TMX Group Limited

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TMX Group Participants

John McKenzie Chief Executive Officer

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Eli Abboud:

Thank you all for joining Bank of America's 34th annual financial services conference. I'm Eli Abboud. Craig Siegenthaler and I cover US exchanges at BFA. And I'm pleased to introduce John McKenzie, the CEO of TMX. TMX is Canada's largest exchange with a business that spans cash equities, options, rates, fixed income and energy. It is also one of the largest listing venues in the world, providing capital formation services to almost 4000 companies. John has been with TMX for over 20 years and has worn many different hats over that time. Among other things, he was the architect of several major acquisitions, including Maple, the Montreal Exchange, Tradeport and VettaFi.

John, thank you for joining us.

John McKenzie:

Thank you. Happy to be here.

Eli Abboud:

Let's kick things off with the IPO backdrop. TMX almost doubled its number of IPOs in 2025. What's your confidence in being able to maintain this pace? And to what extent do the ongoing Canada-US trade disputes threaten to pour cold water on your momentum?

John McKenzie:

Well, it's a good question to start. I actually the numbers are, the doubling, we went from one to two, so it wasn't huge numbers to begin with in terms of the IPO landscape, and it's been a quiet landscape for a couple years.

But on IPO direct specifically, we have now one of the deepest pipelines of private companies ready to go public than we've had in a decade-plus. So it's really positive in terms of companies that are ready to go at different sizes and in different sectors. So the potential to see a lot of new issues coming to our market is there. Prior to 2021, we had been on a seven-year run of being net adds to our public company ecosystem and it's just that last two years that we've seen that dislocation.

So if the conditions remain strong and we have confidence in the market, I would see a lot of good new issues coming. And the other indicator you can take to that was the financing activity of already listed companies. So you mentioned we have almost 4000 listed names. We saw a 60% increase last year in the financing activity on exchange. So that's really positive in terms of the leading indicator that the markets are strong and you can get, do the deals priced.

But I always want to remind people that the IPO is not the only way onto our markets. The neat thing about our market structure with both venture and senior is there's actually a lot of different ways for companies to come on and a lot of companies come on through the junior track on the small cap exchange usually through a capital pool company, and then they can graduate up to the senior market. So even though there was only two net traditional IPOs last year, there actually were 11 companies that came up from the junior market that, in any other jurisdiction, would have been an IPO.

So that's why when you look at any global stats on new listings, you mentioned we were leading in the world on listings total, we're also heading number two in the world for new listings last year.

Eli Abboud:

Got it. Zooming out, which businesses do you anticipate will be the largest contributors to your organic revenue growth over the next couple of years?

John McKenzie:

Yeah, and I always lead folks to you to look at the guidance we've given around the growth profile of the firm. So we divide our businesses up into what we call market growth, things that grow with the economy and the market itself. Strong growth, which is the mid-single-plus, five to seven-ish. And high growth businesses that are high single, low double or more. And we've got a number of business segments, actually over half of our business is now in this high growth category. So the examples of the ones I point to that are going to drive growth for the firm, it's the majority of our global insight space.

So TMX Tradeport, our energy platform, which has been a longtime high growth business for us, is going to continue to have that strength going forward and we have a lot of white space for that franchise. Our VettaFi franchise that you mentioned earlier on, which is our index and benchmark piece, that business was up 25% in the last quarter of last year, 13% organic, 12% inorganic. So we see that as another high growth area going forward. Our derivatives franchise should be another high growth area going forward. Now, it could be lumpy, the curves don't go like this, they go like this. And last year, we were up about 30% in that business, so it could be ... It will be high growth over the long term.

And the last area that we're talking more and more about is actually corporate solutions. So within our capital formation business, we talked about the IPO capital raising, but we also do a full suite of corporate solutions for companies, be they private or public, to help them with capital raising activities. So these are trust mandates, transfer agencies, employee plans, shareholder registry, things like that. And now disclosure tools, which we added just over a year ago. That's one of our high growth segments as well. It now represents 44% of capital formation is actually in this corporate solutions business and we have ambition to make that more than half of that franchise. So I'd say those are the key pieces that'll drive the growth going forward.

