FINAL TRANSCRIPT

TMX Group Limited

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the TMX Group Limited Q4 2023 Financial Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct the 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 Tuesday, February 6, 2024.

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

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

Thank you, Lara, and good morning, everyone. Thanks for joining us today to discuss the 2023 fourth quarter results for TMX Group. 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, and David Arnold, our Chief Financial Officer.

Following the opening remarks, we'll have a question-and-answer session.

Before we begin, I would like to remind you that 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 in periodic reports that we have filed with the regulators.

Now, I will turn the call over to John.

John McKenzie — Chief Executive Officer, TMX Group Limited

Well, thanks, Amin, and good morning. Thank you all for dialling in today to discuss TMX Group's financial results for the fourth quarter of 2023 and the full year.

Now, our record 2023 results included important contributions from all across our business. And while our primary focus is always on the long term, our quarterly discussions serve as an important progress report, and David will talk about the quarter shortly.

In my comments this morning, I want to highlight the key drivers of our success in 2023, including significant accomplishments across our business areas as well as the outstanding progress we made during the year to advance TMX's long-term growth strategy, capped off by a game-changing acquisition closed on the first business day of 2024.

Now, turning now to TMX's performance.

TMX's positive results are no accident. Sustained growth during 2023 reflects the power of the enterprise we have built over the last 20-plus years; a deep, diverse, and resilient business model.

Importantly, over that time, we have implemented an organizational mindset and a commitment to seeking out strategic opportunities to ensure our continued long-term success.

As we reflect back on a year of significant milestones and business achievements, 2023 already appears far off in the rearview mirror, and our eyes are firmly fixed on the road ahead. And we're most enthusiastic about TMX's future and how the strategic steps we took during 2023 to accelerate the evolution of TMX and the investments we have made in our burgeoning global information business will enable us to better serve our growing client base and range of stakeholders around the world.

Now, TMX reported full year revenue of $1.19 billion, a 7 percent increase from 2022, driven by double-digit growth from GSIA, which includes TMX Trayport and TMX Datalinx, as well as higher revenue from Derivatives Trading and Clearing excluding BOX.

And in the face of persistent challenges across much of our operating environment, we reported four consecutive quarters of year-over-year revenue growth. Increased revenue was partially offset by the impact of lower capital-raising activity on our listings business, as well as decreased revenue from Equities and Fixed Income Trading as a result of lower trading volumes on the Toronto Stock Exchange, TSX Venture Exchange, and Alpha.

Adjusted diluted earnings per share was $1.46 for 2023, a 2 percent increase from 2022.

Our total operating expenses increased 10 percent when compared to 2022, reflecting costs related to investments we have made in the business including, TMX VettaFi, SigmaLogic, Wall Street Horizon, as well as expenses related to BOX.

We also incurred strategic realignment costs in 2023 as well as higher headcount and payroll costs, including merit increases and higher costs related to our short-term employee performance incentive plan. And David will take a closer look at these expenses in his remarks to follow.

Now, moving on now to our business areas.

Revenue from GSIA was $419 million in 2023, a 16 percent increase from 2022, reflecting higher revenue from TMX Trayport and TMX Datalinx including colocation.

2023 was an outstanding year for GSIA. It’s our fastest-growing segment and a driving force of TMX’s overall success.

Both TMX Trayport and TMX Datalinx delivered double-digit revenue gains year over year.

TMX Trayport's revenue grew 23 percent compared to 2022, or 17 percent in pounds sterling, driven by a 9 percent increase in trader subscribers, annual price adjustments, and the impact of a favourable FX rate.

And we continue to build on TMX Trayport's success in connecting energy traders to premiere execution venues and clearing houses across world power and natural gas markets.

We added 28 new clients to our core Joule network in 2023.

And looking ahead, TMX Trayport's growth strategy is focused on opportunities to support growth in demand for quantitative and automated trading approaches in existing as well as new markets. Global climate markets are rapidly evolving, and we are working to strengthen our aggregation solution with a newly launched web screen and the onboarding of new brokers, exchanges, and data providers to our platform.

TMX Datalinx's revenue grew 11 percent year over year due to higher revenue from data feeds, colocation, benchmark, and indices, and enterprise agreement renewals, as well as a favourable FX impact from a stronger US dollar.

Revenue for the year included $7.3 million from Wall Street Horizon, which was acquired in November of 2022.

And last month, we completed the acquisition of VettaFi, a US-based indexing, digital distribution, analytics, and thought leadership company. As we articulated back in December when we announced the deal, this acquisition fits squarely with TMX's disclosed strategic, financial, and transformational objectives. And TMX VettaFi adds a leading platform in a large and growing market to TMX's information business and a team of proven, talented individuals with an innovative and entrepreneurial spirit.

The newly combined TMX VettaFi team is working to assess the scale and scope of our joint capabilities and to make clients aware of the opportunities ahead. And while it is early days, our people have had the benefit of 12 months of experience working together since we made our initial minority investment in the company in January 2023.

TMX VettaFi key attributes include an index calculation engine (phon) that provides data on more than 300 indices, a large number of international clients who stand to benefit from access to access to TMX content, and advanced digital distribution capabilities to effectively amplify an ETF issuer's distribution to a network of advisors.

In addition to the acquisition of VettaFi, TMX Datalinx continues to build on its broad suite of multi-asset class data and analytics solutions and to look for ways to address challenges across our global client base.

And further to our global benchmark and indices strategy, TMX played a very important role in Canada's transition to a new commercial interest rate, participating in the creation and delivery of the new term CORRA benchmark. The new transaction-based and risk-free benchmark gives industry participants complete transparency on both the data sources and CORRA Futures traded on the Montreal Exchange and the methodology used to arrive at its rates.

