FINAL TRANSCRIPT

TMX Group Limited

Q1 2023 Financial Results Conference Call

Event Date/Time: May 2, 2023 — 8:00 a.m. E.T.

Length: 49 minutes

CORPORATE PARTICIPANTS

Amin Mousavian
TMX Group Limited — Head of Investor Relations

John McKenzie
TMX Group Limited — Chief Executive Officer

David Arnold
TMX Group Limited — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Nik Priebe
CIBC Capital Markets — Analyst

Étienne Ricard
BMO Capital — Analyst

Geoff Kwan
RBC Capital Markets — Analyst

Graham Ryding
TD Securities — Analyst

Jaeme Gloyn
National Bank — Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the TMX Group Limited Q1 2023 Financial Results Conference Call. At this time, all lines are in a listen-only mode. If at any time during the call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Tuesday, May 2, 2023.

I would now like to turn your conference over to Amin Mousavian. Please go ahead.

Amin Mousavian — Head of Investor Relations, TMX Group Limited

Thank you, Michelle, and good morning, everyone. I hope you are all doing well and enjoying the longer spring days. Thanks for joining us this morning to discuss the 2023 First 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 will have a question-and-answer session.

Before we begin, I would like to remind you that certain statements made in this call may relate to future events and expectations and constitute forward-looking information within the meaning of the Canadian securities laws. Actual results may differ materially from those expectations. The information concerning factors that could cause actual results to differ from forward-looking information is contained in our press release and in periodic reports that we have filed with the regulatory authorities.

And with that, I turn the call over to John.

John McKenzie — Chief Executive Officer, TMX Group Limited

Well, thanks, Amin, and good morning, everyone. Thank you for dialling into the call to discuss TMX Group's financial results for the first quarter of 2023. And to everyone listening in this morning, I want to wish you the very best of health to you and your families.

Now, it is a busy day for us here at the TMX. Following the call today, we are holding our annual and special shareholder's meeting this afternoon. Today's AGM, our 21st as a public company, will be a hybrid meeting, and I'd like to personally welcome any shareholders that are interested to join us in person at the new TMX Market Centre for the meeting this afternoon.

Now, as we announced in March, we are preparing for a transition in board leadership, and I will talk a little bit more about that at the conclusion of my remarks today.

Now, before we get into the details of our performance in the first three months of 2023, I want to reinforce TMX's commitment. Through every reported period and amidst all market conditions, we are working to build TMX stronger, more capable, and more responsive. It requires an adaptive and innovative mindset, and the truth is, for all businesses, even one with a proud 170-plus year track record, change is the only constant.

But importantly, what doesn't change is our commitment to our purpose, to make markets better and empower bold ideas. And we continue to make progress in key enterprise initiatives to accelerate TMX's ongoing evolution to better serve our growing client base and broad range of stakeholders here in Canada and around the world.

Now turning now to our performance. TMX's first quarter results are excellent with solid revenue growth compared to the same period last year, highlighted by significant momentum in some key areas despite the sustained challenge posed by macroeconomic conditions and environmental factors. And as our purpose propels us forward, TMX continues to benefit from a stress-tested, diversified business model, and our Q1 results once again reflect the value of maintaining that long-term view.

TMX reported record revenue of over $299.1 million, a 4 percent increase from Q1 of last year, driven by double-digit growth in revenue from Global Solutions, Insights and Analytics including both TMX Datalinx and Trayport and Derivatives Trading and Clearing, excluding BOX.

Increased revenue was partially offset by lower revenue from Equities and Fixed Income Trading due to lower trading volumes on Toronto Stock Exchange, TSX Venture Exchange, and Alpha and lower capital-raising activity on TSX and TSX Venture.

On an adjusted basis, Q1 diluted earnings per share was $1.85, a 2 percent increase from Q1 2022.

Total reported operating expenses increased by 10 percent compared to Q1 last year but, sequentially, just 3 percent when compared to Q4 of 2022, and David will take a closer look at these expenses in his remarks to follow.

Moving now to our business areas.

Starting with Global Solutions, Insights and Analytics, or GSIA, revenue from GSIA was $102.6 million, a 14 percent increase from Q1 2022, reflecting higher revenue from TMX Datalinx, our information services division, and Trayport, our connectivity platform for European wholesale energy markets.

TMX Datalinx revenues was $56.8 million in the first quarter, an increase of 16 percent from last year due to higher revenue from data feeds, benchmark and indices, colocation, analytics, and price adjustments, as well as a favourable FX impact from a stronger US dollar.

And we continue to focus our strategic expansion opportunities for TMX Datalinx, seeking out new ways to empower our clients with the advanced tools and insights they need to gain a competitive investment edge.

