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The Most Powerful Name In Corporate News and Information

With their No Dealing Desk Forex Trading Business Model, FXCM Inc. is Offering Investors a Fairer, More Transparent Way to Access International Markets

Financial
Investment Brokerage - National
(FXCM-NYSE)

FXCM Inc.

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Drew Niv
Chairman and CEO

BIO:
Drew Niv, the Chief Executive Officer and co-founder of FXCM. Mr. Niv has been instrumental in the success of two online foreign exchange firms. Prior to co-founding FXCM, Mr. Niv served as Director of Marketing for MG Financial Group. His efforts were pivotal in transforming an unknown company with less than 250 clients into one of the early industry leaders with over 1000 clients in less than 18 months. Mr. Niv's accomplishments at MG Financial Group include building the firm's Sales Department, creating the most popular website for currency trading news, and establishing a network of introducing brokers for the firm.

In 1999, Mr. Niv left MG Financial to start FXCM. At FXCM, Mr. Niv is primarily responsible for creating and coordinating marketing initiatives, strategic alliances, and personnel decisions. The company was immediately successful, and by the end of the first year was trading $250 million a month.

Since then the FXCM Group has grown to become one of the largest companies in retail forex, and is now publicly traded on the New York Stock Exchange (NYSE:FXCM)
Niv attributes FXCM's success to an "iron focus" on customer service, and to the fact that it has been the driving force behind many innovations in the retail industry, including the introduction of mini accounts and delivery of live streaming market analysis to clients. FXCM is proud to have spearheaded bringing No Dealing Desk forex execution to the market in 2007.

The company services clients from regional headquarters in New York, London, and Hong Kong; with local offices in Australia, Italy, Greece, Germany, Dubai, Japan, and France it maintains websites in 12 languages, and personalized customer service over a dozen languages.

Mr. Niv graduated from the University of Massachusetts in 1995.

Company Profile:
FXCM Inc. (NYSE:FXCM) is a global online provider of foreign exchange (forex) trading and related services to retail and institutional customers world-wide.

At the heart of FXCM's client offering is No Dealing Desk forex trading. Clients benefit from FXCM's large network of forex liquidity providers enabling FXCM to offer competitive spreads on major currency pairs. Clients have the advantage of mobile trading, one-click order execution and trading from real-time charts. FXCM's U.K. subsidiary, Forex Capital Markets Limited, also offers CFD products with no re-quote trading and allows clients to trade oil, gold, silver and stock indices along with forex on one platform. In addition, FXCM offers educational courses on forex trading and provides free news and market research through DailyFX.com.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Niv, what is the main focus of FXCM?
Mr. Niv: FXCM is primarily a retail FX dealer, about 90% of its revenue comes from retail FX business, and 10% of the revenue comes from our institutional FX business.

CEOCFO: What kinds of services is FXCM offering, and why are they different/ better than your competion?
Mr. Niv: FXCM above all offers a service for self-directed investors to electronically trade on the foreign exchange market. What is better about FX and other self-directed investor channels is largely that the 24-houir market and a very liquid market. It is a market that has very low transaction cost, allows the flexibly of trading from anywhere at any time and gives them international exposure very easily without knowing anything about international stock because they are really just buying currencies. They do not need to know the actual assets because they are not buying other assets. It is a very important international diversification tool for U.S. customers. It is a very important diversification tool for most of our customers, which actually come from outside the United States. Nearly 90% of our revenue comes from customers outside the United States.

CEOCFO: So it is transactional?

Mr. Niv: Yes, we make money per trade.

CEOCFO: Why is No Dealing Desk forex trading a better way?

