TMX Group Limited

Q1 2024 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the TMX Group Limited Q1 2024 Financial Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call, you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Friday, May 3, 2024.

I would now like to turn the conference over to Mr. Amin Mousavian. Please, go ahead.

Amin Mousavian — VP of Investor Relations and Treasury, TMX Group Limited

Thank you, Joelle, and good morning, everyone. Thanks for joining us today to discuss the 2024 first quarter results for TMX Group. It is a beautiful day here in Toronto, and it looks like winter's finally deciding it's time to leave.

As you know, we announced our results late yesterday and copies of our press release and MD&A are available on tmx.com under Investor Relations.

This morning, we have with us John McKenzie, our Chief Executive Officer, David Arnold, our Chief Financial Officer. Following the opening remarks, we'll have a question-and-answer session.

Before we begin, let's cover our forward-looking legal disclosure.

Certain statements made during this call may relate to future events and expectations and constitute forward-looking information within the meaning of the Canadian securities law. Actual results may differ materially from these expectations and additional information is contained in our press release and periodic reports that we have filed with the regulatory authorities.

Now, I will turn the call over to John.

John McKenzie — Chief Executive Officer, TMX Group Limited

Well, thank you, Amin, and good morning, everyone. Thank you for joining us today to discuss TMX Group's financial results for the first quarter of 2024. And to everyone listening in, as Amin said earlier, thank you for joining us on such a beautiful spring Friday.

Now today's actually a more formal Friday than usual for us in the Toronto office today because it's AGM day here at TMX, and we look forward to hosting our special annual general meeting this afternoon at 2 p.m. and for the rare occasion of doing it while the Maple Leafs are still in the playoffs, and I'm sure we all appreciate that.

Now turning to the business at hand this morning, our first quarter results reflect solid performances from key components of our business including areas of recent global expansion as we continue to build on our growing information business.

Also reflected in TMX's results is the fact that we are not immune to challenging market conditions. Macroeconomic factors continue to weigh heavily on important segments of our ecosystem during the first three months of this year, creating uncertainty and inhibiting growth and, as a result, capital markets activity in some of our traditional key performance indicators are down year over year. Importantly, these environmental challenges are not exclusive to TMX. Many of our stakeholders are negatively impacted by sustained, short-term uncertainty.

And that is why now and through all turns of the market, our focus is squarely on seeking out ways to create meaningful and lasting competitive advantages for our growing client base here and around the world.

Now while David will take you through the Q1 results in greater detail in a few minutes, I'd like to focus my comments this morning on outlining some key performance highlights during the quarter and update you on progress we have made in advancing some important strategic initiatives.

So turning first to TMX's first quarter performance.

Overall revenue increased 16 percent from Q1 of 2023, largely as a result of higher revenue from Global Solutions, Insights and Analytics, which included $37.9 million from TMX VettaFi, fully reflected in our results for the first time following the close of the acquisition on the first business day of the year.

Q1 results also featured year-over-year growth from TMX Trayport and partially offset by lower revenue from Capital Formation, Equities and Fixed Income Trading.

Organic revenue, excluding the addition of TMX VettaFi, increased 3 percent year over year.

Diluted earnings per share was $0.38 on an adjusted basis for Q1, also a 3 percent increase from the first quarter of last year.

And total operating expenses increased compared to Q1 '23, largely due to the inclusion of TMX VettaFi, and David will take a closer look at these Q1 expenses in his remarks to follow.

Moving now to our business areas.

Revenue from GSIA in Q1 was 48 percent higher than Q1 of 2023 or 11 percent excluding TMX VettaFi.

TMX VettaFi's revenue was 33 percent higher in US dollar compared to the same period last year prior to the acquisition. And that year-over-year growth was primarily driven by higher indexing revenue and reflecting organic growth in assets under management and revenue also from the 2023 acquisitions of ROBO Global and the EQM indexes, as well as higher revenues related to events.

February marked TMX VettaFi's premier annual event, Exchange. Now this is a three-day conference billed as an advisor-centric, networking, and educational experience, and this year's edition was a phenomenal success with near 2,000 attendees from across the ETF and financial services industry. And the feedback our team received was overwhelmingly positive. It also served as a powerful networking opportunity for our various business development teams including listings, trading, and TMX Datalinx.

Now upon announcing the deal late last year, David and I talked about how the addition of VettaFi, a US-based indexing, digital distribution, and analytics and thought-leadership company, would create value for our clients, strengthening our ability to meet the needs of the indexing and ETF community here in Canada and around the world.

And we were also clear on how the acquisition would accelerate TMX's strategic, financial, and transformational objectives, increasing the proportion of our revenue derived from recurring sources, adding to our fastest growth business area, and increasing our global footprint, and this remains a compelling story.

Our experience working together from the time of TMX's initial investment in early 2023 gave us strong indication of the calibre of talent across the team and some of the opportunities in front of us, and we set the bar pretty high for TMX VettaFi. And while it's still early, they have exceeded our initial expectations in every way.

GSIA sustained growth momentum in other areas as well.

