FINAL TRANSCRIPT

TMX Group Limited

Second Quarter 2023 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the TMX Group Limited Q2 2023 Financial Results Conference Call. At this time, all lines are in listen-only mode. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Friday, July 28, 2023.

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

Amin Mousavian — Vice President, Investor Relations, Treasury & Administration, TMX Group Limited

Thank you, Anas, and good morning, everyone. I hope you're all doing well and enjoying the summer. Thanks for joining us this morning to discuss the 2023 second 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 highlight that we successfully completed our five-to-one share split on June 13th and all common share numbers and per-share amounts, including comparative figures, have been adjusted to reflect the stock split.

Also I would like to remind you that certain statements made during the call may relate to future events and expectations and constitute forward-looking information within the meaning of Canadian securities law. Actual results may differ materially from these expectations. 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

Thank you, Amin, and good morning, everyone. To everyone listening today, we all hope your summer is off to a great start and appreciate you spending some time and dialling into the call today with us to discuss TMX Group's financial results for the second quarter of 2023 and the first six months of the year.

Now before I turn to the business, I do want to take a moment and send a message of support out to all of those who have been impacted by the wildfires across Canada and actually around the world and express how grateful that we are at TMX for those on the front lines that are working to protect the lives of people in affected communities and providing that essential relief, services, and support.

Now my comments this morning are going to focus on TMX's first half performance and the important progress that we have made this year in advancing our key enterprise initiatives, following which David will take us through the Q2 numbers in detail.

Overall, TMX continues to deliver, reaping the benefits of a diverse and balanced business model and a consistent and disciplined long-term growth strategy. We reported positive results for the first six months of the year, with solid year-over-year revenue growth, including record revenue for the second consecutive quarter despite sustained headwinds across key elements of the capital markets. Fuelled by our purpose to make markets better and empower bold ideas, we are continuing to build TMX ever stronger, more capable, more innovative, and more resilient to continue to deliver innovative solutions and a clear path for the success of our clients and stakeholders across the markets we serve around the world long into the future.

TMX reported revenue of $605.3 million, a 6% increase from the first half of last year, driven by double-digit growth in revenue from our information services businesses, or GSIA, which includes Trayport and TMX Datalinx, as well as increased revenue from capital formation, derivatives trading and clearing, excluding BOX. Excluding BOX, revenue increased 8% in 2023. These gains were partially offset by decreased 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 an adjusted basis, diluted earnings per share for the first six months of the year was $0.75, a 1% increase from the same period in 2022. Now total reported operating expenses increased 9% compared with the first half of last year, largely driven by inflationary pressures and FX impacts, but also by discrete investment choices we have made as an organization to accelerate our long-term growth, and David is going to dig into this deeper in his remarks to follow.

Moving now to our business areas, starting with global solutions, insight and analytics, our fastest-growth business area, GSIA represents 34% of TMX's revenue in the first half of 2023, up from 31% in the same period of last year. Revenue from GSIA was $207.3 million, a 16% increase from the first six months of 2022, reflecting higher revenue from Trayport, our connectivity platform and service provider for European wholesale energy markets, and TMX Datalinx, our information services division. Trayport's first half revenue grew 18%, or 15% in common currency pound sterling, compared with the same period in 2022, driven by a 9% increase in trader subscribers, annual price adjustments, and the impact of a favourable FX rate.

Trayport's core Joule network connects, serves, and supports a growing ecosystem of participants, execution venues, and clearinghouses across world power and natural gas markets and Trayport continues to pursue innovative ways to enhance the overall client experience for energy market participants by augmenting trading tools, insights, and analytical capabilities across its core Joule network. And in addition to areas of strategic focus in our business, Trayport continues to seek out expansion opportunities in new asset classes and new geographies, as global energy markets continue to evolve. We continue to work on building the voluntary climate marketplace, a collaboration with IncubEx launched last year and designed to provide clients with the broadest possible view of the fragmented voluntary carbon market.

TMX Datalinx's revenue was $113.6 million in the first six months, a year-over-year increase of 14% due to higher revenue from data feeds, co-location, benchmark and indices, and corporate and reference data, as well as a favourable FX impact from a stronger US dollar. The first half of the year was marked by important progress and notable milestones for our information services business, including strategic investments as we moved to expand our capabilities, broaden our data sets, and deliver leading-edge analytics and tools to our clients.

The first half revenue included $3.4 million from Boston-based Wall Street Horizon, a provider of global corporate event data sets acquired late last year, and earlier in 2023 we made a strategic investment in VettaFi, a global indices and ETF service provider, which includes a commercial agreement. TMX and VettaFi teams are continuously working together towards the development and delivery of new client-centric index and benchmark products into Canada. And earlier this week we took another step forward in our benchmark and indices strategy and product roadmap as we finalized an agreement with our partner CanDeal to participate in the creation of the new Term CORRA benchmark. A CanDeal affiliate will operate the benchmark administrator and TMX Datalinx will provide licensing and distribution capabilities.

