TMX Group Limited

Third Quarter 2024 Financial Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the TMX Group Limited Third Quarter 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 anyone has any difficulties hearing the conference, please press *, 0 for Operator assistance at any time.

I would now like to turn the conference over to Amin Mousavian, VP of Investor Relations and Treasury. Please go ahead.

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

Merci, Jenny (phon). Bonjour à tous. Good morning, everyone. We join you from our Montreal office this morning to discuss the 2024 third quarter results for TMX Group.

We announced our results for another outstanding quarter 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; and 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'll turn the call over to John.

John McKenzie — Chief Executive Officer, TMX Group Limited

Well, thanks, Amin, and good morning, everyone. Thanks for joining the call today, and it's a pleasure to be here in Montreal where, last night, we had the pleasure of joining with colleagues and celebrating 150 years of the Montreal Exchange.

[Remarks in French]

And a happy Halloween to everyone as well listening in to you and your families. Our promise to you today is all treats on the call. No tricks.

So as disclosed in last night's press release and the financial statements, TMX did deliver excellent results for the third quarter featuring strong performances across the enterprise in both traditional business areas as well as in our newer growth areas and in both domestic and global marketplaces.

Our success in the quarter and sustained momentum during the first nine months of 2024 showcases TMX's core winning traits: a diverse and dynamic business model made up of complementary businesses; a strong balance sheet supporting our growth aspirations; a track record of strategic execution; and leading-edge technology with the unwavering commitment of TMX's people here in Montreal, across the country, and around the world to serving our growing client base with excellence and purpose.

Now at our Investor Day in June, we identified four priority areas to leverage the foundational strength of our core business to accelerate growth beyond the fundamental concepts of listing, trading, and market data and to reach beyond Canadian borders.

And before I turn to TMXs year-to-date performance, I want to highlight two recent investments we have made to help build on our position of strength well into the future, to move beyond the core in Global Solutions, Insights, and Analytics and in Capital Formation.

Now, as you know, earlier last year, prior to the acquisition, we made an initial investment in VettaFi, which included a commercial agreement. It became pretty clear over a relatively short period of time working together that the TMX Datalinx VettaFi partnership had the potential to turbo charge our GSIA growth strategy and to bring new exciting and adaptive solutions to better serve the ETF community, a key segment of our client base.

Now TMX VettaFi, the team's commitment to seeking out competitive advantages for clients across the index and ETF ecosystem and determined and propulsive growth mindset has proven to be a tremendous fit.

Since the founding of the Company three years ago, VettaFi has focused on seizing the strategic opportunities to augment their suite of client offerings and expand the global footprint. And earlier this month, TMX VettaFi acquired iNDEX Research, an end-to-end index provider that designs and manages indices with more than 10 billion in linked assets under management across both equities and fixed income markets.

It's the third suite acquired in the past 18 months, following the 2023 acquisitions of ROBO Global and the EQM Indexes, and the acquisition of iNDEX Research fits squarely within TMX's long-term strategy and transformational growth objectives to expand internationally and bolster our GSIA segment. And importantly, iNDEX Research brings new operational and client service capabilities focused on the EMEA region to TMX VettaFi plus a talented team of professionals.

And we're always looking for ways where we can strengthen our value proposition. Our purpose is to make markets better and empower bold ideas and be a part of that living purpose is to strive every day to make the overall client experience better across the enterprise.

And this shows up in Capital Formation where we're building on our non-listing business, or beyond listing business, exploring solutions to better serve our almost 3,500 issuers on TSX and TSX Venture, as well as the thousands of private companies beyond our immediate ecosystem.

Our non-listing business, which includes TSX Trust, generated over $100 million in 2023 and represented over 40 percent of the total Cap Form revenue in the first nine months of 2024.

In August, we further expanded our offering with the acquisition of Newsfile, a leading news dissemination and regulatory filing provider. Newsfile provides client companies with an integrated, efficient way to meet certain disclosure requirements including newswire distribution and multijurisdictional filing solutions. And for those of you who received our press release last night, you will see now that we are also a client.

The addition of Newsfile expands our public and private company solutions offering and advances our competitive position in a key growth area. Newsfile served 2,500 clients globally in 2023, and nearly half that number were private companies. They have a stellar reputation for service excellence, a client-first mindset, and a history of innovation plus room to grow. And so I'd like to extend a very warm TMX welcome to our newest team members from iNDEX Research and Newsfile.

Now turning now to the results for the first nine months of 2024. Our overall revenue increased 20 percent, including $101 million from TMX VettaFi and reflecting year-over-year revenue growth from TMX Trayport, Derivatives Trading and Clearing, and Equities and Fixed Income Trading and Clearing with gains partially offset by lower revenue from Capital Formation.

Organic revenue, excluding TMX VettaFi and Newsfile, increased 8 percent, and diluted earnings per share on an adjusted basis increased 10 percent for the first nine months of 2023 (sic) [2024].

Total operating expenses increased compared to the same period last year reflecting the inclusion of TMX VettaFi expenses, and David will take a closer look at expenses later on with his remarks to follow.

Now, moving to our business areas. Revenue from GSIA increased 43 percent for the first nine months of 2023 (sic) [2024] or 10 percent excluding TMX VettaFi.

TMX VettaFi's revenue was 18 percent higher in US dollars compared to the same period last year prior to acquisition. And TMX VettaFi growth has been primarily driven by higher indexing revenue, reflecting organic growth in assets under management; revenue from the 2023 acquisitions of ROBO Global and EQM Indexes; and higher revenue related to events, including February's exchange conference.