And in December, we launched the TMX ESG Data Hub, which delivers data and analytics from premier providers to investors to help inform ESG-based investment decisions. The new hub is designed to help solve data quality, consistency, and accessibility challenges that are inhibiting investors from adopting and incorporating the ESG factors into the investment process.

Now I'd like to turn to Derivatives, another significant contributor to TMX's success in 2023.

Derivatives Trading and Clearing revenue, excluding BOX, increased 13 percent year over year, driven by higher volumes traded and cleared on MX and CDCC; the positive impact of the pricing changes, which came into effect in January 2023; and a one-time reduction in 2022 related to the termination of a market-making program.

MX total volume grew 15 percent compared to 2022 in a complex macroenvironment with continued inflationary pressure and central bank activity.

Overall, MX performance highlights included 22 percent higher volumes in interest-related products; 14 percent higher volumes in ETF options; and an 11 percent increase in equity options traded when compared to 2022, driven by record volumes in the fourth quarter.

Liquidity and key products also grew substantially as year-over-year overall open interest at December 31, 2023, was 17 percent higher than at the end of 2022.

And in terms of our recent product development initiatives, we have seen exceptional growth in our CORRA Futures product, or CRA, as the market enters the final stages of the transition from CDOR to the Canadian Overnight Repo Rate Average, or CORRA, planned for June 2024.

Our three-month CRA contract surpassed the backs and volumes traded and open interest during the fourth quarter for the first time. And investor interest continues to grow in MX's two-year and five-year Government of Canada Bond Futures contracts. Volumes increased 83 percent in the CGZ, or two-year contract, and 21 percent in the CGF, or five-year contract, year over year.

And lastly, last week, we celebrated 150 years of the Montreal Exchange, and I'd like to take a moment to thanks to everyone throughout our history who have contributed to the success of the MX.

Now moving on to capital formation. Revenue was $268.2 million, a 3 percent increase from 2022, reflecting higher revenue from TSX Trust and partially offset by lower revenue from additional listing fees due to a decrease in the number of financing transactions and dollars raised on Toronto Stock Exchange, and a decrease in total financing dollars raised on TSX Venture Exchange.

Revenue from TSX Trust, which is shown as Other issuer services, increased by 26 percent when compared to 2022, driven by higher net interest income due to higher rates in activity.

2023 provided to be a challenging year for many of our listed issuer clients and prospects here in Canada and around the world. Macroeconomic factors, including a high-interest-rate environment, inflationary pressure, both had a negative impact on capital-raising conditions.

But despite these conditions, 2023 features some important success stories and competitive wins for our unique, two-tier ecosystem, which continues to build on its track record of facilitating growth. Twelve companies graduated from TSX Venture to TSX during the 2023, adding $4.3 billion in new market capitalization to our senior market.

And we also welcomed more than a dozen up-listings. These are companies that are already public coming from competing markets to our market in 2023; an additional $5.6 billion in market cap, including two leading companies in the North American cannabis space, TerrAscend and Curaleaf.

We remain a formidable competitor for listings among our exchange peers outside of Canada and inside. TSX and TSX Venture ranked third amongst our global exchange peers by the number of new listings, international listings for 2023.

And since Toronto Stock Exchange created the ETF prototype in 1990, we have worked in close partnership with providers to bring unique investment opportunities to a broad retail audience in support of the growth of the industry. Today, we have near 1,000 ETFs listed on TSX from 40 providers, including 114 new ETF listings in 2023, representing more than $380 billion in assets under management.

And the industry continues to expand, offering investors access to new asset classes including high-interest savings accounts.

Net-new flows into the Canadian ETFs totalled $38.4 billion in 2023 compared to outflows of $57 billion from the Canadian mutual fund industry.

Our deep commitment and long-standing connection to the ETF community is yet another reason we are so excited about our recent addition. TI Funds recently announced the launch of two new ETFs tracking customized underlying indices created by TMX VettaFi. This is an early indication of the power of the combined enterprise. Capital formation, TMX Datalinx, TMX VettaFi, working together delivered unique, tailored solutions to meet the needs of our clients and expand the marketplace.

Now through all turns of the market, in keeping with our purpose, TMX is focused on building stronger, more adaptive, more responsive, and more competitive. And it starts from the foundation up.

In keeping with the commitments we made to our stakeholders under our Venture Forward initiative in 2023, we began the rollout of a new TSX Venture passport listing process, an initiative designed to accelerate the listing and capital-raising timeline for qualified new listing applicants, creating a path for entrepreneurs to go public, raise capital, and achieve liquidity while upholding TSX Venture listing standards.

And we continue to look for ways to innovate across our markets. In 2023, we took important steps forward in our Equities Trading strategy with the launch of Alpha-X and Alpha DRK, our new LIT and DRK order books.

The initial features of the new platforms are designed to improved execution quality and provide trading clients with new cutting-edge functionality. Longer term, Alpha-X and Alpha DRK will enable our markets team to deploy adaptive strategies to further enhance the overall trading experience.

And we've also advanced plans in the development of a US equities trading initiative aimed at improving execution quality for buy side clients south of the border as well. The development of this technology is well under way, and while we are looking to potentially launch by the end of 2024, obviously, these are pending regulatory approval and as progress on our initiative.