Eli Abboud:

And I know you just broke ground on the new office in New York. So can you talk about your ambitions in the United States?

John McKenzie:

My ambition is to get invited to Miami every single year when it's -32 in Toronto. Our ambitions are quite straightforward. Just over two years ago, I hosted our team in New York for a dinner and we could seat the entire organization around a table for eight, and now we have about 240, 250 people in the US across multiple business lines. And that is intentional. We really are thoughtful about we built some great capabilities in Canada just north of the border and a lot of them have value add in the US market. So to give you just a few of the examples. Some of this is we built, some of it's we bought.

We're doing Tradeport here as well because the energy solution that we've built out in Europe is applicable in the US market in terms of solving for some of the fragmented energy markets here. So we're building that up and scaling it up.

We have our market data business and we've just now expanded in the US with the acquisition of a team from Vetta from Verity. Which is doing buy side research management tools and AI-based improved information sets, so that's part of that solution as well. We have the VettaFi business obviously that we've been in a couple years now based in New

York that is really doing index creation and ETF solutions. And actually, while based in New York, much more global than it used to be as well with everything we've added to it.

And the most recent launch being AlphaX US. So we took a lot of the capabilities that we built in Canada around improved execution quality trading and we built it into an ATS in the US market, which we've now been live on for about a year. So we are intending to be a multi-solution player here in the US to meet the needs of both the trading and the investing community.

Eli Abboud:

Got it. Let's dig deeper into AlphaX US.

John McKenzie:

Yeah.

Eli Abboud:

I know it just celebrated its first birthday. So looking back on year one, how has progress trended relative to your expectations?

John McKenzie:

We had high expectations and we've met all of them. So if you think about the timeline for this, first of all, this is a product that we built out in about a year, from ideation, to building out a new technology, to regulatory approval. So really fast path to bring a new marketplace to the public domain.

And since that time, we've had continuous additions into the client sign up, our volumes are exceeding expectations so we are really happy with what we're delivering and January is another record month for what we're doing. And it should be. Every month should almost be a record when you're in that growth phase.

So when we benchmark it, because this is not an exchange, it's an ATS, it's fit for purpose. But when we compare it to other ATS launches in the US, this is actually one of the fastest ones to its volume levels that the US has seen in a number of years. So I'd say we're off to the races. Year two is even a bigger test than year one. It's just can you build on the success of year one? And we've got a great team doing that and we'd like to see that growth continue now because that'll be then the opportunity to add more product, more capability to it in terms of continuing to build out this marketplace.

Eli Abboud:

Your US peers, NASDAQ, ICE, CBOE, all of them have been de-emphasizing US cash equities and investing in other areas. For enter day trades, they barely squeak out a couple of mills of revenue per share traded. So what do you see in this market that they don't?

John McKenzie:

Well, I'm not sure it's that we see things that they don't. I think we're coming from a different size. So what could be a meaningful opportunity as to build out may actually be too small in terms of the priority for a NASDAQ and CBOE, and it gives us an opportunity to actually build some capability.

I also think that, candidly, we've proven ourselves in Canada competing against some of the same players who have competed north of the border and we've been very successful. So it gives us some confidence that we can take those capabilities south of the border as well.

And the last thing I'll put on that is that despite current geopolitics, Canada and the US are some of the closest marketplaces in the world. They are very much interconnected, the border is almost seamless in terms of capital flow, so we actually have a lot of clients that operate both in Canada and the US. So it's actually a natural extension for us to serve them in Canada and serve them in the US market as well. We've got a lot of nascent US clients that are on the platform, but we also have a lot of clients like TD, BMO that have both big Canada and US operations. They're active on the platform as well. So it just makes sense for us to serve those clients everywhere they want to work.