The TMX VettaFi integration is largely complete. And the most significant of the remaining projects, combining our New York offices to centralize our TMX US operations, is well underway.

Now staying with GSIA. TMX Trayport has been the driving force for enterprise growth in 2024. Revenue increased 20 percent compared with the first nine months of last year, or 16 percent in pounds sterling, driven by a 25 percent increase in total licensees, annual price adjustments, and higher revenue from data products.

The strength of TMX Trayport network continues to grow, serving a vital role in linking participants to execution venues and clearinghouses across global energy markets. We have more than 9,500 licensees, or end-user applications, and over 26,000 network connections, and a participant demand for data analytics to support their strategies continues to grow.

Today, TMX Trayport offers clients a suite of adaptive, customized tools, insights, and analytic capabilities. And data and analytics represents 11 percent of its overall revenue.

Now looking beyond the core, TMX Trayport is pursuing global opportunities to replicate the success of our network and leverage our expertise in new geographies and asset classes, including climate markets and power markets in North America and Japan.

Now I'd like to turn to Capital Formation. Revenue here was 2 percent lower compared to the first nine months of 2023, reflecting lower revenue from additional listing fees due to prevailing challenging conditions in the marketplace.

At Investor Day, we outlined our strategic growth plans for listings and beyond. A year-to-date performance illustrates that Toronto Stock Exchange and TSX Venture Exchange, our powerful, two-tiered growth engine for helping small companies become big success stories, is a story that reads IPOs and beyond.

While macro factors continue to negatively impact capital-raising conditions and weigh on going-public activity, our Cap Form team is always focused on building our ecosystem stronger by attracting new cross listings from international markets and seeking out graduate prospects from other Canadian markets.

Recent success stories include the TSX listing of Westgold Resources in August. Westgold is an ASX-listed Australian gold producer, who joined our ecosystem to gain direct access to North American investors. The Company came to the TMX market centre in Toronto to take part in our market open ceremony, and to mark the occasion, the CEO put it really well when asked why they sought out a listing in Toronto as well as their home market in Australia. And I quote, "This is the best of both worlds. Both of these markets love gold and understand it."

That's a powerful testament to the reputation our equity markets have earned all around the world and particularly in the resource sector.

We now have more than 225 international companies on TSX and TSX Venture including 62 foreign-based dual listings.

Our competitive edge remains as sharp has ever domestically as well as we work to attract companies that meet our listing standards from other Canadian marketplaces.

Recent wins of these include Bigg Digital Assets and International Battery Metals, who graduated to the TSX Venture Exchange in September and October respectively. And over the past five years more than $14 billion in market cap has entered our ecosystem from other Canadian markets.

And Toronto Stock Exchange's ETF franchise continues to flourish. We've welcomed over 100 new ETFs to the market this year alone, an increase of more than 25 percent from 2023 and from 25 different providers.

On October 1st, J.P. Morgan Asset Management, the world's second-largest active ETF provider by assets under management, launched its first Canadian ETFs with two new active ETFs listed on TSX. And just last week Capital Group Canada launched its first suite of active ETFs on TSX, including two equity and two fixed income strategies.

Now, turning to our derivative markets, we continue to see impressive growth here.

Trading and Clearing revenue, excluding BOX, increased 13 percent year over year. These increases included 6 percent higher revenue from MX due to 12 percent higher overall volumes and highlighted by strong activity in interest rate derivatives.

Revenue from CDCC increased 25 percent as a result of larger REPO volumes, and overall higher clearing revenues.

Some key MX highlights for the first nine months of 2024 included double-digit, year-over-year volume growth in interest rate products, ETF options, single-share futures, and our two-, five-, and ten-year Government of Canada Bond Futures.

Overall, interest rates remain strong as of September 30th, 23 percent higher compared to the same date last year. Sorry. Overall open interest remains strong.

Revenue from Equities and Fixed Income Trading and Clearing was also up 8 percent, higher than the first nine months of 2023, driven by higher volumes on our equity markets and a favourable product mix.

Now, at the beginning of my remarks this morning, I mentioned the two TMX recent investments, the acquisitions of iNDEX Research and Newsfile, with a strategic focus on building our success looking beyond the scope of our traditional businesses. I want to bookend my comments this morning with references to two more initiatives we are working towards set for launch in 2025 in both trading and clearing.

Our trading team has been focused on enhancing execution quality for our clients, particularly for the institutional buy side. We launched AlphaX late last year here in Canada. And we have more than 40 participants now sending orders every week with a couple of large liquidity providers consuming data and working on AlphaX-specific strategies.

Not surprising, similar client needs exist beyond our borders and, actually, below Canada's borders in the largest market in the world. And we continue to make excellent progress with our plans to develop a US equity trading initiative aimed at improving execution quality for buy-side clients.

The response from participants thus far has been very positive, and we have started to execute our agreements. We are set to launch early in the new year to ensure industry readiness as we work to complete client testing and secure our regulatory approvals.

And another important initiative on track for 2025 launch is our modernization of the CDS clearing platform, which includes the replacement of certain legacy systems related to clearing and settlement as well as the entitlement payment systems.

Following the successful transition to T+1 in May of this year, the majority of participants resumed testing in the third quarter, and we are near completion. And we expect to go live near the end of Q1 of 2025.

We're grateful for the partnership of our industry stakeholders in helping to advance this complex modernization project. The initiative isn't merely to keep pace with our global peers. It will bring new, leading-edge solutions to Canadian marketplaces, designed to create efficiencies and competitive advantages for our clients.

The new platform will serve as a substantial foundation to upgrade and to help power existing initiatives, including the recent launches of the Canadian Collateral Management Service and SGC Notes, both which we launched earlier this year, and will facilitate additional global investment in Canada via future projects.