Now, in closing, I want to recognize the extraordinary efforts of our people. TMX is an innovation story with a proud 170-plus-year history at the forefront of industry progress. It's a story of leadership and strategic vision rooted in purpose to make markets better and empower bold ideas. TMX's story is written by the tremendous people, past and present, who have held tightly to the primary commitment to serve our clients and stakeholders across our markets with excellence and integrity. And together we look forward to the work ahead as we write the next chapter for the 170 years to come.

And with that, I'll pass it over to David.

David Arnold — Chief Financial Officer, TMX Group Limited

Thank you, John, and good morning, everyone.

Our results for the fourth quarter continue to reflect our commitment to invest in long-term growth and the strength of our diversified business model.

It was another excellent quarter with revenue of $301.5 million, representing a 9 percent growth compared with Q4 of last year.

Now as you will recall, our income tax expense decreased in Q4 of 2022 due to the reversal of a prior-year tax provision with a $0.07 impact on earnings per share. This is why we are reporting a 16 percent decrease in our reported diluted EPS this quarter of $0.31 compared to $0.37 in Q4 of last year.

Now our adjusted diluted earnings per share increased 6 percent, reflecting higher income from operations of $7.3 million, driven by higher revenue across all of our key operating segments.

A little later in my remarks, I will speak to our successful efforts to contain expense growth and how we maintained our expense discipline in the second half of 2023 by keeping our second half expenses in line with the first half, while continuing to invest in growth.

Turning now to our businesses, which saw year-over-year revenue increases across all key segments. And I will start with those that experienced the largest increases.

It was another record revenue quarter in our Global Solutions, Insights and Analytics segment, which grew by 15 percent this quarter, driven by contributions from both TMX Trayport and TMX Datalinx.

Revenue from TMX Trayport was up £4.4 million, or 17 percent, driven by a 9 percent increase in trader subscribers in addition to our annual price adjustments and growth from our data analytics and algorithmic trading platforms. On the heels of a strong pounds sterling this quarter, TMX Trayport was up 24 percent in Canadian dollars.

Revenue in our TMX Datalinx business grew by 8 percent, driven by increases in subscription-based services; revenue contribution from Wall Street Horizon, which we acquired in November of 2022; the term CORRA benchmark, which was launched in September 2023; and the impact from price adjustments we have spoken of in prior quarters.

In the Derivatives Trading and Clearing segment, revenue grew by 12 percent this quarter with double-digit growth from both our MX and CDCC businesses as well as BOX.

Derivatives Trading and Clearing revenue, excluding BOX, was up 11 percent in the quarter, driven by a 20 percent increase in Montreal Exchange and CDCC volumes and the positive impact from pricing changes, which came into effect in January of 2023, somewhat offset by an unfavourable product and client mix.

Revenue from BOX increased 15 percent this quarter, driven by record volumes, which increased 21 percent from Q4 of last year and was somewhat offset by a lower rate per contract due to the implementation of a new pricing structure in Q3 of ’23, which increased volumes and market share. However, these came at lower yields.

In addition, BOX’s equity options market share was 8 percent this quarter, which is notably a record high and a 1 percent increase both year over year and sequentially.

Equities and Fixed Income Trading and Clearing revenue was up 5 percent compared with the fourth quarter of last year, reflecting an increase of 7 percent from our CDS business and a modest 2 percent from our Equities and Fixed Income Trading business.

The CDS revenue increase was driven by higher interest income on clearing funds held for short durations and higher fees due to increased activity across event management, custodial, and eligibility services.

This was somewhat offset by lower exchange trading volumes, which has been the theme throughout 2023.

The revenue increase in our Equities and Fixed Income Trading business reflected higher fixed income trading revenue from higher activity in Government of Canada bonds and swaps.

The increase was somewhat offset by a 13 percent decrease in the overall volumes of securities traded on our equities marketplaces. Trading volumes were down across all of our marketplaces, namely 14 percent on TSX, 13 percent on TSX Venture Exchange, and 9 percent on Alpha Exchange.

There was also a decline in our combined equities trading market share for TSX and TSX Venture listed issuers, which was approximately 63 percent this quarter, down 3 percent from Q4 of 2022.

The decline was primarily due to two factors.

As many of you know, we operate the only Market-On-Close, or MOC, facility in Canada. In Q4, we saw lower volumes, not only in Canada, but in the US and European Market-On-Close facilities as well. While these declines do cause a decrease in reported market share, they have not materially impacted our revenue due to the pricing structure in place. Of note, volumes since December have normalized to a similar level compared to the same period in 2022; and, secondly, a recent shift in the Canadian marketplace with volume increase in under-$1 securities, for which we have a market share compared to over-$1 securities. And this too should have a minimal impact on our revenue, given the lower amount of revenue earned on the volume of trades in under-$1 securities.

In Capital Formation, revenue in the segment was up 3 percent this quarter, primarily driven by an increase in both the number of additional listing transactions and an increase in the total number of financings on TSX.

This was partially offset by lower initial and sustaining listing fees on the TSX and TSX Venture Exchange.

Turning now to our expenses.

Operating costs in the fourth quarter increased by 12 percent compared to last year on a reported basis and 5 percent when excluding the following items.

First, we incurred a $5.7 million in compensation and benefits expense this quarter related to strategic realignment changes to streamline our organization and create capacity for further investment and growth. These changes are expected to generate annual savings of approximately $4.2 million starting in Q3 of this year.

Second, there was an increase in expenses of $5.5 million in the fourth quarter related to VettaFi and Wall Street Horizon, of which $5.1 million related to the acquisition-related costs of VettaFi. As you may recall, Wall Street Horizon expenses were only partially included in Q4 of 2022 as we had made the acquisition in November of 2022. So the balance of the variance is simply the dealt-in OpEx given the stub period in Q4 of 2022.