Eli Abboud:

I want to go down two new products that you're scaling up right now. Secured general collateral notes, which is a new money market instrument, and then your Canadian collateral management services, which brings tri-party repos to the Canadian market for the first time. What problems are these products solving and why are they a better solution than what currently exists in the marketplace?

John McKenzie:

Well, starting with the latter one, what collateral management is there to serve, it's the efficiencies in the collateral markets. So when brokers, and dealers and banks are trading different venues, you end up with lazy or trapped capital in them. Because if you can't get your margins efficiently set and it's not easy to move capital from one to another, you end up just over-utilizing your balance sheet and it's inefficient, and that has a cost because you can't use that capital anywhere else.

So the collateral management solution is designed to help take that inefficiency out. To be able to port your capital where it needs to be, really identify how much you need, and therefore bring down how much you need to have in these various entities. And redeploy it to build your business in other ways, to trade more, to support more clients, et cetera, et cetera.

So that's the basis of the solution. We're not inventing it from scratch. We've partnered with Clearstream that's delivered the solution in the European market already. But really, to get it off the ground, we needed to get our own modernization of our stack done, which we did last year. So last year, we went live with a whole new platform for post-trade, went live in the first half of the year, a full modernized stack and that allows us to do these products on top because it makes it much easier to move collateral around and create that mobility.

The SGC note is really a funding solution. So a lot of companies use things like bankers' acceptances to do short term funding and that market essentially went away when we changed overnight rates. So this was a way for us to create a unique product to fill in some of the gap for the industry, and we're kind of the only people that can do it because we have both the derivative shop, the clearing house and the trustee that it takes to put that product together.

Now interesting on both of these things is next gen as we do more and more work on tokenization, there will likely be tokenized versions of these products in the future. So tokenizing collateral is essentially the potential next step in doing this. But in the near term, these are the ones that create the efficiency for the users.

Eli Abboud:

Got it. Can you share any details around these products' contribution to your results in '25 and how that could potentially ramp into 2026?

John McKenzie:

It's a rounding error in 2025 because these products were essentially contingent on, again, getting our technology in place. They have potential to be meaningful as part of our post-trade business in 2026. The one that's the most meaningful is the collateral management solution and that's one where even we've got clients like the Bank of Canada itself looking into how they participate.

Eli Abboud:

Got it. And your competitors NYSE and NASDAQ have been laying the groundwork for trading stocks on the blockchain. I think you teased it a little bit, but how is TMX viewing the opportunity to utilize blockchain technology?

John McKenzie:

Yeah, I'm not sure they're saying it's an opportunity or not, or something that they need to do. We've been active in blockchain technology for 15 years and that's the interesting piece. A lot of us have been looking at different use cases over and over again and there hasn't been a clear winner in terms of a use case that created real value to the industry.

So on the tokenization of equities, we're staying very close to what both NYSE, and NASDAQ and DTC are looking at. From a Canadian marketplace, if we see demand, we think we're the right player to do that because we, again, we would have all that piece in our franchise right from trading, right through to clearing and settlement. And I do think it's critically important that if we do go down the path of tokenizing equities, we do it in a way that interacts and is standardized with the central market ecosystem. If we do not, then a tokenized equity is just a fracturing of liquidity. It actually has potential for adverse price movements for investors, it's less sufficient from a settlement standpoint. So we want to make sure we get the industry solution right to solve for that so that if there is a valuable use case for someone to take a token form, it can be done with the same infrastructure so they still have the value of the efficiency of the centralized system at the same time.

You always want to remind folks that the US-Canada, this is some of the most efficient capital markets ecosystems in the world. So when you actually tokenize a security and take it out of the ecosystem, you lose some of that efficiency. So that's what we're working on, to stay close to it so we can modify the Canadian market as appropriate if the US market goes there. And then similarly, at the same time, we're exploring other tokenization solutions within that ecosystem. So we think there may be opportunity to do that structure around private companies, which then would allow you to have better ledger keeping and ease of exchange. Again, we're not seeing a huge demand side for this yet, but we're exploring the capability to do it.