In closing, as always, I'd like to thank the TMX employees all around the world for their continued and outstanding contributions to our success and that steadfast commitment to making markets better and empowering bold ideas. We are working together to build on TMX's proud history to advance on a proven track record of growth and innovation, strategic execution, and leadership throughout all market conditions. And I am most excited for what will come next.

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

David Arnold — Chief Financial Officer, TMX Group Limited

Merci, John, and bonjour de Montréal. Thank you, John, and good morning from Montreal.

As John mentioned, TMX's performance year to date has been excellent. And that continued into the third quarter, underpinned by our powerful and diverse business model.

Our revenue in the third quarter was $353.8 million, marking a 23 percent increase from the previous year, fueled by the addition of TMX VettaFi and organic revenue growth of 12 percent over the same period. This growth was primarily driven by TMX Trayport as well as notable increases in volumes for trading and clearing across all of our markets for derivatives, equities, and fixed income.

While our diluted earnings per share decreased 3 percent, our adjusted diluted earnings per share increased 17 percent from Q3 of 2023, reflecting 24 percent or $30.2 million higher income from operations, partially offset by higher net finance costs.

Turning now to our businesses, I will start with the segments that had the largest year-over-year increases.

Revenue in our Global Solutions, Insights and Analytics segment, or GSIA, grew by 41 percent in the third quarter, reflecting $31.1 million from the inclusion of TMX VettaFi. Excluding TMX VettaFi, revenue grew by 11 percent over the same period driven by strong growth from TMX Trayport.

Revenue in TMX VettaFi was up 7 percent in Canadian dollars or 6 percent in US dollars this quarter, compared to the same period last year prior to the acquisition of TMX VettaFi.

The increase continues to be driven by indexing revenue reflecting organic growth in assets under management and revenue contribution from the 2023 acquisition of EQM Indexes as well as higher analytics revenue partially offset by lower revenue from digital distribution.

TMX VettaFi's assets under management continue to show robust growth, ending the third quarter at US$37.8 billion, which represents 5 percent growth sequentially and 15 percent growth in 2024.

Revenue from TMX Trayport increased 22 percent in Canadian dollars or 16 percent in pounds sterling this quarter, primarily driven by a 27 percent increase in total licensees. The revenue increase in Q3 also benefitted from our annual price adjustments, incremental revenue from data and analytics, and other trader products.

TMX Trayport ended the third quarter with annual recurring revenue of C$234.5 million, or £131 million, which represents a 16 percent growth in average recurring revenue for the quarter on an annualized basis.

Turning to TMX Datalinx, revenue in the business grew by 1 percent, reflecting higher revenue from data fees, colocation, and benchmark and indices, driven by the new term CORRA benchmark.

In addition, a positive impact from the price adjustments implemented earlier this year and favourable FX impact of C$0.4 million due to a stronger US dollar. Somewhat offsetting the growth was lower subscriber and usage-based revenue due to a client-specific reduction in enterprise agreement renewals that occurred in Q2, which we spoke to on our last earnings call.

Turning now to our Derivatives Trading and Clearing segment. Revenue, excluding BOX, grew 23 percent this quarter, reflecting a 19 percent increase in the Montreal Exchange fueled by record volumes in Q3, as well as a 31 percent increase in CDCC. The increase in CDCC revenue was driven by higher clearing volumes and the impact of pricing changes, which came into effect earlier this year.

Revenue from BOX increased 23 percent in Canadian dollars or 21 percent in US dollars this quarter, driven by a higher rate per contract reflecting a favourable product mix as well as a 5 percent increase in volumes.

In our Equities and Fixed Income Trading and Clearing segment, revenue was up 13 percent in the quarter, driven by a 22 percent increase from Equities and Fixed Income Trading and 4 percent from CDS.

The revenue increase in our Equities and Fixed Income Trading business reflected an 11 percent increase in the overall volumes of securities traded on our equities marketplaces.

The strength in equity trading continued this quarter with double-digit growth in both trading volume and value compared to last year.

Trading volumes were up 14 percent on TSX and 8 percent on TSX Venture Exchange, partially offset by a 5 percent decrease in volumes on Alpha Exchange. Our combined equities trading market share for TSX and TSX Venture-listed issues was approximately 64 percent this quarter, down 2 percent from Q3 last year but unchanged sequentially from Q2.

On the fixed income trading side, revenue increased from Q3 a year ago, primarily reflecting increased activity in Government of Canada Bonds driven by a more active interest rate environment.

The increase in CDS was driven by higher issuer event management fees, higher interest income on short-term deposits, increased exchange traded volumes, and higher revenue from our account transfer online notification service, partially offset by higher rebates.

Turning to Capital Formation. Revenue in the segment increased 2 percent in the quarter, reflecting $1.7 million for the inclusion of Newsfile, which was acquired in August.

Excluding Newsfile, revenue in the segment was down slightly compared with Q3 last year, primarily due to lower additional listing fees driven by a decrease in total financing dollars raised on TSX, as well as a decrease in the average fee for financings below the maximum fee on TSX Venture Exchange.

Sustaining listing fees and initial listing fees remained relatively flat to last year due to lower activity on TSX Venture Exchange, partially offset by increases on TSX. These decreases were partially offset by revenue growth of 5 percent in TSX Trust, reflecting higher net interest income, dealer services, and transfer agency revenue.