Third, Q4 last year included $4 million related to AST integration, which has since been completed.

And finally, there was a $3.4 million expense accrual in BOX markets results for services provided by BOX Exchange. As a reminder, BOX Exchange is the national securities exchange responsible for regulating and monitoring the activities of BOX Market.

Normalizing for inflation and foreign exchange impacts, fourth quarter expense growth reduced further to a nominal 1 percent increase compared to last year and is primarily due to higher employee performance incentive plan costs and targeted growth investments.

Now looking at our results sequentially.

Revenue increased $14.2 million from the third quarter to the fourth quarter, reflecting higher revenue across all of our key operating segments.

Operating expenses in Q4 were up $11.3 million or 7 percent from the third quarter primarily due to $5.7 million related to the strategic realignment costs I mentioned earlier that we incurred in Q4, as well as increased acquisition and related costs of $5.1 million related to VettaFi; partially offset by lower estimated regulatory expenses for BOX due to the catchup recorded in Q3.

Adjusting for these items, operating expenses increased 2 percent sequentially, mainly reflecting higher employee performance incentive plan costs.

Some of you may recall from previous quarters, we had indicated that second half expenses would be in line with our first half of the year's expense run rate. With 2023 now behind us, I'm pleased to report that our second half of the year expenses were 1 percent lower than the first half, after removing the impact from strategic realignment costs, VettaFi acquisition costs, and regulatory expenses from BOX.

We have made positive progress on three key transformational measures in 2023.

First, our revenue outside of Canada was 41 percent, up 1 percent from a year ago.

Second, Global Solutions, Insights and Analytics revenue, as a percentage of total revenue, was 35 percent, which is up 3 percent.

And finally, recurring revenue, as a percentage of total revenue, was 53 percent, up 4 percent, as we have for the first time crossed over the 50 percent threshold as we march on towards our two-thirds goal.

Looking ahead to 2024, the addition of VettaFi will further accelerate the progress on our key transformational measures. And I'm very much looking forward to reviewing those results with you in Q1 of this year.

With the inclusion of VettaFi in our 2024 results, we expect our effective tax rate for 2024 to be approximately 26.5 percent, which is roughly 0.5 percent lower than our current rate.

Turning to our balance sheet, in the full year of 2023 we spent $79.9 million repurchasing approximately 2.8 million of our common shares under our normal course issuer bid program.

On December 31st of this last year, our debt-to-adjusted EBITDA ratio was within the target range at 1.7 times, and we also held close to $420 million in cash and marketable securities, which was $245 million in excess of the $175 million we target to retain for regulatory and credit facility purposes.

In the fourth quarter, we redeemed our 250 million Series B debenture with a combination of cash and commercial paper.

Now on January 2nd of this year, subsequent to the reporting period, we completed the acquisition of the remaining approximately 78 percent common units in VettaFi. The transaction was financed with U$963 million in term loans maturing approximately 12, 18, and 24 months from closing.

Now following the transaction, our pro forma debt-to-adjusted EBITDA ratio increased to 3.4 times, and we have a deleveraging plan to return to our targeted range of 1.5 to 2.5 times within two years, based on our proven track record and our diversified business model's ability to generate free cash flow.

Last night, our board approved a quarterly dividend of $0.18 per common share payable on March 8th to shareholders of record as of February 23rd.

In the fourth quarter and for the full year of 2023, we will have paid out 49 percent of our adjusted earnings per share, which remains at the very top end of our target payout ratio of 40 percent to 50 percent.

That now concludes my formal remarks, and I would like to turn the call back to Amin to moderate our Q&A period.

Amin Mousavian

Thanks, David.

Lara (phon), would you please outline the process for the Q&A session.

Q&A

Operator

Yes, sir. Thank you. Ladies and gentlemen, we will now begin the question-and-answer session.

Should you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a three-toned prompt acknowledging your request. Should you wish to decline from the polling process, please press *, followed by the number 2.

If you are using a speakerphone, please lift your handset before pressing any key.

We have our first question coming from the line of Nik Priebe from CIBC Capital Markets. Please go ahead.

Nik Priebe — CIBC Capital Markets

Okay. Thanks for the question. So, you've communicated the anticipated spend towards the buildout of a US cash equities trading venue. I think I might have caught this in your prepared remarks, but I just wanted to confirm. Did you indicate an expectation that that platform would be operational and revenue-generating towards the end of the year? I was just thinking about this more of a multiyear initiative, but you can let me know if I'm wrong there.

John McKenzie

No. We didn't indicate that. I mean we would expect to be operational and revenue-generating in the new year, the next year. We are working towards being ready at the end of this year. But that takes into account also the ability to deliver the platform, but also regulatory approvals, which you know are not inside our control completely.

So at this point we're not giving guidance in terms of what we would be go-live and revenue-producing, but wanted to give you the sense in terms of this kind of reflects what we think is the best case of the build-out cost related for us to get there.

Nik Priebe

Understood. Okay. No. That's helpful. And then I was wondering if you could just elaborate a little bit on the value proposition to Canadian institutions participating in the US cash equities marketplace. Like, what features of this new platform would incentivize them to post liquidity on this new trading venue as opposed to a competing alternative trading system?

John McKenzie

Yeah. I mean one of the ways to think about it is actually in context with the launches that we've done this year on Alpha-X and DRK. And so in each of those cases, what we are building is higher-quality order execution capability. And so very much for both buy side and the sell side, supporting them dealing with larger block, where you're looking to minimize execution impact, maximize execution quality.