Eli Abboud:

You've done six bolt-on deals over the past two years. How are you thinking about M&A going forward? Do you still feel like you're missing any capabilities?

John McKenzie:

Well, we never felt like we were missing capabilities before. We've always driven M&A by the strategy that we're trying to employ. So the growth strategy that we have across our three core pillars of capital formation, global trading, global insights, we've looked for what are those assets out there that could help us to accelerate.

So to your point, and maybe that's fair in a way in terms of filling capabilities, when we brought in new indices, as we have a few times now with both iNDEX Research, the Credit Suisse Indices, the Nuclear Indices at the end of the year. Each of those ones captured different either geographies or asset classes that we could add into the portfolio, rather than build ourselves. So they're build-buy decisions.

Similarly, ETF Stream that we brought on last year gave us distribution capability in the European marketplace. So we could do, similar like we do in the US in terms of marketing for ETFs and distribution, we can do that now in the UK as well and that content creation.

So we don't feel like there are any gaps. We're always looking at these kind of things in terms of how can we move the business ahead faster. Similarly, on corporate solutions, I mentioned we brought in Newsfile. That is a complimentary product to the other products we've got in there and now it's creating cross-selling opportunities that we never had before. So I can go into a bank that is a trust client and say, "How about you look at our news wire solution as well, rather than using another competitor from outside our ecosystem?"

So that strategy is going to continue going forward, so we are continuing to look at a lot of opportunities that we can tuck things in. We are looking at indexes, essentially these are asset purchases, they would be separated out from other businesses that we can then integrate into our platform. We're looking at the data operations as well, like the Verity piece that came in in the fall, as long as we can integrate it in and help get growth faster and help it grow us faster.

Eli Abboud:

What about BOX, the Boston Options Exchange? Right now, you own a 51% stake and don't directly operate the business. Are you happy with the status quo there? How much do you have to gain by integrating that business into TMX?

John McKenzie:

Yeah. So I'm happy with the performance of the business. It's a really good business, they've got a unique product set, the clients are very happy with BOX. So I'm really happy with how the business is performing and what it can do.

The structure is not ideal because that structure, the model you talked about, does limit what you can do with the business strategically. So we're always open to discussions with our partners around the table in terms of how do we take it to another level that would allow us collectively to do more with it. So that's our priority going forward, is to continue to explore how we can use that asset with other things to find new opportunities to work with it.

Eli Abboud:

And how you thinking about capital allocation more broadly? How are you weighing M&A against capital return and organic investment?

John McKenzie:

We're blessed with the fact that we do not have to weigh them against each other. We do look at return on capital to ensure we're deploying capital efficiently. But as we've demonstrated now multiple times, the ability to lever up for a sizeable transaction and then to de-lever back down, we've got a lot of confidence from our partners that we can continue to do that.

Now I will say that when we took on the leverage to do VettaFi, we did suspend our normal course issuer bid until our leverage came back to our target level and it's back there now. So that is something that we could restart. So we are continuing to look to priorities that keep building the business organically and that's part of our plan, of reinvesting our expense base to keep building the business. Inorganic opportunities to accelerate the strategy. Maintaining a payout on our dividend of 40 to 50 percent so that the investors participate in the growth of the firm. So as long as we're continuing to grow the bottom line at that double-digit pace that we guide to, you would see the dividend moving at that same pace and that's why we're very comfortable bringing the dividend up another 9% last week. And then reconsider the ability to buy back the stock now that our leverage is back in target range.

Eli Abboud:

Got it. Let's talk about Tradeport. So you've had three years in a row of 20-plus percent revenue growth. Can you help us understand how much of this growth is sustainable and how much of it do you attribute to the really unique geopolitical situation over the past couple of years?

John McKenzie:

Well, so we've never guided to 20%. We've always guided to high growth being high single, low double. But candidly, the entire time we've owned Tradeport, we've grown it more than 10% every year since we bought it in 2017. And there are a number of factors.