Now, as you can clearly see, information is key to our long-term global growth strategy. It's a vital strategic enabler as we enter into the next phase of TMX's evolution. And across the organization we're also focused on new ways to leverage our robust proprietary data sets to solve existing and emerging client challenges. Now with that, let's turn our attention to the derivatives business. Excluding BOX, revenue from derivatives trading and clearing was $82.2 million in the first half of 2023, a 9% increase from last year driven by higher revenue from MX and CDCC due to increased volumes traded and cleared. MX total first half volume grew 13% compared to 2022 and the level of overall open interest at June 30, 2023 represented a 17% increase from the same date last year. Recent additions to MX's product suite are proving effective in creating efficient cross-market trading opportunities and continue to gain profile among global investors.

Strong first half performance was driven by significant growth in activity along MX's interest rate product line, with volumes up 19% in the first six months of 2022 and 6% growth in volumes in equity derivatives. Some of the other highlights and trends within the activity include ETF options, specifically broader index financials, REIT, and crypto sectors showed continued strong interest among investors with volumes up 46% compared to the first six months of 2022. Investors were very active in the short-term interest rate products due to the active central bank policy environment. Volume traded in the BAX or CORRA contract were up 33% and volumes in the CGZ, MX's two-year Government of Canada bond future contract, increased 90% compared to the first six months of 2022.

Now looking ahead, a key priority for the MX initiative is the transition from CDOR to the Canadian Overnight Repo Rate Average, or CORRA, with full cessation of CDOR on track for June 2024. The three-month CORRA Futures, or CRA, continues to gain traction, reaching an average daily volume of approximately 14,000 contracts in the first half of this year.

Now turning to capital formation, revenue was $144.6 million, a 5% increase from the first six months of 2022, reflecting higher issuer services revenue and partially offset by lower revenue from additional listing fees due to a decrease in the number of financing transactions on Toronto Stock Exchange and decrease in dollars raised on both TSX and TSX Venture Exchange. Revenue from other issuer services, which largely consists of the TSX Trust business, was $60.9 million, a 50% increase compared to the first half of last year and driven by higher net interest income, slightly offset by lower transfer agent fees. Macroeconomic factors, including sustained high interest rate environment and inflationary pressures, continued to weigh on capital raising activity during the first half of the year and, while the number of new listings on TSX and TSX Venture decreased year over year, the pipeline of go-public prospects is robust and we are confident in a resurgence as conditions normalize.

Our unique two-tiered ecosystem remains the choice for small and medium-sized enterprises here in Canada and increasingly around the world. TMX exchanges ranked third amongst our global peers by the number of new international listings during the first six months of the year and more than half of those new companies joined our markets from the US. Our business development efforts to continue to promote TSX and TSX Venture's value proposition among early-stage companies in targeted regions across the US. And consistent with our history of industry leadership and innovation, TMX continues to be focused on the future of our markets.

Last year, our capital formation team undertook an important initiative called Venture Forward, designed to solve the current challenges of stakeholders across our vital venture community and strengthen our markets into the future. TSX Venture has an impressive track record of launching early-stage public companies, funding primarily growth stages and providing investors with access to unique small-cap investment opportunities. But we can always do better and so in June this year, following an extremely productive and in-depth consultation process, TSX Venture produced a comprehensive report that outlines our commitment to doing better in support of innovation and growth and in order to clear a path for new company's investors to enter our ecosystem.

The key Venture Forward commitments include: a TSX Venture passport listing process to accelerate the listing and capital raising timeline for qualified new listing applicants; a TSX Venture sandbox, an initiative to better support the listing of unique businesses or transaction structures; and third, to evaluate the potential need for a new and highly differentiated exchange to complement TSX Venture with the goal of providing new categories of early-stage companies, alternative asset classes, and investors with access to public markets. Venture Forward’s commitments are in lockstep with TMX’s corporate purpose across the organization as we’re pursuing new ways to make markets better.

In our equities trading business, earlier this year we announced two new order books on TSX Alpha Exchange, Alpha-X, a visible lit order book, and Alpha DRK, a dark order book. With initial features designed to improve execution quality and provide traders with innovative new functionality, the additional order books establish new platforms for continued innovation and an enhanced overall trading experience and we are on track with this initiative to go live this fall, as planned. Earlier this month we published a consultation paper seeking industry feedback regarding trading of digital assets, including cryptocurrency, on TSX Alpha Exchange. In our view, Canada has an opportunity to be a world leader here in providing a fair and transparent structure for investors to participate in the growth of the digital asset industry but, like all we do, our priority focus is on serving the needs of our clients and stakeholders, so industry feedback will inform TMX’s next step and we will update the market on our plans as appropriate.

