TMX Group Limited Q1 2025 Financial Results Conference Call

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TMX Group Participants

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John McKenzie
Chief Executive Officer

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Michael (Operator):

Welcome to the TMX Group Limited first quarter 2025 results conference call. As a reminder, all participants are in listen-only mode, and the conference is being recorded. Following prepared remarks, there will be an opportunity for analysts to ask questions. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an operator by pressing star, then zero. I would now like to turn the conference over to Amin Mousavian, Vice President of Investor Relations and Treasury and Interim Chief Risk Officer. Please go ahead.

Amin Mousavian:

Thank you, Michael, and good morning everyone. Thanks for joining us today to discuss the 2025 first quarter results for TMX Group. We announced our results for an outstanding quarter highlighted by another record revenue performance last night. Copies of our press release and MD&A are available on TMX.com under Investor Relations. This morning we have with us John McKenzie, our Chief Executive Officer and David Arnold, our Chief Financial Officer. Following the opening remarks, we'll have a question and answer session.

Before we begin, let's cover our forward-looking legal disclosure. Certain statements made during this call may relate to future events and expectations and constitute forward-looking information within the meaning of the Canadian securities law. Actual results may differ materially from these expectations, and additional information is contained in our press release and periodic reports that we have filed with the regulatory authorities. Now I will turn the call over to John.

John McKenzie:

Well, thanks Amin, and good morning everyone. Thank you all for joining us on our call today on what is very much a busy week here at TMX. So as many of you know already, and you've read through the documents by now, we announced our outstanding Q1 results last night. This afternoon we are hosting our annual shareholder meeting here in our Market Centre in Toronto, and tomorrow marks the 21st edition of our annual Equities Trading Conference. Now, this morning I'm going to focus my comments on providing an overview and insights into our performance from that enterprise perspective, highlighting those areas of strength as well as areas where challenges continue to exist. And I want to update you on important progress we have made in executing our strategy and bringing our purpose to life in some exciting ways this year. Now, it does feel like 2025 just got here, but we really hit the ground running, and TMX has delivered excellent Q1 results with outstanding year-over-year growth in revenue and adjusted earnings per share.

And while we are immensely proud of our recent success and the bold steps forward we have taken this year to position TMX for future success, we recognize the gravity of the challenges faced by a broad set of our stakeholders, both in Canada and around the world in these uncertain times. Now, as much as ever, our industry needs a strong TMX, an innovative and adaptive, responsive and resilient enterprise committed to serving their needs, enabling their success.

Now, turning to our results for the first three months of this year, overall revenue increased 21% compared to Q1 of 2024 and to a new record quarter. Revenue growth included increases across the enterprise from traditional businesses and new growth areas as well as transactional and recurring sources. Organic revenue, excluding Newsfile, iNDEX Research and the bond indices that we acquired in February, increased 19%, and adjusted diluted earnings per share increased by 26% from the first quarter of 2024.

Now, total expenses increased compared to last year as well, reflecting the inclusion of operating expenses related to recent acquisitions and strategic realignment. The year-over-year increase in expenses also reflected higher costs related to our employee performance incentive plan, driven by the increase in our share price and higher headcount and payroll costs, which David will take a closer look at later on in his remarks to follow.

Now, moving on to the highlights of Q1 across our business areas. Trading activity on our traditional derivatives and equity markets increased significantly year-over-year as investors reacted to tariff announcements from the U.S. and prevailing economic and interest rate uncertainty. Record MX volumes led by strong activity across the equity and interest rate derivative segments, ETF options and Government of Canada Bond futures drove a 42% year-over-year increase in derivative trading and clearing revenue, excluding BOX. On the equity side, Q1 revenues from equity and fixed income trading increased 24% over Q1 of 2024, largely due to an 18% year-over-year increase in combined volumes on TSX, TSX Venture and Alpha. The first quarter also featured impressive performance from our new U.S. equity trading venue, an ATS, which we've named AlphaX US, which launched in January. Now, focused on innovation, execution quality and partnership, AlphaX US has been well received by participants in the United States and the average daily volume has grown each month since launch.

Now, overall revenue from Global Insights, which we formally call GSIA, was 14% higher in Q1 of 2025, highlighted by double-digit increases from TMX Zedify and TMX Trayport. From an enterprise view, both TMX Trayport and TMX Zedify represent key components of TMX strategy to diversify, globalize and increased the portion of our revenues that's derived from recurring sources. They also share an innovative and competitive entrepreneurial spirit, all important accelerants to this growth. Q1 revenue from Trayport grew 20% compared to last year, or 13% in pound sterling, largely due to an increase in licensees. Our core Joule network provides an essential connection point with a dynamic suite of insights, tools and capabilities at the center of the global energy markets ecosystem. TMX Zedify Q1 revenues increased 21% year over year, or 13% in U.S. dollars. Increased revenue was driven by organic growth in assets under management and higher analytics revenue as well as revenue from recent acquisitions of iNDEX Research and our bond indices.

Now moving forward, our Global Insights division continues to seek out strategic opportunities to expand product offerings and create innovative client solutions across new asset classes and geographies. Now, turning to capital formation. Revenue increased 10% when compared to Q1 2024 due to the inclusion of revenue from Newsfile and higher revenue from additional listing fees. Now, despite continued challenging capital raising conditions, we are seeing some encouraging signs of recovery, specifically in the mining sector with renewed financing activity on TSX and TSX Venture and the continued growth of Canada's ETF industry, which set an all-time record for monthly fund inflows in March.

And now beyond listings, revenue from TMX Corporate Solutions, which we formerly called other issuer services, increased 18% year over year, largely due to the inclusion of Newsfile. And Newsfile had a very strong start to the year, adding nearly twice the number of new public company Newswire clients in the first quarter compared to the same period last year. TSX Trust also reached a milestone in their evolution in March, surpassing our largest competitor to become Canada's leading transfer agent by market share. So congratulations to our great people at TSX Trust for this tremendous accomplishment.