Q1 revenue included $1.7 million from Wall Street Horizon, a Boston-based provider of global corporate event datasets that we acquired in November 2022.

And in February of this year, we acquired SigmaLogic, a US fintech firm providing advanced analytics and portfolio tools to the wealth management industry. And while the revenue contribution was modest in Q1, just over 10 days ago, we completed the next step of our strategy with the sale of SigmaLogic to VettaFi.

As you will recall, earlier this year we made a strategic investment in VettaFi, a global indices and ETF service provider, which includes a commercial agreement, and this latest deal made in exchange for common equity of VettaFi builds on that initial investment and enhances the value of our partnership as we work together to bring more client-centric index and benchmark products into Canada.

Momentum here is important with enterprise-wide implications. Much of TMX's future success will be determined by our ability to build on our expertise and strengthen our capabilities to meet the needs of the modern market. And for TMX Datalinx, our strategy is focused on ways to extract more value from our existing assets and the pursuit of essential innovation.

Now, moving to Trayport. Revenue grew 12 percent, or 14 percent in common currency pounds sterling, compared to Q1 2022 driven by a 9 percent increase in trader subscribers and annual price adjustments. Trayport's core Joule network continues to support energy market participants, navigating some severe market volatility with customized, client-focused trading tools, insights, and solutions. And that interconnected ecosystem of participants, execution venues, and clearing houses across world power and natural gas markets continues to grow.

Since the beginning of 2022, Trayport has added more than 60 new clients in core and new growth areas. And beyond the strong core growth, Trayport continues to pursue its global diversification strategy seeking out opportunities in new asset classes as well as new geographies.

Now, turning to Derivatives. Excluding BOX, revenue from Derivatives Trading and Clearing was $43.8 million in Q1, up 14 percent from Q1 of last year, driven by a 13 percent increase in revenue from MX and a 15 percent increase in revenue from CDCC due to higher volumes traded and cleared.

MX total volumes increased 15 percent compared to Q1 2022, and overall open interest grew substantially year over year, up 22 percent at March 31, 2023, and compared to the end of the first quarter of the last year.

MX's recent growth highlights the value of TMX's balanced, diversified business model. And while volatility had had a negative impact on activity in the equity and fixed income markets during the first quarter, investors were very active in trading our key derivatives products. Overall, the interest rate product line performed extremely well with volume up 19 percent over the first three months of 2022.

And some other key highlights included 122 percent growth in ETF option volumes, highlighted by increased activity from institutional investors trading the broader index, financials, REIT, and crypto sectors, and pronounced growth in the short-term interest rate products year over year.

BAX volumes traded were up 29 percent, and volumes in the CGZ, MX's new two-year Government of Canada bond futures contract, was up 113 percent.

Looking to the future, Canada's primary interest rate benchmark is about to change. By next year, most of the world's jurisdictions, including Canada, will have fully transitioned from IBOR to a new, risk-free alternative benchmark. Preparing for the industry transition from CDOR to the Canadian Overnight Repo Rate Average, or CORRA, ahead of the scheduled cessation date in June 2024 is a key priority for the team at MX, and we're working hard to ensure a smooth transition from our signature BAX contract to the new three-month CORRA Futures or CRA contract. Volumes traded in CRA reached an average daily volume of approximately 10,000 contracts in Q1 2023.

Now, turning to Capital Formation. It is no surprise that global macroeconomic factors, including sustained high-interest rates, concern over inflation, and increased volatility, weakened the capital-raising environment in the first quarter of the year.

Revenue from Capital Formation in Q1 2023 was $63.5 million, a 1 percent decrease from last year, reflecting lower revenue from additional listing fees due to a lower number of financing transactions on Toronto Stock Exchange and a decrease in dollars raised on both TSX and the TSX Venture Exchange.

Despite the impacts of these worldwide environmental challenges, our public market ecosystem remains resilient, and we are seeing positive signs within the dealmaking community that markets are poised for a rebound as conditions normalize.

And while the slowdown in financing activity during the first quarter had a negative impact on our results and the number of new listings on TSX and TSXV decreased year over year, Canada's markets remain the number-one growth platform in the world for small- to medium-sized enterprises.

And it's important to measure our performance versus those global peers. We stack up extremely well. In fact, our exchanges rank second among global peers by the number of new listings during the first three months of the year and third by the number of new international listings.

New listings during the quarter included some notable success stories from across our unique two-tiered ecosystem. In March, we welcomed SP Strategic Acquisition Corp., a new capital pool company created by diversified investment management firm, Sterling Partners, to the TSX Venture Exchange. And what's notable is that this marks the first Chicago-based CPC in the history of our program.

