# TMX Group Limited

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 5, 2020

This Management's Discussion and Analysis (MD&A) of TMX Group Limited's (TMX Group) financial condition and financial performance is provided to enable a reader to assess our financial condition, material changes in our financial condition and our financial performance, including our liquidity and capital resources, for the quarter (Q2/20) and six months (1H/20) ended June 30, 2020, compared with the quarter (Q2/19) and six months (1H/19) ended June 30, 2019 and as at June 30, 2020 and December 31, 2019. This MD&A should be read together with our unaudited condensed consolidated interim financial statements as at June 30, 2020 and December 31, 2019, and for the quarter and six months ended June 30, 2020 and 2019 (the interim financial statements), our audited annual consolidated financial statements for the years ended December 31, 2019 and December 31, 2018 (the financial statements) and the 2019 Annual MD&A.

Our interim financial statements and this MD&A for the quarter and six months ended June 30, 2020 are filed with Canadian securities regulators and can be accessed at www.tmx.com and www.sedar.com. The financial measures included in this MD&A are based on financial statements prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), unless otherwise specified. All amounts are in Canadian dollars unless otherwise indicated.

Certain comparative figures have been reclassified in order to conform with the financial presentation adopted in the current year.

Additional information about TMX Group, including the Annual Information Form, is available at www.tmx.com and www.sedar.com. We are not incorporating information contained on our website in this MD&A.

## OUR RESPONSE TO COVID-19 PANDEMIC

The novel coronavirus (COVID-19) pandemic has altered the world and the way we operate. It has impacted individuals, communities, businesses and governments in significant ways. In these extraordinary times, we believe that our core organizational values, enterprise strategy, risk management practices and staff, are guiding us through this rapidly changing and highly complex situation. Powered by the dedicated and collaborative efforts of employees, the vast majority of whom are now working remotely, TMX Group has been able to fulfil our core mission of keeping Canada's markets operational throughout this crisis.

The health and safety of our people, our clients and the entire capital markets community is our top priority in this time of great uncertainty, and consistently guides the decisions that we make. Effective March 17, 2020, we directed all staff other than those required to be physically present in the office to complete business critical tasks to work from home and transitioned approximately 95% of our workforce to working remotely by the end of the month. We have deployed various IT and human resources tools to support both our employees working from home as well as our limited recovery staff who are on site performing critical duties. In April 2020, we conducted our first successful all-remote disaster recovery (DR) test on most of our critical systems.

Throughout this period, we continue to work closely with our clients, regulators and government representatives to ensure continuity. TMX Group's markets play a crucial role in the economy, and we strongly believe that it is in the public interest and in the best interest of our stakeholders, including issuers, investors, and market participants, that markets remain open.

We have also undertaken a number of immediate and significant initiatives to help support our key stakeholders most acutely affected by this ongoing crisis, such as:

- Toronto Stock Exchange (TSX) and TSX Venture Exchange (TSXV) implemented blanket relief measures to lessen the administrative burden on our more than 3,200 listed issuers during the COVID-19 pandemic and provide flexibility in volatile markets.
- TMX Group successfully advocated for amendments to the federal Government's COVID-19 response package to include public companies in the wage subsidy program – this was an important win for Canadian small businesses and, most importantly, for the thousands of Canadians that they employ.
- In TSX trading, we made adjustments to relax Market Maker performance levels, and in TSX and TSXV, we waived fees associated with 're-opening' trades after a market-wide circuit breaker.
- And in CDS, to support some of our participants, CDS paid $2.0 million of the $4.0 million annual fixed rebate on the May 2020 invoice payable in June 2020. The balance of $2.0 million will be paid in November 2020, as planned. CDS also announced a limited deferral program for participants' May 2020 and September 2020 monthly bills on amounts up to $50,000.

As we look into the future, despite prevailing uncertainty looming in our operating environment as the business world prepares to emerge from the COVID-19 pandemic, TMX Group remains firmly focused on serving our clients with excellence, providing our markets with continuity, and executing against our global growth strategy.

## INITIATIVES AND ACCOMPLISHMENTS

### Capital Formation[1]

At the end of March 2020, we launched ESG 101, a new hub of Environmental, Social and Governance (ESG) resources curated for TSX and TSXV issuers by us and by many of Canada’s leading ESG experts. The site includes a collection of guides, articles, events, podcasts and definitions to help issuers understand the fundamentals of ESG reporting. In addition, it provides an Expert Centre which offers contact details to help connect issuers to the right people for answers, including the main line to ESG rating agencies. The site will be updated regularly with new content from our own library (podcasts, workshops, guides) and from our partners. This tool addresses a growing client need and will complement our in-person mentorship and education initiatives, including the existing governance modules of our Growth Accelerator program, a new ESG-focused Growth Accelerator module to be launched, and our ESG-focused workshops.

### Derivatives Trading and Clearing [2]

In October 2018, MX launched extended trading hours from the previously 6:00 a.m. ET open to a 2:00 a.m. ET open. Initially, this included MX's suite of interest rate products[3]. Beginning in February 2019, MX offered clients the ability

[1] The "Capital Formation" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainty related to such statements.
[2] The "Derivatives Trading and Clearing" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainty related to such statements.
[3] BAX - Three-Month Canadian Bankers' Acceptance Futures, OBX - Options on Three-Month Canadian Bankers' Acceptance Futures, CGZ - Two-Year Government of Canada Bond Futures, CGF - Five-Year Government of Canada Bond Futures, CGB - Ten-Year Government of Canada Bond Futures, LGB - 30-Year Government of Canada Bond Futures and OGB - Options on Ten-Year Government of Canada Bond Futures.

to also trade its equity index futures[4] in these extended hours. For 2019 and 1H/20, volumes during extended trading hours represented approximately 4% and 5%, respectively, of total volumes in these products. MX is preparing for the next phase of extended hours to align with trading hours in Asia.

In June 2020, MX launched a new three-month Canadian Overnight Repo Rate Average (CORRA) futures contract. As many jurisdictions around the world transition away from interbank offered rates (IBOR), which are survey-based, to new transaction-based reference rates, Canada followed suit by enhancing the CORRA benchmark, now under the administration of the Bank of Canada. The launch was successful with more than a dozen exchange participants establishing positions. Since the launch on June 12, 2020, more than 2,500 contracts traded during that month, and there was open interest of 2,447 contracts at the end of the month. Canada is expected to be a dual-rate jurisdiction for the foreseeable future, so this new instrument will coexist with MX's flagship BAX product for years to come.

## Global Solutions, Insights and Analytics (GSIA)[5]

### *Trayport*

Trayport is the primary connectivity network and data and analytics platform for European wholesale energy markets. Trayport's solutions enable price discovery, trade execution, post-trade transparency and post-trade straight through processing.

Trayport successfully supported its trader and broker customers as they transitioned to working from home during the COVID-19 pandemic. Volumes have been strong through June 30, 2020 with record volumes in both the European power and gas markets driven by the market volatility. Volumes for these power and gas products were up 24% and 20%, respectively.

#### *Global Gas - Liquid Natural Gas (LNG)*

Volumes remained strong for the European and Asian benchmark gas contracts, the Dutch Title Transfer Facility (TTF) and the Japan Korea Marker (JKM). TTF volumes rose 35% in 1H/20 compared with 1H/19[6], and we have seen record JKM over the counter (OTC) cleared volumes from Trayort brokered customers. While not directly correlated, the increase in volumes in these markets can result in an expansion in market participants, which can drive growth in the number of subscribers connecting with Trayport to trade these products.

#### *Algorithmic Trading*

The trend of algorithmic power trading in European intraday markets continued through to June 2020. In 1H/20, intraday volumes on EPEX Spot grew 23% over 1H/19.[7]

#### *Geographic Expansion*

In October 2019, Trayport and Nodal Exchange, a Washington D.C.-based derivatives exchange serving North American commodities markets, announced an agreement to offer Trayport’s core trading screen, Joule, to trading participants of Nodal Exchange. This is currently in the process of being rolled out to customers.

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[4] SXF - S&P/TSX 60 Index Standard Futures, SXM - S&P/TSX 60 Index Mini Futures, SCF - S&P/TSX Composite Index Mini Futures, and SXA, SXB, SXH, SXK, SXU, SXY - Sector Index Futures.

[5] The "Global Solutions Insights and Analytics" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainty related to such statements.

[6] Source: Trayport's Euro Commodities Report

[7] Sourced from collection of monthly EPEX volume reports

### *TMX Datalinx*

In early July 2020, we announced that the first of six new S&P/TSX Environmental, Social and Governance (ESG) indices would become available at the end of the month. Our suite of products is expanding to enable our clients to gain exposure to ESG investments and manage risks associated with ESG. Our offering currently includes a suite of ESG indices; these will be updated and enhanced throughout 2020 to help investors benchmark through an ESG lens, execute ESG mandates and measure the sustainability of their portfolios.

The following indices were launched on July 27, 2020:

***S&P/TSX 60 ESG Index***

The Index is designed to track the performance of the constituent companies of the S&P/TSX 60 Index, while taking into account each company's S&P DJI ESG Scores. The index construction methodology is based on the S&P/TSX 60 Index; companies are then re-weighted according to their sustainability score and relative to industry-specific standards.

***S&P/TSX Composite ESG Index***

The Index is designed to target 75% of the float capitalization of each GICS® industry group within the S&P/TSX Composite Index, using S&P DJI ESG Scores for constituent selection.