And I'd like to turn now to another tremendous accomplishment and a landmark achievement that has been years in the making. Last week marked the successful launch of our Post-trade Modernization Platform, or PTM. This implementation represents a major upgrade in overhaul of CDS' foundational technology providing essential functions including clearing and settlement, as well as depository and entitlement payments. This initiative, one of the larger projects we have ever undertaken, brings a world-class, end-end solution to Canada's markets and sets a new global benchmark for building agile, leading edge capital markets infrastructure. The PTM initiative also stands as an impressive feat of collaboration, and I'd like to express my gratitude to all of our client participants and regulators for partnering with us on this journey and to our technology provider, TCS Banks. Now collectively, we have implemented the broadest scale system of this kind ever on a single platform.

And like any complex, large-scale technology project, we've experienced an interesting range of challenges along the way, including the COVID-19 pandemic and the industry transition to T+1. And we expect to see continued challenges flare up, areas to adjust, things we need to improve on as we move further along towards the deployment of our full capabilities. And so with that, I'd like to thank our participants, not just for their partnership, but for their patience. Infrastructure headlines might not generate the most clicks these days, but this new platform is mission critical. It's a system for every financial institution in Canada. It pushes us to the head of the pack of our global peers and enables further growth, powering new services like the recently introduced CCMS, or Canadian Collateral Management System and SGC Notes. And my special thanks goes out to our clearing and technology teams for pushing this project across the line. We all know that it has been many late nights, weekends, but it's your dedication and perseverance that has been nothing short of inspirational on this journey.

Now, as we celebrate the successful implementation of the transformative platform, I also want to acknowledge that the partnership of Jay Rajarathinam who recently made the decision to move on from TMX. Jay joined us in 2016 as our chief information officer and his portfolio has continued to grow to include post-trade businesses and then TMX Datalinx, corporate strategy and TMX Zedify. Jay led our technology team in supporting new products and integration initiatives, including integral work on PTM and creating a modern and client-centric approach to resiliency. And I'd like to wish him every best success in his future endeavors.

Now, during last year's Investor Day, we took a deep dive into our long-term strategy and outlined TM2X, our plans to accelerate the growth of the enterprise. And at the end of Q1, we took more steps to ensure we had the pieces in place to further enable a propulsive execution mindset, realigning the organization with expanded leadership mandates across operations and corporate functions. Peter Conroy, who you've come to know as the CEO of Trayport, has been appointed CEO of Global Insights. In his expanded mandate, Peter receives TMX Trayport, TMX Zedify, and TMX Datalinx. In the role of CFO, David Arnold, who you'll hear from in a few moments, has also expanded to include full oversight of strategy and corporate development in addition to leading the finance function as well as enterprise risk management, innovation and integration.

And on April 1st, we welcomed Judy Dinn to TMX. Judy is Chief Information Officer and the newest member of our senior management team. She's responsible for the strategic leadership and guidance of all aspects of technology at TMX and helping to drive the ongoing evolution and execution of the TMX corporate strategy. Judy most recently served as a CIO of the US Bank TD and she brings more than 20 years of experience as a technology executive in financial service industry into her new role, including leadership roles at RBC, CIBC and BMO. And I'm really excited about what these leadership appointments and expanded mandates mean for TMX and our overall team. Judy's track record of technology leadership and innovation, Peter's proven success in delivering for clients and leading growth, and David's opportunistic and disciplined approach to strategy, these are winning attributes and I feel very strongly that our leadership is in good hands.

And next, I'd like to briefly update another important enterprise initiative, our capital markets advocacy efforts. Now, our markets have proven resilient, resilient through all measure and manner of crisis over time, macroeconomic, geopolitical or otherwise, from the credit crisis right through the COVID-19 pandemic. And this year the weight of prevailing uncertainty hangs over all of our markets due the unpredictability of global tariffs. Now, on the heels of our federal election here in Canada, TMX continues to advocate on behalf of our interests in our market and our stakeholders. In March, we published a six-point platform outlining specific steps that the Canadian government can take to ensure our country is seen through the world as a great place to invest and do business.

And while election campaign platforms promise some of the right things and some of the same things that we've asked for, campaign promises are just promises, and we need to see follow-through and consistency from the new federal government on measures to create an investment-friendly environment. These include tax reforms to incentivize companies to invest in growth and innovation and regulatory reforms to bring certainty to the market, to increase confidence that large projects can get done here and enable Canada to compete for global capital. And we have made real progress, and the push continues. TMX's advocacy is an always-on campaign and keeping with our history at the center of the country's capital markets and with our responsibility to our stakeholders.

In closing, and as always, I want to thank our people across the country here in Canada and also in the U.K., Germany, Austria, Australia, Singapore, Israel, Brazil and the U.S. for your essential contributions to TMX's success. Through all market conditions, our team around the world is unified in this purpose and this shared commitment to making markets better and empowering bold ideas is TMX's sharpest competitive edge. Our recent performance, including Q1 results, are impressive. But what we're most proud of is the standard of excellence our team has set in every reporting period in serving our markets and our clients. And together we look forward to the opportunities and the challenges ahead. So with that, David, let me pass the call over to you.

David Arnold:

Thank you, John, and good morning everyone. I'm pleased to report that the TMX group has delivered exceptional financial results for the first quarter of 2025, demonstrating the strength of our diversified business model and successful execution of our global growth strategy. Since John covered the highlights of a year-over-year revenue performance, I will begin with the review of our sequential results. We maintained strong momentum from Q4 of 2024 into the first quarter of 2025. Enterprise-wide revenue showed continued growth reaching a record of 419.1 million, building on the positive trajectory established in the previous quarter. Revenue increased 25.8 million, or 7%, from the fourth quarter, reflecting revenue increases from derivatives, trading and clearing, as well as equities and fixed income trading and clearing driven by stronger trading volumes. Revenue growth in our Global Insight segment was fueled by organic growth across TMX Trayport, TMX Datalinx and TMX Zedify, including the Q1 annual Exchange Conference. Partially offset by lower capital formation revenue reflecting lower net interest income revenue from both lower rates and lower balances compared with Q4.