In February, Lumine Group, a spinout from Constellation Software, listed on TSX Venture, one of the largest venture tech issuers ever.

And Lithium Royalty raised $150 million in its IPO on the Toronto Stock Exchange. The company is focused on mineral properties around the world, to supply raw materials to support electrification and decarbonization.

Now revenue from other issuer services was $24.3 million in Q1, a 42 percent increase compared to Q1 of 2022, reflecting strong growth in our TSX Trust business driven by higher net interest income and slightly offset by lower transfer agent fees. TSX Trust's enhanced product suite and client service capability following the successful integration of AST Canada has enhanced our position in a highly competitive market.

Now finally, I'd like to provide an update on an important long-term initiative, our post-trade modernization program.

Now earlier this year, Canada's regulators, in conjunction with the US SEC, announced the adoption of T+1, a reduction in the standard settlement cycle from two days to one day with an expected implementation date in May 2024.

And while our post-trade modernization program is well on track for implementation this fall, after careful consideration and with consultation with our participants, we have decided to defer delivery from late 2023 to late 2024 to allow for the industry to seamlessly transition to T+1 settlement in a time frame that aligns with regulatory requirements.

I personally would like to thank our participants for partnering with us and testing and developing with us thus far, and for their continued commitment towards this future implementation. In David's comments later, he will share the impacts of this deferral.

But before I turn to David, I want to thank our people here in Canada and around the world for their continued and unwavering commitment to serving our clients and our markets with excellence, and for bringing TMX's corporate purpose to life in their work every day.

Now, as I mentioned a few moments ago at the outset, this afternoon's AGM marks an important milestone for TMX. Pending the results of a shareholder vote, we expect to welcome Luc Bertrand as the new Chair of TMX Group's Board of Directors, the third in our 20-plus-year history as a public company. Luc has been a board member for more than 10 years and a friend for much, much longer, and I look forward to continuing to work with him and the entire board as we strive to build on this institution's impressive track record and advance our long-term growth strategy.

And then finally, on behalf of our entire senior management team and the Company as a whole, I want to sincerely thank Chuck Winograd for his exemplary service to the Company as board chair over the past 11 years.

So much of the world has changed since the Maple transaction in 2012 and, during Chuck's tenure with the Board, TMX has grown into a world leader. We have expanded our global presence, sharpened our focus on serving stakeholders and clients, and advanced our long-term growth strategy. TMX has also navigated through complex challenges over the years, and we have taken important steps to strengthen the organization's culture while defining our new purpose. Chuck's expertise, guidance, and insight have been major assets to the Company and to me personally through this period of pronounced growth. And as we continue to build on TMX's success, his legacy of leadership will endure.

And with that, let me pass the call to David. Thank you.

David Arnold — Chief Financial Officer, TMX Group Limited

Thank you, John, and good morning, everyone. We had an excellent start to 2023 with record revenue of $299.1 million in the first quarter, a 4 percent growth year over year on a reported basis.

Revenue was up 6 percent compared to the first quarter last year when we exclude SigmaLogic, which we acquired the balance of the shares on February 16 of this quarter; Wall Street Horizon, which we acquired on November 9 of last year; and BOX, which, as you will recall, we started consolidation accounting based on our voting interest increasing to 51.4 percent and economic interest of 47.9 percent on January 3rd of last year.

Since John spoke to the highlights on all of our top line and business performance this quarter when compared to last year, I will be brief in my remarks when comparing to last year’s Q1 and would rather focus on how we have performed sequentially, that is to say, versus Q4 of last year.

Our revenue increase versus Q1 of last year was driven by double-digit growth in Global Solutions, Insights and Analytics for both Trayport and TMX Datalinx, as well as a double-digit growth in our Derivatives Trading and Clearing segments, excluding BOX, and finally, double-digit growth in our TSX Trust business. This was partially offset by lower listings revenue due to both lower initial and additional listing fees, lower equities and fixed income trading, and lower BOX revenue.

While our reported diluted earnings per share is down when compared to Q1 of last year, this is solely attributable to the gain we recorded in Q1 last year resulting from the revaluation of our interest in BOX after we obtained voting control on January 3rd of last year.

So looking through that, our adjusted diluted earnings per share increased by 2 percent to $1.85 this quarter, reflecting higher adjusted net income attributable to equity holders of TMX Group of $0.9 million and a lower share count.

Taking a closer look at our expenses. As mentioned earlier, operating expenses in the first quarter increased 10 percent compared to Q1 of last year. Operating expenses, excluding an increase of $3.3 million related to SigmaLogic, Wall Street Horizon, and transaction-related costs, as well as Q1 2022s AST integration cost of $1.2 million, were up 8 percent compared with the first quarter of last year.