Turning to our expenses. On a reported basis, our operating expenses increased by 22 percent in Q3. This increase was driven by the following items. First, we incurred $28.1 million of additional expenses related to new acquisitions, namely $12.8 million of operating expenses related to TMX VettaFi and Newsfile; $11.8 million related to the amortization of acquired TXM VettaFi intangibles; $1.7 million in acquisition and related expenses for TMX VettaFi, Newsfile, and iNDEX Research; $0.9 million of integration costs related to TMX VettaFi and Newsfile; as well as $0.9 million for the accrual of differed contingent payments related to Newsfile.

Second, we incurred $1.7 million of expenses in the third quarter related to our US expansion initiative.

And lastly, somewhat offsetting these increases were lower expenses of approximately $5.2 million related to BOX's estimate of expenses for services provided by BOX Exchange due to a true-up in Q3 of last year.

Now excluding these items, our operating expenses increased by approximately 7 percent on a comparable basis, primarily driven by increased employee performance incentive plan costs driven by the increase in our share price and stronger performance in some of our businesses.

More specifically, the main driver for the increase was related to our stock price outperforming the S&P TSX Composite Index, which determines the multiplier for our performance share units.

Excluding the increase in long-term incentive programs due to the TMX stock outperformance versus the S&P TSX Composite Index, third quarter operating expenses were up 5 percent compared to last year.

Looking at our results sequentially. Revenue decreased $13.3 million from the second quarter, reflecting lower revenue from Capital Formation as well as Equities and Fixed Income Trading and Clearing.

The lower Capital Formation revenue was primarily driven by lower additional listings due to fewer transactions and lower dollars raised on our exchanges from Q2 to Q3, as well as lower transfer agency and net interest income revenue in TSX Trust, which are seasonally higher in Q2.

Equities trading volumes decreased by 9 percent compared with the second quarter, which drove revenue decreases in equity trading and CDS.

Now these decreases were partially offset by revenue from our Derivatives Trading business, which benefitted by a 2 percent increase in volumes on the Montreal Exchange, higher BOX revenues driven by higher rate per contract from a more favourable product mix quarter over quarter, and revenue growth in TMX Trayport reflecting a 3 percent increase in Trayport licensees, as well as a favourable FX impact from a stronger pound sterling compared to Canadian dollars.

Operating expenses in Q3 were down $4.9 million from Q2, primarily reflecting $3 million of lower integration costs, lower operating expenses related to TMX VettaFi, lower project spend, and directors' fees.

These decreases were partially offset by $1.4 million of higher acquisition costs related to Newsfile and iNDEX Research. There were also higher employer performance incentive plan costs compared with the second quarter, driven by a stronger share price that I referenced earlier.

Turning now to our balance sheet. On the balance sheet front, we completed the strategic acquisition of Newsfile in the third quarter. We acquired Newsfile for $22.3 million in cash and $4.7 million in deferred consideration with additional contingent payments of $18.6 million over the next three years.

For the first nine months of 2024, revenue and income from operations for Newsfile was $10.1 million and $4.3 million respectively.

Subsequent to the close of the quarter, TMX VettaFi acquired iNDEX Research for US$25 million in cash and up to US$6.3 million in contingent consideration.

For the first nine months of 2024, revenue and income from operations for iNDEX Research was US$3.3 million and US$1.5 million respectively.

Now as John mentioned, these acquisitions have not only expanded our product offerings, but also strengthened our operational capabilities, particularly in the areas of news dissemination, regulatory filing, and index management in new geographic and asset classes.

These transactions were structured to include contingent considerations and payments to reduce transactional risk and align key business leaders for shared success and commitment on growth. Both acquisitions are expected to be accretive to adjusted EPS in 2025.

Our pro forma debt-to-adjusted EBITDA ratio on September 30th was 3 times, down 0.6 times from March 31st when we first included our TMX VettaFi acquisition in our results.

As of September 30th, we also held over $518 million in cash and marketable securities, which is approximately $314 million in excess of the $205 million we target to retain for regulatory and related purposes.

So, net of excess cash, our leverage was 2.6 times, which is 0.6 times lower compared to the end of the first quarter. We remain well on track to deliver on our deleveraging plan to return to our targeted

leverage range of 1.5 to 2.5 times by the end of 2025, while at the same time pursuing businesses like Newsfile and iNDEX Research.

Lastly, I am pleased to announce that last night, our board approved a quarterly dividend of $0.19 per common share payable on November 29th to shareholders of record as of November 15th. This represents a 46 percent dividend payout ratio in the third quarter. And our last 12 months payout ratio of 47 percent remains in the upper half of our target payout ratio of 40 percent to 50 percent.

Now in conclusion, our Q3 2024 financial performance is a product of our disciplined and strong operational performance, effective execution of our growth strategy, and our commitment to delivering value to our shareholders. Our financial performance in this quarter underscores our ability to generate returns and create shareholder value.

I'd now like to turn the call back to Amin for our Q&A period.

Amin Mousavian

Thank you, David.

Jenny, can you please outline the process for the Q&A 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 the *, followed by the 1 on your touch-tone phone. Questions will be taken in the order received. Should you wish to cancel your request, please press the *, followed by the 2. If you are using a speakerphone, please lift the handset before pressing any keys.

Also, we politely ask that you limit yourself to two questions only. If you have additional questions, kindly re-queue.

Your first question is from Nik Priebe from CIBC Capital Markets. Your line is now open.

Nik Priebe — CIBC Capital Markets

Okay. Thanks. Seeing as you're sitting in Montreal today, I'll kick this off with a few questions on MX.

Average RPC was up sequentially as you guided to. You've also alluded to the prospect of market making incentives rolling off the two-year contract in the CORRA product. Just wondering if there's any visibility you can provide on the timing there. And just also wondering if you'd foresee a comparable benefit to the roll-off on the five-year as well.