Now turning to our expenses, as I've stated on a number of occasions, our entire team is focused on generating positive operating leverage, and as such, quarter to quarter nominal expense increases are always managed, budgeted and analyzed with this in mind. Operating expenses in Q1 increased 25.6 million, or 12%, on a reported basis from Q4, which included a 2% increase from strategic realignment expenses we incurred in the first quarter following our organizational changes and the successful completion of our post-trade modernization project last week. We expect to incur additional strategic realignment expenses in the second quarter as we roll out the organizational changes and decommission our legacy post-trade systems.

Now excluding strategic realignment, operating expenses increased 10% from Q4 driven by the following: a 4% increase related to TMX Zedify's annual exchange conference that typically occurs in Q1 of each year; a 3% increase in payroll taxes, which is typical in the first quarter, driven by the annual reset and bonus payments; and finally, a 3% increase related to high employee performance incentive plan costs. So after factoring in these items, our costs are in essence flat to Q4. As I mentioned earlier, John covered the highlights of our year-over-year revenue performance, so I will take a closer look at our results compared with the prior year and will focus my remarks on our expenses.

On a reported basis, our operating expenses increased by 16% in Q1, which fueled our 21% revenue growth John spoke of earlier. We delivered mid-single digit positive operating leverage while continuing to invest in our future growth. So the increase in reported expenses included the following items: first, we incurred 8.5 million of additional expenses related to new acquisitions, namely 3.9 million of operating expenses related to Newsfile, iNDEX Research and bond indices; 3.6 million accrual of deferred and contingent payments related to Newsfile and iNDEX Research; and finally, one million of higher amortization related to acquired intangibles. Second, we incurred 4.6 million related to strategic realignment expenses in Q1 of this year. And in closing, partially offsetting these increases were approximately 6.6 million of lower acquisition and integration costs when compared with Q1 a year ago.

So, excluding these items, our operating expenses increased by approximately 14% on a comparable basis year over year, primarily reflecting two market-driven components. First, 5% from higher employee incentive plan costs, mainly driven by a higher share price. Second 3% attributable to the FX impact of a stronger U.S. dollar and pound sterling. Now, the remaining 6% is driven by merit increases as well as higher headcount in TMX Trayport and our post-trade businesses, which accounts for 3%; a 2% increase in IT operating costs, reflecting higher usage and subscription fees in the first quarter compared to last year; and then finally, the balance relates to increased legal and consulting fees, increased travel costs and directors fees, which if you do the math, equates to roughly 1%.

Moving now to our reported diluted earnings per share. Recall in our Q1 results from last year, we recorded a gain related to the fair value re-measurement of our previously held minority interest in Zedify, and as a result, our reported Q1 2025 diluted earnings per share is down when compared to Q1 of 2024. Now, a more meaningful comparison of our adjusted diluted earnings per share reveals an increase of 26% from 38 cents in Q1 last year to 48 cents in Q1 of this year, which reflects a 28% increase in income from operations and lower net financing costs. Now on the balance sheet front, a debt to adjusted EBITDA ratio for March 31st was 2.5 times, down approximately 1.1 turns compared to last year following the close of our acquisition of Zedify and are now back within our target leverage range of one and a half to two and a half times. On March 3rd, Morningstar DBRS revised our credit rating trend from negative to stable, while maintaining our long-term issuer rating at AA (low) and commercial paper rating of R-1 (middle).

As of March 31st, we also held over 361 million in cash and marketable securities, which is more than 155 million in excess of the approximately 206 million we target to retain for regulatory purposes. Net of excess cash, our leverage was 2.3 times, which is 0.9 times lower compared with last year. Lastly, I'm pleased to announce that last night our board approved a quarterly dividend of 20 cents per common share payable on June 6th to shareholders of record as of May 23rd. This represents a dividend payout ratio of 42% in the first quarter, and our last 12 months payout ratio was 43%, which is within our target payout ratio of 40 to 50%.

TMX Group's performance for Q1 2025 demonstrates the results and effectiveness of our strategic initiatives, our ability to capitalize on market opportunities and our commitment to operate efficiently. Our diversified revenue streams, highlighted by 21% year-over-year revenue growth, significantly outpacing expense growth, coupled with the successful completion of the post-trade modernization project and the successful launch of AlphaX US position us well for sustained growth. I remain confident in our ability to continue delivering value to our shareholders. So with that, I'll now turn the call back to Amin to moderate the Q&A period.

Amin Mousavian:

Thank you, David. Michael, would you please outline the process for the Q&A session?

Michael (Operator):

We will now begin the analyst question and answer session. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We ask that analysts limit themselves to two questions and then re-queue for any additional follow-ups. The first question comes from Etienne Ricard with BMO Capital Markets. Please go ahead.

Etienne Ricard:

Thank you, and good morning team. So trading volumes across derivatives increased meaningfully in Q1. I know it's tough to break down, but how much of the recent increase would you estimate is market-driven as opposed to a structural increase in the adoption of Canadian derivatives?

John McKenzie:

I probably think the best way to think about that is if you look at where we were from... I'm sorry, and good morning. If you look where we were from a trading activity actually Q4 to Q1 as opposed to year over year, you get a better sense of what some of the long-term growth in trading activity had been versus the pieces that were more market volatility related. And you can start to break it down that way. Unfortunately there isn't a way to cleanly break it down, but we are seeing long-term growth in that business regardless, despite the piece that's driven by that volatility in the first quarter.