The higher expenses reflected higher costs related to BOX; increases for employee short-term performance incentive plan costs, which are reset to target at the start of each year; and favourable FX impact leading to higher expenses due to a stronger US dollar; and higher travel and entertainment costs due to travel restrictions still being in place this time last year.

Excluding these expense items, which are driven by factors beyond business activity, operating expenses increased by 5 percent in the first quarter compared to last year, driven by three main factors: first, higher headcount and payroll costs, related revenue related expenses that were higher, and higher IT operating costs.

The vast majority of our higher headcount relates to investing in additional headcount in Trayport and TSX Trust, both of which are high-growth businesses, justifying the investment in additional resources and the balances primarily in our other businesses to support growth, with a minority related to our corporate functions who support our businesses as they grow.

Turning now to comparing our results on a sequential basis.

Revenue increased $23.4 million, or 8 percent from Q4 of 2022 to Q1 of 2023, driven by increases across all of our business segments, with the largest increases from Equities and Fixed Income Trading; Derivatives Trading and Clearing; and Global Solutions, Insights and Analytics.

Revenue in our Equities and Fixed Income Trading segment increased 14 percent in the quarter compared with Q4 of 2022. This increase was driven by higher fixed income trading revenue and a 4 percent increase in the overall volumes of securities traded on our equities marketplace.

Trading volumes of TSX and TSX Venture both increased by 5 percent.

Moving to our Derivatives Trading and Clearing segment.

Revenue grew by 13 percent this quarter compared to Q4 of last year, driven by a 21 percent increase in MX trading volumes, which peaked mid-March. In addition to higher volumes, both MX and CDCC revenue benefitted from pricing changes, which were effective January of this year.

Revenue in Global Solutions, Insights and Analytics was up 10 percent this quarter compared to Q4 of last year, with increases from both Trayport and TMX Datalinx.

Revenue from Trayport was up 12 percent in Canadian dollars or 10 percent in pounds sterling. The increase in pounds sterling was primarily driven by a 9 percent increase in trader subscribers and annual price adjustments.

Revenue in our TMX Datalinx business, including colocation, grew by 8 percent driven by increases in data fees, colocation, and the impact of 2023's price adjustments, and just under $1 million related to our Wall Street Horizon and SigmaLogic acquisitions.

Operating expenses increased $4.6 million, or 3 percent, from Q4 of 2022.

Excluding the expenses from SigmaLogic, Wall Street Horizon, transaction-rated costs, and $4 million in AST integration costs in Q4 of last year, expenses were up 5 percent from last quarter.

To make an apples-to-apples comparison, we looked to four items that might typically drive these quarterly variances, namely, seasonality impacts, short-term incentive compensation plan expenses, fluctuations in the FX rates, and BOX expense changes.

So starting with our first item, seasonality changes. The most notable seasonal impact is that payroll taxes always trend higher in Q1. In addition, we reset our short-term incentive compensation plan accrual rates based on performance. As you would have seen from our annual disclosures, our final scorecard percentage was 68 percent for 2022 and is trending higher in Q1 of this year.

Finally, we have higher Trayport and BOX expenses in Canadian dollars, primarily driven by the stronger pound sterling versus Canadian dollar on the Trayport front.

Excluding the quarter-over-quarter impact of these items, our expenses were actually down 1 percent from Q4, as evidenced by a normal course disciplined approach to manage our expenses while continuing to invest for long-term growth.

Moving on to changes in the post-trade modernization project.

As a result of the acceleration of the implementation of T+1 to May 28, 2024, and recognizing that it is a market priority, we'll be entering a slowdown period until after the industry transition. We are currently targeting a revised launch in Q4 of 2024, while being mindful that this timing may change if there is a significant industry-wide delay in the implementation of the move to T+1 settlement.

We will continue to provide updates on timing as the project progresses. However, as we have indicated in our MD&A, we are now anticipating incurring between $130 million to $140 million in total capital expenditures related to our CDS modernization project, which is up from our previously disclosed estimates of between $125 million to $135 million in total capital expenditures.

Turning to our balance sheet.

In the first quarter of 2023, we spent $12.7 million repurchasing 94,400 of our common shares under our normal course issuer bid program.

Our debt-to-adjusted EBITDA ratio was 2 times at the end of the quarter, up from 1.6 times at the end of Q4, as we acquired our 21 percent interest in VettaFi, which we funded through existing cash and commercial paper. We also held over $432 million in cash and marketable securities at the end of the quarter, which was over $257 million in excess of $175 million we target to retain for regulatory and credit facility approved purposes.

Our effective tax rate of approximately 27 percent for Q1 is up 1 percent from Q1 of last year after adjusting for the non-taxable gain from consolidation accounting of BOX recorded in Q1 of last year.

