ESMA and FCA. ESMA can bring in regulations in the FCA then, within reason, have to apply them to the UK. The body you referred to you are right they are looking at it globally, but I am not sure that they can decide matters and force global regulators to change. But you are right it is another voice out there.

Patrick O'Shaughnessy

Alright, great very helpful. Thank you.

CONCLUSION

Operator

And ladies and gentlemen, with that, we will conclude today's question and answer session as well as the conference call. We do thank you for attending. You may now disconnect your lines.