It was another strong quarter for TMX Trayport. Revenue grew 21 percent to Q1 of last year, or 16 percent in pounds sterling, driven by a 26 percent increase in trader subscribers, annual price adjustments, and the impact of a favourable FX rate.

TMX Trayport continues to benefit from an innovative and adaptive approach to serving world commodity markets. Big wins in the quarter featured existing clients expanding their usage and including large European energy utilities and adding 11 new trading firms.

We are also seeing significant growth in TMX Trayport's combined data-driven trading offering featuring data analytics, Tradesignal, and autoTRADER. Client subscriptions to this powerful combination of analytics, advanced technical charting, and their algorithmic trading capabilities now account for nearly 11 percent of overall TMX Trayport revenue.

And focused on the future growth, TMX Trayport continues to seek out opportunities to move into new asset classes and geographies and to meet the rising demand for advanced trading tools, insights, and solutions.

For example, we are seeing intriguing signs of growth in the Japanese power markets, currently in a transitional period due to deregulation. And while this is still a nascent market that has been slow to develop, we are encouraged by the more than 200 percent year-over-year growth in OTC cleared volumes and 180 percent increase in active users.

And TMX Datalinx revenue grew as well, growing 4 percent year over year due to higher revenue from benchmark and indices driven by the new Term CORRA benchmark, as well as higher revenue from colocation, data feeds, and price adjustments in Q1 of 2024.

Now I'd like to turn my attention to Derivatives.

Derivatives Trading and Clearing revenue, excluding BOX, decreased 3 percent year over year.

The decrease included a 9 percent lower revenue from MX due to an unfavourable product mix and a 3 percent decrease in overall volumes traded.

Lower revenue from Derivatives Trading was partially offset by a 9 percent increase in revenue from CDCC due to the positive impact of the pricing changes which came into effect in January 2024 and higher REPO volumes.

And while sustained volatility across fixed-income markets and monetary policy uncertainty continue to drive strong volume activity and liquidity in many of our key products, volumes traded in equity options were down 11 percent when compared to the first quarter of last year, which was a period of pronounced growth.

And we're encouraged, though, by the continued upward momentum in other areas.

Some of the key MX Q1 highlights included 11 percent higher volumes in shared futures; 6 percent higher volumes in interest-rated products, including continued strength in our Bond Futures products; volumes in our two-year and five-year Government of Canada Bond Futures contract grew by 66 percent and 25 percent respectively when compared to Q1 of 2023; and overall open interest at March 31st was 16 percent higher than at the same date last year.

MX's three-month CORRA Futures contract, or CRA, has been a tremendous success. Trading has grown substantially over the past year and set a new record in Q1 with more than 93,000 contracts traded. The CRA is now established as the product of reference for short-term rate management as the industry prepares for the transition from CDOR to the Canadian Overnight REPO Average Rate, or CORRA, planned for next month.

Now in keeping with our corporate purpose, TMX's client-driven, innovative mindset extends to our post-trade business. Earlier this week, in collaboration with Clearstream, we were pleased to announce the successful launch of the new Canadian Collateral Management Service, the first tri-party REPO capability in the Canadian market.

Developed over the past year by TMX and Clearstream, CCMS is designed to modernize Canada's funding market, automating the life cycle of all secured funding transactions, starting off with REPO, to enable participants to better mobilize, track, and optimize their collateral securely.

And we are excited about it. Efficient markets are more liquid. They're more attractive, and they are more competitive.

So CCMS is a game-changer for Canada's money markets, accelerating the evolution of a well-functioning modernized market, supporting the expansion of tri-party REPOs for the first time in Canada, and as a viable investment value for buy and sell side participants.

It is providing an important optimized financing solution as bankers' acceptance come to an end with the cessation of CDOR at the end of next month and providing a platform for participants to manage collateral in support of the critical transition to T+1 settlement, the reduction of the standard settlement date from two days to one day later this month.

And while this is still very early, we are seeing strong industry demand. Five major Canadian banks were among the first to participate in live transactions this week, and we will be onboarding new clients over the coming months.

And then looking a little further down the road, we are planning to expand this new service beyond REPOs into additional collateral exposures.

Now as you may recall, last year, Canadian regulators, in conjunction with the SEC, announced the timeline for T+1. We made the decision at that time to defer delivery of our post-trade modernization program to ensure that the industry participants seamlessly transitioned to one-day settlement aligned with the regulatory requirements.

But we expect our PTM program to be ready for implementation as planned by the end of this year. Our team is working closely with our participants and stakeholders on re-engagement activities as this is a collaborative exercise, and, thus, that timing may change if there is any significant delay in the T+1 go-live date, which is currently May 27th, or gaps in terms of participant readiness.

But quickly, I'd actually like to take this moment to thank our industry stakeholders for working closely together with us on these transformative initiatives and for their ongoing partnership in making our markets better.

Now moving on to Capital Formation.

Revenue was $60.6 million, a 5 percent decrease from Q1 of 2023, reflecting lower revenue from additional listing fees due to a decrease in the number of financing transactions, despite an increase in total dollars raised on the Toronto Stock Exchange and a decrease in the financing transaction on dollars raised on the TSX Venture Exchange.