Etienne Ricard:

And John, with the upgrade of the post-trade systems now completed, how do you expect this initiative to impact the attractiveness of Canadian equity markets, and is there an uplift to trading volumes that could come as a result?

John McKenzie:

I wouldn't want to predict an uplift to trading volumes, but what it really does is it really streams line all the back-office processing for the Street. So it's going to make it easier to connect to Canadian markets. The systems, the capabilities are using more of global standard and that makes it easier for foreign organizations to operate in the Canadian marketplace. And so all that streamlines, it will eventually reduce costs in the system, make the marketplace more efficient, but even more important is to provide a platform that allows us to provide additional capabilities and services to the Street, which candidly, that was very difficult to do on a legacy mainframe platform.

So even look at the ones I talked about in my remarks, the CCMS system, the SGC Notes product, we were able to launch those, but to really get uptake and have the industry really be able to use them and solve their own problems, it needed this architecture. So that's what's going to be the upside is that enabling architecture to allow us to provide more products and services that the Street is looking for. And if you remember from our Investor Day conference, the dialogue that David and I had, we are positioning the post-trade business to be an area where we can actually be an upside growth area and actually bring new products and services. So this is the enabling platform to do that.

Etienne Ricard:

And one last, if I may. Given the recent changes to the organization, how should we now think about the leadership structure across your Global Insights businesses and specifically at Trayport?

John McKenzie:

The way to think about it is, what we've really done, and this is part of thoughts in the making for a while, is putting all of our Insights businesses under one umbrella is going to allow us to accelerate the synergies between them. And by synergy I mean how do we use some of the great sales methodologies and approaches that we've been using in Trayport, apply it across multiple businesses, take more of an enterprise approach in terms of both building products and solutions, looking for opportunities of data in one part of the franchise to create products in others. So it's really taking the best of the successes we've had in those various businesses and our combined leadership team. And Peter will be building out a leadership team around him to support all those businesses as we move forward.

Etienne Ricard:

Thank you very much.

Michael (Operator):

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

Aravinda Galappatthige:

Good morning. Thanks for taking my question and congrats on the quarter. Obviously, just going back into the derivative segment, which was obviously outstanding, John, maybe can you talk to how we should think about the components that drive long-term growth here? I think you've discussed quite a lot in the past about how the bond futures, as they come off rebates, can add to that growth momentum. But outside of that, what are the other components we can think about as we look to assess what that growth rate could be over the next two, three, four years? Maybe also touching on the equity options and the ETF side of things as well, what's the traction you're seeing there including retail participation?

John McKenzie:

Those are all really good questions, so I like to be able to do that and disaggregate what's going on from just the market activity. So you've got it exactly right. What we're seeing is a number of our products that are still moving up what I'll call the maturity curve. And so the number of products that we've launched in recent years, like the two, like the five, like the 30-year fixed income futures, the relaunch of CORRA, they are still not at full maturity. So when you look at the trading activity of those compared to a long-established product like the 10-year, you can start to see the area of opportunity in terms of growing into that mix. The more these products grow and the more liquidity they have in them, the more we can use them for... Well, the more the clients can use them for executing strategies that go across multiple tenures where you'll maybe go short a period and long in another. And so there's more that the industry can do with it as we build the suite out. So there's a lot of adoption to go.

The underlying industry itself is a long-term double-digit growth industry from a volume standpoint. So you've got that natural growth piece, you've got increased adoption, and as they get more liquid, they also become more usable in the global context for getting that exposure to the Canadian marketplace. So you think about our international program, our after-hours trading, that's actually still a limited portion of our actual growth because our revenue has grown so much it has had to grow pretty fast just to keep up and it's still about 5% of that mix. So it's still got a lot of room to grow as well as we get more international participation. Then you talked about some of the specific product areas that have, again, substantial upside. So things like ETF options, that's an area we're seeing continued growth not just from the retail adoption that you talked about, but also from institutional adoption that's using it in their products. And we've recently launched new options on other structured products like CDRs as well.

So the team is continuing working on a product roadmap of bringing new ideas. They're not ideas that just come from us, they're all ideas that come from engagement with the clients. So those pieces I just talked about with the option expansion, all driven by client discussion and we're constantly engaged with clients as to what's coming next. So it's not about throwing spaghetti at the wall and we're going to see what sticks. It's all based on what the clients are looking for so that we know, if we're launching a product, there's going to be liquidity in it from the days. So those are the themes that are going to keep that long-term growth rate up, continued maturation of the products we've already launched, continued global usage of the products by a large swath of institutional traders and continued roadmap of adding new product that meets client needs.

Aravinda Galappatthige:

Thanks John, that's really helpful. And then my second and last question, considering the market volatility we've seen and your currency is getting stronger, your balance sheet is getting better, maybe just update us on the M&A landscape. Are you perhaps seeing more reasonable valuation in terms of ask that would make incremental more sizable M&A reality? I just thought I'd revisit that. Thank you.

David Arnold:

It's a great question, Aravinda. And it's David and good morning. Yeah, we are seeing that. Obviously, as you know, our first focus is really delevering TMX group, and as I mentioned, we're now inside our normal course leverage ratio. Obviously we've got significant capacity for acquisitions and the focus has always been the same, is acquisitions that accelerate our strategy or what excite us and it really is always anchored on the strategy. So I am seeing a little bit of price discovery in a couple of files that are piquing our interest. They're also, as we are coming through what can only be considered as a somewhat volatile first quarter on a macroeconomic stage, I think time will tell how things will transact in the second and third quarter of this year, but there are some early signs that some interesting businesses that we've had our eyes on might be coming to market.

And obviously, we'll take a good hard look. And as always it'll boil down to our discipline in terms of acquisitions that are accretive, valuations that make sense and really then what can we do and how can we use the TMX superpower of our network effect to better integrate and better run the operations of whatever's acquired? So I'm cautiously optimistic for the second, third and fourth quarter of the year.