John McKenzie

Good morning, Nik, and thanks. That's a great question. And thanks for leading with a Montreal question as we're here with the team.

So you're absolutely right in terms of some of the step up that we're seeing in terms of the RPC. I can't give you specific timing around those roll-offs because, again, those are commercially—they're commercially sensitive agreements with participants that are working with us. But they are in a reasonable near term that you're going to start to see that impact. And you're absolutely right in terms of the kind of net impact on the revenue on those products will have similar step-ups to what you saw on that roll-off of the five-year. So we're looking forward to continued step-up and RPC growth over the next couple of years.

Nik Priebe

Okay. Very good. And just on derivatives more broadly, that segment has been a perennial growth engine for an extended multiyear period. I'm just wondering what is it about that market that enabled it to sustain a higher rate of growth over time. Like if you look back over the past decade, what have been the key drivers there? Like has it been just natural growth in the demand for hedging instruments? Has it been better penetration in the retail advisor channel? Like how would you sort of break it down or attribute it?

John McKenzie

Well, I mean I would have gone yes, yes, and yes, but let me break it down because there is a number of pieces there.

So there is natural growth in terms of, as you said, the use of hedging instruments, the use of derivatives by clients. If you look at global growth rates around derivatives in other marketplaces, they are very strong.

And then the unique pieces that allows us to really outperform and outgrow the volumes in terms of the Montreal Exchange is in some cases we're catching up to global markets. We launched our initiative around international trading time zones a number of years ago. That continues to be a driver of growth. [Certain] products that have been in that extended time zone regime for the entire time are actually now more in the 8 percent and 9 percent of our mix.

We've got newer products that are in there now, like the CORRA, like the two-year, like the five-year that are still only in the 2 percent to 3 percent that continue to build because we're getting investor adoption expand over time. And then the more liquid the products become, the more other people will come and use them.

Now when you add that the fact that we are also continuing to add products along the curve like the two and the five, that adds long-term growth rate as well. Those products a couple years ago had, essentially, zero trading on exchange. They're trading on average 60,000 contracts a day each and are still relatively underdeveloped when you compare them either to the new CORRA short-term product or the CGB product, which both trade well over 100,000 apiece.

So all these things are mutually reinforcing the investor appetite to actually use these products, the global interest in them and, as you add more products, the ability to provide a range of solutions that go across yield curves and different strategies. So they're mutually reinforcing and gives us a lot of confidence this is a directory that we can continue for a long period of time.

Nik Priebe

Okay. That's good colour. Those are my two. Thank you.

John McKenzie

You're welcome. Thank you.

Operator

Thank you. Your next question is from Étienne Ricard from BMO Capital Markets. Your line is now open.

Étienne Ricard — BMO Capital Markets

Thank you and good morning. On the back of 150 years, it sounds like a great time to ask questions on the Montreal Exchange.

So lots of success as you've talked about launching new interest rate products across the yield curve. As you mentioned, these have now reached larger scale. Where do you see the next opportunity in

terms of introducing new derivative products? In other words, what are the building blocks in order to achieve the high single-digit organic growth for this business?

John McKenzie

Yeah. There's a couple of pieces there, which is, first of all, as I mentioned, I do want to reinforce the pieces. Even the products that we have launched are not at full maturity yet. So you're going to see that via contributor to growth going forward.

There are other additional products that we are working on around them. So in our CORRA features, that's largely driven by the three-month. We've got 30-day capability. We've got the additional ability to do different terms. We've historically had other things around credit derivatives we're looking at. We've got the ability to potentially do options on futures as well as we had on the backs in the past. So there's a number of different product initiatives the team is working on with clients based on client demand to continue to add products to the curve.

The addition of that is also we talked a bit in the analyst day about post-trade. And so the inter-option (phon) between MX, the CDCC is, obviously, there's a big part of what we do in CDCC that's driven by the trading activity on exchange, but it's not limited to that because we actually can do a lot of clearing around OTC products as well.

So you are seeing the big step-up in REPO clearing activity that was driving the results this year. And really the early stage of the new launch of new capabilities, so the first of which was the secure general collateral notes. And what's interesting about a product like that is it has multiple points of penetration in terms of using capabilities at TMX. So not only is it something that becomes a cleared product on CDCC, but it's also utilizing the capabilities in our trust company.

So you're going to see more of that where the teams that are on the post-trade side are actually looking to, how do we use this capability that we've built, and even more so when we launch and land the post-trade modernization program, how do we use all of those capabilities to solve more problems for the client community.

So you'll see that continued expansion in the traded products but also an expansion in the cleared products that are on the OTC side or in the funding side.

Étienne Ricard

Okay. Very interesting. And to circle back on VettaFi's acquisition of iNDEX Research, as you look at consolidating this market, what's the complexity of integrating iNDEX businesses with different technologies and maybe different marketing approaches?

John McKenzie

Well. the nice thing about this, and we do a lot of that thinking prior to making the transaction. And so first of all, the iNDEX Research team is a really good team. They've built a really nice business. The technology platform used there is actually quite complementary to what we have built within TMX VettaFi, so SaaS-based systems designed to be scalable.

Where we were looking to continue to build out is though our capabilities are more limited in the European, Middle East, Asia region. And so while our technology is scalable in SaaS space, having the operation capability in the time zone to serve the clients there was one of the things that we had a gap. So not only did this iNDEX opportunity add to the suite of indices, the suite of products, add to the talent and the team with complementary technology, but it gave us that regional capability as well to serve in the European region, which was something we were looking for to continue to the growth expansion.