So some of this is capability that we've been building in Canada already that we see the opportunity in the US to provide similar services there to both the US-based sell side and buy side and, candidly, the cross-border activity from the Canadian buy side and sell side that have operations both in Canada and the US.

And so in working this out, our team has been very actively dialoguing with clients on both sides of the border to understand their needs. And it is a client-driven solution.

So that's the way you should think about it. It's building off capabilities we've been building and dialogue we've already been having with clients on both sides of the border.

Nik Priebe

Understood. Okay. That's great. I'll re-queue for now. Thank you.

John McKenzie

Thank you.

Operator

Our next question comes from the line of Étienne Ricard from BMO Capital Markets. Please go ahead.

Étienne Ricard — BMO Capital Markets

Thank you and good morning. With improving optimism on Capital Formation, what appetite are you seeing from potential new issuers to come to market as well as timeline on the return of the IPO market?

And if I can add just one more question. Specifically on the innovation sector, how is your pipeline in this sector compared relative to let's say a year ago?

John McKenzie

Yeah. That's a great question, and it's one of the one's that makes me regret that we report every quarter, and we can't have this conversation just every 6 or 12 months.

I'm going to start at the back end and work my way back towards the front of the question, and I've been dialoguing this with our team.

The pipeline for new issues remains really strong in multisectors, including the technology sectors. So the technology sector pipeline in our long-term pipeline remains very robust. And our team, in terms of kind of what I'll call the short term, when you're talking to companies that are working on an IPO or a capital-raising initiative, there are substantial depth of conversations that are coming.

But there's not visibility as to when. And that's one of the pieces I've got to be candid on. It's very difficult for us to have visibility as to when those transactions can come to market and when the confidence in the markets going to be there to support them. And that's not a Canada issue. You've seen that in the US as well. You're seeing that around the world. So it's not a unique piece to Canada.

So unfortunately, that's going to be the best guidance I can give you. We do have a very deep and robust pipeline, but in terms of the time frame of when that can come to market is, your guess is almost as good as mine on that. And that's why you've actually seen the efforts that we've been making throughout the last year or so to really identify where are there actual public companies, either on venture or other markets, that could be well served by moving up to the TSX. And we've been actively working on helping those companies make that transition.

So if you go back to my comments for today, you'll see the kind of the stats on that between both graduates and bringing listings on from other marketplaces, we've brought over 25 companies to TSX in the last year. You don't see those as IPOs, but they build into the base of public companies that can trade and raise capital with us in the future. So it's still a really important feeder system, even if a traditional IPO is still not ready yet to come to market.

Étienne Ricard

Okay. Understood. And just to circle back on the expansion in the US. How do you think about the capital intensity looking beyond 2024?

And what sort of returns on the investment are you targeting for this initiative?

John McKenzie

Yeah. I mean we're going to be able to be fairly limited in terms of what we can share there because also this is commercially sensitive in terms of what we're actually producing.

But you can take to note that we would have would have done a full business case on that with risk-adjusted returns that we thought were compelling to do the investment. And when we get closer to go-live we'll be able to give more guidance in terms of what does that actually economics look like in terms of kind of run rate, impact, and where we see the market opportunity when we get there. But it is premature to do that today.

Étienne Ricard

Thank you very much.

Operator

Thank you. We have our next question coming from the line of Geoff Kwan from RBC Capital Markets. Please go ahead.

Geoff Kwan — RBC Capital Markets

Hi. Good morning. I had a question on CDS. I mean since you had acquired it, I think you've been trying to or, I guess, in more recent years trying to be able to adjust prices up and, I think, probably also get rid of the rebates. Maybe not as much success as you would have liked. I'm just wondering how realistic is it that you might be able to make some progress on this front over the next year?

John McKenzie

I think it's actually very realistic. One of the reasons that we haven't moved as quickly on the pricing reforms—and those actually were filed a year or so ago—but, partially, the reason that hasn't moved forward is because we're actually not at end-of-job in terms of delivering the technology.

And so I'll remind folks that our technology program and reinvesting in all the capabilities was deferred as we gave way for the market to move towards T+1 settlement. Now that program is underway. It's on track. It is still expected that North America will do that transition in May. And then shortly after, we will restart with the industry, the testing towards kind of the final runway to going live on the Post-Trade Modernization project.

So in parallel with that, we are in discussions with the industry and the regulators currently about revising the proposal to remove the rebates, and I expect you'll see that come to market in 2024.

Geoff Kwan

Okay. And when that does happen, are you able to describe kind of the magnitude of the pricing change now? Is it a matter of kind of getting the return on investment that you've had? And then maybe a component of not having been able to move much on price over the past five, ten years?

John McKenzie

Yeah. When we're at a point of publicly filling it, we'll be able to do exactly that.

Geoff Kwan

Okay. Just maybe if I can ask one last question is—

John McKenzie

Sure.

Geoff Kwan

—the equity market data subscribers. I'm just wondering if there's any line of sight whether or not the declines you've seen in recent quarters may have troughed in Q4, or whether or not there still might be some further pressure in upcoming quarters.

David Arnold

Can you just repeat that, Geoff? Because you cut out in the first part of that sentence, so we didn't—we heard equity markets, but we weren't sure. So do you mind repeating?

Geoff Kwan

Yeah. Sorry. It was just on the equity market data subscriber count. It's been coming down the past couple of quarters. Just wondering if Q4 might be the trough, or whether or not you have any line of sight whether or not there still might be a little bit of pressure there in the near term.

John McKenzie

I mean, as always, that's really driven by industry seats, employment in the industry, things like that. And it tends to lag the market. So we don't get visibility in terms of forward-looking ability in terms of what the clients are doing. But this is certainly a piece where should we start to see some turn in terms of market volumes, activity, intensity, IPO activity, and interest, that would be tailwinds behind equity subscribers going forward.