Aravinda Galappatthige:

Thanks, David. I'll pass the line.

Michael (Operator):

And your next question comes from Benjamin Budish with Barclays. Please go ahead.

Chris O'Brien:

Hey, this is Chris O'Brien on for Ben. I wanted to touch on Trayport. It looks like ARR continues to grow nicely and there's been a nice jump in revenue retention in Q1. So I was just wondering if there's anything to call out in terms of the jump in retention and if there's anything else that's driving the strength.

David Arnold:

Hi, it's Chris. Chris is on the line. Okay, Chris. Hi, it's David. Really, it's two things. It's continued momentum on our annual renewals that do come due. So as I've mentioned in prior calls with Brian that we've effectively got a portion of our client base in Trayport that have site licenses that are effectively three or four or five year deals. So in any given point in time, some of those will come due for renewal on their anniversary. And during that process we're really focused on deepening our relationship with the client. And so, in many instances, that's what you see driving as you look at any snapshot depending on which client agreements come due for renewal and then our ability to actually provide them additional services. And that drives the increase in ARR.

But there's also the natural expansion as we add new clients and we continue to do that at Trayport. And then the other part that drives the ARR is existing clients actually deepening the number of licenses that they actually contract with us. And then you couple that obviously with, as we've said both at our Investor Day and our previous calls, we continue to do product expansion at Trayport into other asset classes, and then obviously the work we're doing in other geographies. So you put that all in and that's why you're seeing a nice steady uptick in both retention and ARR.

Chris O'Brien:

Great, thank you so much. And I guess just another question. I was looking into on the trust business, it sounds like you're taking more share and you passed your next biggest competitor for share. And typically I know you see a step-up in Q2 with activity, but I guess in the short term, how do we think about the step-up given the increased share that you've been taking? And then on the longer term opportunity there, how much more runway is there to go given how much share you've taken so far?

David Arnold:

So let me start, Chris, And then I'll hand it over to John really to talk about the longer term growth strategy. But you're right, when you look at Q2 for the Trust business, we do have a large portion of our clients that have December 31 year ends. So Q2 typically is when they hold their annual shareholder meetings. And as a result, you really see two things occurring in the second quarter, a little bit more revenue relative to other quarters as it relates to those services. But then we also have some increased variable costs that you will see in the second quarter as it relates to that business. Still healthy, positive operating margins and leverage, but those are really the two variables you will see typically in the second quarter. As you've seen in our long-term growth objectives, we intend to grow this business in high single to double digits. And so maybe I'll pause then and hand it to John to talk about some of the growth factors.

John McKenzie:

I'm happy to. And this continues to be a business that we're really excited about and that's actually why we've taken the step of taking all these businesses that we have in the theme of beyond listings into one set of corporate solutions. It allows us to take a strategy of going to market where we can actually bring multiple solutions to an issuer. And that's actually a public issuer or someone who's still actually private and raising capital in private market. So we did talk about the fact that we're now number one in terms of transfer agency, but that's only one part of the franchise. One of the big pieces that was driving some of the revenue growth in both the first quarter and candidly in Q2 of last year, I'm going to come back to that in a second, was that we're winning more and more corporate action mandates.

These are trust mandates, and so the more we build out the client base, the more we can win trust mandates. These are often driven by corporate actions so they can be lumpier, they're harder to predict, but the value add and where I see that long-term growth is our team is continuing to win these mandates more and more frequently. So we can't always predict them because it is corporate actions that are initiated by a client, but if we are a leading provider and we can win them more and more, you start to see that become more of our base going forward. Now, in Q2 last year, that's why I referenced it, we actually had some large corporate action activity that contributed to some of the upside revenue in that quarter as well and I can't always predict what's going forward.

The other pieces with that is, all these other services are not at the level of market penetration that we are in a transfer agency, so we're going to continue to build on transfer agency and it's always easier to win the new mandates than necessarily switching one. But then when you add to that, we're looking to do more trust mandates, more employee plan mandates. We're now selling more Newsfile engagements, and we talked about the client uptick in that. It was essentially double the new client ads of what we saw a year ago. That's what's got us excited about this whole portfolio, because again, we're meeting the full suite of needs for a private or public issuer. And that ability to then penetrate and have a suite of products where you're getting that larger share of wallet with the client because you're providing a better set of services is what gets exciting. So it's not just limited to that transfer agency growth, it's everything else on the value chain that we're trying to build out.

Chris O'Brien:

Great, thank you so much.

Michael (Operator):

And the next question comes from Nick Priebe with CIBC Capital Markets. Please go ahead.

Nick Priebe:

Thanks. Just going back to Trayport, at certain times in the past, the timing of larger enterprise agreement renewals entailed an expansion of the number of user licenses and that drove a bit of a growth surprise, if you will, for the business. Just wondering, is there any visibility into chunkier contract renewals that might be in the pipeline this year at Trayport?

David Arnold:

That's a good question, Nick. There isn't anything that stands out in our radar right now for the balance of 2025, but what is important is what we don't know. So there isn't an outsized contract that is coming up in a specific quarter that I would want to signal to you, which really gets at the heart of your question. But what's still to be determined is, as we get into the second, third, and fourth quarter, as those ones that are on our radar that are coming due, it's just the quantum of the share of wallet and/or additional services that they wish to subscribe for is the unknown. And so it's not to say there couldn't be one that decides to increase by 30 or 40%.

Nick Priebe:

Got it. That makes sense. And then just one more on Trayport. Can you remind me what that net revenue retention metric measures and why that ticked up in the quarter? It looks like it was higher in Q1 of the prior year as well. Just wondering how to interpret that.