So all those things were looked at as part of our investment thesis. And this, very much like the other two we did, will be ones that we'll be able to completely integrate into a common shared platform.

Étienne Ricard

I believe a portion of the AUM is fixed income. Are competitive dynamics and fixed income different relative to equities?

John McKenzie

I mean competitive dynamics, I'd say the difference in fixed income globally is there are actually fewer providers of the fixed income products, and they tend to be very large operators. This is another space from an asset class standpoint was very high on our priority list to have capabilities in. So it's a new capability for us. It's certainly something that we want to do more of.

If you recall, actually TMX actually was in fixed income indices many years ago. Those moved to FTSE Russell. and it's definitely a space that we want to continue to explore not just in the European region but around the world. So a really good asset class expansion for us.

Étienne Ricard

Thank you very much.

John McKenzie

You're welcome.

Operator

Thank you. Your next question is from Aravinda Galappatthige from Canaccord Genuity. Your line is now open.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my questions. I'll ask the two questions back to back. So both in GSIA. Just one on VettaFi. Obviously, continuing to see good AUM numbers but wanted to dig a little deeper into the revenue trends in Q3. I know that the organic number looked like it was probably in the low to mid-single digits. Wanted to just kind of get your thoughts there. Obviously, we're looking for—the run rate has been stronger than that. I know you referred to some teasing in the digital distribution side of it. Maybe some clarity there.

And secondly, on Datalinx. I think you've explained sort of some of the headwinds there on the prior call, but how should we think about sort of the shape of recovery there? And maybe some initiatives to sort of rebound that growth to it's the rates I know that you want to get to?

John McKenzie

Okay. So here's the deal. I'm going to try handle all of that, and if I miss some by the end, stay back in the call and make sure that you re-queue and I make sure I get all these pieces.

So let me start with the VettaFi piece. There's a reason why we talked about the quarterlies and the full year to date. And we talked about in the commentary that actual year-to-date VettaFi numbers are actually up 18 percent year over year.

One of the pieces that—and over time we're going to help you get more predictive around this. While the business is largely recurring revenue base driven by AUM and iNDEX piece, call that essentially 80-ish percent recurring, that other component that's really driven by things like events or digital distribution deals can be quite a bit lumpier because it's really more driven by clients' decisions around their marketing spend when they're doing it.

So it's less predictable period by period, and we can have lumpiness period by period. So we're always going to guide to the long term on more on an annual basis than a quarter by quarter because of those types of trends.

So there's nothing in the trends from quarter to quarter as you talked about that are unexpected for us. The business is preforming as we'd want it to. This is, you're going to recall, we're targeting double-digit growth for this franchise over the long term. It's delivering in line with that expectation, and we expect that again as we move into next year.

So that's kind of a—and as we do better on this, we'll be able to demonstrate kind of more of how these different products work.

The other piece that's going to be always challenging, though, is some of these products are complementary. So the deal that we do on a digital distribution in transaction may be designed to help land a new index and vice versa. And so again, those periods quarter to quarter may be lumpy, and they're driven by what's going on in the client activity.

So over time, these things will get smoother. We'll be able to give you more disclosure. You'll have more historical periods. But that's why we're trying to guide to look at the full years and not necessarily the period by period.

Now, when it comes to the second question you had around Datalinx, you definitely identified one thing that what has been a headwind. That's why we were telegraphing it in the second quarter. And this was a large global client with a large retail presence that made a strategic change to no longer offer real-time pricing for international markets for their client base.

And that is really the large impact that's actually kind of flowed through into the third quarter. It started in the second quarter. It's now fully baked in. So this actually gives you a good jumping-off point in terms of the runway because it is a specific client event and not indicative of a trend.

Where we look to the trend pieces, and you if look kind of beneath the lines in terms of some of the actual components around subscriptions, if you take that piece away, the subscription strength was actually fairly strong. I mean particularly around the derivatives piece; I think we were up another four points in subscriptions year over year.

There is actually a market base impact as well. For those that have been with us for a long time, when you've got marketplaces that are softer or quieter for a period of time, you can have some contraction around data users. And we've seen that over the last couple years as equity markets has been softer. When those markets recover and start to pick up again, you will see firms expand their use of particularly real-time data both domestically and globally. And that's been the typical trend in any market cycles given through in terms of all the time I've been here over the last 24 years.

So that's kind of the way to think about it. The step, the headwind in kind of Q2 and into Q3 was a unique client piece that is now largely baked in.

Have I covered everything there?

Aravinda Galappatthige

Yes. Yes. That's pretty good.

John McKenzie

Okay.

Aravinda Galappatthige

Thank you, John. Thank you. I'll pass the line.

John McKenzie

Thank you.

Operator

Thank you. Your next question is from Graham Ryding from TD Securities. Your line is now open.

Graham Ryding — TD Securities

Hi. Good morning. Maybe we'll start with just the recently the SEC voted to reduce the cap for access fees.

I think it's sort of still a proposal but looks like it may come through next year. If it does get pushed through, what's the expectation? Does Canada follow suit?

And if so, maybe you could just give us some thoughts on what you think the implications would be if that does flow through in to Canada?

John McKenzie

Yeah. That's a great question. So that's one we've been very active on. And one of the really important things for us is to have very strong relationships with our regulatory partners. So this is something we've been in dialogue in for a while. I'll give a couple thoughts on it.

First of all, the Canadian marketplace, we've already got actually a different regime around this. So when it comes to the interlisted companies, we actually are aligned with the US market. We've got the same rate structure as the US market. And it's important to be able to have that competitive dynamic.