***S&P/TSX 60 Carbon Price Risk Index and S&P/TSX Composite Carbon Price Risk Index***

S&P Carbon Price Risk Indices are designed to measure the performance of the constituent companies of the S&P/TSX 60 Index and S&P/TSX Composite Index, respectively, reweighed to account for the potential impact of 2030 carbon prices on constituents' stock prices. The S&P Carbon Price Risk 2030 Adjusted Index Series aims to re-balance index constituents in a way that adjusts for their differing levels of future carbon price risk, based on pricing risks arising from industry and geographic distribution of emissions, as well as levels of emissions.

### *Co-location Services*

In July 2020, we received regulatory approval to increase pricing by 5% for co-location services, effective September 1, 2020.

## Update on Modernization of Clearing Platforms[8]

In 2017, we commenced work on an initiative to modernize the technology platforms for our CDS and CDCC clearing and settlement businesses as well as for our entitlement systems. We have separated the modernization of our clearing houses into two phases. In phase one, we focused on the CDCC risk management element of the project and went live in Q2/19.

Phase two of this project involves the replacement of other legacy systems at CDS including those related to clearing and settlement, as well as an expanded scope to address entitlement payment systems. In March 2017, we implemented an Issuer Services Program that included a number of fee changes in anticipation of the investment that would be required to modernize the entitlement payments system. We spent $43.8 million up to the end of 2019 on capital expenditures related to phase two and $15.9 million in 1H/20. Overall, we expect to incur between approximately $100 and $110 million in capital expenditures over the entire project. We expect to complete this project by the end of 2021. We will continue to provide updates on estimates for capital expenditures and timing as this complex project progresses.

[8] The "Update on Modernization of Clearing Platforms" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

## Environmental, Social and Governance (ESG) Reporting

In May 2020, we issued our inaugural ESG report. The goal of the report is to inform all of our stakeholders, including current shareholders and potential investors, of our progress in incorporating ESG matter into our corporate strategy, process and operations. We recognize that this initial report is very much a first step on an important journey for our company.

## Corporate Strategy[9]

In November 2018, we set long term financial objectives of achieving a mid single digit cumulative average annual growth rate (CAGR) for revenue and a double digit CAGR[10] for adjusted EPS[11] based on certain assumptions and expected performance over time. While we continue to believe that these aspirational goals are reasonable, we may not be able to achieve these financial objectives as our assumptions may prove to be inaccurate and therefore our actual results could differ materially from our long term objectives. For example, the COVID-19 pandemic is having an unprecedented impact on the global economy and markets. At this point, it is difficult to predict the impact that this will have in the short term on our business, and the longer term impact on our aspirational goals.

# REGULATORY CHANGES

## Equities Trading

On January 23, 2020, the Canadian Securities Administrators (CSA) published a notice confirming that it has approved a Trading Fee Rebate Pilot Study that applies temporary pricing restrictions on marketplace transaction fees, to examine the effects of a prohibition of rebate payments by Canadian Marketplaces (Pilot Study). The implementation of the Pilot Study was conditional on the implementation of a similar study by the United States Securities and Exchange Commission (SEC). With a Court ruling against the SEC in June 2020, it is now unlikely that U.S. fee pilot study will proceed. Therefore, it is highly unlikely that the CSA will implement the Pilot Study in Canada.

# MARKET CONDITIONS AND OUTLOOK[12]

The COVID-19 pandemic has had an unprecedented impact on market and general economic conditions. Heightened volatility has resulted in significantly higher trading and clearing volumes for both cash equities markets as well as for derivatives markets. At this point it is difficult to project the longer term impact from this volatility, when it may subside, and the implications for capital markets activity. The average CBOE Volatility Index (VIX) was 32.9 in 1H/20 compared with 15.8 in 1H/19. Overall, Canadian equities trading volumes were up 31% in 1H/20 compared with 1H/19.[13] Across all of our equities markets, trading volumes were up 39% in 1H/20 compared with 1H/19. Trading volumes on Toronto Stock Exchange (TSX), TSX Alpha Exchange (Alpha) and TSX Venture Exchange (TSXV) increased by 48%, 59% and 14%, respectively, in 1H/20 compared with 1H/19. Derivatives trading in Canada increased by 13% based on the volume of contracts traded on MX in 1H/20 over 1H/19.

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[9] The "Corporate Strategy" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainties related to such statements.

[10] Organic cumulative average annual growth rate (CAGR). See discussion under the heading "Caution Regarding Forward Looking Information".

[11] Adjusted EPS is a Non-IFRS measure. See discussion under the headings "Caution Regarding Forward Looking Information" and "Non-IFRS Financial Measures".

[12] The "Markets Conditions and Outlook" section contains certain forward-looking statements. Please refer to "Caution Regarding Forward-Looking Information" for a discussion of risks and uncertainty related to such statements.

[13] Source: IIROC (excluding intentional crosses).

The highly uncertain and volatile economic and market environment continues to contribute to less favorable conditions for capital raising. On TSX, the total amount of financing dollars raised increased by 8% from 1H/19 to 1H/20, and the total number of financings increased by 7% over the same periods. On TSXV (including NEX) there was a 15% increase in the total amount of financing dollars raised, and a 6% increase in the total number of financings in 1H/20 over 1H/19.

On July 15, 2020, the Bank of Canada (the Bank) announced that it was maintaining its target for the overnight rate at ¼ percent. The Bank said that while economies are re-opening, the global and Canadian outlook is extremely uncertain, given the unpredictability of the course of the COVID-19 pandemic.

The Bank added that after a sharp drop in the first half of 2020, global economic activity is picking up. This return to growth reflects the relaxation of necessary containment measures put in place to slow the spread of the coronavirus, combined with extraordinary fiscal and monetary policy support. As a result, financial conditions have improved. The prices of most commodities, including oil, have risen from very low levels.

According to the Bank, the Canadian economy is starting to recover as it re-opens from the shutdowns needed to limit the virus spread. With economic activity in the second quarter estimated to have been 15 percent below its level at the end of 2019, this is the deepest decline in economic activity since the Great Depression.

The Bank also said that there are early signs that the reopening of businesses and pent-up demand are leading to an initial bounce-back in employment and output. In the Bank's central scenario, roughly 40 percent of the collapse in the first half of the year is made up in the third quarter. Subsequently, the Bank expects the economy's recuperation to slow as the pandemic continues to affect confidence and consumer behavior and as the economy works through structural challenges. As a result, in the central scenario, real GDP declines by 7.8 percent in 2020 and resumes with growth of 5.1 percent in 2021 and 3.7 percent in 2022.[14]

## UPDATE TO ENTERPRISE RISK MANAGEMENT

A discussion of risk factors related to our businesses appears under the heading "Enterprise Risk Management" in our 2019 Annual MD&A.

Following the release of our 2019 Annual MD&A, the COVID-19 pandemic has introduced uncertainty that poses risks to the global economy, our clients, and could potentially materially affect our business, financial condition, liquidity, results of operations, and long term financial objectives.

The economic and market conditions in Canada, the United States, Europe, China and the rest of the world impact different aspects of our business and our revenue drivers. The pandemic has created significant volatility, uncertainty and economic disruption, which may adversely affect our business, financial condition, liquidity, results of operations and long term financial objectives. Listing, trading and clearing activities can be significantly affected by economic, political and market conditions as well as the overall level of investor confidence. These factors can impact the level of initial public offerings, secondary financings, market capitalization of our issuers, transfer agent and trustee services, trading volumes, energy data and network connectivity and sales of market data across our markets. While in the first half of 2020, we experienced unusually high equity and fixed income trading and clearing volumes, there is no assurance that such trading and clearing levels will continue. Global market and economic conditions have fluctuated significantly in recent months. We have witnessed high levels of volatility which, when coupled with prolonged negative economic conditions, can cause dramatic fluctuations in trading volumes, equity financings and demand for market data. This can lead to slower collections of accounts receivable as well as increased counterparty risk which, in turn, could adversely affect our business. Additionally, if we are required to suspend trading for a prolonged period of time or shorten trading hours, our business, operating results, long term financial objectives, cash flows, and financial condition could be materially adversely affected.

[14] Source: Extracted from Bank of Canada press release, July 15, 2020.

Key initiatives continue but some could be delayed or postponed indefinitely due to lack of client availability for effective engagement and business development. Although we continue to plan and engage with new and prospective clients, their level of readiness and commitment is outside of our control; therefore, revenues could be lower than anticipated.

In response to COVID-19, the vast majority of our staff are working remotely, which may increase our exposure to cyber security and operational risks. The impacts of the pandemic could also materially interrupt our business operations and cause material financial loss, human resource constraints, result in adverse regulatory actions, lead to delays in obtaining regulatory or government approvals, interrupt services received from third parties or provided to clients, result in reputational harm or legal liability, which in turn could materially adversely affect our business, cash flows, financial condition, operating results and long term financial objectives. While all our business units and corporate functions have business continuity plans to support critical operations and mitigate such risks, a prolonged interruption in our key services could materially adversely affect our reputation, business, operating results, long term financial objectives, cash flows, and financial condition.

We have a commercial paper program (up to $500 million or the US equivalent), which is fully backstopped by the Credit Agreement (see **LIQUIDITY AND CAPITAL RESOURCES** in the 2019 MD&A). As at June 30, 2020, $177.0 million was outstanding under the commercial paper program. The Credit Agreement is designed to mitigate our exposure to specific liquidity risk in this short term debt market. If we are unable to issue new commercial paper in order to fund commercial paper that is coming due, or to fund additional cash requirements, because of lack of liquidity or demand for our commercial paper in the market or the availability of credit under our Credit Agreement, our ability to refinance our obligations could be materially adversely impacted. Our ability to obtain funding will depend on the liquidity and condition of the financial markets, including the credit market, and our financial condition at the time. A refinancing, under these conditions, could also result in an increase in finance costs.