Amin Mousavian:

That's a great question Nick. It's Amin. So what it measures is the amount of recurring revenue that we have from existing clients. And as you can imagine, with Trayport, we continue to add new clients and we keep all of the clients. So as a result, as they subscribe to additional services and they have the renewal and the price increase, you typically see that number being north of 100% and with a bit of a spike in Q1 due to the price increases that come effective January 1st.

Nick Priebe:

I see. That makes a lot of sense. All right, that's it for me. Thanks very much.

Michael (Operator):

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

Jaeme Gloyn:

Thanks. Good morning. First for David, just first off, I guess I appreciate all the extra expense color you've provided on the call today. If I try to simplify it, it seems to me that the core expense growth in the quarter on a year-over-year basis would be just that 6% and that's something that's somewhat permanent that we can think about here through 2025. Is that a fair simplification or are there some other more permanent factors we should kind of think about in terms OpEx growth?

David Arnold:

No, that's a fair simplification. The key word there is simplification. What I would honestly try and focus on is try and triangulate not just on the year over year. So as you're looking forward to Q2, looking to Q2 of last year, there's a lot that you need to factor in. Whereas if you look at our exit rate coming out of Q1 and you adjust for the fact that we had the Zedify Exchange Conference in Q1, so you'd really back that out. Obviously we've had outsized total shareholder return for TMX relative to the S&P Composite Index.

And that's, if you look at our circular, you can really understand that, when it comes to our deferred share units, our restricted share units and our PSUs, we're able to effectively hedge share price appreciation. But on our performance share units, obviously there's a multiplier relative to the benchmark, which is the S&P/TSX Composite Index, and we really outperform that in the first quarter. And if you go and do the math, you'll see that in the first quarter, given our total shareholder return, we outperform that almost by 17 points. The S&P Composite of the first quarter is around 1% and we were around 18%.

And then when you actually look at the vintages of those performance share units, you'll see very quickly that for two of the older vintages, so the 2023 and 2024, we're almost at the maximum. So the amount of additional expense that could come from those in the second quarter and others will really be based on how does our share price perform relative to the index? And because these are cash settled instruments for our long-term incentive program, they're effectively marked to market every quarter based on total shareholder return relative to the benchmark. So those would be the two things that I would think about. And then the third thing is if you look at Q1, obviously bonuses were paid and there's the annual reset of payroll taxes. So those would be the three things to normalize for to get to a number for Q2 and then triangulated taking last year's Q2 and adjusting it for, as you said, a simplified roughly 6%, and then you should be very much triangulating with where expenses are headed. Does that help?

Jaeme Gloyn:

Yeah, perfect. Second question is, just as you launch the PTM or complete the PTM, and John, you talked about CCMS and [inaudible 00:43:28] Secured General Notes. What's the timeline to potentially see those generating revenues or incremental revenues to TMX? And it maybe a little bit too early to size that, but you talked about taking that business from market growth to high growth, so what's the timeframe to see some of that potentially flow through here?

John McKenzie:

Candidly, we actually expect to see activity in those products in the back half of this year. So the nice thing about launching those products and having them established even before we got PTM done is we've already got industry clients connected to them. We have industry clients that are working on how they would use the SGC Note product, so we're all ready to go. The reason I'm not saying today is because, to be candid, we are still in what I'll call a hyper care period around the launch of the PTM system. This system is, from a scope standpoint, one of the largest platform launches in the Canadian market history because we did everything from clearing to settlement to corporate actions, entitlement processing, all at once. So it's not only a lot to absorb for our team here, it's a lot to absorb for the whole industry. And that's why I talked about just our thanks for the patience of the industry as we work through it.

So they've got a lot to absorb on their side as well. Even simple things on, "How do I get this report, how do I actually make this change? How do I process this entitlement?" are some of the growing pains you have with any new adaptation. So we expect there's going to be some weeks or months of what I'm calling this hyper care period to make sure the industry is really stable in terms of what we're doing. And then I expect to see that we're going to get uptake in these products in the back half. And while I can't give you a guidance of size, we're talking about them because we think they can be meaningful.

Jaeme Gloyn:

So look for maybe more a Q4 where we can see the acceleration and the growth of that part of the business, I suppose?

John McKenzie:

I'm going to leave that in your words.

Jaeme Gloyn:

Thanks. And then last, just the U.S. strategy looks like it got off the ground nicely and ahead of expectations I think as you hinted even with the Q4 results call. Is there any shift in how you're thinking about that business now with the early success and where you could take it or what the U.S. could mean for TMX perhaps maybe even more broadly than just ATS?

John McKenzie:

Well, even just within the ATS piece to start with, and again, let's kudos to the team that's launched this. This has been one of the most impressive launches of a new U.S. marketplace, both in terms of the scope but in timeframe. And we've talked about this in the past, we went from an idea on this to building out technology, getting regulatory approval in essentially 12 months on doing those two pieces. The important piece now is that that early growth, and we talked about it month by month continuing to grow in terms of the amount of names that get executed, the amount of share volume that's getting done has exceeded expectations, continues to exceed expectations in terms of the growth rate. And what that's helping the team do is actually bring on more clients sooner. So we had a mix of clients that were part of our initial phase of getting launched and we had a number of clients that were in the pipeline that wanted to see that development as they came on. We're going to be able to bring on more clients earlier and actually improve execution for them as well.

So the focus right now is still about driving success in this platform. It's exceeding expectations, but it's still early days, and so you want to be high touch in making sure that we're getting all those expectations met for the Street. And then going from there, there's multiple paths we're thinking about. So the U.S. is going to continue to be a really important strategic area for us, a place we're going to continue to build.

There's more we can do with the ATS model in terms of doing other trading types and assets there. We are looking at other things we can do in the U.S. market as well. And in the near term, what we're looking to do is actually just to bring together candidly all of our U.S. operations into a single team. Because a couple of years ago we were able to go down to New York and meet with everybody in our business at a dinner table for four or for eight, and now we've got 100 plus people in the U.S. across multiple businesses.