The primary driver is due to an increase in the UK corporate income tax rate from 19 percent to 25 percent, which will be effective April 1st of this year. However, with the blended tax rate being applied as is the UK requirement for corporations with a December 31st year-end, it is as if it is effective for us on January 1st.

Last night, our board approved a quarterly dividend of $0.87 per common share, payable on June 2nd to shareholders of record as of May 19th. In the first quarter, we paid out 47 percent of our adjusted earnings per share, which is above the midpoint of our target payout ratio of 40 percent to 50 percent.

And now, I'd like to turn the call back to Amin.

Amin Mousavian

Thank you, David. Michelle, could you please outline the process for the question-and-answer session?

Q&A

Operator

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

The first question comes from Nik Priebe of CIBC Capital Markets. Please go ahead.

Nik Priebe — CIBC Capital Markets

Okay. Thanks for the question. My first question relates to pricing power across the platform.

Are there any areas or business units that you've identified where you might have some flexibility to introduce pricing changes this year?

John McKenzie

Yeah, Nik. That's a good question and good morning.

What we're doing with respect to pricing is twofold, which, one is, every part of our franchise, every part of the business we are constantly looking at and as part of our strategic review is, what's the value equation, the value provided to clients; how do we compare competitively both domestically and globally; and where are there opportunities or changes, or even risks, where we want to make adjustments to.

So that's the fundamental piece in terms of running our business in terms of driving growth in the core business through both that, but also, product roadmap, product delivery, expanding the sales pipeline, things like that. So it is only one factor in terms of those growth pieces.

Now with that, to the crux of your question, there are certainly areas. I mean we've talked about Trayport in the past. We basically built CPI indirectly there on an annual basis; you're seeing some of that flow through this year already. We have got the approval on the rest of our Datalinx business for basically what we call half CPI, so we've got the ability to make changes there. But we also want to be very respectful of our position there and so that we are not a burden on the client base in terms of our pricing structure.

We will also continue to look at other parts of the franchise as well. So we do look at the trading opportunities. We do look at listings. You understand that we made changes on both TSX and TSX Venture earlier this year, but that doesn't preclude us from making other changes within the structure. Because what we don't do is do kind of one size couple of percentage points across the board; we look to be very strategic in terms of the price structure as to where there's opportunity.

So, I know I'm not giving you anything specific there because everything is done based on a strategy going forward. And as we do have things that we can bring to market, we'll make them public at the time.

Nik Priebe

Yeah. Okay that's good colour.

And then you've been quite active on the corporate development front lately. Are you able to update us on your outlook regarding the M&A pipeline and what that might look like today?

John McKenzie

You're getting me two in a row on crystal-ball questions, Nik. Yeah. I appreciate that. So I think that the best way I would give you guidance is to look at the things we've done over the last couple of years as really good indicators of the sectors that we're looking at, the nature of the businesses, and the nature of the economics of those businesses.

So continuing to expand in our GSIA suite in terms of more analytics, datasets, ability to drive more subscription-based services through that, expanding the use of our own data in broader products, global distribution around those products are all features in the types of businesses we're looking at.

Similarly, with the acquisition and the full integration of AST, which we completed over a year ago, and the integration last year, that gives us a much deeper set of services for issuers. We're always looking at other ways to deepen that relationship and provide a broader suite of products to the clients to enhance the value proposition with TMX.

So those are two really good areas of the types of spaces that we continue to focus on because they advance the strategy, and they advance those areas of the strategy that we've talked about of being those high-growth areas. We are looking at other assets all through the franchise, but they are all again tied to the ability to grow the strategy.

The other piece I'll add to you with that is you've seen us do things as large as Trayport and as small as a minority investment in Ventriks, and those are both good guideposts that we are looking at both small businesses that we can tuck in and scale and larger deals that could be more transformational.

Nik Priebe

Yeah. Okay. That's good. That's all I had. Thank you.

Operator

Thank you. The next question comes from Étienne Ricard of BMO Capital. Please go ahead.

Étienne Ricard — BMO Capital

Thank you and good morning. Of the—

John McKenzie

Morning, Étienne.

Étienne Ricard

Hi. The Montreal Exchange volume company two-year Government of Canada Bond Futures have picked up significantly, as you noted in your remarks. At what point do you believe volumes could become self-sustaining and, as a result, remove introductory incentives?

John McKenzie

The guidepost I give you—because again, these are commercial arrangements with our Market Maker clients—but the guidepost I give you is if you look at the experience we had with the 5-year and the level of sustained liquidity that we enjoyed in the 5-year product when we made the decision with the clients to exit that Market Maker arrangement, it’s a really good indicator of how we think about other future products like the 2-year and the 30 as well.