# RESULTS OF OPERATIONS

## Non-IFRS Financial Measures

Adjusted earnings per share, adjusted diluted earnings per share and adjusted net income are non-IFRS measures and do not have standardized meanings prescribed by IFRS and are, therefore, unlikely to be comparable to similar measures presented by other companies. We present adjusted earnings per share, adjusted diluted earnings per share, and adjusted net income to indicate ongoing financial performance from period to period, exclusive of a number of adjustments. These adjustments include amortization of intangibles related to acquisitions, strategic re-alignment expenses, gain on sale of interest in Bermuda Stock Exchange, transaction related costs, change in net deferred income tax liabilities resulting from decrease in Alberta corporate income tax rate, increase in deferred income tax liabilities relating to a change in the U.K. tax rate and net litigation settlement costs. Management uses these measures, and excludes certain items, because it believes doing so results in a more effective analysis of underlying operating and financial performance, including, in some cases, our ability to generate cash. Excluding these items also enables comparability across periods. The exclusion of certain items does not imply that they are non-recurring or not useful to investors.

## Quarter ended June 30, 2020 (Q2/20) Compared with Quarter ended June 30, 2019 (Q2/19)

The information below reflects the financial statements of TMX Group for Q2/20 compared with Q2/19. Certain comparative information has been reclassified in order to conform with the financial presentation adopted in the current year.

| (in millions of dollars, except per share amounts) | **Q2/20** | Q2/19 | **$ increase/ (decrease)** | **% increase/ (decrease)** |
|---|---|---|---|---|
| Revenue | **$217.7** | $210.3 | $7.4 | 4% |
| Operating expenses | **119.3** | 106.2 | 13.1 | 12% |
| Income from operations | **98.4** | 104.1 | (5.7) | (5)% |
| Net income | **67.8** | 77.2 | (9.4) | (12)% |
| Adjusted net income[15] | **86.6** | 81.8 | 4.8 | 6% |
| Earnings per share | | | | |
| Basic | **1.20** | 1.38 | (0.18) | (13)% |
| Diluted | **1.19** | 1.37 | (0.18) | (13)% |
| Adjusted Earnings per share[16] | | | | |
| Basic | **1.54** | 1.46 | 0.08 | 5% |
| Diluted | **1.52** | 1.45 | 0.07 | 5% |
| Cash flows from operating activities | **130.9** | 111.5 | 19.4 | 17% |

## Net Income and Earnings per Share

Net income in Q2/20 was $67.8 million, or $1.20 per common share on a basic and $1.19 on a diluted basis, compared with a net income of $77.2 million, or $1.38 per common share on a basic and $1.37 on a diluted basis, for Q2/19. The decrease in net income and earnings per share from Q2/19 to Q2/20 was driven by an increase in operating expenses. The increase in operating expenses was largely attributable to net litigation settlement costs of $12.4 million (16 cents per basic and diluted common share). In addition, there was lower income tax expense and a lower effective income tax rate in Q2/19 compared with Q2/20. The reduction in net income was somewhat offset by higher revenue in Q2/20 compared with Q2/19. The decrease in diluted earnings per share was also due to an increase in the number of weighted-average common shares outstanding in Q2/20 compared with Q2/19.

[15] See discussion under the heading "Non-IFRS Financial Measures".
[16] See discussion under the heading "Non-IFRS Financial Measures".

## Adjusted Earnings per Share[17] Reconciliation for Q2/20 and Q2/19

The following is a reconciliation of earnings per share to adjusted earnings per share:

| | **Q2/20** | | Q2/19 | |
|---|---|---|---|---|
| (unaudited) | **Basic** | **Diluted** | Basic | Diluted |
| Earnings per share | **$1.20** | **$1.19** | $1.38 | $1.37 |
| Adjustments related to: | | | | |
| Amortization of intangibles related to acquisitions | **0.18** | **0.17** | 0.17 | 0.17 |
| Strategic re-alignment expenses[18] | **—** | **—** | 0.02 | 0.02 |
| Net litigation settlement costs | **0.16** | **0.16** | — | — |
| Gain on sale of interest in Bermuda Stock Exchange | **—** | **—** | (0.04) | (0.04) |
| Transaction related costs | **—** | **—** | 0.01 | 0.01 |
| Change in net deferred income tax liabilities resulting from decrease in Alberta corporate income tax rate | **—** | **—** | (0.08) | (0.08) |
| Adjusted earnings per share[19] | **$1.54** | **$1.52** | $1.46 | $1.45 |
| Weighted average number of common shares outstanding | **56,384,554** | **56,920,125** | 56,006,062 | 56,459,282 |

Adjusted diluted earnings per share increased by 5% from $1.45 in Q2/19 to $1.52 in Q2/20 largely driven by higher revenue, somewhat offset by higher operating expenses, excluding net litigation settlement costs of $12.4 million (16 cents per basic and diluted common share). The increase in adjusted diluted earnings per share was somewhat reduced by an increase in the number of weighted-average common shares outstanding in Q2/20 compared with Q2/19.

[17] See discussion under the heading "Non-IFRS Financial Measures".
[18] Please see Strategic re-alignment expenses for more details. See discussion under the heading "Non-IFRS Financial Measures".
[19] See discussion under the heading "Non-IFRS Financial Measures".

## Adjusted Net Income[20] Reconciliation for Q2/20 and Q2/19

The following is a reconciliation of net income to adjusted net income:

| (in millions of dollars)<br>(unaudited) | **Q2/20** | Q2/19 | $ increase / (decrease) | % increase / (decrease) |
|---|---|---|---|---|
| Net income | **$67.8** | $77.2 | ($9.4) | (12)% |
| Adjustments related to: | | | | |
| Amortization of intangibles related to acquisitions | **9.7** | 9.4 | 0.3 | 3% |
| Strategic re-alignment expenses[21] | **—** | 0.9 | (0.9) | (100)% |
| Net litigation settlement costs | **9.1** | — | 9.1 | n/a |
| Gain on sale of interest in Bermuda Stock Exchange | **—** | (2.0) | 2.0 | (100)% |
| Transaction related costs | **—** | 0.6 | (0.6) | (100)% |
| Change in net deferred income tax liabilities resulting from decrease in Alberta corporate income tax rate | **—** | (4.3) | 4.3 | (100)% |
| Adjusted net income[22] | **$86.6** | $81.8 | $4.8 | 6% |

Adjusted net income increased by 6% from $81.8 million in Q2/19 to $86.6 million in Q2/20 largely driven by higher revenue, somewhat offset by higher operating expenses, excluding net litigation settlement costs of $12.4 million.

[20] See discussion under the heading "Non-IFRS Financial Measures".
[21] Please see Strategic re-alignment expenses for more details. See discussion under the heading "Non-IFRS Financial Measures".
[22] See discussion under the heading "Non-IFRS Financial Measures".

## Revenue

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Capital Formation | **$48.1** | $52.6 | $(4.5) | (9)% |
| Equities and Fixed Income Trading and Clearing | **59.5** | 48.6 | 10.9 | 22% |
| Derivatives Trading and Clearing | **30.0** | 33.8 | (3.8) | (11)% |
| Global Solutions, Insights and Analytics | **81.0** | 75.6 | 5.4 | 7% |
| Other | **(0.9)** | (0.3) | (0.6) | (200)% |
| | **$217.7** | $210.3 | $7.4 | 4% |

Revenue was $217.7 million in Q2/20, up $7.4 million or 4% from $210.3 million in Q2/19 attributable to increases in revenue from *Equities and Fixed Income Trading and Clearing* as well as *Global Solutions, Insights and Analytics* offset by decreases in *Capital Formation* and *Derivatives Trading and Clearing* revenues.

## Capital Formation

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Initial listing fees | **$2.4** | $2.8 | $(0.4) | (14)% |
| Additional listing fees | **20.8** | 23.2 | (2.4) | (10)% |
| Sustaining listing fees | **17.8** | 17.3 | 0.5 | 3% |
| Other issuer services | **7.1** | 9.3 | (2.2) | (24)% |
| | **$48.1** | $52.6 | $(4.5) | (9)% |

- *Initial listing fees* in Q2/20 decreased from Q2/19 primarily due to a decline in the amount of deferred *initial listing fees* recognized in Q2/20 compared with Q2/19, largely attributable to TSXV. We recognized *initial listing fees* received in 2019 and 2020 of $2.1 million in Q2/20 compared with *initial listing fees* received in 2018 and 2019 of $2.6 million in Q2/19.
- Based on *initial listing fees* billed in 2019 and the six months ended June 30, 2020, the following amounts have been deferred to be recognized in Q3/20, Q4/20, Q1/21 and Q2/21: $1.5 million, $0.9 million, $0.5 million and $0.1 million respectively. Total *initial listing fees* revenue for future quarters will also depend on listing activity in those quarters.
- *Additional listing fees* in Q2/20 declined compared to Q2/19 reflecting a decline of 28% in the number of transactions billed at the maximum listing fee of $250,000 on TSX from Q2/19 to Q2/20. There was also a slight decline in *additional listing fee* revenue on TSXV from Q2/19 to Q2/20.

- Issuers listed on TSX and TSXV pay annual sustaining listing fees primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. The increase in *sustaining listing fees* on TSX was due to the increase in the market capitalization of TSX issuers at December 31, 2019 compared with December 31, 2018. There was also a slight increase in sustaining listing fees from issuers on TSXV and NEX (a board for issuers that have fallen below TSXV's listing standards).