So we will be opening up a new flagship TMX office in Lower Manhattan later on this year, bringing that team together, helping to start to collate new ideas. And that'll be part of our beachhead in terms of what we build on there from going forward. So stay tuned. That'll certainly be part of our growth strategy as we continue to build it in the future.

Jaeme Gloyn:

Appreciate that, John. Thank you.

John McKenzie:

No problem.

Michael (Operator):

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

Graham Ryding:

Hi, good morning. Just wanted to touch on the expense side. I think you flagged that your strategic realignment should drive some savings in the range of six to eight million annualized. Can you just give us an indication of how that should flow through? I think it starts in the second half of 2025. What should we expect then? And then when do you hit that six to eight million run rate?

David Arnold:

It's a good question, Graham. And you would see in our MD&A, one of the things that we've done is obviously we've incurred a strategic realignment charge in the first quarter. And because we are live now with PTM, some of those were actions we took in advance of going live on PTM. And in the second quarter, we're going to work on decommissioning the systems, rationalizing our team, taking the actions to really move us forward in a post-go live PTM after John said once we're threw the hyper care period as we head up towards June 30th.

Then there'll be a couple of things that we've signaled. We had originally, many years ago, said we anticipate being able to operate this at a six to $8 million lower run rate. As we finalize Q2, with both what we are going to incur in terms of strategic realignment chargers, but also finalizing the full capitalization of the asset, we've obviously given you some indication, we need to go through that with our auditors and internally. And then once we're done, we'll actually know what our incremental amortization charge will be. But we've roughly indicated think of around two and a half million a quarter will happen.

In addition, obviously we've got work that we're doing on the rebate elimination file, so there's a lot of moving pieces here, which is why, stay tuned for Q2 results because John and I will get into a lot more detail at that time. Right now, none of that is really going to fall to the bottom line in Q2, which is why we don't have to preempt it by going there. That's the best way that I can indicate where we are. But all signs are we will, through the actions we'll take in the second quarter, exceed the six to eight million that we've spoken about, and remembering that that's on a cash run rate basis because obviously we have to pay for the amortization of the system, which from an accrual accounting will offset some of those savings.

John McKenzie:

And I want to reiterate, it's actually good news that we can confirm that. To all respect for David, it was that old CFO that made that commitment to the Street and then there's been a long project. So the fact that we've actually got to this stage, we're able to identify and see that, not only are those savings real, but we are likely to exceed them, it's been a real positive execution that way. Anytime you've got a long, complex product and a project like this, it's been candidly seven years in the making, assumptions can change over time, but the actual scope of what we delivered and the scope of what we're going to decommission and provide savings to both ourselves and to the Street is real and it's going to get executed.

And I echo David's comment, timing, we'll get more clarity on, but you can imagine we're going to try to achieve that as soon as possible. We will need to find a home for a mainframe system for whoever wants one. I think all of you guys still run them and we've got one that is slightly used if you'd like to take it on and that could enhance our savings.

Graham Ryding:

Excellent. And then jumping to Zedify, if I adjust for acquisitions and FX, it looks like revenue was up 7% year over year. Is there anything to call out there? It seemed a little bit light. And then, a follow onto that, just the Credit Suisse bond industry acquisition. How do you plan to leverage that within the Zedify business?

David Arnold:

So I'll start a little bit on the core performance. I'll hand it over to John on the bond indices and our strategic vector as it relates to getting to that asset class. Your math is not far off. I think there are really two things that are relevant for analyzing the performance in the first quarter. The first is, obviously, the digital distribution and analytics revenue is really tied a lot to a lot of marketing programs and budgets. So to the extent that individuals are early in a calendar year and are not actually doing a lot of web content and/or other promotions with us, you would see that muted. And as you've typically seen, it tends to ramp up in the second half of the year as individuals understand what they have left in marketing budgets and so forth. So that's the first little piece.

But the second piece is, obviously we... And this is why we're a diversified business, we do see that we are, on our index products, we obviously charge a basis point driven trailer. And to the extent AUM based on market prices fluctuate, that would obviously fluctuate within our revenue. And so there's obviously some puts and takes there. Certain industries, in the first quarter, the Magnificent 8 and stuff like that, there's been some value that's been eroded. So just depending on the asset mix, it flows through it and those will really be your two drivers for the first quarter. But bond indices is a really important strategic vector for us, so maybe let me hand it to John on that.

John McKenzie:

And even before I get to that, I will note that, when you look at Q1 growth rate on just that business, keep in mind always that that's when we do the annual conference, that's a large chunk of the Q1 revenue and not part of what you would call that year-over-year growth because it's a fixed-sized event. So it's the rest of the growth that's growing more at what we would expect in terms of that high single, low double-digit rate. So there isn't really any out trade from the growth expectation you took of that big chunk that's in that first quarter.

But I'm glad you raised the bond indices piece. There's very little impact. I'll be very candid. Little financial impact in the quarter from bringing those in. These indices, they are long time benchmarks in the industry. They are well-used, they're well regarded, but they essentially had not been commercialized. It's actually very hard for banks to commercialize their own indices because their clients expect them to be given to them as part of the exchange for bond trading and things like that. So by bringing it out of a bank and bring it into an institution like ours, it gives us the ability to actually provide it out to more clients, potentially build ETF off it and then really commercialize it the way that Credit Suisse would never be able to do and brings into our team that [inaudible 00:55:12] capability.

And that's really what we wanted to do here and that's always one of those questions, you can buy it or you can build it. When you do something like this, it's a bit of both because we're acquiring both the IP, the capabilities, the talent, and it gets us into that asset class. And so now sets up TMX Zedify for building out more in the fixed income space, not just in the U.S. but on a global basis. So very limited impact in Q1, but sets us up for more long-term growth in the franchise going forward.