And while difficult conditions have impacted capital market's activity, not just here in Canada but across world markets, we are seeing important wins in our ecosystem and compelling evidence that the spirit of entrepreneurship endures. And we are confident that as confidence returns to Canada markets, activity is due to pick up. It is not a question of will it. It's a question of when it.

Among our 55 new listings in the quarter, which included 31 new listings on the TSX Venture Exchange, were 4 companies who uplisted or graduated from other domestic markets to our ecosystem during the quarter including Hypercharge Networks, an electric vehicle supply equipment company breaking into the rapidly growing EV charging market with a simple and efficient charging solution; and Atha Energy, a Canadian mineral company engaged in the acquisition, exploration, and development of uranium assets in the pursuit of a clean energy future.

Together, TSX and TSXV are proven means to access a broad range of global investors and a viable pathway to sustainable long-term growth.

Vitalhub is another great example of the power of our two-tiered ecosystem. The company went public on TSX Venture Exchange in 2016 through a qualifying transaction via our signature Capital Pool Company program and then graduated to the Toronto Stock Exchange in 2021. Vitalhub has sustained growth over the last five years and closed a $40 million financing last month.

And as always, our teams are closely connected to the listed issuers and prospect communities, and we're working to bring the next great companies to the market.

And as we continue to work with ETF providers to support the ongoing strong growth of that industry as well, 14 new ETFs from 11 different providers listed on TSX in the first quarter representing a dynamic range of investments, including thematics and factors as well as commodities and income-oriented ETFs.

And overall, TMX's business model has continued to prove resilient. And this is largely a reflection of the intrinsic and enduring strength of Canadian markets.

Our markets more than measure up to markets around the world. But measuring up is a continuous pursuit. And in any competition, we strongly believe that winning is a worthy ambition. Canada has what it takes to be an economic powerhouse, rich natural resources; a highly educated workforce; and a healthy spirit of innovation, investment, and entrepreneurship. And we need to continue to create the conditions for sustained success.

TMX is a vocal and engaged advocate at all levels of government in this country for measures to unlock the flow of capital and create the environment that investors look for, regulatory certainty, and

clear, globally competitive incentives for entrepreneurs, workers, and investors to share in the success of Canadian companies.

And while we have seen some signs of progress and evidence that our voice is being heard, we have a good deal of work ahead of us, specifically to help policy makers better understand the scope of the impact of their decisions, which have on crucial components of our ecosystem.

In the recent federal budget announcement, the government indicated that they will explore the expansion of Canada's signature R&D support program to include public companies. This is a welcome and encouraging development on a key recommendation we have been pursuing for a number of years. And it is an important step forward.

However, at the same time, we share the concerns of many across Canada's business and investment community about the unintended consequences from the announced increase in the capital gains tax inclusion rate. This increase will add another disincentive to investing in Canada at a time where we need to be focused on attracting talent, capital, and competing for global investment flows.

We need to collectively find new ways to incent risk taking, measures which could include an expansion of the provenly effective mechanism flowthrough share program, as we have suggested, rather than imposing stricter limits on rewards.

So our ask is simple, for governments to take a pause, to engage directly with representatives from the industry most affected, and to gain a better understanding of the impact of what is essentially a 33 percent tax increase on investing activity, and then work with us all towards viable alternatives and mitigants.

Now in closing today, I want to reemphasize TMX's pledge, to serve stakeholders across our marketplace around the world with excellence and integrity. Our people are clear-eyed and united in our

commitment to the enduring success of our capital market's ecosystems and in pursuit of TMX's long-term strategic financial and transformational objectives.

With that, let me pass the call over to David. Thank you.

David Arnold — Chief Financial Officer, TMX Group Limited

Thank you, John. And good morning, everyone.

As John mentioned, macroeconomic factors continue to weigh heavily on important segments of our ecosystem during the first three months of the year, creating uncertainty and inhibiting growth.

As a result, capital markets activity and some of our traditional key performance indicators are down year over year. But despite this, we continue to benefit from our deep and diverse business model in the first quarter of 2024.

We reported record revenue, both including and excluding VettaFi, which joined the TMX family at the beginning of this quarter.

Our revenue increased 16 percent compared with Q1 last year and organic revenue grew 3 percent over the same period.

Our diluted earnings per share was $0.50, representing an increase of 56 percent compared with $0.32 in Q1 of last year.

This increase included a gain of $0.21 per share related to the revaluation of our previously held minority interest in VettaFi, which was fully acquired on January 2nd of this year and is now being referred to as TMX VettaFi.

Our adjusted diluted earnings per share increased by 3 percent, reflecting lower income tax expense of $5.4 million and higher income from operations of $2 million, primarily driven by growth in

our businesses with a higher percentage of recurring revenue. This was partially offset by higher net finance costs related to the acquisition of TMX VettaFi.

Since John has already covered our revenue relative to Q1 of last year, I will pick up where he left off by taking a closer look at our expenses on a year-over-year basis.