- *Other issuer services* revenue in Q2/20 decreased compared to Q2/19 reflecting decreased revenue from TSX Trust due to lower margin income. In addition, there was a decrease in recoverable revenue as some issuers postponed their annual general meetings.

## Equities and Fixed Income Trading and Clearing

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| Equities and fixed income trading | **$34.7** | $25.6 | $9.1 | 36% |
| Equities and fixed income clearing, settlement, depository and other services (CDS) | **24.8** | 23.0 | 1.8 | 8% |
| | **$59.5** | $48.6 | $10.9 | 22% |

- There was an increase in *Equities and Fixed Income Trading* revenue in Q2/20 compared with Q2/19 driven by significantly higher overall volumes across all of our exchanges. The impact from the higher volumes was somewhat offset by a less favorable product mix in Q2/20 compared with Q2/19. There was also an increase in *Fixed Income Trading* revenue reflecting increased activity in swaps and Government of Canada Bonds.

- The overall volume of securities traded on our equities marketplaces increased by 56% (50.6 billion securities in Q2/20 versus 32.4 billion securities in Q2/19), reflecting high market volatility. There was an increase in volumes of 62% on TSX , 72% on Alpha, and 37% on TSXV in Q2/20 compared with Q2/19.

- Excluding intentional crosses, in all listed issues in Canada, our combined domestic equities trading market share was approximately 60% in Q2/20, up 4% from approximately 56% in Q2/19.[23]

- Excluding intentional crosses, for TSX and TSXV listed issues, our combined domestic equities trading market share was approximately 68% in Q2/20, up 3% from approximately 65% in Q2/19.[24]

- *CDS* revenue increased from Q2/19 to Q2/20. Recoverable costs of $1.9 million related to CDS's clearing operation, netted in Q2/19, were included in both CDS revenue and *Selling, general and administration* expenses in Q2/20. In addition, there was higher international revenue and higher clearing and settlement revenue due to higher volumes in Q2/20 compared with Q2/19. The increases in revenue were partially offset by higher rebates.

[23] Source: IIROC.
[24] Source: IIROC.

## Derivatives Trading and Clearing

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$30.0** | $33.8 | $(3.8) | (11)% |

- The decrease in *Derivatives Trading and Clearing* revenue from Q2/19 to Q2/20 was driven by a 9% decrease in revenue from MX and CDCC. This decrease in revenue was primarily due to lower revenue per contract attributable to an unfavorable product mix. There was also a 1% decrease in volumes on MX (28.8 million contracts traded in Q2/20 versus 29.1 million contracts traded in Q2/19).
- There was a decrease of approximately $1.0 million in revenue from Q2/19 to Q2/20 relating to our agreement to provide transitional services to BOX, which ended on June 30, 2020.

## Global Solutions, Insights and Analytics

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| Trayport | **$33.5** | $30.3 | $3.2 | 11% |
| GSIA (excluding Trayport) | **47.5** | 45.3 | $2.2 | 5% |
| | **$81.0** | $75.6 | $5.4 | 7% |

### *Trayport*

The increase in *Global Solutions, Insights and Analytics (GSIA)* revenue in Q2/20 compared with Q2/19 was primarily driven by increased revenue from Trayport, including revenue from VisoTech (acquired May 15, 2019).

The following table summarizes the average number of Trayport subscribers (excluding VisoTech) over the last eight quarters:

| | **Q2/20** | **Q1/20** | **Q4/19** | **Q3/19** | **Q2/19** | **Q1/19** | **Q4/18** | **Q3/18** |
|---|---|---|---|---|---|---|---|---|
| Trader Subscribers[25] | 4,998 | 5,191 | 5,071 | 4,863 | 4,834 | 4,716 | 4,656 | 4,348 |
| Total Subscribers[26] | 22,930 | 23,438 | 22,974 | 22,125 | 21,946 | 21,683 | 21,465 | 20,602 |
| Revenue (in millions of GBP)[27] | £19.7 | £19.4 | £18.0 | £18.2 | £17.8 | £16.7 | £16.8 | £16.5 |

Total Subscribers means all chargeable licenses of core Trayport products in core customer segments including Traders, Brokers and Exchanges. Trader Subscribers are a subset of Total Subscribers. Trader Subscribers revenue represents over 50% of total Trayport revenue.

Revenue from Trayport, including VisoTech (acquired May 15, 2019), was £19.7 million in Q2/20, up 11% over Q2/19. Excluding VisoTech, revenue from Trayport was up 9%.

[25] Previous amounts have been restated based on current data.
[26] Previous amounts have been restated based on current data.
[27] Revenue prior to Q1/19 includes Contigo (sold November 30, 2018).

*GSIA (excluding Trayport)*

Revenue from GSIA (excluding Trayport) increased by 5% from Q2/19 to Q2/20. There were higher revenues related to subscriptions, usage based quotes as well as co-location, partially offset by lower revenues related to under-reported usage of real-time quotes in prior periods. The higher revenue includes a favorable impact from a weaker Canadian dollar relative to the U.S. dollar in Q2/20 compared with Q2/19.

- The average number of professional market data subscriptions for TSX and TSXV products was up 2% in Q2/20 compared with Q2/19 (102,732 professional market data subscriptions in Q2/20 compared with 100,592 in Q2/19).

- The average number of MX professional market data subscriptions was down 1% in Q2/20 from Q2/19 (18,451 MX professional market data subscriptions in Q2/20 compared with 18,544 in Q2/19).

Revenue from *GSIA*, excluding VisoTech was up 6% in Q2/20 from Q2/19.

## Other

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$(0.9)** | $(0.3) | $(0.6) | (200)% |

- The decrease in *Other* revenue was due to the impact from recognizing higher net foreign exchange losses on net monetary assets reflecting an even more unfavorable impact from a weaker Canadian dollar relative to the U.S. dollar in Q2/20 compared with Q2/19.

## Operating expenses

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Compensation and benefits | **$55.2** | $52.1 | $3.1 | 6% |
| Information and trading systems | **13.3** | 12.2 | 1.1 | 9% |
| Selling, general and administration | **31.3** | 21.2 | 10.1 | 48% |
| Depreciation and amortization | **19.5** | 19.4 | 0.1 | 1% |
| Strategic re-alignment expenses | **—** | 1.3 | (1.3) | (100)% |
| | **$119.3** | $106.2 | $13.1 | 12% |

Operating expenses in Q2/20 were $119.3 million, up $13.1 million or 12%, from $106.2 million in Q2/19. The increase in costs was primarily attributable to net litigation settlement costs of $12.4 million (16 cents per basic and diluted shares) included within *Selling, general and administration e*xpenses in Q2/20. There was also an increase in recoverable costs related to CDS. Recoverable costs of $1.9 million related to CDS's clearing operation, netted in Q2/19, were included in both CDS revenue and *Selling, general and administration* expenses in Q2/20. In addition, there were higher employee performance incentive costs, increased information technology professional service costs, higher costs related to managing our business during the COVID-19 pandemic as well as increased bad debt expense. The increases were somewhat offset by a decline in travel and entertainment expenses, consulting fees and severance costs. In addition, there were *Strategic re-alignment* expenses of $1.3 million in Q2/19 with no similar costs in Q2/20.

### Compensation and benefits

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$55.2** | $52.1 | $3.1 | 6% |

- *Compensation and benefits* costs increased in Q2/20 primarily due to higher employee performance incentive plan and COVID-19 pandemic related costs, somewhat offset by lower severance costs.
- There were 1,332 TMX Group employees at June 30, 2020 versus 1,280 employees at June 30, 2019 reflecting an increase in headcount attributable to investing in the various growth areas of our business.

### Information and trading systems

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$13.3** | $12.2 | $1.1 | 9% |

- The increase in *Information and trading systems* expenses from Q2/19 to Q2/20 reflected higher information technology professional service costs as well as higher costs related to the COVID-19 pandemic as employees worked from home.

## Selling, general and administration

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$31.3** | $21.2 | $10.1 | 48% |

- *Selling, general and administration* expenses increased in Q2/20 compared with Q2/19 primarily due incurring net litigation settlement costs of approximately $12.4 million (16 cents per basic and diluted share) in Q2/20. There was also an increase in recoverable costs of $1.9 million related to CDS's clearing operation, netted in Q2/19, which were included in both CDS revenue and *Selling, general and administration* expenses in Q2/20. There were also increased costs attributable to the COVID-19 pandemic related to onerous subleases and higher bad debt expense. The increases were somewhat offset by a decline in travel and entertainment expenses and consulting fees.

## Depreciation and amortization

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$19.5** | $19.4 | $0.1 | 1% |

- There were slightly higher *Depreciation and amortization* costs reflecting increased amortization on new intangible assets.
- The *Depreciation and amortization* costs in Q2/20 of $19.5 million included $11.8 million related to amortization of intangibles related to acquisitions (18 cents per basic and 17 cents per diluted share).
- The *Depreciation and amortization* costs in Q2/19 of $19.4 million included $11.8 million related to amortization of intangibles related to acquisitions (17 cents per basic and diluted share).

## Strategic re-alignment expenses

| | **Q2/20** | | Q2/19 | |
|---|---|---|---|---|
| (in millions of dollars) | **Pre-tax Amount** | **Basic and Diluted Earnings per Share Impact** | Pre-tax Amount | Basic and Diluted Earnings per Share Impact |
| | **$—** | **$—** | $1.3 | $0.02 |

- *Strategic re-alignment expenses* for Q2/19 were $1.3 million reflecting non-recurring charges for onerous contracts related to our initiative on modernizing our clearing platforms. (See **INITIATIVES AND ACCOMPLISHMENTS - Update on Modernization of Clearing Platforms**).