Graham Ryding:

That's excellent. Just one quick follow up there. You mentioned digital distribution being tied to marketing. What's your mind the revenue mix for Zedify between recurring ETF licensing fees versus the digital distribution piece?

David Arnold:

So we haven't really given the split. What we've really spoken about is we've isolated what the annual exchange conference top line would be. So it's just that because it's really lumpy. Typically, it's a first quarter event. We just moved the venue, so we had it in Vegas this year. There's some debate as to whether it'll be in the second quarter next year, and if that crystallizes, we'll let you know so that you can think about it then. But then the balance of the business is really mainly driven by the index and benchmark business. That's the lion's share of the business. And obviously, digital distribution analytics is the next piece, but it's a much smaller piece. So we haven't really split out the numbers over there, but to the extent that there is holding back on marketing budgets, as I touched on, that obviously then does have a small couple of percentage point drag on earnings or revenue growth. But really, I would focus on the AUM side of the business for the majority of the growth factor.

Graham Ryding:

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

Michael (Operator):

And your next question comes from Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell:

Great, thanks. Good morning. Thanks for taking my question. Maybe John, just to zoom back to Canada, you mentioned since the elections, you've been out there making some suggestions obviously in terms of tax reforms and other regulatory reforms. Obviously you've been at this a long time, what's your view that things may actually change and significantly improve Canada as a destination for business and for capital markets? And what would that mean exactly for TMX in terms of contribution to your Canadian-based businesses?

John McKenzie:

That's a fantastic question, so thank you for that. I'm actually probably the most confident I've been in a long time that we actually got the ability to drive change right now. The Canadian election and everything that's going on in the U.S. has I think made countries more laser-focused on their competitiveness. We had two parties in Canada that essentially both ran on economic platforms and took 85% of the vote together, and so there's a lot of commonality around reforms. We talked about the six points that we put out in terms of recommendation. I can actually tell you that all six of them were picked up in platforms, four and one, and two in the other. And so I'm going to give you some specific examples. The proposal we've made around R&D tax credit reforms so that small public companies can access them to the same degree was actually in the Canadian fall economic statement. It got picked up in the Liberal platform, so we need to push to make sure it gets executed. Having that done reduces the friction for a small company to go public and raise money. And so that's a key piece.

There was a commitment to expanding the mineral exploration tax credit, and since our marketplace has a really strong contingent of mining companies, that actually creates more certainty on the ability to fund and finance those projects going forward. And they're capital intensive. And so those are really good measures. Both parties actually talked about creating more certainty around project approval regime. That's critical capital formation as well, because if you can't have certainty around project activity, it's hard to have certainty on raising the capital. So it's always hard to take all these pieces and say, "Okay, what does that mean for how many more listings are we going to get?" But that is actually what we're driving towards, because when you can improve the conditions for companies to raise money, we should see an increase in the amount of companies we have raise additional capital finance, new mines, new pipelines, new projects, etc. And we should see the ability for more companies to raise public money.

So all this, again, is about reducing the frictions between going from private to public. There was an announcement even just this week, and it's been part of our long-term advocacy effort on the Ontario government expanding out their advanced manufacturing tax credit from private companies into public companies as well. And that's when we've had a dialogue with the government for a while. I want to thank them for their partnership and working on this. And that's going to mean, again, that public companies that do manufacturing in Ontario can participate in this as well, and therefore, will be easier for private companies to raise public money to expand. So it's always hard to pinpoint direct benefit to the business, but it's part of that long-term how do you make the market ecosystem stronger? And I've been working on this with our team for probably six, seven years, and to see some of these ideas come to fruition, you got to admit, it's actually very exciting because it's going to directly benefit our constituents, which then has a benefit to our marketplace.

Brian Bedell:

That's great news. And then maybe zooming out globally at the same time as you've continuously looked to expand the business on a global basis and then increase the contribution from outside Canada, maybe if you can just talk about, to what extent do you think you're in a better position to do that organically with your efforts in the U.S.? Obviously the success of Trayport, the potential ability to leverage the post trade modernization project, the organic. So overall, your bullishness on organically improving that mix versus... Or do you need other acquisitions, do you think, to complement that strategy? Or I should say, do you desire to make other acquisitions outside of the U.S. to complement that strategy?

John McKenzie:

I like how you phrase that. So we do not need other acquisitions to do it. We are very bullish on our ability to grow organically. That very much has been our strategy. All the pieces we've got, we have the assets in place to do it. We've got the team that can actually deliver. We've now demonstrated in multiple cases our ability to execute on complex projects to do that. So in all these areas, we can grow organically. We can dribble that strong growth across the franchise by doing that.

I love the fact that David talked about our balance sheet strength. The fact that we were able to return back to target so quickly because it does allow us that flexibility of, when we see the right opportunities to accelerate the strategy, we're going to be able to execute on those. But those are opportunities to accelerate. We can continue to drive the growth. We're looking to drive organically without them. So you can expect us to continue to be very disciplined about the investments that we do make in terms of both contributing to the strategic growth and having the economics that make sense from an investor standpoint. And it really allows us the freedom and flexibility to be choiceful on where we invest because we've got such a great underlying core strategy. So don't need to do it, but if we can find the right opportunities to accelerate, we will absolutely do those.

Brian Bedell:

That's great color. Thank you.

Michael (Operator):

This concludes the question and answer session. I would like to turn the conference back over to Mr. Mousavian for closing remarks.

Amin Mousavian:

Thank you everyone for joining us today. Before we close the call, I'd like to thank Nina Bai for her work with our team and many of you over the past few years, and congratulate Nina on her new role in our TMX finance. We also welcome Nandan Kacharia, who recently joined our investor relations team. If you have any further questions, contact information for investor relations as well as media is in our press release, and we'll be more than happy to get back to you. Until next time, goodbye.

Michael (Operator):

This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.