Operating costs in the first quarter increased by 28 percent compared to Q1 of last year on a reported basis, driven by the following items.

First, Q1 of this year includes $20 million of operating expenses related to TMX VettaFi.

Now it's worth noting that Q1 expenses for TMX VettaFi would typically be higher than the rest of the year as they include costs related to the annual Exchange Conference held in Miami in early February. As such, going forward and all things being equal, we will see higher expenses in Q1 for TMX VettaFi. And all things being equal, higher revenue as well in Q1 as the revenue earned from the Exchange Conference would also be accounted for in Q1 of each year.

I say all things being equal because depending on business growth in other business lines in TMX VettaFi, results could differ. For example, revenue linked to assets under management for indices and benchmarks, digital distribution activity, and so forth.

We continue to point you to our December disclosures when we announce the transaction, which focus on the full year outlook for TMX VettaFi.

Second, an additional $18.7 million relating to TMX VettaFi now being part of the group results, namely $11.8 million relating to the amortization of acquired TMX VettaFi intangibles; $5.4 million increase in acquisition and related expenses; and finally, $1.5 million in higher integration costs.

Third, we incurred $1.3 million of expenses in the first quarter related to our US expansion initiative.

And lastly, there was a $1.6 million increase in BOX Market's regulatory related expenses.

Somewhat offsetting the increases, Q1 of last year included a $2.2 million one-time write-off of receivables and $0.6 million related to SigmaLogic.

Now excluding these items, our operating expenses increased by approximately 4 percent, or 3.8 percent to be exact, on a comparable basis, reflecting higher headcount as we continue to invest in growth and increased employee performance incentive plan costs relative to Q1 of last year.

Now turning to a comparison of our results on a sequential basis.

Revenue in Q1 is up $44.4 million versus Q4, mostly driven by the inclusion of TMX VettaFi.

In addition, there were also sequential revenue increases from the rest of our Global Solutions, Insights and Analytics segment, namely TMX Trayport and TMX Datalinx as well as our Derivatives Trading and Clearing and Equities and Fixed Income Trading segments. This was somewhat offset by lower revenue in Capital Formation.

The inclusion of TMX VettaFi increased revenue by $37.9 million in the first quarter. Excluding TMX VettaFi, revenue was up $6.5 million or 2 percent compared with Q4.

Now as I mentioned earlier, all else being equal, Q1's revenue for TMX VettaFi would typically be higher due to the inclusion of the annual Exchange Conference revenue. So going forward, all else being equal, it is reasonable to expect some seasonality in the TMX VettaFi revenue.

Operating expenses this quarter were up $30.9 million or 18 percent from Q4 of 2023, including $20 million of operating expenses relating to TMX VettaFi, $11.8 million relating to the amortization of acquired VettaFi intangibles, $1.2 million in integration costs, and $1 million in acquisition and related expenses.

These increases were partially offset by a $5.7 million decrease related to strategic realignment costs incurred in the fourth quarter to create capacity for further investments in growth, $1.8 million lower expenses related to BOX's regulatory related expenses, and savings resulting from the strategic realignment beginning in Q1 of this year.

Accounting for these items, our comparable operating expense increased 3 percent sequentially, mainly reflecting higher payroll and IT costs.

Now as you will recall, in Q4 of 2022, we disclosed our three key transformational measures.

Now while these are long-term objectives, we have made meaningful progress over the last five quarters. And this quarter, we have reached a milestone on one of the three.

Our revenue outside of Canada was 50 percent in the first quarter, a 9 percent increase from 2023, 6 percent of which is from the inclusion of TMX VettaFi and 3 percent from organic growth.

We have, for the first time, met the low end of our transformational objective for this measure.

Global Solutions, Insights and Analytics revenue as a percentage of total revenue was also up 9 percent from 2023 to 44 percent, of which 7 percent is from the inclusion of TMX VettaFi and 2 percent from organic growth.

And last but certainly not least, recurring revenue as a percentage of total revenue increased by 2 percent to break through the 55-percent mark this quarter, primarily driven by the addition of TMX VettaFi.

Now turning to our balance sheet.

You may recall from my Q4 remarks, the VettaFi transaction, which closed on January 2nd this year, was financed through term credit facilities totalling US$963 million divided into three tranches: Term

A facility of US$600 million maturing 12 months from closing, Term B facility of US$163 million maturing 18 months from closing, and finally, Term C facility of US$200 million maturing 24 months from closing.

The weighted average yield of the term credit facilities was SOFR plus 120.5 basis points.

Now on February 16th in this quarter, we completed a Canadian private placement offering totalling $1.1 billion across our Series G, Series H, and Series I debentures. These proceeds from the debentures were mainly used for the full repayment of the Term A facility and our outstanding commercial paper.

Since we termed out the Term A credit facility at a lower rate, all things being equal, the net financing cost in the first quarter can be considered a high watermark.

The weighted average interest rate for our total outstanding debt of approximately $2.3 billion was lower by over 55 basis points as of March 31st compared to January 3rd.

On March 31, 2024, our debt-to-adjusted EBITDA ratio was 3.6 times.