Mr. Niv: This industry was founded about twelve years ago. It was mostly because of the lack of available technology on the wholesale side that all the firms in the industry had to essentially be market makers and aggregate the small trades from the retail clients to do large trades. Then they can do those large trades manually with large institutions on a wholesale level. In the last four or five years, it became technically possible to essentially pass on every trade electronically, even small ones to our external liquidity provider. We believe that this was a much more fair and transparent way to deal with the retail public, primarily because if you think of what happens when a customer buys from the traditional retail FX market maker, he sells to him and vice verse. So, the retail FX market maker is on the other side of the trade. It is not a problem on its own, but the dealer also knows he is not just a market maker, but he is also the broker, so he knows the clients accounts, he knows the identity of the client, and he knows if the client is already long or short. He has a lot of information. The clients does not have anonymity, therefore trading is inherently in the dealers favor and very much skewed. The No Dealing Desk model allows the customer to deal with us, but we are now an intermediary to his trade and market makers who were making him a market, are external providers. They do not know the identity of the client, they do not know whether the client is already long or short, nor do they know the clients positions or resting orders. Because of that, inherently there is a better, fairer venue for execution. Also we have relationships with over 16 external liquidity providers who have to compete to give the best price to the client. Therefore, the client actually has competition from 16 different providers to get him the best price, versus a traditional FX dealer, where he is dealing with the house himself and there is only one provider. Essentially, we have a much more transparent, fairer, business model.

CEOCFO: Has there been an increase in trading over the last few years?

Mr. Niv: We grew quite significantly in the last four or five years. We introduced our no dealing desk forex execution model in late 2006, and fully phased it in by the middle of 2007, and obviously trading has increased significantly because of it. We have gotten a lot of larger customers, and larger relationships because of it. We have gotten a lot have gotten a lot more customers because of it. The business is about four times the size that it was in those years.

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CEOCFO: You mentioned most of the FXCM customers are not in the U.S., are there particular geographic areas of focus?

Mr. Niv: It is fairly diversified, but about 43% of our revenue comes from Asia, and over half of our business comes from the emerging markets. We are quite optimistic that because we are close to the areas that are growing faster and wealth has been created in a much faster way, knowing that in those regions we are going to be fairly decent beneficiaries of this. We currently have offices in the US, UK, Australia, Japan, HK, Italy, Greece, Germany, France, Chile, Turkey and The Middle East.

CEOCFO: How do you ensure that your technology is completely up to date and secure; what are you doing to adapt to newer advancements?

Mr. Niv: That is a big challenge. About a third of our personnel cost is related to IT staff and technology. We have 150 programmers and technology people in-house; we do all our technology in-house. We spend a third of our compensation on technology and we spend a lot of money making sure that it is the best out there. We bench mark against the stuff we can. It is more difficult in our industry, because we are one of the biggest and the pioneer in the industry. So there is not a lot of people that are bigger to compare against us standards wise. A lot of the standards in the Over The Counter markets are just emerging. It is not like in equities or futures where you have exchanges and a lot of those things are preset. You do not have that in a foreign exchange market, so there is a challenge, but I think that we have a pretty good successful track record and we are meeting that challenge. We have something where we invested a lot of time. Some of the founders of FXCM have technology backgrounds, so there has been a very high level of supervision and care. What I will say is this; even though this is a relatively young business, being only twelve years old, FXCM is one of the earliest businesses in our industry. Therefore, from an experience perspective in the electronic retail foreign exchange market, we are some of the most experienced people, and some of the most experienced staff in the field. Turnover has been very low and almost non-existent, so we have a lot of veterans here that have been with FXCM eight to ten years, which is very good for perspective on what is necessary.

CEOCFO: How does FXCM help people that might be new to currency trading and want to learn more?

Mr. Niv: We have a few services. We have a dedicated public research site and it is today the most popular site for currency research and news in the world by traffic, if you measure by traffic. It is DailyFX.com. Even if you are not a client, you have access to dozens of research articles that we published today on the foreign currency market and that is available to everyone. For live clients we have a product called Daily FX PLUS, which you can log into using the same “user name” and “password” that you have for you platform. This product offers more in-depth quantitative research and free educational courses where not only do you watch videos and get lessons on those many elements of the FX market and how to analyze it, you also have a lot of instructors that you can ask questions about. Essentially, we have online courses that you can take and they are free if you are a client of ours.

CEOCFO: Would you tell us about the FXCM growth strategy?