## Additional Information

### Share of income from equity accounted investees

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$1.9** | $0.7 | $1.2 | 171% |

- The increase in our share of income from equity accounted investees of $1.2 million reflected an increase in our share of income from BOX.

### Other income

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$—** | $2.3 | $(2.3) | (100)% |

- In Q2/19, we completed the sale of our interest in the Bermuda Stock Exchange resulting in a gain of approximately $2.3 million before tax ($2.0 million after income tax, or 4 cents per basic and diluted share).

### Net finance costs

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$8.3** | $8.9 | $(0.6) | (7)% |

- The decrease in net finance costs from Q2/19 to Q2/20 reflected lower interest expense due to decreased debt levels.

### Income tax expense and effective tax rate

| **Income Tax Expense** (in millions of dollars) | | **Effective Tax Rate** (%) | |
|---|---|---|---|
| **Q2/20** | Q2/19 | **Q2/20** | Q2/19 |
| **$24.2** | $21.0 | **26%** | 21% |

- Excluding the adjustment below, the effective tax rate would have been approximately 26% for Q2/19.
- In Q2/19, the Alberta general corporate income tax rate decreased. This change resulted in a decrease in net deferred income tax liabilities and a corresponding decrease in income tax expense of $4.3 million.

## Segments

The following information reflects TMX Group’s segment results for the quarter ended June 30, 2020 compared with the quarter ended June 30, 2019.

### *Quarter ended June 30, 2020*

| (in millions of dollars) | Capital Formation | Equities and Fixed Income Trading & Clearing | Derivatives Trading & Clearing | Global Solutions, Insights & Analytics | Other | Total |
|---|---|---|---|---|---|---|
| Revenue from external customers | $ 48.1 | $ 59.5 | $ 30.0 | $ 81.0 | $ (0.9) | $ 217.7 |
| Inter-segment revenue | — | 0.5 | — | — | (0.5) | — |
| Total revenue | 48.1 | 60.0 | 30.0 | 81.0 | (1.4) | 217.7 |
| Income (loss) from operations | 25.0 | 30.8 | 13.6 | 52.8 | (23.8) | 98.4 |

### *Quarter ended June 30, 2019*

| (in millions of dollars) | Capital Formation | Equities and Fixed Income Trading & Clearing | Derivatives Trading & Clearing | Global Solutions, Insights & Analytics | Other | Total |
|---|---|---|---|---|---|---|
| Revenue from external customers | $ 52.6 | $ 48.6 | $ 33.8 | $ 75.6 | $ (0.3) | $ 210.3 |
| Inter-segment revenue | — | 0.4 | — | 0.1 | (0.5) | — |
| Total revenue | 52.6 | 49.0 | 33.8 | 75.7 | (0.8) | 210.3 |
| Income (loss) from operations | 31.3 | 23.9 | 15.1 | 47.5 | (13.7) | 104.1 |

### *Income (loss) from operations*

The decrease in *Income from operations* from *Capital Formation* reflected lower revenue from *additional listing fee* revenue and TSX Trust. There was also an increase in operating expenses in Q2/20 compared with Q2/19.

The increase in *Income from operations* from *Equities and Fixed Income Trading and Clearing* was largely driven by significantly higher revenue from *Equities trading* due to substantially higher volumes across all of our exchanges. The impact from the higher volumes was somewhat offset by a less favorable product mix in Q2/20 compared with Q2/19.

In addition, there was an increase in revenue from CDS and *Fixed income trading.* The increase in *Income from operations* was partially offset by an increase in operating expenses in Q2/20 compared with Q2/19.

The decrease in *Income from operations* from *Derivatives Trading and Clearing* was driven by a 9% decrease in revenue from MX and CDCC. This decrease in revenue was primarily due to lower revenue per contract attributable to an unfavorable product mix. There was also a 1% decrease in volumes on MX. The decrease was somewhat offset by a decrease in operating expenses from Q2/19 to Q2/20.

The increase in *Income from operations* from *Global Solutions, Insights and Analytics* reflects higher revenue from Trayport, including VisoTech (acquired May 15, 2019) and TMX Datalinx. Within TMX Datalinx, there were higher revenues related to subscriptions, usage based quotes as well as co-location, partially offset by lower revenues related to under-reported usage of real-time quotes in prior periods. In addition, there was a favorable impact from a weaker Canadian dollar relative to the U.S. dollar in Q2/20 compared with Q2/19.

*Other* includes certain revenue as well as corporate and other costs related to initiatives, not allocated to the operating segments. Revenue related to foreign exchange gains and losses and other services are presented in the *Other* segment. Costs and expenses related to the amortization of purchased intangibles, along with certain consolidation and elimination adjustments, are also presented in *Other*. The *loss from operations* for the *Other* segment was higher in Q2/20 compared to Q2/19 reflecting net litigation settlement costs of $12.4 million incurred and allocated to the *Other* segment. In addition, there were higher net foreign exchange losses on net monetary assets reflecting an even more unfavorable impact from a weaker Canadian dollar relative to the U.S. dollar in Q2/20 compared with Q2/19.

## Six months ended June 30, 2020 Compared with Six months ended June 30, 2019

The information below reflects the financial statements of TMX Group for the six months ended June 30, 2020 compared with the six months ended June 30, 2019. Certain comparative information has been reclassified in order to conform with the financial presentation adopted in the current year.

| (in millions of dollars, except per share amounts) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase/ (decrease)** | **% increase/ (decrease)** |
|---|---|---|---|---|
| Revenue | **$438.0** | $407.8 | $30.2 | 7% |
| Operating expenses | **228.6** | 213.5 | 15.1 | 7% |
| Income from operations | **209.4** | 194.3 | 15.1 | 8% |
| Net income | **137.9** | 138.4 | (0.5) | 0% |
| Adjusted net income[28] | **173.6** | 155.0 | 18.6 | 12% |
| Earnings per share | | | | |
| Basic | **2.45** | 2.47 | (0.02) | (1)% |
| Diluted | **2.42** | 2.46 | (0.04) | (2)% |
| Adjusted Earnings per share[29] | | | | |
| Basic | **3.08** | 2.76 | 0.32 | 12% |
| Diluted | **3.05** | 2.75 | 0.30 | 11% |
| Cash flows from operating activities | **209.9** | 164.0 | 45.9 | 28% |

[28] See discussion under the heading "Non-IFRS Financial Measures".
[29] See discussion under the heading "Non-IFRS Financial Measures".

## Net Income and Earnings per Share

Net income in the six months ended June 30, 2020 was $137.9 million, or $2.45 per common share on a basic and $2.42 per common share on a diluted basis, compared with a net income of $138.4 million, or $2.47 per common share on a basic and $2.46 on a diluted basis, for the six months ended June 30, 2019. The slight decrease in net income and earnings per share was largely driven by significantly higher income tax expense, and a higher effective income tax rate, in 1H/20 compared with 1H/19.

- During 1H/20, there was a change in the U.K. corporate income tax rate. This resulted in an increase in deferred income tax liabilities and a corresponding increase in income tax expense of $7.4 million, which reduced net income.
- In 1H/19, the Alberta general corporate income tax rate decreased. This change resulted in a decrease in net deferred income tax liabilities and a corresponding decrease in income tax expense of $4.3 million.

The decrease in diluted earnings per share was also due to an increase in the number of weighted-average common shares outstanding in 1H/20 compared with 1H/19.

Largely offsetting the declines, income from operations increased by $15.1 million. The increase in income from operations from 1H/19 to 1H/20 was driven by an increased revenue of $30.2 million, offset by an increase in operating expenses of $15.1 million. The increase in operating expenses was largely attributable to net litigation settlement costs of $12.4 million (16 cents per basic and diluted common share) in Q2/20.

## Adjusted Earnings per Share[30] Reconciliation for Six months ended June 30, 2020 and Six months ended June 30, 2019

The following is a reconciliation of earnings per share to adjusted earnings per share:

| | **Six months ended June 30, 2020** | | Six months ended June 30, 2019 | |
|---|---|---|---|---|
| (unaudited) | **Basic** | **Diluted** | Basic | Diluted |
| Earnings per share | **$2.45** | **$2.42** | $2.47 | $2.46 |
| Adjustments related to: | | | | |
| Amortization of intangibles related to acquisitions | **0.34** | **0.34** | 0.34 | 0.34 |
| Strategic re-alignment expenses[31] | **—** | **—** | 0.06 | 0.06 |
| Increase in deferred income tax liabilities relating to change in U.K. tax rate | **0.13** | **0.13** | — | — |
| Net litigation settlement costs | **0.16** | **0.16** | — | — |
| Gain on sale of interest in Bermuda Stock Exchange | **—** | **—** | (0.04) | (0.04) |
| Transaction related costs | **—** | **—** | 0.01 | 0.01 |
| Change in net deferred income tax liabilities resulting from decrease in Alberta corporate income tax rate | **—** | **—** | (0.08) | (0.08) |
| Adjusted earnings per share[32] | **$3.08** | **$3.05** | $2.76 | $2.75 |
| Weighted average number of common shares outstanding | **56,332,419** | **56,891,688** | 55,924,166 | 56,343,757 |

Adjusted diluted earnings per share increased by 11% from $2.75 in 1H/19 to $3.05 in 1H/20 largely driven by increased revenue, somewhat offset by higher operating expenses, excluding net litigation settlement costs of $12.4 million.

The increase in adjusted diluted earnings per share was somewhat offset by an increase in the number of weighted-average common shares outstanding in 1H/20 compared with 1H/19.