In closing today, I’d like to thank all of our partners across the capital markets industry—stakeholders, clients, participants, regulators—for their continued partnership and support.

And with that, let me turn the call over to David.

David Arnold — Chief Financial Officer, TMX Group Limited

Thank you, John, and good morning, everyone.

TMX’s results for the second quarter reflect our continued commitment to invest in long-term growth while managing uncertainty in the macroeconomic environment. It was another excellent quarter with record revenue of $306.2 million, a 7% growth compared with Q2 of last year, as reported. Our operating expenses increased 8% this quarter as we invest to position ourselves for further growth, which I will talk about in more detail shortly. We reported an increase of 6% in our diluted earnings per share this quarter driven by $9.5 million of higher income from operations compared to Q2 of last year, partially offset by a higher income tax expense of $6.3 million due to, in part, higher earnings, coupled with an increase in the UK corporate income tax rate from 19% to 25%, which came into effect on April 1st of this year. Our adjusted diluted earnings per share remains unchanged at a robust $0.38.

Turning now to our businesses, I will start with the segments where we experienced increased revenue this quarter. Revenue in our global solutions, insights and analytics segment grew by 18% this quarter with double-digit growth from both Trayport and TMX Datalinx. Revenue from Trayport was up 24% in Canadian dollars, or 17% in pound sterling, due to a favourable FX impact of $2.9 million. The 17% increase in pound sterling was primarily driven by a 10% increase in trader subscribers in addition to our annual price adjustments and a growth in total subscribers. Revenue in our TMX Datalinx business grew by 13%, driven by increases in data feeds, co-location, enterprise agreement renewals, Datalinx Express true-ups, benchmarks and indices, and the impact of 2022 and early 2023 price adjustments, which we have spoken of in prior quarters. There was also an increase of $1.8 million from the inclusion of Wall Street Horizon's revenue this quarter, along with the favourable FX impact of approximately $1.5 million from a stronger US dollar. The average number of professional market data subscriptions for TSX and TSX Venture products remained unchanged in the quarter compared with last year where subscriptions for the Montreal Exchange grew by 2%. This is the second quarter in succession our TMX Datalinx business has delivered double-digit revenue growth, well in excess of our long-term objective of strong growth, which we have defined as 5 plus %.

Turning to capital formation, revenue was up 10% this quarter, primarily from a 55% increase in TSX Trust revenue reflecting higher net interest income driven by higher balances, higher rates, and above-average corporate actions activity. This increase was partially offset by lower additional listings fees in the quarter due to decreases in both the total number of financings and total financing dollars raised as well as lower initial listings fees. The additional listing fees decrease reflected an 11% decrease in the number of additional listing transactions billed at the maximum listing fee of $250,000 and a 23% decrease in the number of transactions billed below the maximum fee on TSX.

Derivatives trading and clearing revenue, excluding BOX, was up 4% in the quarter, driven by a 3% increase in revenue from the Montreal Exchange and a 6% increase in CDCC. The Montreal Exchange revenue increase reflected an 11% volume increase this quarter compared to the second quarter of last year, along with the positive impact from the pricing changes, which came into effect in January of 2023. This was somewhat offset by an unfavourable product and client mix.

Turning to BOX, BOX revenues decreased 7%, reflecting a lower rate per contract, which more than offset the 23% increase in volumes on BOX in the quarter and the favourable FX impact of approximately $1.2 million on BOX revenue from a stronger US dollar. Of note, BOX's market share in equity options remained flat at 6%. As a result, the entire derivatives trading and clearing segment reported flat results this quarter as the increases in the Montreal Exchange and CDCC were offset by a decrease in reported BOX revenue.

Revenue from our equities and fixed income trading and clearing segment decreased 4% in the quarter compared with the second quarter of last year. This decrease was driven by a 28% decline in the overall volumes of securities traded on our equities marketplaces. Trading volumes on TSX decreased by 28%, TSX Venture Exchange by 22%, and Alpha by 40%. Despite the downturn in volumes, we saw gains in our combined market share this quarter, which was up 1% for TSX and TSX Venture Exchange listed issues. On the fixed income trading side, revenue increased versus Q2 a year ago, reflecting higher activity in swaps partially offset by decreased activity in Government of Canada bonds. Revenue from our CDS business was up 7%, reflecting higher interest income on clearing funds, event management fees, and standby liquidity fees.