We also held close to $468 million in cash and marketable securities, which was $293 million in excess of $175 million we target to retain for regulatory and related purposes.

Now net of excess cash, our leverage ratio was 3.2 times, and we remain confident in our deleveraging plan and ability to return to our target range of 1.5 to 2.5 times within two years.

In March 2024, our normal course issuer bid program expired, and we elected not to renew the program at this time as we focus our efforts on executing our deleveraging plan.

Last night, our board approved a 6 percent increase to our quarterly dividend to $0.19 per common share, payable on May 31st to shareholders of record as of May 17th.

This increase is a reflection of our confidence in the ability to generate cash while continuing to make progress on our deleveraging plan.

With this increase, we will have paid out 50 percent of our adjusted earnings per share for Q1, which remains at the top end of our target payout range of 40 percent to 50 percent.

So that concludes my formal remarks. And I'd like to turn the call back to Amin for our Q&A period.

Amin Mousavian

Thanks, David.

Joelle, will you please outline the process for the question-and-answer session?

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request and your questions will be polled in the order they are received. Should you wish to decline from the polling process, please press *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from Ben Budish with Barclays. Your line is now open.

Ben Budish — Barclays

Hi. Good morning and thanks for taking the question. Maybe starting with VettaFi, can you give a little bit more colour? You talked about the seasonality of Q1, but perhaps we would, if things kind of go right, maybe we wouldn't see it as much. Can you talk a little bit about what the typical seasonality looks like? And what is the sort of typical in a Q1 versus like the rest of the year?

And then I'm wondering if there's any other stats you can kind of share even into April, like the sort of index-linked AUM. How is that sort of trending throughout the year? I think we have a general sense of how much of the revenues that contributes. But anything else that can kind of help us think about our models for Q2 and then the seasonality bit.

John McKenzie

Yeah. Happy to. And good morning. So thanks for the question because I think that's a really important one for us to unpack for everyone.

The seasonality piece really is limited to Q1. So the majority of VettaFi's business is subscription based. It's growing over time. And so as we continue to build it as one of our high-growth businesses over the long term, you will see long-term quarterly growth.

Now the difference with Q1 is really about the conference that I mentioned in my remarks as well, the Exchange Conference, which took place in Miami in February.

To give you a bit of perspective, approximately US$6 million in revenue that comes from managing that conference on behalf of the industry. And while it is a contributor to EBITDA, it's not a material contributor. So the margins in the quarter are also not reflective of what the long-term margins are.

And so that gives you kind of the context both on the revenue and the expense side.

And so if you think about that and adjust for it and then use the appropriate growth throughout the quarters as we build the business quarter by quarter, it gives you a good indication of how the business is growing. And that's why we also provided kind of that context of how Q1 compared to Q1 of VettaFi a year ago before we bought it. And you saw that double-digit organic growth in the quarter as well. So unpacking those pieces.

Now on terms of the AUM, that is the right piece to look at. We're going to guide you to the VettaFi website for that. I don't have that on hand for me right now. But that is the best indicator.

Now it's not going to be uniform across the products because some products have different pricing built into it. But it will give you the guidance in terms of the overall assets under management that are linked to VettaFi indices. And we'll see about how we bring more of that into our disclosure in the future.

Ben Budish

Great. Very helpful. Maybe just one more on VettaFi. I mean it's been a couple more months now since we've last spoken. I think you've owned the asset since the beginning of the year. Any more updates in terms of what TMX can do to sort of accelerate the growth of this business?

Are there sort of learnings from Trayport that you can kind of apply here? Or does the strategy look a little bit different?

John McKenzie

Well, can I say yes and yes? There are certainly learnings from our Trayport experience, and we are applying them both in terms of how we manage the business, how we integrate the business, how we create scale with the different teams.

But one of the pieces that I think is unique in this one is the ability to work between TMX, VettaFi, and other parts of our TMX ecosystem to create joint product opportunities for our clients.

Again, I'm going to take you back to the Exchange Conference for a second. That was a conference that VettaFi leads. But, also, we had participation from all other parts of TMX and jointly generated. Like I talked to you about the amount of revenue the conference generates. We generated an equivalent amount of what I'll call pipeline of new client prospects of jointly developed products for new

clients from those engagements at that conference. And so while it's a really important industry conference, it's a sales pipeline builder for us as well.

And what we can do now differently as part of the same organization is actually work with clients like ETF providers with a whole host of solutions including both the index creation, the digital distribution capability, the listing on Exchange as you build volume, then the options traded on the MX on that listed ETF.

So it's an ecosystem opportunity that didn't exist to us in separate organizations before. And we are in multiple client discussions now that really are a product of that partnership.

So really excited by both how we helped VettaFi grow faster but also how VettaFi and the capabilities for the ETF community allows us to serve a broader suite of ETF clients and bring more issues to market. So it is a one plus one is three in terms of the growth potential for both parts of the franchise.

Ben Budish

Great. Thank you for taking the questions.

Operator

Your next question comes from Étienne Ricard from BMO Capital Markets. Please go ahead.