Étienne Ricard

Okay. Understood. And VettaFi closed on the acquisition of an index provider focused on AI, robotics, and health care last month. What’s the potential for collaboration on the index front between TMX and VettaFi as it relates to your innovation sector with them?

John McKenzie

Yeah. It’s very high. The whole thesis of our investment in VettaFi was actually, along with the partnership agreement that we built together, to create indices based on our datasets, our relationships, things like that, using their capabilities.

So the acquisition that you referred to, for the benefit of everyone else on the call, is an acquisition of an organization or business called ROBO Global that actually does, exactly as you said, focuses on indices in the AI space and related spaces.

It was actually an acquisition that was intended upon by our investment into VettaFi in the first place; when we put capital in it, it was to actually fund this kind of continued growth in VettaFi. And it expands the set of assets and capabilities that we can bring to bear on the partnership as well. Now, we're still very early days in that partnership, but our teams are already collaborating on what I'll call that priority list of the benchmark opportunities that we can build together.

You noted as well, and both David and I talked about it, the smaller transaction that we did with SigmaLogic, and this is the ETF analytics business that we've done with SigmaLogic, ETF LOGICLY, was again part of that intention. So we already owned a little under 50 percent of this business. The opportunity to acquire the remainder came available. And with our partnership with VettaFi, the best home for that business is actually within VettaFi, which has extensive and expansive ETF capabilities. And this is very complementary to what we can do there. So the best thing for us to do is to acquire the rest of that business, roll it into VettaFi for a larger stake, and really serve the clients better in a combined platform.

So you hit the nail right on the head. This is all about what we can do together to expand services to clients.

Étienne Ricard

Very helpful. Thank you.

Operator

Thank you. The next question comes from Geoff Kwan of RBC Capital Markets. Please go ahead.

Geoff Kwan — RBC Capital Markets

Morning. Just expanding on the question on the Montreal Exchange with the trading volumes overall being strong in Q1 this year. You talked about last year the volumes being subdued just because of the substantial increase in interest rates and that the volumes would likely improve once we saw a little bit more stability predictably around the central bank interest rate. So in that context, do you see what the volumes in Q1 ’23 as being, call it, relatively normal?

Were there seasonal or other factors that you think might explain the jump that we saw in Q1?

John McKenzie

Yeah. It actually was nice to see that actually come to fruition so that the guidance that we were giving last year was not hope, and it was actually based on our experience in the market. So I appreciate you raising that.

When you’ve got periods of unconstructive volatility in interest rates, and what I mean by that is when you’ve got really a question mark around what central banks will do with rates, it’s more difficult for short-term traders to trade in those products like the VAX product and even the future CRA product that we’re bringing to the market.

So that volatility last year was expected. That step-down was expected. And when rates stabilized in the first quarter and there was a view that rates would stay at this level, you saw traders come back into the product.

Now you are seeing some pullback of that as we get into April and Q2 because, again, on the collapse of some of those banks in the US, some concerns around both future inflation, but also potential recession concerns, there is again volatility around rate expectations, both plus and minus, and that does bring some of those short-term traders out of the market again.

So I think for the next period, I think you can expect to be, for this product, particularly the short-term products, to be a bit more volatile, given that level of uncertainty in the marketplace.

Geoff Kwan

Okay. And just my second question was on the equity trading side on the call, the revenue per share traded. It seems like it's been steadily increasing over the past couple of years. I know you've made some changes on the product front and a little bit on the pricing, but just wondering from your perspective, like what would be the key drivers that seem to be driving that.

And do you see anything that would give you a little bit further benefit as you look out over the next two quarters?

John McKenzie

Yeah. It's primarily driven by product and the product mix. So as we've been—if you recall, the work we did to create a stronger market on closed product a little over a year ago, we're seeing volume grow in the closed. The closed is a premium product. The expansion of our Dark Order trading, which has been a growth area for us, again, those are premium products. So even over the same levels of volume, you're getting more premium kind of revenue per share.

And so that is actually part of the strategy. That's a deliberate approach in terms of building the business.

And as we've launched the consultation on two net new markets, which you've seen, which is the Alpha Prime, Alpha DRK, these are, again, all about providing premium features to traders that want better execution quality, want to be able to do larger transactions, want to see the broader speed bumps to take away some of the electronic trading out of those executions.

So a lot of the roadmap going forward, again, is around bringing more premium product to the market that solves problems for our clients, and those clients are willing to pay a premium over the basic execution fees that you'd see in the open market. And so that's a deliberate strategy, and you're seeing that play out in the average rates.

Geoff Kwan

Okay. Thank you.