The geopolitical piece is a bit of an aside. At the end of the day, you've got an energy market which is the core part of our market, the European energy market, which is still a longterm growth market. So even though we've really developed it well and that business is more mature in Europe, that market will continue to expand. So as you have demand for energy increasing, you have different sources of supply, you have transformation of the energy ecosystem, that creates more points to trade. And over time, you bring more traders in to do that.

And again, that's not a straight line, you'll have some peaks and valleys in that. We had a real big lift the year before last in terms of new traders. The new trader growth or subscriber growth in the fourth quarter last year wasn't as high as those other periods because you will have steps and valleys. When you've got periods with a lot of energy volatility, you have more traders that'll come to the market. Folks will set up shop, we do more new logos. So that'll continue over time.

But the other piece that's going to drive the longterm potential in this business is there's a lot of also global white space to grow into. Now, these are harder to do and they take time to scale up, but as I mentioned earlier, we are scaling up in the US and that's particularly around gas and power. We are now on the ground in Japan. So as the Japanese market opens up and matures, we'll be able to support that market. If it grows to potential, the Japanese power market can be as big as Germany and France combined. So these are sizeable marketplaces, but they're at different stages of development.

And the third area we're continuing to focus on is how do we actually expand Tradeport from gas and power into refined oil. So this is another marketplace that when you're outside of the liquid products on ICE and CME, all the refined product are generally over-the-counter. And if we can bring them the screen, we can make that market a whole lot more efficient. But it's step change, you've got to get there broker by broker to start to build that liquidity and transform what is essentially a voice market today into something that's digital. So that's what we're working to do over the longterm.

Eli Abboud:

I know a lot has been written about the multi-manager hedge funds getting into the energy space, so I was wondering if you could give us any insight into how you're seeing the growth of Tradeport by client channel?

John McKenzie:

Great, more traders. Really, it's the more traders and the more different channels you can bring in, the more valuable the platform becomes because the value of the platform is really when you've got disaggregated supply and demand, you're creating that one space where people can see the entirety of the marketplace. So I always thinks those are positive to add new liquidity to the market and new traders.

Eli Abboud:

Got it. The cash equities space has been another area of strength. Canadian equities trading volume was up 27% year-over-year in 2025. Can you help us unpack the acceleration over there?

John McKenzie:

Yeah, wait until you see January. I always want to thank the US for creating lots of volatility in the market because I think January, we're up 50 to 60 percent over the same time a year ago, not that one month makes a trend. But you're seeing a couple features there.

There's a lot of volatility in the marketplace. There's a lot of retail interest in the marketplace. And there's a lot of net new product. So that's the trend over time, when you think about it, as we've moved from a mutual fund market more to an ETF market, is there's more product that's tradable on exchange than there was in the past. So in 2025, not only did we see that lift in equity trading, in terms of new product, we had 239 new ETFs listed. That was the new record. The year before was the record, it was 124. So there's continued product innovation, very retail-oriented. You've got more retail interested brokers that are putting these products in front of their clients. So it's a real nice spot to be in from an equity platform standpoint. Now, volatility can go away as well. So I'm not saying that these are permanent marks where that trend continues, but the conditions are really good.

The other place that you're seeing that track through is on the derivatives market. So our derivatives market, we trade options on ETFs, that platform is up 80% year-over-year in 2025. So you're getting that trade into the options profile as well.

Eli Abboud:

Got it. And I did want to hit on artificial intelligence as well. I know the whole exchange space, it's up for debate whether you are a beneficiary or maybe it's a headwind.

John McKenzie:

Well, we're going to close the debate today.

Eli Abboud:

Perfect, yeah. How do you see TMX positioned for the rise of AI?

John McKenzie:

Yeah, I continue to think we're in a really strong position. And the reason being is the types of businesses that are the most likely to be disrupted as you bring AI tools to market and you normalize AI usage are ones that have less proprietary nature to them. So even though 40-plus percent of our business is global insights, which is data, information sets and information tools, the vast majority of it is actually proprietary in nature. So Datalinx is proprietary data that comes from our marketplaces, that is our IP. And that actually puts us in a very strong position to be the ones to build AI tools on top of to create new information sets and use cases on top. Versus someone outside, who still needs to get the data from us.