Turning now to expenses, as mentioned earlier, operating expenses in the second quarter increased 8% on a reported basis compared to last year. More than half of our increase in expenses is driven by inflationary pressures coupled with higher foreign exchange rates while the remainder is driven by targeted investments we are making in growth areas of our business in order to accelerate our long-term growth. As is evident from our disclosures, we have increased our full-time equivalent employees. These increases are in targeted areas of our business that are driving high growth, most notably Trayport and TSX Trust, in addition to acquisition of Wall Street Horizon. With over two-thirds of our staffing increases in our revenue-generating business, the balance is across our core corporate functions to support our businesses, most notably our global technology solutions team, which accounts for the majority of the remaining one-third.

In addition to increased staffing, we have increased our discretionary investments, driven predominantly by growth investments in our Trayport trust, markets, and derivatives clearing businesses, in addition to lower capitalization of our post-trade modernization project during the slowdown period as we address the industry-wide move to accelerate the move to T+1, as I noted in the first quarter. Given our investments to drive higher growth, both in 2023 and beyond, and lower capitalization for the post-trade modernization project during the slowdown period, our quarterly expenses are expected to hold at the current level for the remainder of the year, consistent with what we had previously communicated. In other words, the best indication of future spend levels is our current run rate. While there may be quarterly fluctuations, I expect our first half expenses to be the best indication of our second half spend levels.

Turning now to our sequential results, revenue increased $7.1 million from the first to second quarter, primarily reflecting higher TSX Trust revenue driven by an increase in net interest income and higher additional listings fees due to an 82% increase in the number of transactions billed at the maximum fee as well as higher Trayport revenue on the back of an increase in subscribers and a number of long-term deal renewals. This was somewhat offset by lower equities and fixed income trading, driven by a 19% decline in the overall volumes of securities traded on our equities marketplaces, as well as lower derivatives trading and clearing revenue, reflecting a 10% decrease in volumes for the Montreal Exchange and CDCC. Operating expenses remained unchanged from Q1 to Q2, much like we intend to do as we head into Q3 and Q4, as I mentioned earlier.

Turning to our balance sheet, in the six months leading up to June 2023 we spent $16.8 million repurchasing 622,090 shares of our common shares under our normal course issuer bid program. Our debt to adjusted EBITDA ratio was 1.9x at the end of the second quarter, down from 2x at the end of the first quarter, and we also held over $470 million in cash and marketable securities, which was about $295 million in excess of the $175 million we target to retain for regulatory and credit facility purposes. Last night our board approved a quarterly dividend of $0.18 per common share payable on August 25th to shareholders of record as of August 11th. This is a 3% increase from our Q1 and follows on the heels of our recent increase in Q4 of 2022. And most notably, this is also our third increase in 18 months. With this increase, we will pay out 47% of our adjusted Q2 earnings per share, which is marginally above the midpoint of our target payout ratio of 40% to 50%. Our consistent growth in earnings and disciplined capital management track record underpins our confidence to continue to generate growing free cash flow and we remain focused on executing our long-term global growth strategy that John referred to to deliver increased value to our shareholders.

With that, I'd like to turn the call back to Amin to initiate our Q&A period.

Amin Mousavian — Vice President, Investor Relations, Treasury & Administration, TMX Group Limited

Thanks, David. Anas, would you please outline the process for the Q&A session?

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star followed by the number one on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press star followed by the number two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment please while we compile the roster.

Your first question will come from Ben Budish with Barclays. Please go ahead.

Ben Budish — Analyst, Barclays

Hi there. Thanks so much for taking the question. Maybe one for David. Just the sequential increase in the trust revenues was a bit higher than we were expecting. I was wondering if you could kind of parse that out a little bit more. I mean you mentioned a couple different factors, you know, more corporate actions, higher rates, higher balances; how did the three of those, like relative to each other, sort of impact the quarter?

David Arnold — Chief Financial Officer, TMX Group Limited

Thanks, Ben. So you're right, Q2 is higher than Q1. That's actually a recurring phenomenon. So typically Q2 we see a little bit more activity than we would see in Q1, Q3, and Q4. So if you look back historically, you will see that.

In addition then, you are right, there are higher rates this quarter and also higher balances and higher corporate actions, but we really don't go into kind of parsing them all out into individual components. That's a disclosure we just have historically not done. So what I would do is look at the Q1 balance for the trust revenue. I would adjust for any rate increases between Q1 and Q2. I'd then also look at a historical kind of Q2 analysis to see what the norm is and then I'd use that as a jumping off point for as you go into Q3.

Ben Budish — Analyst, Barclays

Got it. That’s helpful. And then maybe just kind of one follow up on the same topic, just an update on sort of the cross-selling initiatives between the legacy trust business and AST, you know, progress kind of moving that product upmarket. Where are you in that sort of process?