So that's the best guidance I can give you because we similarly don't have the visibility going forward.

Geoff Kwan

Okay. Thank you.

Operator

We have our next question coming from the line of Ben Budish from Barclays. Please go ahead.

Ben Budish — Barclays

Hi. Good morning and thanks for taking the question. John or maybe David, I was wondering, just kind of following up on your last answer there in terms of guidance, is there anything you can share with us in terms of modelling out the next year, whether it's price adjustments at Trayport; your expectations for sort of expense growth excluding—I think you've given us some help with VettaFi in terms of the revenue contribution in the margin—but otherwise, sort of the normalized pace of expense growth? Anything else that you can share just in terms of kind of fine-tuning how the next year should shake out.

David Arnold

Hey, Ben, it's David. So what I'd guide you to is, and I appreciate we just released the information late last night, but throughout our reports, you'll see both pricing changes summarized in various different places. So I'll guide you to have a look at that. And if it doesn't quite address what you're after, you can reach out to Investor Relations after the fact.

What I can tell you as relating to expenses, right, is we've tried to isolate the items that are most notable. In addition, as John touched on with the earlier question, we've provided some guidance as to how much we intend to spend in increased operating expenses as we expand into the US.

But what we've always said is, and we don't provide de facto expense guidance, is that we try and maintain the increases to either limit them to the rate of inflation or slightly below. And so given where inflation is headed in 2024, it's kind of in that low-single to mid-single digit kind of range. And then, if you were to layer kind of roughly 1.5 percent expense growth on a reported basis, if you were to factor in what we've disclosed for the US expansion, that kind of puts you in a ballpark in terms of the expense increase.

What I will leave you with though, Ben, which is very important is that both our budgets and our forecast for 2024 have positive operating leverage in them when you look through, obviously, some of these one-time-in-nature items.

John McKenzie

Yeah. And the piece I'll add to it, more on the top line, is our budgeting, our planning, our long-term strategic growth, they're all in line with the long-term guidance we've given around the strong growth, the market growth areas of our businesses. There's no visibility in terms of deviating from that.

And particularly now that the businesses, as David said, is more than half in our recurring revenue streams, which are also strong growing streams, they should become easier for you to model and predict.

And then I'll give just a couple highlights as we start the year off, kind of interesting pieces. You'll see in the MD&A disclosure; we've given some guidance around sustaining fees. That's a big part of capital formation in terms of the impact of both some pricing changes and market values and market caps, kind of in line with previous years and previous year in all other respects.

But then I'll flip on the Trayport side as well. You've got continued flow-through of CPI changes. And anecdotally, I'll share with you that just from the team this week I've had updates on four clients that have all renewed with us at Trayport; multiyear, three to five-year agreements, all with material uplift in terms of their revenue and investment commitment to Trayport. So really positive indicators early in the year.

Ben Budish

Okay. That's all very helpful. Thank you. Maybe one follow-up.

At a high level, a US broker recently announced their plans to enter Canada. Just curious. Like what's your sort of your take on the current state of retail participation in the market in Canada? Do you think there's anything perhaps cultural that's kept it at lower levels than, say, the US?

And what are your sort of thoughts on how that could evolve over the next few years?

John McKenzie

I think it's less cultural, and it's actually more about the kind of the advance of the services and the tools. So actually, having more competition and more innovation in providing solutions to retail investors could be a positive for more retail participation in the Canadian marketplace. I think we would tend to be lower than where the US has developed.

And there's some products in Canada that are not as well penetrated as the US. So things like option trading is largely institutional in Canada where it's very active in terms of retail market in the US.

So as you have more brokers and platforms bring more innovation, you'll start to see more distribution of both option trading, more distribution of more ETF products, all things that can drive more retail participation because products that are more designed for retailers and provided that extra distribution.

So I only see it as a positive for the Canadian market because we are underdeveloped versus the US market. So seeing that kind of innovation come north is going to be good for us.

Ben Budish

Got it. Thank you very much.

Operator

We have our next question coming from the line of Graham Ryding from TD Securities. Please go ahead.

Graham Ryding — TD Securities

Hi. Good morning. Just wanted to maybe dig in a little bit on Trayport. We're seeing—outside of, I guess, the annual contractual CPI increases, but you're seeing some solid trader growth. And then maybe just can you flag some of the key factors that are still supporting pretty strong momentum there in that overall business? What would you attribute the growth to?

John McKenzie

Yeah. Thanks, Graham. And it's multifactor. So I mean even picking up on my comment just a minute ago, when we talk about client renewals and uplift, all those client renewals are taking additional seats. So they're actually expanding their usage of Trayport throughout their shop. And every case is different. It may be that they're expanding to different asset classes, different geographic points, but they're expanding the usage.

You'll also note from our comments the number of new clients we added just in 2023; almost 30 new clients. And so that's driving subscriber growth as well. And we continue to see that demand into 2024.

And the reason being is multifactor. So you're continuing to add new product on Trayport, and these could be things like an electricity distribution point or a gas distribution point or further use and development of things like the Japan, Korea market as more that comes online; but also, as we add more asset classes and more geographic distribution. So we're continuing to work and building out, as I said, more in terms of renewables, more in terms of climate, more in terms of getting more oil brokers involved in the platform and continuing to build out in the US market as well.

So that's what I mean by it's multifactor, and it gives us the confidence that we're going to continue to have that kind of strong high-single, low-double digit growth rate for the foreseeable future.