We actually already have lower access fee caps on the non-interlisteds. So they're actually about half of what they are on the interlisted. So we actually made that move in the Canadian market a number of years ago to tighten that up. So if the whole market goes to that change it's not going to be a material change for our business.

Now the discussion that we're having industry-wide is twofold. First of all, I'm not 100 percent certain that this will come to fruition. This has been proposed in the US in the past. It is something that I expect the US exchanges are likely to object to, and there are political considerations. So there is an element of we need to wait and see on the ability for this to actually get enacted.

Our dialogue has always been that in terms of the inter-listed marketplace, we need to be very competitive with the US, which means either that we work pari-passu, and we do the same thing. Or we also look to see can we deviate to potentially create better liquidity in Canada as a way to draw some more of that order flow north of the border and to improve liquidity here.

So those are part of the discussions we're having. And similarly to the discussion around the non-interlisted is that that's a stand-alone market. We can choose something to do unique for the Canadian marketplace.

So again, we don't see this as a material risk either way, but we want to have good discussions because recognizing that with 3,500 companies, not all of them have the same liquidity as a large blue-chip company. And vehicles that are in there help provide liquidity like market making regimes or like passive order flow payments through access fees are still important for liquidity.

So all of it's on the table. Not a material risk but something that we're going monitor. We want to make sure that we move in step with the US market, and we don't get out of step.

Graham Ryding

Okay. Appreciate the fulsome answer on that. Maybe, David, I'll jump to you on expense growth.

Just if you exclude the one-time items the last couple quarters, it seems to be trending around 7 percent year over year. Can you give us some context of what you think is a reasonable expectation as we're looking into 2025 for expense growth?

David Arnold

Yeah. Thanks, Graham. So let me first unpack the quarter, and then we can talk about 2025.

So as I mentioned in my remarks just a little earlier, right, so the 7 percent is absolutely correct. But then we've seen really strong share price performance at TMX. And we, obviously, have performance share units that are linked to the performance relative to the composite index. And we've outperformed them significantly. So that accounts for another two points on that. And that's kind of why the number is more around 5 percent.

But then what I've also touched on is we've got really strong business performance. And relatively speaking, our incentive comp program numbers would be much higher than last year's. So if we adjust for that in the quarter, it's kind of around 3 percent. So that's kind of the way I've, with my team, spent a lot of time with John and the management team looking at kind of the core expense growth. And then we kind of look at that relative to inflation. Right? So inflation in around the quarter was 2.1 percent, core expenses, after we deal with the performance-related items, is around 3 percent. So pretty reasonable.

As we head in to 2025, there are a lot of moving parts. We're busy working on kind of our budgets and our numbers and our strategic plan updates for the board. And so it's a little early for me to kind of signal that. But as we've said before, right, we really want to target, when you look through the noise, kind of that low single-digit kind of expense growth number, obviously, relative to where inflation is going. Right? So if inflation ticks even lower, we want to try and be a little closer to that. If it ticks a little higher, we'll, obviously, we'll track a little closer to that.

So stay tuned. I think in Q4, we'll be able to give a little bit more of an indication as to the '25. John, you want to add?

John McKenzie

Yeah. The only thing I'll add in is I mean we do have a couple of kind of unique items for next year as well. And to David's point, we're going to try to give really good clarity. We've talked about the fact that our post-trade modernization program is scheduled to go live next year. So there's going to be a point in time where the amortization of that finally kicks in. Now that's a non-cash item, but that will start to roll through our expenses.

At the same we're actually going to have some cash expense savings as we sunset and retire the legacy system. So we're going to try to give you better disclosure and understanding on that. What does it mean from a transition standpoint? One-time costs of actually executing it, and then what is the kind of the go-forward from there.

But the discipline in the organization remains. As David said, we are looking to target that kind of inflationary low-single digit. That's the challenge to all of our teams. And looking for where do you find opportunities to save to fund new areas for growth at the same time. And that DNA doesn't change here.

Graham Ryding

Okay. That's helpful. Thank you.

Operator

Thank you. Your next question is from Jaeme Gloyn from National Bank Financial. Your line is now open.

Jaeme Gloyn — National Bank Financial

Yeah. Thanks. First question I guess for David.

Just want to get a sense as to this BOX true-up that occurred in Q3 last year but maybe not in this year. Like was this quarter the more real number? Or maybe walk me through some of the details around the BOX expenses.

David Arnold

Yeah. So I think the short answer to your question, Jaeme, is this would be a more reflective kind of quarter. Last year in the quarter, there was really a catch-up to true-up for the first kind of nine months. So I think that this would be more indicative of the quarter kind of going forward.

But the visibility into the exchange kind of SRO expenses is somewhat limited. So, obviously, the management team of the market receive analysis from the SRO indicating expenses and so forth. So it seems to be pretty stable. But to the extent there might be something that pops up in the fourth quarter, then that would be accounted for in the fourth quarter, and I will talk to it. But right now, the third quarter would be very indicative, and we seem to have kind of a smooth glide bar.

Jaeme Gloyn

Yeah. Understood. Okay on the TSX Trust business, just thinking about how we're shaping up for the upcoming quarter. It's safe to assume the sensitivity to rate cuts is similar. And so kind of putting everything on the table in terms of rate cuts, volume, Newsfile now included, like we should see flat, maybe down in Trust or that other issuer services line? Is that a fair assessment?

John McKenzie

I mean the starting point around the rate impact is, yeah, that will have a net impact. The piece that's going to be more difficult to predict is twofold because it's not just the rates themselves, it's the balances. And so while that kind of 25 bps is worth about $2 million per year, the balances have actually been improving.

And one of the pieces again, when you kind of think about outlook and potential, while the new issue activity—we've talked about new issue, new financing activity continues to be soft across capital markets, we are seeing more what I'll call corporate action, M&A activity. There are more potential transactions for TSX Trust to bid on in terms of winning net new business. So there is potential for new business in the next quarter that I know the team is working hard on, and it's a good pipeline.

But all things being equal, if kind of business is the same as this quarter, yeah. You would expect to see some step down from an interest rate standpoint.

Jaeme Gloyn

Okay. Great. And just sneak one more in on the equity trading side of the equation here.

Revenue per trade or revenue per contract looking a little stronger in this quarter than we've seen in recent quarters. How much is fixed income trading activity? It's hard to separate the two, but how much is fixed income trading activity driving that increased revenue versus maybe some pricing initiatives or other factors?

David Arnold

That's a good question, Jaeme. So we don't really get into that level of granularity, so I'm going to disappoint you there. But I am going to indicate to you that you are correct. Right? One of things that has definitely helped is fixed income activity given the kind of rate complex movements has been very robust. And so that is absolutely contributing to the kind of growth that you see there.

Jaeme Gloyn

Okay. Thank you.

Operator

Thank you. Your next question is from Ben Budish from Barclays. Please ask your question.

Ben Budish — Barclays

Hi. Good morning and thanks for taking the question. Wanted to check on VettaFi first.

You mentioned earlier that some of the revenue bits could be a little bit more lumpy than expected, and I know you tend not to give specific guidance. But just thinking about the US$100 million target for the year, anything you could point to for Q4 to help us think about how achievable that is? Clearly there's the AUM piece that we can kind of track that you indicated you'd be giving some more colour on helping you make it a little bit more predictable, but just thinking about how Q4 should shake up in the context of your prior expectations.

John McKenzie

I mean, again, in the absence of providing forward guidance on one quarter, and I want to be careful how I answer the question, this is an area where we continue to have strength. We've got confidence in the business. We've got a lot of things that are actually working in our favour in terms of doing that. I cannot give you an absolutely indication of where we're going to land in Q4 but know that the target is continuing to be what the team is working towards.

Ben Budish

Understood. And then maybe one more on just some of the new M&A, Newsfile and iNDEX Research.

You've given some helpful disclosures on what the year-to-date contribution would have been from a revenue and, I think, operating profit perspective, but could you maybe talk about what the historical growth profile, what that's looked like over the last few years?

And then how you're thinking about either cross-selling or what TMX can do to sort of accelerate growth? Or how you think about imbedding them into the business? So that'd be Newsfile and iNDEX Research. Thanks.

John McKenzie

Yeah. That's a great question, and you actually got right to the heart of what I'll call our strategic thesis on both of these.

Both of these organizations led by really strong teams have been double-digit growers. We expect them to continue to be, and ones that can grow at rates above the rest of the franchises that are coming in because they're also coming off of small bases, and there's a lot of scale potential for what we can do with them.

So when it comes to Newsfile, when we laid out the strategy around Investor Day, it's really part of that strategy of how do we provide that deeper service level to public issuers and future public issuers that are private today that have common needs around what it means to do to be in the capital-raising community. Newsfile fits in squarely in that. They're very innovative. It's got good technology capability. It's scalable to give that extra service to an issuer in terms of distributions.

And now, as you can see, there are two pieces in terms of how we scale it up as part of the TMX franchise, and it's integrated now in in terms of our other issuer services and our Capital Formation team. We've got the ability to actually to help and upsell and cross-sell to clients that Newsfile wasn't getting to before. The clients tend to tilt more to the smaller size. We've got the relationships with the more senior issuers that we can help penetrate. As I said, we're now also a client. And so we're kind of that reference client to see how easy it is to utilize this service and to use it in an efficient way.

It also allows us to kind of promote and cross-sell it with other services like Trust, like our employee plan management tool, things like that. So the more we build out a complementary suite of products, the more we can go to both issuers and private companies with a set of services that meet multiple needs in a way that our competitors can't. And we've got that primary relationship as the listed market at the same time that gives us kind of more insight into what those needs are and, also, who is coming. And so that's the Newsfile piece.

I think there's going to be potentially some interesting crossovers between even Newsfile and VettaFi. When we think about distribution capabilities, VettaFi is, as you know, is very strong on the digital distribution and the reach out to the investor community. When we have the addition of the Newsfile tools in terms of distribution tools, those are potential things that could be complementary even between two of our newer businesses at the same time.

And then similarly on iNDEX Research, as to some of my comments earlier on a) new asset classes, new capabilities, indices that are based in different geographies as well in terms of both regional and global indices that can then also be sold in different geographies to get those same representation, cross-selling capability both in North America and globally, and, really, the operational capability, which I mentioned earlier, which is really important as we expand more in the European, Middle East, and Asian region to have that on-the-ground capability to operate in the time zone of the clients because sometimes you need to address a client issue, concern, sales opportunity. It gives us the ability to do that.

So very excited to bring both these teams into the organization. They're both kind of pretty lean in efficient teams, and we were able to do transactions that were good value for both them and for the investors in TMX and with some nice, as David mentioned, components that are tied to keeping leaders

in the business and committing to our shared success together. So we couldn't be happier with how these two things came together.

Ben Budish

Got it. Thanks so much for taking my questions.

Operator

Thank you. There are no further questions at this time. Please proceed.

Amin Mousavian

Thank you, everyone, for joining our call today. If you have any further questions the contact information for Investor Relations as well as media is in our press release, and we would be more than happy to get back to you. I wish all a happy Halloween and, until next time, goodbye.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.