Étienne Ricard — BMO Capital Markets

Okay. Thank you and good morning. On VettaFi, digital distribution was previously highlighted as a source of synergy. So could you please share an update on how you plan to integrate VettaFi within TMX Datalinx and the resulting synergy potential?

John McKenzie

Yeah. It's a great question. So I mean we started with the way we've organized the Company. So both Datalinx and VettaFi, while they have separate leadership teams, they actually do report both into

Jay Rajarathinam in terms of leading that part of the franchise. So we look to get the ability for those teams to work together to create those joint opportunities.

And it's two-way. So there's sources of data within Datalinx that haven't been commercialized in index product. And so we're jointly working with, what are the data sets that can be commercialized through indices created by VettaFi, and vice versa; what are the opportunities to create new products that Datalinx can co-sell.

And we have actually two different sales teams that are now working together because they have unique client bases. But we have the ability to now cross sell. And so as you said, the digital distribution tools, those are often sold to ETF clients. That could be a lead that's generated by a listings ETF manager that's passed to VettaFi or through the Datalinx team. So it's really creating that sales coordination between the different sales groups that focus on different client bases.

That's why I just say—I'm actually not even sure we've announced this to our team yet, but we will be holding an annual sales conference here in Toronto in the summer designed exactly around bringing those sales teams together so they can also not only understand the different product availabilities, but how they do that lead-pass relationship and then provide a better and greater service quality to the client.

Étienne Ricard

Okay. Appreciate the details. Indices managed by VettaFi are currently overweight certain sectors of the economy. I know VettaFi's been active on the acquisition front over the past year to diversify the sector exposure. Do you expect to continue deploying capital into targeted acquisitions?

Or do you see a path for continued AUM diversification given the pipeline of new indices being launched?

John McKenzie

Yes, and yes. So we are both in the organic construction of new indices that would diversify the asset classes that VettaFi has under management, and we are actively pursuing other tuck-ins like things like ROBO Global and EQM that you saw in 2023.

Étienne Ricard

Great. Thank you very much.

Operator

Your next question comes from Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my question. I just wanted to focus a little bit on Trayport.

Obviously, the jump in subscribers was certainly notable, particularly on the trader side. I was wondering if you can talk a little bit to that and how that can kind of play out in sort of the local currency growth that we can expect to see. I know it's a really good number in Q1, 16 percent, but I'm seeing the trader subscriber jump at almost 26 percent. Just wanted to kind of understand how that would blend into the upcoming quarters.

John McKenzie

Happy to. But let me first take the moment to welcome you to your first call with us. So really appreciate you having on board.

With respect to the Trayport subscriber fees, I recognize that that was a positive surprise for a lot of folks following the story. It was not a positive surprise for us. It was positive and not surprising because we can see the activity that's going on with the team during the quarter.

So you saw in my remarks, or you may have heard in my remarks that we actually signed up 11 new clients, trading firms, during the quarter. So those are all net new adds that would bring a number of subscribers with them.

But even more impactfully is the process that we do around Enterprise clients and the renewal of those clients. So these are clients that have an Enterprise relationship where they can use Trayport throughout their shop; they do it over a multiyear period. And when those clients come for renewal, we reset based on where they're using it in their environment.

And so we had a number of client renewals in the first quarter with revenue uplifts of anywhere, call it, 30 percent to 90 percent because over the time period, they really expanded the use of Trayport on multiple desks in their shop. And that's exactly the relationship we want to create with clients, give them the incentive to use it everywhere, and then we reset over time.

Similarly with the additional products. So we talked a bit about the fact that we've got a growing revenue, faster growing revenue actually, in things like analytics, algorithmic trading. Again, we build those also into the Enterprise agreements and then can expand them across the client base. And so that's actually now almost 11 percent of the Trayport revenue is coming from these additional services that, if we were talking about this a few years ago, didn't exist at all.

And so those are the two colour points. Really a combination of that additional new clients we added and the renewals that we're adding additional trader subscribers to them.

Aravinda Galappatthige

Great. Thanks so much. That's great colour. Just one quick question before handing over.

On the sustaining listing fees, I noticed that you had alluded to some sort of client discounts. I was trying to kind of reconcile the 2 percent decline there versus what I understood was sort of an upward

adjustment to the maximum fee. I was wondering whether it kind of came into effect in Q1 or perhaps it was offset by these client discounts. Just wanted to understand the dynamics a little bit better. Thank you.

David Arnold

Thanks, Aravinda. It's David.

So yeah. You're right. So there were really two things. When we provide the disclosure in Q4, it's effectively preliminary because we do the full reconciliation and billings in the first quarter. And effectively, a lot of the market cap that you saw in Q4 increase year over year was in a lot of companies that were in excess of the maximum fee cap. But then what you also have is you have a couple of delistings and also then some bulk discounts for ETF manufacturers and so on.

So that's kind of why there's that minor reconciling difference between Q4 and what we're now disclosing in Q1.

And once again, it's not material, but that kind of gives you the colour as to why the number changed.

Aravinda Galappatthige

Great. Thank you.