[30] See discussion under the heading "Non-IFRS Financial Measures".
[31] Please refer to "Initiatives and Accomplishments - Strategic re-alignment" in 2019 MD&A for more details.
[32] See discussion under the heading "Non-IFRS Financial Measures".

## Adjusted Net Income[33] Reconciliation for Six months ended June 30, 2020 and Six months ended June 30, 2019

The following is a reconciliation of net income to adjusted net income:

| (in millions of dollars)<br>(unaudited) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | $ increase / (decrease) | % increase / (decrease) |
|---|---|---|---|---|
| Net income | **$137.9** | $138.4 | $(0.5) | 0% |
| Adjustments related to: | | | | |
| Amortization of intangibles related to acquisitions | **19.2** | 18.9 | 0.3 | 2% |
| Strategic re-alignment expenses[34] | **—** | 3.4 | (3.4) | (100)% |
| Increase in deferred income tax liabilities relating to change in U.K. tax rate | **7.4** | — | 7.4 | n/a |
| Net litigation settlement costs | **9.1** | — | 9.1 | n/a |
| Gain on sale of interest in Bermuda Stock Exchange | **—** | (2.0) | 2.0 | (100%) |
| Transaction related costs | **—** | 0.6 | (0.6) | (100%) |
| Change in net deferred income tax liabilities resulting from decrease in Alberta corporate income tax rate | **—** | (4.3) | 4.3 | (100%) |
| Adjusted net income[35] | **$173.6** | $155.0 | $18.6 | 12% |

Adjusted net income increased by 12% from $155.0 million in 1H/19 to $173.6 million to 1H/20 largely driven by an increased revenue, somewhat offset by higher operating expenses, excluding net litigation settlement costs of $12.4 million.

33 See discussion under the heading "Non-IFRS Financial Measures".
34 Please refer to "Initiatives and Accomplishments - Strategic re-alignment" in 2019 MD&A for more details.
35 See discussion under the heading "Non-IFRS Financial Measures".

## Revenue

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Capital Formation | **$88.2** | $94.4 | $(6.2) | (7)% |
| Equities and Fixed Income Trading and Clearing | **117.7** | 97.1 | 20.6 | 21% |
| Derivatives Trading and Clearing | **70.5** | 66.4 | 4.1 | 6% |
| Global Solutions, Insights and Analytics | **160.8** | 150.2 | 10.6 | 7% |
| Other | **0.8** | (0.3) | 1.1 | (367)% |
| | **$438.0** | $407.8 | $30.2 | 7% |

Revenue was $438.0 million in 1H/20, up $30.2 million or 7% compared with $407.8 million in 1H/19 attributable to increases in revenue from *Equities and Fixed Income Trading and Clearing, Derivatives Trading and Clearing* as well as *Global Solutions, Insights and Analytics* offset by a decrease in *Capital Formation* revenue.

## Capital Formation

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Initial listing fees | **$5.0** | $5.8 | $(0.8) | (14)% |
| Additional listing fees | **35.3** | 38.8 | (3.5) | (9)% |
| Sustaining listing fees | **34.6** | 34.5 | 0.1 | 0% |
| Other issuer services | **13.3** | 15.3 | (2.0) | (13)% |
| | **$88.2** | $94.4 | $(6.2) | (7)% |

- *Initial listing fees* in 1H/20 decreased from 1H/19 primarily due to a decline in the amount of deferred *initial listing fees* recognized in 1H/20 compared with 1H/19, largely attributable to TSXV. We recognized *initial listing fees* received in 2019 and 2020 of $4.4 million in 1H/20 compared with *initial listing fees* received in 2018 and 2019 of $5.3 million in 1H/19.
- Based on *initial listing fees* billed in 2019 and 1H/20, the following amounts have been deferred to be recognized in Q3/20, Q4/20, Q1/21 and Q2/21: $1.5 million, $0.9 million, $0.5 million and $0.1 million respectively. Total *initial listing fees* revenue for future quarters will also depend on listing activity in those quarters.
- *Additional listing fees* in 1H/20 declined compared to 1H/19 reflecting a decline of 30% in the number of transactions billed at the maximum listing fee of $250,000 on TSX from 1H/19 to 1H/20. This was somewhat offset by an increase in additional listing fees on TSXV where there was an increase in the number of financings and total financing dollars raised.
- Issuers listed on TSX and TSXV pay annual *sustaining listing fees* primarily based on their market capitalization at the end of the prior calendar year, subject to minimum and maximum fees. The increase in *sustaining listing fees* on TSX was due to the increase in the market capitalization of TSX issuers at December 31, 2019 compared with

December 31, 2018. The increase was largely offset by a decrease in *sustaining listing fees* on TSXV reflecting a small decline in the market capitalization of TSXV issuers from the end of 2018 to the end of 2019.

- *Other issuer services* revenue in 1H/20 was lower compared to 1H/19 reflecting decreased revenue from TSX Trust due to lower margin income and corporate trust fees. In addition, there was a decrease in recoverable revenue as some issuers postponed their annual general meetings. The decreases were somewhat offset by an increase in transfer agent fee revenue.

## Equities and Fixed Income Trading and Clearing

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| Equities and fixed income trading | **$67.9** | $51.8 | $16.1 | 31% |
| Equities and fixed Income clearing, settlement, depository and other services (CDS) | **49.8** | 45.3 | 4.5 | 10% |
| | **$117.7** | $97.1 | $20.6 | 21% |

- There was an increase in *Equities and Fixed Income Trading* revenue in 1H/20 compared with 1H/19 driven by significantly higher overall volumes across all of our exchanges. There was also an increase in *fixed income trading* revenue largely due to increased activity in swaps and Government of Canada Bonds.

- The overall volume of securities traded on our equities marketplaces increased by 39% (96.8 billion securities in 1H/20 versus 69.6 billion securities in 1H/19. There was an increase in volumes of 48% on TSX, 14% on TSXV and 59% on Alpha in 1H/20 compared with 1H/19.

- Excluding intentional crosses, in all listed issues in Canada, our combined domestic equities trading market share was 61% in 1H/20, up 5% from 56% in 1H/19[36]. We only trade securities that are listed on TSX or TSXV.

- Excluding intentional crosses, for TSX and TSXV listed issues, our combined domestic equities trading market share was approximately 67% in 1H/20, up 1% from approximately 66% in1H/19.[37]

- CDS revenue increased from 1H/19 to 1H/20 reflecting higher clearing and settlement revenue due to higher volumes, increased custodial fees as well as higher international revenue. In addition, recoverable costs of $3.0 million related to CDS's clearing operation, netted in 1H/19, were included in both CDS revenue and *Selling, general and administration* expenses in 1H/20. The increases in revenue were partially offset by higher rebates.

## Derivatives Trading and Clearing

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$70.5** | $66.4 | $4.1 | 6% |

[36] Source: IIROC.
[37] Source: IIROC.

- The increase in *Derivatives Trading and Clearing* revenue was driven by an 8% increase in revenue from MX and CDCC. There was a 13% increase in volumes on MX (66.3 million contracts traded in 1H/20 versus 58.6 million contracts traded in 1H/19). The impact from the higher volumes was somewhat offset by lower revenue per contract attributable to an unfavorable product mix. There was also an increase in revenue from REPO (repurchase agreements) clearing in 1H/20 compared with 1H/19.

- The increases were somewhat offset by a decrease in revenue of approximately $0.8 million from BOX relating to our agreement to provide transitional services, which ended on June 30, 2020.

## Global Solutions, Insights and Analytics

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| Trayport | **$67.2** | $59.4 | $7.8 | 13% |
| GSIA (excluding Trayport) | **93.6** | 90.8 | $2.8 | 3% |
| | **$160.8** | $150.2 | $10.6 | 7% |

### *Trayport*

The increase in *Global Solutions, Insights and Analytics (GSIA)* revenue in 1H/20 compared with 1H/19 was largely driven by increased revenue from Trayport, including revenue from VisoTech (acquired May 15, 2019).

The following table summarizes the average number of Trayport subscribers (excluding VisoTech) over the last eight quarters:

| | **Q2/20** | **Q1/20** | **Q4/19** | **Q3/19** | **Q2/19** | **Q1/19** | **Q4/18** | **Q3/18** |
|---|---|---|---|---|---|---|---|---|
| Trader Subscribers | 4,998 | 5,191 | 5,071 | 4,863 | 4,834 | 4,716 | 4,656 | 4,348 |
| Total Subscribers | 22,930 | 23,438 | 22,974 | 22,125 | 21,946 | 21,683 | 21,465 | 20,602 |
| Revenue (in millions of GBP) | £19.7 | £19.4 | £18.0 | £18.2 | £17.8 | £16.7 | £16.8 | £16.5 |

Total Subscribers means all chargeable licenses of core Trayport products in core customer segments including Traders, Brokers and Exchanges. Trader Subscribers are a subset of Total Subscribers. Trader Subscribers revenue represents over 50% of total Trayport revenue.

Revenue from Trayport, including VisoTech (acquired May 15, 2019), was £39.1 million in 1H/20, up 13% over 1H/19. Excluding VisoTech, revenue from Trayport was up 10%.

### *GSIA (excluding Trayport)*

Revenue from GSIA (excluding Trayport) increased by 3% from 1H/19 to 1H/20. There were higher revenues related to subscriptions, usage based quotes, benchmarks and indices as well as co-location, partially offset by lower revenues related to under-reported usage of real-time quotes in prior periods The higher revenue includes a favourable impact from a weaker Canadian dollar relative to the U.S. dollar in 1H/20 compared with 1H/19.