Operator

Thank you. The next question comes from Graham Ryding. Please go ahead.

Graham Ryding — TD Securities

Hi. Good morning. The share of equity-accounted investments, I think that's where your VettaFi proceeds would come through. I thought it might have been positive this quarter just given the size of that acquisition.

So maybe you could just give us some colour on if this is an expected run rate, or if there was any noise or anything there sort of weighing on that line item.

David Arnold

Hi, Graham, it's David. Yeah. There's a little bit of noise. So as we had mentioned when we made the acquisition, just to give people a size and scope, and remembering that VettaFi is a private company, so our ability to provide in-depth details is quite limited.

But what I can share is it's a business that, as we disclosed when we acquired it, that's much the size and scale of Trayport with a similar kind of margin profile. Especially when we look at these businesses, which are technology based or data-based businesses, it's all about the EBITDA contribution and very similar to Trayport when we acquired it.

But as you know, VettaFi is a high-growth business, and as a result, there's obviously lots of acquisitions they're making. So their amortization would naturally be a higher number than you'd maybe expect in a stable or more mature business.

And then the second thing is is the business has been primarily funded through debt. So its net income contribution is less than, obviously, the EBITDA contribution. So that's being picked up there.

The good news is is, as we've made our investment, it's given an ability for the VettaFi management team to look at their capital structure. I would expect a little bit more noise in the second quarter, but as we get to the third and the fourth quarter, I think we'll be in a better position to talk a little bit about what a more steady run rate is for us to pick up on that account line.

Remembering as well that on their account line is Ventriks as well, a much smaller investment just in terms of sheer magnitude and dollar impact. And that's what I would refer to as an early-stage technology business. So, obviously, it has a very different profile let's say to VettaFi and then maybe a more mature business.

Does that help, Graham, at least in terms of how you might think about it?

Graham Ryding

Yeah. That helps. Should we expect it to be trending positively Q3 forward?

Or is that amortization still going to be enough to weigh on—

David Arnold

Yeah. So, amortization and funding costs will be with these businesses for a long period of time. But the noise that I'm referring to between a Q1 and a Q2 because, if they make an acquisition in a quarter, they're going to have transaction costs. And as you would expect, right, if we made 100 percent acquisition at MX, we would adjust for it as we normally do; we disclose it in terms of our adjusted numbers. When we pick up our percentage share of a minority investment, we don't make any adjustments for those types of items.

So that's really what I'm referring to, Graham, is if they have M&A activity in the quarter that could cause some lumpiness. But definitely as we get to Q3 and Q4, I expect that account line to trend far more positively.

Geoff Kwan

Okay. That makes sense.

And then just on the Datalinx side of your business. Some very strong growth this quarter; I think it was 9 percent if you exclude acquisitions and FX. Maybe you could just give us some colour.

How much of that 9 percent was some of the price increases that you brought in this year? And how much was just growth otherwise?

David Arnold

Yeah. So it's myself, Graham. I would say the price increases were less than half. The real primary drivers over here are business volume. Obviously, as you know, we bill a lot of our international clients in US dollars. So we had a benefit from that, so.

But the short answer is is pricing is not the majority of this increase. It's core operations and organic growth added, obviously, by the acquisition of Wall Street Horizon and SigmaLogic during the quarter. Obviously, subsequently, we've now sold our SigmaLogic stake to VettaFi. But the Wall Street Horizon acquisition is really paying a lot of dividends. In fact, it's well ahead of all our business case metrics. And that's also contributing to the top-line growth for Datalinx.

Anything to add there, John?

John McKenzie

Yeah. Not to pile on too much, but given the Blue Jays had a phenomenal April, I can't help but take the opportunity to take the baseball reference here. This is a business where it's not home runs. We're actually hitting single, after single, after single. So you've got a whole list of different product growth areas that are contributing to that 9 percent you talked to. So as David said, less than half of that's coming from pricing. We're getting growth from the index and benchmark piece. We're getting growth from colocation, from the expansion of fees, the addition of new bundled products that Michelle's team has delivered.

And so it really is that sequence of continuing to innovate, add products, sell products that gives us singles and singles and singles and pushes the runs over the line. And that's the way we've built the strategy, and that's why we were confident last year to advance the guidance around this business that this was going to be a strong growth business going forward, and not that kind of 1 percent to 2 percent that we had in history.

Geoff Kwan

So mid-single digits, is that your revised guidance for this line? Can you remind me?

David Arnold

So we refer to the Datalinx business in our investor brochure as strong growth, which would be five-plus.

Geoff Kwan

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

Operator

Thank you. Once again, ladies and gentlemen, if you do have a question, please press *, 1 at this time.

The next question comes from Jaeme Gloyn of National Bank. Please go ahead.