Operator

Your next question comes from Graham Ryding with TD Securities. Your line is now open.

Graham Ryding — TD Securities

Hi. Good morning. Maybe I can just start just to make sure that I'm getting the message right on VettaFi.

So given that there's the seasonality in Q1, is it still accurate to say that you're guiding towards US$100 million in revenue in 2024 and a 60 percent overall margin on the EBITDA line?

David Arnold

That's correct. That is correct. So the disclosures we gave when we announced the transaction still hold, but we're very pleased with the performance in Q1.

And really, to build onto what John said, right, so, obviously, there'll be the seasonality in Q1. And you see in our MD&A if you look on the Page 14 where we talk about VettaFi, really break down that there are three components to that business: the indexing part of the business, the digital distribution analytics, and then the event. So the event piece is typically a Q1 item.

Indexing, that will fluctuate quarter to quarter based on a couple of factors. One is those that are linked to assets under management, it'll fluctuate as the assets under management grow and hopefully don't decline. But then there's also the addition of new indices that John touched on, both organic. But then there's also switchers, right, where individuals switch from one index provider to TMX VettaFi. So that can kind of create some fluctuation in the indexing line in quarters to come.

And then digital distribution analytics is one of those interesting ones where it typically builds through the year. And if you look at the prior-year numbers, you can kind of see how the aggregate TMX VettaFi numbers kind of build because a lot of that is also to do with marketing budgets and capacity at some of the ETF manufacturers who tend to go a little slower in Q1 and then build through Q2, Q3, and Q4 during the year. Not material, but it is a subtle seasonality piece that I wanted to highlight.

Graham Ryding

Okay. Okay. That's helpful. What was VettaFi's organic revenue growth in Q1 after adjusting for the two acquisitions you did last year, ROBO and EQM?

David Arnold

We haven't disclosed that, Graham. But what I will say, it is robust organic growth and in line with what we put in our long-term objective, so high single to double digits.

Graham Ryding

Okay. Okay. And then maybe I would just jump to the Trust line in your Capital Formation. I just want to make sure that I get the timing right on that one.

Should we expect a similar jump in Q2 versus Q1 for that line item? I think you flagged before that there might be like sort of AGM and some sort of event-specific fees that you would earn in Q2. Is that still a dynamic that we should be expecting?

John McKenzie

Yes. But not to the degree you saw in Q2 last year. I'll remind you to the disclosure we had last year in Q2 where we had a couple of very large corporate action transactions with high balances and rate impacts. Those are really good. They're really important pieces of business, but they are not predictable and that did have an impact on Q2 much beyond the AGM pieces.

Graham Ryding

Okay. That's helpful. And then, David, on the net finance cost, I appreciate you gave some colour that you've termed out some of your debt into lower rates, so we should try to factor that in. There was also, I think, a net gain in the quarter of $7 million that impacted you net finance costs. Should we be factoring that in when we're trying to figure out a sort of run rate for your overall net interest cost?

David Arnold

Good question, Graham. No. You shouldn't be. That was actually inextricably linked to the refinancing activity we undertook in the middle part of the quarter. So those were as a result of hedging

instruments we put in place to manage both currency and interest rate risk. So those are now closed out. And yeah. Absolutely refer back to the fact that we're carrying about $2.3 billion.

And I point you to Note 5 in the financial statements. You'll see that our financing costs in March over the first quarter were around $30.1 million. You'll see it on that one line. And if you look at the $2.3 billion of outstanding debt at the end of the quarter and you kind of use our weighted average rate of 4.59 percent, or let's round it to 4.6 percent to get to a kind of 55 basis-point saving, you get an idea of what that number might look like in Q2. But obviously, we continue to sharpen our pencils on ways to keep reducing our weighted average cost of debt.

Graham Ryding

Okay.

David Arnold

Did that give you enough, Graham? Is it good?

Graham Ryding

Yeah. That's helpful. I'll re-queue. Thank you.

David Arnold

Thanks.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press *, followed by the 1.

Your next question comes from Jaeme Gloyn with National Bank Financial. Your line is now open.

Jaeme Gloyn — National Bank Financial

Yeah. Thanks. A few clarification questions. First off, when you mentioned the $6 million in revenue from the conference at VettaFi, is that USD? Or is that Canadian?

John McKenzie

That was USD.

Jaeme Gloyn

Okay. And I assume the expenses attached to that likely in that $6 million range as well.

John McKenzie

Yeah. Slightly below. It actually it is an earnings contributor, but it's not a high-margin activity. So it's not a material contributor to earnings.

Jaeme Gloyn

Yeah. Got it. Thanks. I understand you're not going to give the organic growth rates for ROBO and EQM. But can you size those businesses for us? Are they equal size? Or is one bigger than the other?

John McKenzie

Oh. Yeah. Of the two of them, the ROBO was a bigger piece in terms of those acquisitions.

Jaeme Gloyn

Like double? Or okay. Any other more colour on that?

John McKenzie

No. No more colour on that, Jaeme, but I appreciate the effort there.

We will give you a bit more colour, though, on the pro-forma revenue growth for VettaFi. We expect 17 percent growth in 2024. And so that'll help you kind of get to the other pieces. And ROBO is the bigger of the two.

Jaeme Gloyn

Thank you. That's very helpful. And then, last clarification question, just on the other issuer services line. Do you have that handy, the contribution from those large corporate transactions? I assume if we ex that out, we should see something similar this quarter from that line item. I don't know. Let me know if that doesn't sound too fair.

David Arnold

No. No. No. That's a fair question, Jaeme.

So the best way to answer that question is have a look at the Q2 transcript from last year as well as the disclosures, and you'll get a good indication as to kind of the material amount that John referred to that occurred in Q2 of last year.

And while Q2 is not finished, we still have lots of time to go to June 30th, there may be other actions that come in the quarter. But right now, if there weren't to be similar corporate actions like what we encountered in Q2 of last year, then absolutely, there would be a year-over-year decrease.

Jaeme Gloyn

Okay. Great.

David Arnold

Does that help you, Jaeme?

Jaeme Gloyn

Yes. It does. And then last one, just around the US trading initiative. Have we reached a point now where, with staff and maybe some sizing and conversations that you'd be able to share some expectations around contribution from that initiative?

John McKenzie

No. Not at this stage, Jaeme. I mean that will come later in the year when we get closer to what a go-live looks like and we have an idea of when we would go live with which clients.

I will give you an update in terms of our progress of the delivery that we have, actually, over the quarter, really moved ahead on both the technology solution, the partnering with the provider that's doing the cloud-based delivery, the filings with particularly FINRA, and testing and delivering the viability of the system to them, filings with other regulatory agencies.

So everything is progressing on the expectations that we shared with you last time. But we're not far enough along to have a firm go-live with what clients are signed up to give you that indication of what we think the early contribution would be.

Jaeme Gloyn

Okay. I appreciate that. Thanks very much, guys.

John McKenzie

I know you'll ask me again next quarter anyway, so.

Jaeme Gloyn

And probably a few times in between.

Operator

There are no further questions at this time. I will now turn the call over to Amin for closing remarks.

Oh. I'm sorry. There's another question from Graham Ryding with TD Securities. Please go ahead.

Graham Ryding

Yeah. Just thought I would ask you about the recent update from the CSA on the market data piece. They're sort of suggesting that they're going to review, I guess, the data fee methodology and also

the idea of retail advisors accessing a consolidated market data feed. Just wondering, maybe you can size that up.

And how are you feeling about any potential impact on your market data business here?

John McKenzie

Well, Graham, when you re-queued in there, I was going to say since this sounds like it's the last question, it'd better be a good one. And that is a good one. So I appreciate you asking.

There are a couple pieces that came out of that. And I want to give a lot of credit to our team that works very proactively with the CSA and partnerships so that we can really talk about the market, the structure, unintended consequences impacts.

So the two key pieces that came out of the response, one was around some strong industry committees to help advise on the future developments of market data structure going forward. We absolutely support that. We think it's the right way to do it. We get the right people around the table to look at, how do you think about the fee model; what contributes to those types of things in the future.

The new regime or the recommended regime around disclosure of fee changes we're supportive of as well. We think that was well thought out, and it's actually something that we believe in generally, which is transparency around what you're doing with your fee model. And I think it starts to bring all other markets up to the level that we set for the marketplace. So we think that was positive as well.

The interesting piece, the other piece you mentioned around kind of the lack of consolidated data for retail, the demand for that wasn't often coming for retail. It was coming from other marketplaces and other participants that were questioning whether or not a retail could trade if they were only looking at TMX data. So we've actually taken that under our own initiative.

We announced to our clients, I think, just over a week ago that we are going to be building out a consolidated data product, which'll help provide more multi-market depth to pricing essentially for that retail audience. So this is not a regulatory ask. We're doing it on the basis of our clients and particularly around those clients that want to make sure that retail are seeing the depth of data across multiple marketplaces.

So that actually is an initiative that we're taking on. We announced at the market just last week.

Graham Ryding

Okay. Understood. And the actual review of the data fee methodology, should I be thinking of, when I look at your Market Insights business, is everything sort of that's outside of VettaFi and outside of Trayport, does that fall into this review of data fee methodology?

John McKenzie

That's really more about subscribers and feeds. So there are a lot of other things within our market data business like index revenues, co-location that are not part of that scope.

Graham Ryding

Okay. Understood. Okay. That's it for me. Thank you.

John McKenzie

Thank you for the question.

Operator

There are no further questions at this time. I will now turn the call over to Amin for closing remarks.

Amin Mousavian

Thank you, everyone, for listening in today. Before we close, I want to take this opportunity to remind you that in just 48 days we will be hosting our Investor Day here at our Market Centre in downtown Toronto. We look forward to seeing you at this engaging event on June 20th that will showcase our top priorities for accelerating growth. Further details are posted on our website under Shareholder Events.

As usual, if you have further questions, contact information for investor relations as well as media is in our press release, and we'll be more than happy to get back to you. Until next time, goodbye.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.