- The average number of professional market data subscriptions for TSX and TSXV products was essentially unchanged from 1H/19 to 1H/20 (101,531 professional market data subscriptions in 1H/20 compared with 101,591 in 1H/19.)

- The average number of MX professional market data subscriptions decreased 1% from 1H/19 to 1H/20 (18,609 MX professional market data subscriptions in 1H/20 compared with 18,769 in 1H/19).

Revenue from *GSIA*, excluding VisoTech was up 6% in 1H/20 from 1H/19.

## Other

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$0.8** | $(0.3) | $1.1 | 367% |

- The increase in *Other* revenue was primarily due to recognizing net foreign exchange gains on net monetary assets in 1H/20 compared with net foreign exchange losses in 1H/19.

## Operating expenses

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase / (decrease)** | **% increase / (decrease)** |
|---|---|---|---|---|
| Compensation and benefits | **$111.4** | $105.1 | $6.3 | 6% |
| Information and trading systems | **26.0** | 24.7 | 1.3 | 5% |
| Selling, general and administration | **51.9** | 39.4 | 12.5 | 32% |
| Depreciation and amortization | **39.3** | 39.7 | (0.4) | (1)% |
| Strategic re-alignment expenses | **—** | 4.6 | (4.6) | (100)% |
| | **$228.6** | $213.5 | $15.1 | 7% |

Operating expenses in 1H/20 were $228.6 million, up $15.1 million or 7%, from $213.5 million in 1H/19. The increase in costs was primarily attributable to net litigation settlement costs of $12.4 million (16 cents per basic and diluted shares) included within *Selling, general and administration e*xpenses for Q2/20. There was also an increase in recoverable costs related to CDS. Recoverable costs of $3.0 million related to CDS's clearing operation, netted in 1H/19, were included in both CDS revenue and *Selling, general and administration* expenses in 1H/20. In addition, there were higher employee performance incentive costs, higher information technology professional services costs, increased bad debt expense as well as higher costs related to managing our business during the COVID-19 pandemic. The increases were somewhat offset by a decline in travel and entertainment expenses, consulting fees and severance costs. In addition, there were *Strategic re-alignment* expenses of $4.6 million in 1H/19 with no similar costs in 1H/20.

### Compensation and benefits

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$111.4** | $105.1 | $6.3 | 6% |

- The increase in *Compensation and benefits* expenses was primarily due to higher employee performance incentive plan and COVID-19 pandemic related costs, somewhat offset by lower severance costs.
- There were 1,332 TMX Group employees at June 30, 2020 versus 1,280 employees at June 30, 2019 reflecting an increase in headcount attributable to investing in the various growth areas of our business.

### Information and trading systems

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$26.0** | $24.7 | $1.3 | 5% |

- The increase in *Information and trading systems* expenses from 1H/19 to 1H/20 reflected higher information technology professional services costs as well as higher costs related to the COVID-19 pandemic as employees worked from home.

## Selling, general and administration

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$51.9** | $39.4 | $12.5 | 32% |

- *Selling, general and administration* expenses increased by $12.5 million in 1H/20 compared with 1H/19 primarily due to incurring net litigation settlement costs of $12.4 million (16 cents per basic and diluted share) in Q2/20. The increase was also due to higher costs attributable to the COVID-19 pandemic related to onerous subleases and higher bad debt expense.
- There was also an increase in recoverable costs of $3.0 million related to CDS's clearing operation, netted in 1H/19, which were included in both CDS revenue and *Selling, general and administration* expenses in 1H/20.
- The increases in S*elling, general and administration* expenses were partially offset by lower travel and entertainment expenses and consulting fees.

## Depreciation and amortization

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$39.3** | $39.7 | $(0.4) | (1)% |

- There were lower *Depreciation and amortization* costs reflecting reduced expense relating to assets that have been fully amortized.
- The *Depreciation and amortization* costs in 1H/20 of $39.3 million included $23.6 million related to amortization of intangibles assets related to acquisitions (34 cent per basic and diluted share).
- The *Depreciation and amortization* costs in 1H/19 of $39.7 million included $23.7 million related to amortization of intangibles assets related to acquisitions (34 cents per basic and diluted share).

## Strategic re-alignment expenses

| | **Six months ended June 30, 2020** | | Six months ended June 30, 2019 | |
|---|---|---|---|---|
| (in millions of dollars) | **Pre-tax Amount** | **Basic and Diluted Earnings per Share Impact** | Pre-tax Amount | Basic and Diluted Earnings per Share Impact |
| | **$—** | **$—** | $4.6 | $0.06 |

- *Strategic re-alignment expenses* for 1H/19 were $4.6 million, which included $3.3 million related to organizational changes we made in our post trade business, elimination of our centralized innovation product development unit, and changes to our enterprise risk approach. There were also non-recurring charges for onerous contracts related to our initiative on modernizing our clearing platforms of $1.3 million. (See **INITIATIVES AND ACCOMPLISHMENTS - Update on Modernization of Clearing Platforms**).

## Additional Information

### Share of income from equity accounted investees

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase** | **% increase** |
|---|---|---|---|---|
| | **$3.7** | $2.1 | $1.6 | 76% |

- In 1H/20 our share of income from equity accounted investees increased by $1.6 million reflected an increase in our share of income from BOX.

### Other income

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$—** | $2.3 | $(2.3) | (100)% |

- In 1H/19, we completed the sale of our interest in Bermuda Stock Exchange resulting in a gain on sale of approximately $2.3 million before tax ($2.0 million after income tax, or 4 cents per basic and diluted share).

### Net finance costs

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ (decrease)** | **% (decrease)** |
|---|---|---|---|---|
| | **$16.7** | $18.2 | $(1.5) | (8)% |

- The decrease in net finance costs from 1H/19 to 1H/20 reflected lower interest expense due to decreased debt levels.

### Income tax expense and effective tax rate

| **Income Tax Expense** (in millions of dollars) | | **Effective Tax Rate** (%) | |
|---|---|---|---|
| **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **Six months ended June 30, 2020** | Six months ended June 30, 2019 |
| **$58.5** | $42.1 | **30%** | 23% |

Excluding adjustments, primarily related to the items noted below, the effective tax rate would have been approximately 26% for both 1H/20 and 1H/19.

**1H/20**

- In 1H/20, there was an increase in deferred income tax liabilities and a corresponding increase in income tax expense of $7.4 million relating to the U.K. corporate income tax rate. In Q1/20, it was announced that the U.K. corporate income tax rate would not decline as previously anticipated; therefore, we were required to revalue deferred income tax liabilities related to acquired intangible assets.

**1H/19**

- In 1H/19, the Alberta general corporate income tax rate decreased. This change resulted in a decrease in net deferred income tax liabilities and a corresponding decrease in income tax expense of $4.3 million.

## Total equity

| (in millions of dollars) | **As at June 30, 2020** | As at December 31, 2019 | **$ increase** |
|---|---|---|---|
| Total equity | **$3,554.9** | $3,499.1 | $55.8 |

- As at June 30, 2020, there were 56,490,007 common shares issued and outstanding and 1,367,235 options outstanding under the share option plan.
- At July 31, 2020, there were 56,534,530 common shares issued and outstanding and 1,320,689 options outstanding under the share option plan.
- The increase in Total equity is primarily attributable to the inclusion of net income of $137.9 million less dividend payments to shareholders of TMX Group of $74.4 million. In addition, we received proceeds on the exercise of options, which were largely offset by the cost of repurchasing 140,000 of our common shares under a normal course issuer bid.

## Segments

The following information reflects TMX Group's segment results for the six months ended June 30, 2020 compared with the six months ended June 30, 2019

### *Six months ended June 30, 2020*

| (in millions of dollars) | **Capital Formation** | **Equities and Fixed Income Trading & Clearing** | **Derivatives Trading & Clearing** | **Global Solutions, Insights & Analytics** | **Other** | **Total** |
|---|---|---|---|---|---|---|
| Revenue from external customers | $ 88.2 | $ 117.7 | $ 70.5 | $ 160.8 | $ 0.8 | $ 438.0 |
| Inter-segment revenue | — | 0.9 | — | 0.1 | (1.0) | — |
| Total revenue | 88.2 | 118.6 | 70.5 | 160.9 | (0.2) | 438.0 |
| Income (loss) from operations | 43.0 | 62.6 | 37.1 | 106.9 | (40.2) | 209.4 |

### *Six months ended June 30, 2019*

| (in millions of dollars) | | Capital Formation | | Equities and Fixed Income Trading & Clearing | | Derivatives Trading & Clearing | | Global Solutions, Insights & Analytics | | Other | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | $ | 94.4 | $ | 97.1 | $ | 66.4 | $ | 150.2 | $ | (0.3) | $ | 407.8 |
| Inter-segment revenue | | — | | 0.8 | | — | | 0.2 | | (1.0) | | — |
| Total revenue | | 94.4 | | 97.9 | | 66.4 | | 150.4 | | (1.3) | | 407.8 |
| Income (loss) from operations | | 52.4 | | 46.2 | | 29.0 | | 95.7 | | (29.0) | | 194.3 |

### *Income (loss) from operations*

The decrease in *Income from operations* from *Capital Formation* reflected lower revenue from *additional listing fee* revenue and TSX Trust. There was also an increase in operating expenses in 1H/20 compared with 1H/19.

The increase in *Income from operations* from *Equities and Fixed Income Trading and Clearing* was largely driven by significantly higher revenue from *Equities trading* due to substantially higher volumes across all of our exchanges.In addition, there was an increase in revenue from CDS and *Fixed income trading.* The increase was partially offset by an increase in operating expenses in 1H/20 compared with 1H/19.