David Arnold — Chief Financial Officer, TMX Group Limited

That’s a great question too, Ben, and John will probably add in here as well. That’s actually a big reason why we did the AST acquisition was to give us an opportunity to participate in more trust mandates, larger corporate actions, and so you’re seeing the benefits of that in Q2, as you do the analysis, you will see that there’s larger corporate action activity.

John, do you want to add anything?

John McKenzie — Chief Executive Officer, TMX Group Limited

Yeah, I think that’s exactly right. So thank you for the question. I mean our whole investment thesis when we did this was to be able to be able to support a larger base of clients with more diverse needs and you see that lift in Q2 is exactly that kind of result. When you’ve got a larger base of clients and we can support multiple products across that, we can cross-sell, up-sell, or provide additional services like trust mandates, it allows us to participate in more and much larger corporate action activities than we could have in the past. So while, as to David’s point, that step-up in Q2 isn’t necessarily indicative of a run rate and we want to guide you back to kind of what the Q1 plus growth looks like, it is indicative of the broader potential given our larger service base, the services we can provide, the cross-selling opportunities, and the bigger clients that we can serve. So it's exactly as you suggested and it's working very well. You see that in the result.

Ben Budish — Analyst, Barclays

Got it. Thanks so much, guys.

Operator

Your next question comes from Nik Priebe with CIBC Capital Markets. Please go ahead.

Nik Priebe — Analyst, CIBC Capital Markets

Thanks. In the prepared remarks I think you alluded to a partial concentration of staffing growth at Trayport. And I understand your guidance is for flat operating expenditure at the enterprise-wide level for the balance of the year but, as we look out into 2024 and 2025, can you talk a little bit about the prospect of operating leverage at Trayport specifically and the need for incremental headcount additions as the subscriber base continues to grow over the next few years?

David Arnold — Chief Financial Officer, TMX Group Limited

Great question, Nik. So, normal course, we're going to have positive operating leverage in the multi-percentage point kind of gap, but as we obviously go to invest in growth there are periods where, either on a quarter basis or a half year basis, we will see that actually compress a little bit. Our 2024 jumping off point will be 2023. 2023, as you can see, relative to 2022, we are investing in long-term growth. I would expect it to moderate in 2024 and 2025, but that's absent any kind of opportunistic opportunity that we might actually see and take advantage of.

Specifically when you talk about Trayport, I mean one of the things that's important in our Trayport franchise is our Joule Direct platform. Our Joule Direct platform is something that we do feel we can continue to improve and modernize. There's lots of talk about cloud architecture and more agile approach to responding to our clients' needs. So I know our Trayport team are looking very closely at that and doing early-stage investing to actually modernize that platform.

Nik Priebe — Analyst, CIBC Capital Markets

Understood. Okay, very good. And then my second question, just maybe stepping back for a moment, with some of the investments that you've made last year and early this year, Wall Street Horizon and VettaFi as an example, do you expect to upstream any cash flow via dividends from those investments or are those businesses more focused on being in growth mode? I'm just trying to get a sense of what the contribution of some of those businesses might be to cash build over the next year or two.

John McKenzie — Chief Executive Officer, TMX Group Limited

Yeah, it's a totally fair question. So let me separate them, because they are different types of investments. So Wall Street Horizon, we will, in the next quarter, essentially complete our integration of that business and it'll operate as a product line within our Datalinx franchise. So all of the growth in it, and it is a high single/double digit grower as well with the potential to be higher, will accrue into the Datalinx business and the cash flow that goes with that. And then as we execute the rest of the integration there will be some synergy potential in that business as well. So think of that more as a traditional small tuck-in with that cash flow flowing right through the business as we continue to grow it.

The difference around VettaFi, being that we're in the 22% stake, we're 22%, ah, the business itself has some debt financing in it as well, it has the actual amortization of the investments that it has made, and that's why you don't see a full pull through. In the stage right now we would deem it to continue being in that growth mode where it's reinvesting to grow faster. It is a high-growth franchise. We want it to continue to do that. Both Jay and myself participate in the board of VettaFi and that's the ambition that we all collectively have for that business. So in the near term I don't see that as being, as you said, like a dividend producer for us but, as you know, we've got long-term ambitions to continue to build out in the index and analytic spaces and those initiatives, as we build them in partnership with VettaFi, will accrue to cash flow for the organization.

Nik Priebe — Analyst, CIBC Capital Markets

Understood. Okay, that makes sense. That's it for me. Thank you very much.

John McKenzie — Chief Executive Officer, TMX Group Limited

No problem.

Operator

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

Étienne Ricard — Analyst, BMO Capital Markets

Thank you and good morning. I'd like to circle back on the ongoing transition from BAX to CORRA, the Montreal Exchange. So a few questions I guess. First, how is the adoption of the CORRA product comparing to your initial expectations? At what point would you expect volumes to be comparable to what it used to be on the BAX once the transition is completed next year?