Mr. Niv: Our organic strategy is two-fold. One is how FXCM acquires its clients, of which we have about 160,000 worldwide. We primarily get our clients through online advertising. The primary reason a person would choose us is our technology and our value added products, such as our research and our analytical package. A little over half of our retail business and our organic strategy comes through providing other financial institutions the means by which to launch to their own FX trading service for their clients. We provide all of the back office execution or all of the back end that is required for another company to get and be in our business for their clients, as well as service their clients using our technology. We really have a Software as a Service model that allows other people to use our platform to do this. Over 50% of our revenues come from other financial institutions having their clients using our infrastructure, in the form of referring broker relationships, and that has been very successful. We do it for dozens of major financial institutions around the world, and we are a big player in that space. Our IPO has enabled us to become the premiere provider and partner for what we call the white label business. This is because relatively speaking, against our competitors we are one of the only companies in our space that is publicly traded, with a transparent balance sheet, the health and the size that we do. This makes us a better fit, especially for larger institutions who have reputational risk and do not want to take the risk of using a small provider that can go out of business, because we are not just a tech vendor. We are a financial counter party and a tech provider all rolled into one.

CEOCFO: Are acquisitions a part of the FXCM growth strategy?

Mr. Niv: Our industry, essentially from 2006 to 2010 has gone through major fundamental regulatory changes that raised the barriers to entry about forty fold. Partially by capital requirements increasing about forty fold, partially by all the new regulations including increasing compliance costs, and you need the people and technology. Because this is an international business it requires essentially a regulatory presence in most of the major countries and that comes at a cost. So that serves to reduce the number of players in the space, but many of them can no longer justify the investment. The return on equity for them is too low or negative. There has been a lot of forced seller situations and FXCM has taken advantage of it. We have done about six acquisitions since 2008, two of which have been in the past year. We have done them in the U.S. and internationally. We have acquired a big firm in Europe in October 2010 and a few months ago, we acquired a firm in Japan and we have done small ones in the more distant past from Australia to the United States. That speaks volumes that we are very much an international company and we can make acquisitions across the globe anywhere. We have used the massive amount of regulatory and technical hurdles in this business as a way to pick up competitors cheap.

CEOCFO: What is the financial picture like for FXCM today?

Mr. Niv: As of March 31, 2011, FXCM has about $200 million in its own cash on the balance sheet; slightly less than $800 million of customer cash. So it is a balance sheet of a little over $1 billion, 200 of which is ours and we have no debt. The pre-tax net income for 2010 for the full year was about $120 million. Therefore, our free cash flow that we generate is very high. This is a company that has no debt, lots of cash, generating a lot of cash every year. It is a company that is still largely owned by its founding management team, and the board of directors of FXCM own over 60% of the stock and that is management plus some outside investors that were here earlier. So this is a very healthy company and a very conservative company. We do not need leverage and things like that to grow or enhance our returns. We value very much that our clients have deposited with us and want to keep it as safe as possible, so we take that very seriously. Overall financially this is a very successful company and relatively to our peers it is much larger than most of its peers around the world.

CEOCFO: What surprised you most as FXCM has developed?

Mr. Niv: The extent of how international it has been and how universal and global it is. It is interesting that if you were doing equities, which is a very provincial business in every country. For example, in the British equity market, British customers primarily trade British equities, American customers American equities and so forth. If you look at FX the same platform, the same set of instruments, we have been able to take that to 180 countries and have instant familiarity. Therefore, the product has been able to cross borders very cheaply, easily and does well in some of the markets that are the most difficult to penetrate for other products. I did not grow up some world traveling international kind of a man, and I was a very taken aback about how the business in the last decade or so has become such an international business, which is what we have gotten used to in the last decade.

CEOCFO: In closing, what should potential investors remember most about FXCM?

Mr. Niv: Potential investors should remember that FXCM is the eight hundred pound gorilla in its space and this is a space that is fast growing. The institutional FX market is about a $4 trillion a day market. Retail FX is a tiny component of that market, but I do not think that will last like that for long. We stand as a very good investment for those people who believe the following: One is that globalization will continue, and emerging markets will converge with western markets. We tend to be a very big beneficiary of that trend. We tend to be a big beneficiary of the trend toward a lot more volatility and uncertainty in the world because of all the debt and macro situations that are out there. We generally do very well when there is lots of volatility in the currency market and 2008 was our best financial year ever because of that. We were one third of our size in 2008. It was just about volatility from a customer perspective and customer assets under management, but our earnings were higher because volatility was much higher. So obviously if those type of conditions occur again, we should do very well. We are a big beneficiary of rising interest rates, so when interest rates rise we will benefit. For example, interest related revenue was 20% of revenue in 2008. It was 3% of revenue in 2010. So when interest rates go back up that will be a big lift for us.

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