Jaeme Gloyn — National Bank

Thank you. Good morning. Maybe just a follow-up on that last question around Wall Street Horizons. You said it's running ahead of your expected metrics, and so $1.7 million in this quarter. Is that a fairly representative quarter? Or are there any sort of one-time items in there? Seasonality?

How should we think about Wall Street Horizons contributing in the upcoming quarters?

John McKenzie

Well, I'd say representative but growing. So it's very much subscription based. So no really one-time things that are distorting that. And it is a business we expect to continue to grow. So that's a baseline you can build off of.

Jaeme Gloyn

Okay. Great. Next question or my first question's going to be around interest income. And this kind of hits in a couple of areas for the business. TSX Trust obviously benefitting from higher interest rates and net interest income, but so did CDS.

And so the question is, for both of those businesses, are you able to break out the contribution from let's call it net interest income in those lines versus let's say core products and other services?

John McKenzie

Let me start with the trust piece because the CDS piece is actually fairly limited. I'll leave that one for David afterwards.

As we said in the notes and the guidance that we gave, the growth in trust, which is essentially the other services, was really about net interest income growth. And so it's really quite representative.

And out for that, the actual transaction-related pieces of trust would have been slightly down in the quarter, which should not be surprising because the trust business, I'd say it's about kind of 60 percent recurring run rate and kind of 40 percent transactional, so very much like Capital Formation, in a quarter where you've got limited market activity, not as much M&A activity, not as much corporate financing, there's limited trust transactional activity. So that being a little softer year over year, the bulk of that growth was all the net interest income piece.

You want to talk to the CDS piece, David?

David Arnold

Yeah. So on the CDS piece, it's less than $1 million, honestly, Jaeme. So the more noticeable and meaningful impact of interest rate rises is going to be seen in the trust business, as John has indicated.

Jaeme Gloyn

Yeah. Okay. Great. And then last one for me. Just thinking about the debt maturity schedule here. We have $250 million in October. You've got the $200 million of CP now.

What's the strategy around those, I guess, that maturity coming up and then the CP?

David Arnold

So it's a great question, Jaeme. So let me handle the CP. As you know, obviously, on a quarterly basis, we generate enough free cash flow for us to make a meaningful downward tick or at least down payment in reducing the commercial paper as we head towards the end of Q3, which, as you say, our series B debenture is coming up for redemption.

So we're spending a lot of time, as you can expect, Jaeme. So we focus on what's going on in the interest rate market, not just because it drives our derivatives franchise and some of our other businesses as you alluded to, trust and CDS, but also because it drives our decisions on our capital structure. Right?

So, we haven't made any decisions yet. We continue to look at refinancing options. And the backdrop of it is two things. One is where do we see short and long-term rates going as we near that point, and do we see an opportunity for us to either early refinance or do it as we head towards the end of Q3 when the debenture comes due.

But in addition, to an earlier question, it depends on what the capital resource needs are for us in terms of M&A activity, or inorganic growth. So depending on those factors, you could see us continuing to pay down the commercial paper and simply refinance the long-term debt with commercial paper or any kind of short-term borrowing. Or if rates are, in our view, in a position where we might want to lock in both for duration and rate, we might refinance it.

So stay tuned in this space with the overall backdrop is what will our capital deployment needs be in terms of any possible M&A activity.

Jaeme Gloyn

Yeah. Understood. And just to clarify, I think you, David, in your prepared remarks, talked about excess cash being, was it $50 million? Or $150 million?

David Arnold

No. We hold excess cash in excess of $175 million, and I'm just going to look at my remarks so I don't misquote myself. We have $257 million in excess of $175 million we target to retain for regulatory purposes. So $257 million in excess.

Jaeme Gloyn

In excess.

David Arnold

Yeah.

Jaeme Gloyn

Okay. So you could use that to repay some of the maturities or CP as well I suppose. Is that fair or no?

David Arnold

That is fair. But it also, as I said, as the backdrop, is what would our other capital deployment needs be as the earlier question was—I think Nik asked the question about our M&A pipeline. And as John said it's robust. So it all depends.

Jaeme Gloyn

Understood. Thank you very much.

David Arnold

You're welcome.

Operator

Thank you. There are no further questions at this time. Please continue with closing remarks.

Amin Mousavian

Thank you, everyone, for listening in today. And we look forward to connecting with you throughout this year as we make progress in our strategic priorities. As John mentioned earlier, our Annual and Special Meeting of Shareholders will be taking place today in a hybrid format at 2 p.m.

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

David Arnold

And I'm just going to close it by congratulating you, Amin. That was your first analyst call in your new roll. So congratulations.

Amin Mousavian

Thank you.

Operator

Ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.