John McKenzie — Chief Executive Officer, TMX Group Limited

It's a fantastic question. So actually we're farther ahead than we expected to be at this point given the actual cessation of CDOR isn't around until the middle of next year. So the fact that the average volumes in the CORRA are already 14,000 contracts a day, and I actually think in the last number of months we've been more in the 20,000 to 30,000 range, is a really strong start.

And we are also just in the stage where the actual benchmarking agreements, the normalization and the presentation of the benchmark that CORRA is based on, are getting institutionalized in the street and that's why we mentioned the partnership agreement that we've done with Canada, the mandate, sorry, with CanDeal, the mandate we have collectively taken on from the Bank of Canada to produce that index, to distribute it, to produce [inaudible] and distribute the data around it. So we are still in the early stage of the development, so the fact that we've got that level of volume in the contract is actually very strong.

The expectation is this really gets, when you get closer to cessation, that you'll see these products converge, and so what we've been guiding people in terms of when you look at the volumes in both the CRA contract and the BAX contract, you really look at them in combination, and you will see that volume migrate over time. Right now it's more BAX than CRA and we will expect that to continue to adjust as we get closer to the transition date next year. And that's what's been driving a lot of our short-term results is that return to the trading in both the BAX and the CRA after last year, which, if you remember, was light given the very volatile environment in central bank rates. So that's how I'd guide you on that and we'll continue to monitor it quarter on quarter and keep you up to date.

Étienne Ricard — Analyst, BMO Capital Markets

And will economics be similar?

John McKenzie — Chief Executive Officer, TMX Group Limited

Similar in the long run. So, in the initial stage, as we do our work right now, we do have, like we have with other two year and the five year, we have market making agreements with the CRA product to help build the volume in that business, so in the initial stage, particularly this year/next year, there is a different capture rate on that product. But as we get into normalization and maturity it should look very similar to the BAX product.

Étienne Ricard — Analyst, BMO Capital Markets

Understood. And I guess just switching gears on the Boston Options Exchange, what I find interesting is that US equity option volumes still remain strong relative to pre-pandemic levels. What are your thoughts on the sustainability of volumes seen across the industry and more specifically at BOX?

John McKenzie — Chief Executive Officer, TMX Group Limited

I mean we've got reasonable confidence that they're very sustainable and so, I mean you talk to both volumes and we talk to market share, and David talked about market share a little bit in his remarks that we've been actually very stable in market share, around 6%. In fact, there's some rounding there. We're actually up about half a percentage point year over year in terms of BOX capture, the market. If you look at the historical market for options in the US, this is a market that has historically grown in the mid-teens year after year. Sure, you have some seasonality around that and some cyclicality, but the long-term trend is for strong growth in that market. So we see this as being sustainable and continued growth potential.

The only real change in kind of the year over year is just the mix of business. So, because you've got contracts that will trade at different price points given the volume of some large block trading and the fact that we've got floor trading as well, you see that impact in terms of the revenue year over year despite the fact that our year-to-date volumes are up about 14% in BOX. So I mean we're really happy with the performance of the business, the performance of the team there, and would guide that kind of the revenue capture that you've seen in the first half of the year this year, which was also similar to what it was in kind of the last quarter of last year, is a good indicator going forward, pending any other changes in the mix of what gets traded.

Étienne Ricard — Analyst, BMO Capital Markets

Thank you very much.

Operator

Your next question comes from Jaeme Gloyn with National Bank Financial. Please go ahead.

Jaeme Gloyn — Analyst, National Bank Financial

Thanks. Good morning. Just wanted to just dig in on a couple of items from the previous questions. Just first on the trust, TSX Trust, understood that Q2 is seasonally higher. Was there anything else in Q2? Like was there unusually higher corporate actions in this quarter relative to a normal quarter? Or would you look at Q2 2024 as looking pretty similar?

John McKenzie — Chief Executive Officer, TMX Group Limited

So I've got to be careful in my guidance here, because I don't want to disclose anything related to specific clients. I would say that it was unusually higher in terms of corporate actions, but also larger, so some very large corporate actions that would be not the type that happen every single quarter. So I wouldn't give you a year-over-year commentary there, because it really depends on client activity and the corporate actions they are pursuing and the size of them.

Jaeme Gloyn — Analyst, National Bank Financial

Right. Okay. Understood on that front. And then over to VettaFi, the question was on cash flow, and I think it's somewhat tied to it, but thinking about profitability and how that flows into equity income for TMX, obviously the M&A activity and the growth mode is stripping out the opportunity to deliver that to TMX, so would you similar [inaudible] on that front? Is that kind of the same theme?