The increase in *Income from operations* from *Derivatives Trading and Clearing r*eflected higher revenue from MX and CDCC, driven by an increase in volumes on MX, and an increase in revenue from REPO (repurchase agreements) clearing in 1H/20 compared with 1H/19. The impact from the higher volumes was somewhat offset by lower revenue per contract attributable to an unfavorable product mix, and a decrease in revenue from BOX. There was also a decrease in operating expenses in 1H/20 compared with 1H/19.

The increase in *Income from operations* from *Global Solutions, Insights and Analytics* reflects higher revenue from Trayport, including VisoTech (acquired May 15, 2019) and TMX Datalinx. Within TMX Datalinx, there were higher revenues related to subscriptions, usage based quotes, benchmarks and indices as well as co-location, partially offset by lower revenues related to under-reported usage of real-time quotes in prior periods. In addition, there was a favorable impact from a weaker Canadian dollar relative to the U.S. dollar in 1H/20 compared with 1H/19.

*Other* includes *c*ertain revenue as well as corporate and other costs related to initiatives, not allocated to the operating segments. Revenue related to foreign exchange gains and losses and other services are presented in the *Other* segment. Costs and expenses related to the amortization of purchased intangibles, along with certain consolidation and elimination adjustments, are also presented in *Other*. The *loss from operations* for the *Other* segment was higher in 1H/20 compared to 1H/19 reflecting net litigation settlement costs of $12.4 million incurred in Q2/20 and allocated to the *Other* segment in Q2/20. The impact was partially offset by net foreign exchange gains on net monetary assets in 1H/20 compared with net foreign exchange losses in 1H/19.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flows

#### *Q2/20 compared with Q2/19*

| (in millions of dollars) | **Q2/20** | Q2/19 | **$ increase / (decrease) in cash** |
|---|---|---|---|
| Cash flows from operating activities | **$130.9** | $111.5 | $19.4 |
| Cash flows (used in) financing activities | **(111.4)** | (44.5) | (66.9) |
| Cash flows from/(used in) investing activities | **5.2** | (47.8) | 53.0 |

- In Q2/20, *Cash flows from operating activities* increased compared with Q2/19 reflecting an increase in cash related to trade and other receivables, and prepaid expenses as well as trade and other payables.
- In Q2/20, *Cash flows used in financing activities* were higher than in Q2/19. During Q2/20 there was a net increase in cash used to redeem Commercial Paper of $56.8 million as well as a decrease in cash from drawings on liquidity facilities related to our clearing operations of $6.8 million compared with Q2/19.
- In Q2/20, there were c*ash flows from investing activities* of $5.2 million compared with *cash flows used in investing activities* of $47.8 million in Q2/19. This was largely due to an increase in cash of $33.0 million from the net sale of marketable securities in Q2/20 compared with Q2/19. In addition, during Q2/19, we had a cash outflow of $23.3 million related to the VisoTech acquisition, which was somewhat offset by receiving $3.1 million on the sale of our interest in the Bermuda Stock Exchange.

#### *Six months ended June 30, 2020 compared with Six months ended June 30, 2019*

| (in millions of dollars) | **Six months ended June 30, 2020** | Six months ended June 30, 2019 | **$ increase / (decrease) in cash** |
|---|---|---|---|
| Cash flows from operating activities | **$209.9** | $164.0 | $45.9 |
| Cash flows (used in) financing activities | **(146.3)** | (93.0) | (53.3) |
| Cash flows from/(used in) investing activities | **11.8** | (52.8) | 64.6 |

- In the six months ended June 30, 2020, *Cash flows from operating activities* increased compared with the six months ended June 30, 2019 reflecting higher income from operations (excluding depreciation and amortization), an increase cash from trade and other payables and a decrease in income taxes paid.
- In the six months ended June 30, 2020, *Cash flows used in financing activities* were higher than in the six months ended June 30, 2019. During the six months ended June 30, 2020, there was a net increase in cash used to redeem Commercial Paper of $42.9 million compared with the six months ended June 30, 2019. In addition there was an increase in cash of $14.7 million used for share repurchases under our normal course issuer bid program, which was launched in Q1/20.
- In the six months ended June 30, 2020, there were c*ash flows from investing activities* of $11.8 million compared with *cash flows used in investing activities* of $52.8 million in the six months ended June 30, 2019. This was largely

due to an increase in cash of $45.1 million from the net sale of marketable securities in the six months ended June 30, 2020 compared with the six months ended June 30, 2019. In addition, during the six months ended June 30, 2019, we had a cash outflow of $23.3 million related to the VisoTech acquisition, which was somewhat offset by receiving $3.1 million on the sale of our interest in the Bermuda Stock Exchange.

## Summary of Cash Position and Other Matters[38]

### Cash, Cash Equivalents and Marketable Securities

| (in millions of dollars) | **As at June 30, 2020** | As at December 31, 2019 | **$ increase** |
|---|---|---|---|
| | **$269.7** | $229.4 | $40.3 |

We had $269.7 million of cash, cash equivalents and marketable securities as at June 30, 2020. There was an increase in cash, cash equivalents and marketable securities primarily reflecting cash flows from operating activities of $209.9 million, liquidity facilities drawings related to our clearing operations of $4.1 million and proceeds from exercised options of $23.2 million. Offsetting these increases in cash and cash equivalents were cash outflows for dividends to our shareholders of $74.4 million, additions to premises and equipment and intangible assets of $30.2 million, repurchases our shares under a normal course issuer bid of $14.7 million, interest paid, net of interest received, of $16.0 million, and a net decrease in Commercial Paper of $62.6 million. Based on our current business operations and model, we believe that we have sufficient cash resources and access to financing to operate our business, make interest payments, as well as meet our covenants under the trust indentures governing our Debentures and the terms of the Credit Agreement (as defined in the 2019 MD&A) and commercial paper program (Commercial Paper Program) (see **LIQUIDITY AND CAPITAL RESOURCES - Commercial Paper, Debentures, Credit and Liquidity Facilities**), and satisfy the capital maintenance requirements imposed by regulators.

We will also have cash outlays related to the modernization of our clearing platforms (see - **INITIATIVES AND ACCOMPLISHMENTS - Update on Modernization of Clearing Platforms**).

Our ability to obtain funding in the future will depend on the liquidity and condition of the financial markets, including the credit market, and our financial condition at the time, the covenants in the Credit Agreement and the trust indentures governing the Debentures, and by capital maintenance requirements imposed by regulators. At June 30, 2020, there was $177.0 million of Commercial Paper outstanding, and the authorized limit under the program was $500.0 million, which is fully backstopped by the TMX Group credit facility (see - **LIQUIDITY AND CAPITAL RESOURCES - Credit Facility** in our 2019 Annual MD&A).

### Total Assets

| (in millions of dollars) | **As at June 30, 2020** | As at December 31, 2019 | **$ increase** |
|---|---|---|---|
| | **$43,401.4** | $32,359.7 | $11,041.7 |

- Our consolidated balance sheet as at June 30, 2020 includes outstanding balances on open REPO agreements within *Balances with Participants and Clearing Members*. These balances have equal amounts included within *Total Liabilities*. The increase in *Total Assets* of $11,041.7 million from December 31, 2019 reflected higher collateral balances in both CDS and CDCC at June 30, 2020 driven by the Bank of Canada requiring participants to post substantially more collateral (to address Cover 1 liquidity risk under Principles of Financial Market Infrastructure (PMFI)). The increase in Total Assets also reflected an increase in balances related to REPO agreements.

[38] The "*Summary of Cash Position and Other Matters*" section above contains certain forward-looking statements. Please refer to *"Caution Regarding Forward-Looking Information*" for a discussion of risks and uncertainties related to such statements.

## Commercial Paper, Debentures, Credit and Liquidity Facilities

### Commercial Paper

| (in millions of dollars) | **As at June 30, 2020** | As at December 31, 2019 | **$ (decrease)** |
|---|---|---|---|
| | **$177.0** | $239.6 | $(62.6) |

There was $177.0 million of Commercial Paper outstanding, including accrued interest, under the program at June 30, 2020 reflecting a net reduction of $62.6 million from December 31, 2019. Commercial paper is short term in nature, and the average term to maturity from the date of issue was 33 days in Q2/20. The Commercial Paper Program is fully backstopped by the TMX Group credit facility (see - **LIQUIDITY AND CAPITAL RESOURCES - Credit Facility** in our 2019 Annual MD&A).

For additional information on our credit facilities, please see **Credit Facilities** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2019 Annual MD&A.

### Debentures

TMX Group has the following Debentures outstanding:

| (in millions of dollars) | **As at June 30, 2020** | As at December 31, 2019 | $ increase |
|---|---|---|---|
| Series B - Non-Current Debentures | **$249.6** | $249.6 | $0.0 |
| Series D - Non-Current Debentures | **$298.7** | $298.6 | $0.1 |
| Series E - Non-Current Debentures | **$199.0** | $198.9 | $0.1 |
| | **$747.3** | $747.1 | $0.2 |

For additional information on the Debentures, see **Debentures** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2019 Annual MD&A.

### Credit Facilities

For additional information on our credit facilities, please see **Credit Facilities** under the heading **LIQUIDITY AND CAPITAL RESOURCES** in our 2019 Annual MD&A.

As at June 30, 2020, all covenants were met under the TMX Group Credit Agreement.

## Effective Interest Rates

The effective interest rates as at June 30, 2020 for the Debentures and Commercial Paper are shown below:

| