GAIN Capital Holdings, Inc.

Q2 2019 Results Conference Call Webcast

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CORPORATE PARTICIPANTS

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PRESENTATION

Operator
Hello everyone and welcome to the GAIN Capital Second Quarter 2019 Results Conference Call Webcast. Today's call is being recorded.

At this time, I would like to turn the conference over to GAIN Investor Relations representative, Nicole Briguet. Please go ahead ma'am.

Nicole Briguet
Thank you, operator. Good afternoon and thank you to everyone for joining us for the second quarter 2019 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 website now or at a later time. Following their remarks, we will open up 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 regulations, operating performance, and financial performance are based on management's views as of today, and it is anticipated that future developments may cause these views to change. Please consider the information presented in this light. The company may, at some point, elect to update the forward-looking statements made today, but specifically disclaims any obligation to do so.

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

Glenn Stevens
Thanks Nicole and thanks to everyone for joining us today. Our Q2 results showed positive signs of increased client engagement, which would typically drive our trading revenue upon the return of more normal market conditions.

Overall, the trading environment and consequently some of our volume metrics remain subdued during the second quarter as the CVIX dropped 17% below the Q1 '19 low and VIX declined 8%. While the Eurodollar, our most traded product, saw trading ranges 15% higher than the previous quarter. We did see pockets of volatility across sterling currency pairs in some major indices, which helps drive higher overall revenue per million.

Q2 RPM came in at $130, well above our Q1'19 RPM of $50, and 18% above the trailing 12-month average of $110. Encouragingly, as we move to the second quarter, we started to see signs of return to more normal levels of client engagement, with client positions growing to levels we haven't seen since the fourth quarter of last year, which often translates into stronger client volumes in future periods.

Turning to our financial and operating highlights for the quarter, net revenue was $75.5 million, as compared to $84.2 million in Q2 of last year. Q2 adjusted EBITDA was $13 million as compared to $18.9 million in the same period in 2018. Net income came in at $0.9 million compared to $6.8 million in Q2 of last year.

Q2 RPM rebounded, as I said, to $130 above the trailing 12-month average of $110. We are also encouraged by the report that our step up in marketing investment continues to produce positive results. In Q2 we saw another quarter of new direct account growth, up 5% sequentially and 83% year-over-year.

Continued new account growth positions us well when normal market conditions return. In Q2 we delivered our fourth consecutive quarter of direct new account growth. Not only did we grow new accounts, but we also saw an improvement in our trailing three-month active accounts figure, despite the low volatility environment. We are pleased with the trajectory over the last few quarters and are encouraged by the metrics we have seen.

Turning to slide 6, we've highlighted the one-off impact of ESMA product intervention measures that were introduced last August of '18. Using Q4 as the new post-ESMA baseline, direct active accounts have improved for two consecutive quarters. As you can see on the chart, once the impact of ESMA on active accounts had been fully realized in Q4, active accounts have rebounded. Our marketing efforts are not only adding new accounts, but also active accounts despite the unusually low volatility environment.

There are a number of other key metrics that we use to evaluate marketing performance and hence help us optimize spending levels.

Number one, our cost per account or cost per new account. After four quarters of increased spend we have remained efficient with our costs, tracking below our target costs for new accounts.

Number two, breakeven points. The timeline to convert each cohort into a profitable client remains on track, with Q2 results in line with our expectations and modeling and despite market conditions continue to track well.

Number three, our internal rate of return. Our more recent IRRs on customer acquisition costs continue to validate our marketing spend as a strong use of capital.

And number four, the long tail of revenue. A healthy percentage of our revenue comes from long tenured clients. From Q3 of '18 through Q2 of '19, 57% of revenues came from clients with tenure of more than three years. We expect the newly acquired customers will deliver revenue well beyond our ROI benchmark, which is based on a three-year lifetime value.

There continues to be a level of flexibility within our total marketing spend. We continue to target approximately $50 million of annual marketing spend for this year. However, we can adjust this up or down as warranted by market opportunities.

Our long-term strategic priorities to accelerate organic growth remain intact. We continue to be committed to driving shareholder value through the following four key areas: Our increased marketing investment, which is supported by conversion optimization efforts to further increase ROI. Leveraging our powerful brand assets in Forex.com and GAIN Capital to compete on a global scale and grow market share by targeting two distinct customer segments, experienced active traders and retail traders. Innovating the trading experience for our customers by delivering the best-in-class trading platforms, decision support tools and delivering new ways and products for our customers to trade. And lastly, our strong focus on premium clients as we continue to investigate and evaluate ways to enhance and expand our services for this high-value audience.

While market conditions have remained challenged in the first half of the year, we are pleased by our ability to continue to drive results in this quarter. There are a few key factors at play that well position us for the return of normal volatility. These include: an increase in open positions, indicating building client engagement; four consecutive quarters of new direct account growth; and two consecutive quarters of direct active account growth. We are confident these three factors should drive trading revenue in future periods, when normal market conditions return.

As we said in the past, if you look at the existing underlying value of our company, we believe we are trading at price levels that are well below our actual company value, particularly when you add up our demonstrated ability to attract new customers, our strong balance sheet, and our capacity to generate EBITDA on even less than optimal market conditions.

With that, I will turn it over to Nigel for a deeper review of our second quarter results. Nigel?

Nigel Rose
Thanks Glenn. The following figures reflect results from our continuing operations. During the second quarter net revenue decreased 10% year-over-year to $75.5 million as compared to $84.2 million in Q2 2018. GAAP net income was $0.9 million, resulting in GAAP EPS of $0.02 as compared to net income of $6.8 million and GAAP earnings per share of $0.13 in the prior year.

Adjusted net income was $3.6 million and adjusted EPS was $0.10 as compared to adjusted net income of $4.4 million and an adjusted EPS also of $0.10 in Q2 of 2018. Finally, adjusted EBITDA was $13 million compared to $18.9 million in the prior year.

In our retail segment, the first quarter's challenging market conditions continued into the second quarter, as evidenced by the CVIX and VIX declining sequentially by 17% and 8% respectively. This resulted in a 33% decrease in ADV to $7.1 billion compared to prior year.

As Glenn mentioned earlier, RPM growth was driven by volatility in the British pound, and some major indices as well as a notable increase in clients' open positions. Typically, we tend to see clients trading in and out of positions generating volume and spread revenue. However, the second quarter saw an increase in clients holding positions for extended periods of time. Whilst that resulted in lower volumes, it did generate a meaningful increase in client financing revenues, the combined effect of which had a positive impact on revenue capture. RPM of $130 for the quarter was above the $106 RPM seen in Q2, 2018, and $110 from the trailing 12-months ended June 2019.

The combined impact of low volumes and strong RPM saw a total retail revenue of $64.7 million a year-over-year decrease of 13%. Overheads for our retail segment of Q2 and the half year were both down 7% over the prior year. Following the one-off impact of ESMA, affecting Q3 and Q4 of 2018, client assets have since improved 2%, despite two consecutive quarters of very low volatility.

Turning to the futures business, revenues were $11.7 million for the quarter as compared to $12.1 million last year. Futures average daily contracts decreased slightly to 31,401 during Q2, although May was the fourth highest volume month since the acquisition of top third and GAA.

Overheads for the futures segment in the quarter were 5% below Q2,'18 and 8% lower for the half year. Profit margin for our futures business improved slightly to 15% in the first half of 2019, delivering similar profits as the prior year despite 11% lower revenues.

I'd like to take a moment to provide an update on our overhead guidance. On our Q4 earnings call in late February 2019, we provided initial guidance of $190 million to $200 million for overheads in FY 2019. More recently, at an investor conference last month, we updated our overhead guidance to an annual range of $180 million to $190 million.

Now, as a result of continued optimization of our cost structure outside of our growth initiatives, we expect overheads this year to come in near $180 million in line with our half year actual run rate. This lower guidance is driven by decisions to accelerate planned savings, some of which we previously expected to realize in fiscal 2020. Consequently, were also able to lower our 2020 guidance to a range of $170 million to $180 million. We remain committed to pursuing opportunities to streamline our overhead expenses, which we believe will ultimately enable us to create stronger operating leverage, as well as allow us to achieve profitability in unusually weak market conditions. Based on our latest internal forecasts, assuming tax legislation does not change, we believe our tax rate for 2020 will be in the range of 24% to 26%. All this said, we're mindful that we need to continue to drive the key strategic initiatives Glenn outlined earlier, leveraging powerful brand assets, innovating the trading experience, and focusing on premium clients.

As a reminder, last quarter, we decided to amend the presentation of our liquidity to directly align with the cash and cash equivalents figure shown on the balance sheet. We made this change as we believe it is preferable to reference the cash reported on our balance sheet and how that has moved period-over-period as set out in the appendix of this presentation.

At the end of the quarter, GAIN had total cash and cash equivalents of $209 million. Broker receivables more than doubled to $111 million in Q2, 2019 as compared to the prior year. As we mentioned earlier on our call, the increase has largely been driven by growth and open client positions, indicating building client engagement, which we expect should drive future trading revenue upon the return of volatility.

We have ample liquidity for corporate development opportunities and remain well positioned to pursue selective transactions to provide geographic or product expansion, should they arise. We also remain committed to actively returning capital to shareholders including through dividend payments and share buybacks. As such, quarterly dividends $0.06 will be paid on the 27th of September.

Share buybacks continued as our shares remain undervalued. During the second quarter, we repurchased nearly half a million shares at an average share price of $5.61. That leaves approximately $41 million available for additional repurchases as of quarter end.

We continue to balance the uses and needs for our cash as the diagram on these slide shows. Our primary priority for use of capital is ensuring GAIN has the liquidity it requires to operate efficiently and effectively. Secondly, to ensure we have sufficient dry powder for opportunistic M&A. And thirdly, to continue to pay our quarterly dividend, which we paid for 31 consecutive quarters as of this quarter.

In echoing Glenn's sentiment, we continue to feel GAIN remains undervalued as our share price isn't even reflecting our cash position, let alone the strength of our balance sheet, coupled with the success of our organic growth initiatives in driving new and active accounts.

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

QUESTION AND ANSWER

Operator
Yes, thank you. We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, you may press "*", then "2." With these instructions in mind, please hold while we assemble our roster.

And today's first question comes from Kyle Voigt with KBW.

Kyle Voigt
Hi guys, good evening.

Glenn Stevens
Hi Kyle.

Kyle Voigt
Guessing just looking at the quarter and I know the vol was really low but the RPM was also 18% above the trailing 12-month level of $110. So I guess my point is that if you had a more normalized RPM environment and even if your volumes were, you know 20% higher or so, we'd still have the same outcome in terms of the financial results, which was $3.3 million or so pretax income in the quarter. And I don’t think that target would be something that you would be internally targeting or you will targeting something much higher than that.

The question really is, is there something to give you confidence that if RPM normalizes lower on a go-forward basis that there would be a volume increase substantially higher than what I just outlined and is there something you can give us confidence that we are going to be back in a $10+ billion ADV level at some point in the future?

Glenn Stevens
So, a couple things. I think, even in recent quarters, you look back north of $10 or even $11 in ADV is pretty easily attainable when markets, look the at the first half of 2018 which seems like a long time ago but it isn’t that long ago and you had some markets moving around and particularly you didn’t have our most voluminous product the Eurodollar being stuck in such a tight range, so it pulled a lot of participants in. So seeing a commensurately higher ADV is certainly in our expectation range if you will, the way you outlined it.

Second part of it is that larger customers, which you might expect provide a disproportionately large amount of volume and revenue opportunity, they are more elastic to lower volume, so when you have…sorry, to lower volatility. So when you have a return in market trading conditions and market trading opportunity, they come in a lot bigger and that moves the needle again disproportionately.

Third piece is, because we continue to add clients and assets and engage customers, then as a collective, the needle is more responsive that way too. So, there is a not a ton we can do about some of the prevailing market conditions that albeit seeing three months, six months, oh gee! What's going on? It is not unprecedented. We have gone through quiet periods before. In this case, you know a couple of key items like euro, like some of the major currency pairs, even like…things like metals and energy, have been quite subdued so the combination of all of them makes it harder but nothing has changed that we wouldn't expect to see a snap back. And I would suspect because based on all our metrics and based on all our potential values in terms of number of customers and number of funded accounts and things like that, we would be at ADVs higher than where we were before, because we have been adding new customers at a higher rate than we have in the past.

Kyle Voigt
I guess the concern is that the regulatory environments also changed and you kind of highlighted some of that that happened in the second half of the year. So I guess, even with accounting for the regulatory changes that have gone through, you are still confident that you can get back to kind of 1H level if volatility returns?

Glenn Stevens
Yes, but Kyle that's true. One of the reasons we highlighted it was more about showing the growth in new accounts, funded accounts, active accounts and also what it was showing, which we didn't highlight but we have. In Q4, we highlighted it. In Q1, I think we mentioned again, was reiterating and confirming with our audience that the estimated changes which are really the only material change to leverage that customers that might impact customer volume didn't really impact us because it was a sub 5% move or impact, if you will, because a lot of those customers were small.

Now it moved the numbers because each customer gets one vote so our actives changed which is why we put that chart out but if you recall kind of in Q4 and Q3 we said, hey, here is what estimates meant…these are meant to us and at least in a good way compared to many of our peers it was a really small impact. So that also means that that's not like a structural change that we have to overcome the other way.

In one hand, you could say that our penetration into the UK/European market in the smaller customers should have been better in the past but at least we don't get penalized now for not having that success, because it doesn't matter that that's a longstanding change. It doesn't impact professional clients, which we continue to cultivate and have, you know, as part of our customer growth.

Kyle Voigt
Okay. Last one from me, and that was helpful. Thank you. Last one from is just, you know we have been in the low vol environment for almost a year now. Just wondering at what point you think we could see some more consolidation in the space? Thanks.

Glenn Stevens
Yes, so I think you know the cry "uncle" time period to your point, coupling to some of those firms that do have a structural change to overcome, someone who was very reliant in the UK market for example or in parts of Western Europe, you know who says, "Well, Gee, do I have to completely re-change my growth curves and my cost structures" and things like that. Yes, it does create some pause there and definitely creates opportunities for conversations that are more; I use the word "reasonable" now than maybe they were a year ago. We definitely see some of the smaller firms starting to cry "uncle". You know part of the reason for us keeping

some powder dry is for, as we like to call it, opportunistic M&A and that's very much on the table for us.

One of the things that put a little bit of pause in there is because people really weren't sure what the shakeup was going to be from a regulatory perspective kind of post estimate. So now there were kind of nine…nine-to-twelve months if you will into that post ESMA period because the estimate came out August 1st and we got a chance to watch the dust settle. It has helped kind of clarify people's models and such to say okay, this feels like it is a sustainable environment because people really didn't know what was that going to mean, what was the follow up, what the next step is going to be. And I think we have kind of answered that to some degree, so, yes, I do believe it opens up very much at the stage now where it is harder to model those things longer and then the last one you know will be interest rates moving or now that Brexit appears to be on the clear path to happening. That should open up some of the gates as well.

Kyle Voigt
Great. Thank you very much.

Operator
Thank you and the next question comes from Rich Repetto with Sandler O'Neil.

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

Glenn Stevens
Hi, how are you?

Rich Repetto
I guess my question, you know some phenomenal results in regards to the RPM. If you look at the sort of the externally looking in and I guess, you know, I know you cite the euro, but I was trying to understand better like given the volatility, you know continues to decline, that…you know that there might be more transparency in regards to see if there's any other explanation or more transparency in regards to the profitability or CFDs or other products that might have kicked in this quarter versus last?

Glenn Stevens
Yes, sure Rich, I think one of the biggest drivers really was what we alluded to in terms of the size of commitment on customers. It's…you know in the past we would use the asset mix or and say hey, higher…higher spread currency pairs like emerging markets. In the past we had some of the knock on effect from the Turkish Lira moving that created pockets of opportunity. It's one thing when you get more volume and they are really liquid tight spread products like euro, but it's another when you get it in those kind of more esoteric products-- weird crosses or some of the other currencies or some of the CFDs.

In this case, it was relatively well spread, I think what was most promising was that and what helped kind of amplify the improvement in RPM more than anything was what we tried to outline in the deck and we probably didn't go into enough detail was the higher levels of engagement. And bottom it just means that you don't get the ADV increase, but if customers put on larger positions than they have in the past, we don't get the ADV, because they are not trading actively, they are not getting in and out of positions because if markets are quiet you don't have that impetus to take profit or to cut a loss or to average in or do whatever. But, when they do show more conviction in financial markets to say, "I have an idea, I am bullish and, I am bearish" what have you, and then we have the opportunity because there is more financing involved, there is more carry involved, there is a whole bunch of these other drivers that help, add to the RPM.

Nigel Rose
And just maybe, Rich, to add to what Glenn just said there was that the financing revenue from the customers holding positions exactly and to try and…and to a measure of financing revenue permitting the volume if you like. If you look at the previous four quarters and the financing revenue per million versus what we saw in Q2, Q2 was up about 50% on the average of those previous four quarters, so we had a meaningful contribution to the revenue, whilst not as Glenn said really seeing an impact on volumes by its nature.

Rich Repetto
And what would lead to such a dramatic increase in financing? The 50%?

Nigel Rose
Sorry, Rich, to be clear. That's financing per million rather than the absolute financing revenue number.

Rich Repetto
Sure, per million right.

Nigel Rose
And so, what would lead to it. So, most of the numbers way is that, we have started to see levels of engagement. And all that means is net aggregate positions from customers' approach levels from six to nine months ago, versus there were a lot lower in Q1. And so we are seeing, when you had super tight ranges in so many products, what we are trying to see now is that customers are starting to either hold on to those positions as they plan on some ranges continuing or you have others, who are adding to position saying okay, I think it's long enough in this low volume environment. I think we are going to get some breakouts in cable, we are going to breakout in euro range, we are going to break out in the Yen range. So, the biggest driver is bottom line is not a stat we put out, but would be kind of open position for a customer, we show activity for a customer, but what we are definitely seeing is that, that the existing position per customer has increased dramatically and why do we see that? Well collectively I think a lot of customers are starting to get a sense of we are going to start to breakout. We don't know if they are right or out, but the reality is that, the…the likelihood that we end up with higher spread revenue and trading revenues going forward goes up because customers are already engaged.

Rich Repetto
Got it. Okay, I guess, my next question is on consolidation but it's a little bit more from a different direction, there are certainly rumors out there and I know you don't comment on rumors during the quarter. But, how would GAIN...what would be the view on consolidation in regards to the benefits of merger with someone else, not just keeping dry power for, for potential European acquisition or anything like that, but just....

Glenn Stevens
Yes, no certainly Rich, I mean, look…yes go ahead.

Rich Repetto
Well, and then you have mentioned, I don't know whether I am sensitive to this or not, but you mentioned several times how undervalued, you thought your stock was.

Glenn Stevens
Yes. No, you think you are sensitive to it? I mean, so yes, that's exactly the point. We are very mindful of the fact that, and I have been vocal about saying that, I think we were unfairly beat up in the first quarter, even though we had a soft quarter and we try to give reasons why and explain that it was kind of the part of the variability built into our business and built into industry. But we definitely, in representing our shareholders and our stakeholders, are always in discussions and I am saying discussions, I have a fiduciary responsibility to evaluate opportunities both ways. I mean we have been pretty active on the acquisition front, we have done a fair amount of, for a relatively small company, have done a fair amount of M&A over the past decade. But that doesn't mean that we don't properly and rightfully entertain any incoming as well.

So, I don't have any comments to speculate on rumors that go out there, because not only is it the company policy, but it's not, it's not helpful. But that said, we also don't live in a cave and have a complete closed door. We say, look if there is value to be created, that we are supposed to, with standard fiduciary responsibility, evaluate opportunities in both directions. So, that's…so I guess, a comment on that, we don't have, we believe, our stock as a currency to use outbound, which is the part of the reason why we keep dry powder. I think if we were trading at multiples where are now that would be a different story, but I think it would be too expensive an improvement to use our current stock for that type of scenario.

But, the corollary or the opposite of that has to be true too, if you look at it and say gee! In its present state the market isn't recognizing the value creation that this company has with its balance sheet and customer base and ability to grow that customer base that we are showing here and sell…potentially sell them other products. And, yes there is a little bit of a vol bet here to say if you think vol is going to stay subdued for the next, long period okay, that's right, that will be more challenging for us than if it has more normal vol, not rip-roaring just normal, which we have shown already. But, if you believe all that, you also have to believe that we have to consider all situations and all opportunities which we do.

Rich Repetto
Got it. And then, my standard question do I even have to ask it, Glenn?

Glenn Stevens
No, you are not going to ask it because I'm going to answer it before you ask it just because....

Rich Repetto
There you go.

Glenn Stevens
Only because I owe you that much.I mean, so yes, I mean, I think and I am assuming we are talking about how the quarter is going so far, just in case you are not asking about how my last bike ride was or anything.

Rich Repetto
Exactly.

Glenn Stevens
But, yes, I mean, we, in terms of being, few weeks into the quarter…from an RPM perspective for example, I think that there continues to be situations that pop up that are causing customers,

alluding to that customer engagement levels, it's nice to see that continuing. There is still people and our customers and in all regions who seem to continue to be willing to put their money where their mouth is, if you will, to establish positions. And so looking at RPMs being more normal, I think is at least something that we have seen that the quarter unfold with seeing some continued engagement with our customers that we alluded to already for this quarter…sorry for Q2 continuing is there.

We haven't seen a mega return to the $10+ yards a day of volumes. And primarily because we haven't broken out of existing subdued trading range and such, but other than that, which shouldn't surprise anybody, because we haven't seen blowouts in any of those markets yet.

But on the other more positive signs in terms of RPM and customer engagement, that looks to continue along where Q2 left off.

Rich Repetto
Got it. Very helpful, Glenn. Thank you.

Glenn Stevens
Bye Rich.

Operator
Thank you. And once again please press "*", and then "1" if you would like to ask a question.

And the next question comes from Dan Fannon with Jefferies.

Dan Fannon
Yes. Thanks. I guess I wanted to talk about the marketing spend. I think when you reiterated close to $50 million this year you're tracking, obviously below that. Can you talk about the environment that you would need to see to get that or you're seeing it and you're confident that we'll see a pretty big acceleration over the next two quarters?

Glenn Stevens
Good. So fair question, Dan. Number one, we try to stay away in, in tactical application. We try to stay away from aggregate decisions. And what I mean is, although we have guided to that kind of $50, it's not a very helpful number for us internally, because we don't spend $50. We actually spend three in the Middle East. We spend six over here. In other words, we pick and choose based on data and ROI hurdles and payback and breakeven analysis and good old fashioned just effectiveness of different campaigns. And we evaluate those so that they stack up and the 50 that we put out is kind of a guidance number to say, hey, if you're trying to build a model you should plan about this. And particularly, since it's a big jump over last year, and we tried to give some detail around it as to why we believe that a big jump is justified. And we continue to believe that because the information and the feedback and the data that we're getting back is all supportive of it being the right decision even in this environment that isn't so amenable to spending more into it.

So on the one hand, I guess I would say to you that we have seen some cases where we've actually pulled back in small pockets of markets. I'll use the U.K. for an example. We looked at that market, we said there's a lot of paralysis going on. People are trying to sort out Brexit, trying to sort out a lot of politics related to that. They're trying to sort out what it means for businesses moving around and what that will do for regulatory rules eventually. What I mean is that's one where we say regardless of what we think subjectively…objectively some of the banks that bark in terms of our investment there caused us to take some pause and in some cases deploy it in other markets like the U.S., like Asia, and other markets like that and in some cases just pull back.

So sorry for the long answer, but the reality is, we expect in ballpark to be tracking to that $46 million to $50 million annual number. And the reality is that some pieces of it will look pretty choppy. And so that in any given quarter, it might have a run rate of $52 or $44, but that's only because a couple of submarkets in their sub-spend chunks went up by a lot or down by a lot, because it made more sense to us.

So I think that it's possible to see a ramp in Q3 and Q4, but that will only be if each individual, if you will, component adds up. And in many cases, it's not usually unanimous, you'll end up with some markets demanding more and other markets saying you might want to pump the brakes. And so that's why we end up with a mix and we end up with yes, we'll probably track to about where we are for Q2, maybe a little higher for Q3 and Q4, but only if things add up like that, if that makes sense.

Dan Fannon
And then Nigel, a couple of questions on expenses. So you're continuing to reduce the fixed cost your component. Can you talk about what you're doing and I guess it seems like you're accelerating stuff? Why didn't you just do that from the get-go or if there's more to do? Just kind of just talk specifically about the changes and what you do on, and then specifically on the intangible amortization stepped down from 1Q to 2Q. Is this a good run rate going forward?

Nigel Rose
Sure. Yes. So maybe start with the cost base to begin with and I'd say Dan, what's changed, well when we started the year, I guess, none of us were anticipating seeing the conditions we've seen that have continued into the year. So as ever when we prepare a budget it's not kind of set it and forget it. We continue to monitor it, clearly identified early on that the volatility wasn't there, what levers could we pull. I think we maybe touched on some of these in the Q1 call that if we see this continue, what do you do? You don't just keep rinsing and repeating, and you look at how you might change some of the original plans and decisions for the year.

So where we plan, for example, investments in certain parts of the business we're looking at does it make sense to still do that? If it does, we'll do it. If it doesn't do it then does it make sense to delay, defer, or actually redeploy those resources somewhere else? And so that's part of the thought process as well as just continuing to always look at our cost base, looking for opportunities where we can further refine and reduce costs as we go along. And as well the point about bringing forward some of the decisions to impact the savings faster again seemed to make sense in light of the conditions we were seeing from a market perspective.

And then in terms of the amortization, that really is in relation to the FXCM acquisition that we made a couple of years ago, I think it was February 2017, where we acquired their U.S. customers for around $7 million. I think we said at the time that we were amortizing that cost over two years. So the last piece of amortization for those assets dropped off in Q1 of this year along with some of the legacy intangibles in relation to the City Index acquisition back in 2015. So, that's why it dropped and in terms of the run rate. Yes, I would look at the Q2 run rate as being a regional indicator of what is likely to be going forward.

Dan Fannon
Great. Thank you.

Operator
Thank you. And our next question comes from Ken Worthington with JP Morgan.

Jenny Ni
Hi guys, good evening. This is Jenny filling in for Ken Worthington. Maybe my first question would be more of a follow-up on Rich's question. So last quarter you guys commented that [indiscernible] in Eurodollar really limited two way trading and pressure revenue captures. I guess for this quarter. Again, you commented that the [indiscernible] is even tighter. But obviously revenue capture really jumped a lot. I know you've commented on financial and you are helping and other pockets of volatility in the product. But what would be really helpful if you could flesh out a bit more? What is playing to dynamics, especially in Eurodollar?

Glenn Stevens
Yes, so I guess I'll try to reiterate a couple different ways. You're right, the way you characterize Q1 in that many of the factors that subdued people's two way trading, differences of opinion, crossing the spread, getting in and out, doing whatever, higher levels of activity that engage clients in moving markets would normally do. That didn't change, you're right. We saw relatively similar, similar levels of two way trading and such, what we saw a dramatic improvement of was the size of the positions that customers put on, and how many customers actually, engaged at that level.

And so, what I mean by that, is that once those positions go on, so if someone let's say, is trading in and out with a one lot, a standard one lot is about 100,000 of notional amount, if so even if it's euros. The difference here is that if they were to trade two trades a week, a 100 in and out, it would be 400,000 round turn that would translate into a certain ADV for the whole day. The difference here is that they in the first quarter did that kind of trading, but generally stayed square, or generally stayed in the sideline. This quarter, if you will, more people fill the theater, such that that they were coming in and out. So that ADV didn't change that way.