Now, where it can transform is it can transform the way data gets used and consumed. So AI tools that may impact how a broker, or a trader or a buy side consumes data, and let's be candid, we may see a lot fewer seat in the future in terms of the data users, but that doesn't mean the firms aren't going to be using actually even more data than before. So I see the model over time looking more from being a seat-based model to a usage model. And I think that's actually a great transition for organizations like ours because I'd rather go to an enterprise partnership with our clients and have them use and consume our data everywhere they can in the franchise and we will just price it over time based on usage. So I think that's going to transform over time, what that looks like, but that's not necessarily a risk.

Tradeport is a screen platform and we've had folks that have been worried about that piece. But again, it's a proprietary network, the data is private, you need to be in the network to use it, so there isn't an AI disruption risk around that. And even in our index business, we're looking at how do we actually layer the AI tools on top so we can actually do a better job of index creation. But when you create an index, that is IP that's then baked into a product, so it's very, very sticky at that point.

And then even within data sets themselves, one of the reasons we brought Verity into the organization last year is because they've actually created some really good AI-based analytics tools. So they've built the tools to be able to take insider holding data, insider trading data and turn it into investment signals. And I think that's what we're going to see more of in this space, where you layer on AI tools to create new information sets and clients are going to want that from a trusted source. Because then, if they have a trusted source, that takes less liability out than doing their own AI tools on top and then they internalize their own risk.

So we're in a good spot here. We also have a lot of opportunity on the efficiency side. As we deploy more things in our organization, we're already deploying things like Copilot through our development chains, we're getting development efficiency in Tradeport already that's allowed us to increase the amount of development we're doing with the same size workforce. So this is the first year in the eight years we've been in this business that we haven't had to scale up our development team in 2026, so we're already seeing efficiency. And this is going to be a real year where we test how big the efficiencies are, and try to get it in terms of how much coding can we do per person, those types of things. And we've deployed generative AI tools all through the firm, so we've already got I think 90-plus percent adoption in the company of people utilizing these things to make their own work processes more efficient.

It's not to say that I'm not nervous and I don't lose sleep because I lose sleep about things I don't understand. But I do believe that our competitive moats here are very strong and the opportunity for us to create new value-added services on top is very good.

Eli Abboud:

Got it. And to wrap up, John, looking back at your meetings over the last couple of days, what other tailwinds or components of the TMX story do you think investors are overlooking or not fully appreciating?

John McKenzie:

I don't know if there's a lot. We've talked about AI and tokenization a lot. I think that's just the testament on what's gone on in the last couple weeks. And the nice thing is I think our investors have really gotten it because most of the feedback I get back is, "This doesn't really apply to you guys that much, does it?" That's right. "So why do you think you're being sold off?" And I think it's because the end investor, not the asset manager, but the end investor may not get it. So there's some onus on us to continue to do more education about the ecosystem, the proprietary nature of it, the way it works and how we're investing to actually continue to bring value.

And then I've always been a believer in the longterm is helping understand, people understand what's our longterm potential as an organization and we are not backing off our longterm guidance in terms of where we're going to grow. The ability to continue to create more operating leverage, so that mid to high single top line growth firm-wide, the ability to translate that into double-digit growth at the enterprise level bottom line. The transformational metrics we have in terms of continuing to grow more globally.

We didn't talk about it earlier, but even though we are Canadian-based, 51% of our revenue is outside Canada now. And I think that's an area that's going to continue to grow. So more global, more subscription-base, more data and information in the sets, and a growth curve that's top quartile of our peer group. So I think people get it and as long as we keep proving it quarter after quarter, we'll see that come back from where we were.

Eli Abboud:

Got it. John, on behalf of all of us at B of A, thank you so much for joining us.

John McKenzie:

Absolute pleasure.

Eli Abboud:

Hope to see you again next year.

John McKenzie:

Thank you.