David Arnold — Chief Financial Officer, TMX Group Limited

So why don't I go first, Jaeme, and John could talk a little bit about the business. I think part of the dynamic, right, is that we pick it up as an income from associate, if you will. We own 22% of the business. So in a quarter or a period, a reporting period, whether it be a six month or a year, where VettaFi does very little M&A activity, we're picking up a net income number that is pretty much the sustainable. But where they have a quarter where they're making lots of acquisitions, they've got a number of integration and transition costs let's say, as well as to the extent that they're amortizing intangibles, if we owned 100% of the business we would actually adjust for those and you would have full transparency, but because we don't consolidate them, because we only have a 22% stake, the accounting rules are pretty clear, we pick up our share of the net income. So, as John and I have indicated in previous calls when we've spoken of the investment, that's causing it to be somewhat muted. But these are all investments for growth. So we are not in this for the equity income pickup at the 22% level. It's driven by our partnership agreement to create indices and benchmarks in Canada, and we have a desire to own more of the business, to the extent it becomes available. So that's why you're not seeing it in the financial results and it doesn't really drive the cash flow.

But John, you've got some business context too?

John McKenzie — Chief Executive Officer, TMX Group Limited

Yeah, the only other piece I'd add to it is, to give you more context, that the performance of the business first half of the year, kind of the EBITDA-type margins are in line with what you would expect our GSIA franchise to look like. So the performance is as we would expect and as you would want to see. But as David said, the accounting of it, because it's not a wholly-owned sub, because we need to take in the amortization, the debt financing that’s in there, those types of things, is what mutes it. But I can confirm that that’s the kind of return we’re seeing.

Jaeme Gloyn — Analyst, National Bank Financial

Okay. That’s good. Maybe last one for me, just on the Venture Forward and discussions around a potential new exchange within the TMX family here. Is that something that you would expect to see compete with the CSE, which is starting to see a little bit of market share gains, or is this something completely new to the Canadian market?

John McKenzie — Chief Executive Officer, TMX Group Limited

So I’m going to take the latter part of your statement first and just correct the record, because we’ve actually seen this year particularly substantial up-list activity from CSE on to both the Venture Exchange and the senior market, and if you look at some of the commentary from some of the companies that have moved over, extremely strong in terms of the CEOs and the listing experience they’ve had and the access to capital they get with our markets.

What we’re thinking about in terms of net new market is we have heard, I mean part of our strategy is how do we bring public market capabilities to a broader issuer base and how do you support companies that are otherwise private today, so not just looking at other competitive exchanges, but companies that trade privately, new types of structures, tokenization, different types of assets. And we do have a little known marketplace actually within our structure called NEX, it actually fits below the Venture Exchange, and it’s a marketplace that we generally use to kind of capture shell companies, restarts, repurpose vehicles, things like that. And so as we explore, we're looking at is that the right vehicle for providing more access to capital for a different type of companies or is a replacement or augmentation to that the right way to go, where if we brought out a new model structure with more of an open concept, more digital-oriented in terms of how it facilitates, can we support a broader base of issuers that are looking to raise capital and trade.

So it's really more from that landscape of how do we expand the universe of companies we can support than how do we compete down market, is the way I would suggest it to you. And we're really in the process now of that next stage of consultation with the industry of what could it look like, what would be the problems that we're solving. But the fact that it's in there came directly from the guidance that we got from the street, which there are issuers that could raise capital but the current model, both in ours and other marketplaces, doesn't support the needs they've got and another model could do it. So that's the way I would think about it and we will continue to update as we go forward.

Jaeme Gloyn — Analyst, National Bank Financial

Thank you.

Operator

Your next question comes from Graham Ryding with TD Securities. Please go ahead.

Graham Ryding — Analyst, TD Securities

Good morning. Very strong quarter with your margin income, so you're benefiting from the higher rates right now. If we start to look forward into 2024, 2025 when rates could be coming down, I expect there to be a natural offset in that sort of scenario where your margin income might come down a bit but you would expect to see higher activity in additional listings and IPOs. Is that a natural sort of offset that you expect in your business?

John McKenzie — Chief Executive Officer, TMX Group Limited

You've got it exactly right. So, if we saw a normalization in rates, we do expect to see that activity will pick up. Now I will give you the touch point. We are seeing, you know, although we're still muted very much year over year, we are seeing additional listing activities start to accelerate in the second quarter. So the actual transaction activity, the number of transactions you're seeing in Venture is now up. It's actually now up on the year as well. The number of transactions that are happening on TSX is accelerating from where we were in terms of a very low position at the beginning of the year. These transactions generally are smaller in size, but it's companies testing the marketplace.