Graham Ryding

Okay. Great. Was your expansion in the US a material factor this year in driving growth?

John McKenzie

It was an important factor, but it actually wasn't material in terms of the overall growth because the growth was so strong across all those factors.

Graham Ryding

Okay. Understood. And the other one I just wanted to dig into a little bit was the growth that you're seeing in options both on ETF and the equity side; I think it was up 10 percent in 2023. Yet we're seeing equity trading volumes that I think were down double digits. So there's a bit of a divergence there.

So maybe you could just sort of flush out what is driving this sort of option activity that's benefitting your overall derivative volumes.

John McKenzie

Yeah. That goes more to the adoption curve. So when you look at the Canadian market in terms of option penetration, in terms of kind of the option trade relative to the underlying equity trade, we are still well underdeveloped as you compare that to the US, to the European, to the Australian markets as comparison. So there's a lot of runway for continued option development and adoption, regardless of what the underlying equity market is doing.

And a lot of that pickup, as I mentioned earlier, continues to be more institutional engagement. And as liquidity gets better in those products, it's easier for more institutions to engage with them.

So it's still early days in terms of what we think the potential is for the option market, both on the single-name options and the ETF options. And we would expect that to be a strong contributor to long-term growth.

Graham Ryding

Okay. Understood. So it's more institutional adoption at this stage? It's still not a retail—

John McKenzie

Yeah. The primary support is coming from institutional.

Graham Ryding

Okay. Great. And if I could be greedy and just throw one more in.

Just overall, David, we're estimating maybe the price increases are going to add about 2 percent to your overall topline growth in 2024. Does that sound fair?

David Arnold

Yeah, 1.5 percent to 2 percent is what's in the disclosure. So you can—somewhere in that range is fine, Graham.

Graham Ryding

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

Operator

We have our next question coming from the line of Brian Bedell from Deutsche Bank. Please go ahead.

Brian Bedell — Deutsche Bank

Great. Thanks. Good morning, folks. Thanks for taking my questions. Maybe just back to the positive operating leverage calibration for 2024. I believe VettaFi adds or contributes to that positive operating leverage dynamic.

But would you be able to comment on that budget plan excluding VettaFi? Is that still within your plan in terms of the price increases versus the expense growth? The positive operating leverage dynamic?

And then I guess in conjunction with that, if we do have a more difficult volume environment for whatever reason, is there flexibility? Or I guess, how much flexibility is there to keep expenses in check to maintain positive operating leverage?

David Arnold

Thanks, Brian. It's David. So I'll handle the first part of your question, and then John and I will tag-team on the second part.

So yes. Obviously, VettaFi helps, but it just makes the operating leverage greater. What we can tell you is that, absent VettaFi, so if you want to call it the organic forecast for us, also has positive operating leverage. Obviously not as much when you—excluding VettaFi than when you have when you include VettaFi.

So yes. The short answer to your question is our operating leverage is positive, excluding VettaFi, for 2024.

And then in terms of the levers and things that we can pull, I'll hand it to John, and then we'll…

John McKenzie

I mean and so, take this for what it is, but I do think that we are starting 2024 with the basis of 2023 being a fairly weak baseline for trading activity, listing activity. And so it's a good baseline to build from. And we don't really foresee much additional pullback, even in a sustained down-market from what we saw in 2023. So I think we're starting from a positive spot.

The second piece is, you will note in some of our commentary, we actually did make some structural changes at the end of 2023. So that's why we actually recorded some realignment costs and that in terms of identifying where we could actually build additional capacity for 2024. And so actually taking out 30 to 40 redundant positions in the organization—some of that will flow through into later into the year—was designed around creating exactly some of that efficiency you talked to, but also being able to then deploy that capital, that capacity, in funding the things that we're trying to do grow so that we can grow the organization; we can invest in what we're trying to build while maintaining the positive leverage that David talked about.

And so they are integrated strategies that way to ensure that we can continue to build but be efficient at the same time. And that's the challenge we give to every one of our team leaders. It's all about when you're looking to how you're going to invest more is what can you identify where we can create efficiencies, or there's redundancies or things that we're investing in that don't create the same value that they used to. And that's the first question that David and I'll ask on any new spend is, how do we actually fund that internally.

Brian Bedell

That's really helpful. And then maybe just on a second question with respect to VettaFi.

I think, John, you started off talking about the four different pillars of that: joint capabilities, the index calculation, the international client base, and the digital distribution. If we do get any type of pullback in ETF market pricing that might impact the index calculation, can you talk about your confidence of low-double digit revenue growth profile in 2024?

And then you also talked about the joint capabilities that you're talking to clients about in terms of the capabilities with TMX. Is that something that you think can accelerate that low-double-digit growth revenue growth rate from the baseline coming into 2024?

John McKenzie

So it's a yes and a yes, to be really quite clear.

I see and the team sees a lot of upside in the index suite in '24 and beyond and for a number of reasons. The capabilities I've talked to in terms of the index factory is a very efficient platform, not just for adding new indices, but actually potentially bidding for ETFs to switch their underlying indices to a more efficient one produced by VettaFi. And so in the pipeline and outlook for that business we see more adds than potential for deletes.

And, also, the ETFs that are in there already, I think actually some of the larger ones that are contributing to revenue, I think are ones that actually have positive upside when we're in a market that likely will start to see rates come down at some point because there's yield opportunities in (unintelligible). So there's really good products there that are going to have tailwinds behind them, and the ability to launch new products directly, and to switch ETF providers from other providers for the underlying indices to VettaFi ones.

So there's a lot of growth room there, and we don't have a lot of concern about underlying conditions getting in the way of actually doing that expansion.

And then to your second piece around the TMX and the integration—I'll call them the kind of the revenue synergies, the integration opportunities—I mean that's exactly why we did this investment. This is an interesting one where we see opportunities for interaction all throughout the franchise.

And so the relationships that we have both with domestic ETF providers, global ETF providers allows us to cross-sell services in both in terms of index provision, but also the digital distributions tools. We're actually going to be down in Miami for VettaFi's Exchange Conference next week. This is the largest ETF conference in North America. And all the major players are there. And we're going to be using that as an opportunity to see where we can actually provide more solutions, solve problems for these clients.

And then the piece that we're really excited about down the road. in terms of that interaction between the rest of the TMX franchise and TMX VettaFi. is the underlying datasets that are all through this organization that could potentially be used to create new products. So be it other equity data, other fixed income data, data we have in the clearing house, energy data we have in Trayport, all of them are potentially source data opportunities for creating new products. And when you create new products, we can create new ETFs that can be listed. They can be traded. We can build options on them. So it really is a full enterprise opportunity with the things we can build.

Brian Bedell

That's great colour. Thank you.

Operator

Our next question comes from the line of Jaeme Gloyn from National Bank Financial. Please go ahead.

Jaeme Gloyn — National Bank Financial

Yeah. Thanks. Good morning. First question, just on the Trayport. I noticed that North America contributed about 4 percent to 5 percent of the revenues in 2023. Would you be able to break out what strategies in North America are driving that? Is it the Nodal? Is it just winning some clients? I believe you've mentioned like Ontario, Alberta clients. What's driving that North American lift? Or most of it?

John McKenzie

You got it in the back half of your question. It is adding clients. It's business development. So we've got an active business development team that's been building relationships, adding new clients both on the broker side and the trader side, the hedge fund side. And as we're getting to spring training baseball time, it's as we said it's single, after single, after single to push those runs around.

So building the network, building the underlying liquidity takes time. And that's what the business development team there is doing. And great track record through 2023 of adding new clients.

Jaeme Gloyn

Okay. Good. Good to hear. In terms of the pricing action, several announced this quarter, is this kind of it? Is this how it works with pricing actions; you implement and get approvals in the back half of the year for implementation in early '24? Or are there other actions you can take some time in 2024 to further enhance that revenue profile?

David Arnold

No. It's a great question, Jaeme. So it isn't a programmatic thing that we do just at the end of the year. Right? It's really driven by where we position ourselves in the marketplace. We're also very sensitive to what is occurring in some of our clients' organizations. So there are some challenging times that folks have had. And we're very thoughtful and deliberate in where we implement pricing changes.

And as you did mention, many of them do require some form of regulatory approval, unlike let's say Trayport, which isn't regulated. And so we factor all of that in. But the most important thing is competitive positioning and what is actually occurring in the client franchise. So if folks are struggling, now is not the time to take price.

John McKenzie

I'm going to layer on David's point on competitive positioning and really value proposition. Just taking pricing is not a sustainable revenue growth strategy. You've got to provide value to the clients. And one of the pieces I thought was the most compelling story in 2023 from Trayport—we've talked about the fact that Trayport has CPI built in the agreement. It was essentially 7 percent to 8 percent that was built into 2023.

We also had the highest customer satisfaction recorded for that team through our annual customer satisfaction survey at Trayport of any previous year. And so the very direct and deliberate work of the team of engaging with the clients, understanding the value proposition, understanding their needs, and not just passing pricing through without that discussion around value and what we can continue to do for the clients, that's what's got to go together.

So it's always going to be, to David's point, competitive positioning, value proposition. So that's something that's supportable and sustainable.

Jaeme Gloyn

Okay. And just a quick comment on potential price increases remaining in the near term.

David Arnold

Yeah. So to the extent we make any other changes later in the year, we will communicate those. But the current pricing changes is what's kind of reflected in the reports we published today.

Jaeme Gloyn

Okay. Last one for me. Just, obviously, VettaFi, really nice transaction; using a lot of leverage to get that done. How does this impact your view on the M&A market outside of VettaFi? Does this limit your ability to seek other targets? Are you seeking other potential targets, I guess, is the first question before that.

And does the leverage level where you are today—you'll have to probably issue some equity for you to do something larger size—but how does that really impact the outlook on future M&A here in the near term?

John McKenzie

Yeah. It really doesn't. The M&A in the near term and the long term continues to be built on our strategy as VettaFi was. So things that we identify that are going to accelerate our long-term strategy, we're going to continue to do that.

And as you said, we've got a lot of flexibility in our ability to fund things because we actually haven't tapped our equity capacity at this point. And as David said in his remark, we already have an aggressive return to our target leverage approach even with the leverage we've taken on. So no impact in terms of our ambition going forward.

Jaeme Gloyn

Okay. Great. Thank you.

Operator

Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. Mousavian for final closing comments.

Amin Mousavian

Thank you, everyone, for listening in today.

Before we close the call, I'm thrilled to announce that we'll be hosting our 2024 TMX Investor Day on June 20th in a hybrid format, with the in-person event in Toronto at our Market Centre. We hope many of you will be able to attend this event, which will feature a series of presentations, panel discussions, and product demonstrations, as John, David, and members of the senior leadership team will provide key updates on our global growth strategy and operations.

Further details are posted at investors.tmx.com under our Shareholders Events section.

If you have any further questions, contact information for Investor Relations as well as media is in our press release, and we would be happy to get back to you. Until next time, goodbye.

Operator

Thank you, sir. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your line. Have a lovely day.