But our RPM improved, because those customers that did put their positions on either left them on longer, which means that generates the financing income for us, because in this business there is a daily rollover that's involved with any kind of pair whether it's a currency pair or an equity outside of the U.S. equities, metals, energies, all of these products have a daily financing charge. In some cases, it's a financing charge, in some cases it's a foreign exchange rollover where it's an interest rate differential, all of those things create spread opportunity. And when customers are engaged and holding them on, holding those positions longer, then we have an opportunity to augment our kind of vanilla RPM. So our vanilla RPM is spread capture, that gets adjusted only up, not down, because you have degrees of financing income. And when customer positions are larger than the financing income augments the RPM, more materially. When it's very limited running exposure with customers, then you don't get that augmentation. So on Q1, you did have a situation where it was really quiet and you had very low levels of engagement by customers, meeting the positions they were holding.

In Q2, we saw a rebound to more normal size of that. And that's why we saw the RPM rebound.

So it doesn't mean that they were more active, it doesn't mean that there was more two way raise interest, it means that they had generally, and still do, larger exposure, which we consider engagement and we consider an indication of customers willing to engage once the market comes around. So the first step is, the customer has to pay attention. The next step is, a customer has to pay attention and commit and say you know what, I'm bullish, I'm bearish, and

I'm putting a trade on. The next step is, the market moves. And they say, "Oh, I want to add to it, I want to get out. I have it wrong. I'm going to flip it." But that's all predicated by the market actually moving.

The Q1, we were in that first step then just pretty much watching. But now we are at least in that middle step where they're actually engaged. And that normally is a much stronger harbinger for future opportunity, because they're already engaged, you don't have to actually bring them into the market, they're already established a position.

However, when ranges are still subdued as they are, you don't have a tremendous opportunity to create those volumes every day and spread capture, because customers aren't compelled to trade markets that are quiet.

Jenny Ni
Got it. That's really, really helpful color. Maybe also take a closer look in more longer term, obviously, one of the operational targets to lower the volatility of the revenue capture rates in retail. But thus far, if we look back at the past four quarters, the capture rates have been rather volatile. I know it has been unusual kind of low volume environment. But I guess what steps have you guys taken to lower the variability in capture rates? How are these steps helping so far? And how long would you think these efforts will begin to show more benefits in stabilizing up here?

Glenn Stevens
Oh, so I guess. The good news is, if I had my risk team sitting here with me, they'd be very upset. If I…in that perception, and I only say that because, when you look at measures like Sharpe and you look at measures like variability and even if you look at our trailing 12-months in slide three, if you look outside of one quarter to the next, which I hear you, but if you actually look beyond the 90-day cycle, actually the variability and the sharp and the range is tightening, and that is going down.

And when you look, it's hard sometimes to see it early, when you see a $50 and a $130. And you go, gosh, what the heck is that? But that's also $180 divided by 2 is $90. So if you say, "Well, what was your…what was your RPM for the half year?" It was $90, and then you go back beyond that and you say "What was that?" So if you look at our trailing 12-months, but then do it, do it trailing each month, 12 months, in other words, go back 12 months, then go back 13 and use 12 to go back that. In other words, if you keep looking at those cycles over time, the trend is actually for less variability. We don't have a wonderful example of that for these two quarters. Granted, I'll give you that. But actually, it is tightening with the trailing 12-months over time.

Nigel Rose
So just to maybe add to that, on slide three as Glenn was referencing, the chart on the top right, we were trying to show that on a trailing 12-month basis, since we introduced the model in the back end of Q1 of last year, the high and low of that trailing 12-month has been tighter than the high and low that we were seeing in the couple of years before that.

Jenny Ni
Got it. Thank you.

Nigel Rose
Okay.

CONCLUSION

Operator
Thank you. And as there are no more questions, that ends with the question-and-answer session as well as the call. Thank you so much for dialing in today's presentation. You may now disconnect your lines.