So in normal conditions I'd say yes, as rates come down, that financing activity, certainty, values in the marketplace can tend to appreciate, but it doesn't have to happen in terms of rates coming down for us to see a resurgence in capital raising activity. We are now, call it, kind of 12 months into a tighter period. You will have balance sheet rebuilding needs in companies, you will have companies that have been on the sidelines in terms of expansion opportunities, companies that raised money in kind of 2021 that are going to need to re-raise, and so kind of any period we've had in the past of this kind of pullback in capital raising activity, 12 to 24 months later you start to see very strong resurgence. So that's exactly what we're actually anticipating regardless of whether or not we see a reduction in the rate regime in the near term. And we certainly have, both anecdotally from other bankers that we talk to but from our own folks that are working on the pipeline, we know there are substantial companies that are ready to access the capital markets when they see those conditions normalize. So it's actually less about the rates coming down and more around confidence and valuation on the equity markets that's going to support the capital raising piece. But a lower rate regime does often help with valuations on the equity market.

Graham Ryding — Analyst, TD Securities

Okay. Understood. Maybe just an update on Trayport. Just on the expansion into the US, is there any colour on that initiative and is it impacting in a material way yet or is it still in that early days build-out phase?

John McKenzie — Chief Executive Officer, TMX Group Limited

It's still in a build-out phase, but with material progress. So we actually updated the board yesterday and Peter and team give a full deep dive to our board in terms of how Trayport was progressing. Run rates for our revenue out of the US are now more in the four million pound range, so again that's another lift from where we were last year. But really the exciting piece is actually in client adoption. We've got multiple brokers that are connected to the platform now. We've got multiple hedge funds that are connected to the platform now. Now in any kind of adoption curve, those brokers are largely using Trayport in what I call a white board capacity. So they're using the Trayport technology, but they're using it more internally in their own shops. As they get more comfortable with it and the willingness to then post those prices more publicly, then we can actually then bring more traders into the community as well and build the network out, as we've done in Europe. So that's kind of the building block piece. We build it with the clients in it, they start to use it in their shops, and then as they expose their prices to a broader audience we can actually bring more traders into the community as well. So, really happy with the progress that the team is making in terms of bringing new clients in and getting them using the platform.

Graham Ryding — Analyst, TD Securities

Okay, great. And then my last question is just on VettaFi and the idea of partnering with them to create new [inaudible] there. Any update there or is it still too early on that strategic front?

John McKenzie — Chief Executive Officer, TMX Group Limited

I mean it's early to give updates on actually where we've actually delivered results, because we're only a few months into it, but it's not too early in terms of the progress of the initiatives we're pursuing. So we're already actively engaged together with which VettaFi products we can actually bring to the Canadian marketplace, where we can do joint data distribution. VettaFi has got some very interesting digital distribution capabilities, so we're looking at how we use those capabilities jointly to expand both of our product suites. And we have a suite of index products under consideration based on both Canadian and global data sets that we could build new indices with VettaFi. So the workflow is there. And in terms of around the actual output, that will come shortly. I mean at this point though we also have, as I mentioned, kind of distributing VettaFi product, we've got 20 of the flagship indices now available on the TMX Webstore for the broader TMX audience. So we are getting that leverage of the business, but in terms of it delivering in terms of dollar results in the franchise, it is very early days still.

Graham Ryding — Analyst, TD Securities

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

Operator

Your follow-up question comes from Jaeme. Please go ahead.

Jaeme Gloyn — Analyst, National Bank Financial

Yeah, it was just a real quick one here in terms of the dividend increase this quarter, timing kind of a little bit different than what we've seen recently. Is there anything that we should think about from a timing perspective, getting more regular every two quarters, or is this something that maybe, ah, have you thought through in terms of how you think about dividend increases?

John McKenzie — Chief Executive Officer, TMX Group Limited

Jaeme, if you're saying that we've got you baffled on timing, then we've hit our objective. We're not looking to be programmatic like a bank that's delivering every two quarters. We really look at conditions, where we are in our payout ratio. This is earlier than we went last time but also coming on the back of our five-for-one split. This helps us to bring it to more of a round dividend number and in line with the payout objectives that we've been targeting. So I believe, David, it puts us kind of at the high end of our 40% to 50% range. And you should take the signal of confidence of our continued ability to grow the franchise and grow the free cash flow that can support continued growth in the dividend. So we're not going to anchor in on specific timing. We will continue to anchor in on the payout ratio and the growth with the overall franchise.

Jaeme Gloyn — Analyst, National Bank Financial

Got it. Thank you.

Operator

Thank you, Jaeme. There are no further questions at this time. I will turn the conference back to Amin for closing remarks.

Amin Mousavian — Vice President, Investor Relations, Treasury & Administration, TMX Group Limited

Thank you, everyone, for listening in today and we look forward to connecting with you throughout the remainder of this year, as we make progress on our strategic priorities. 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

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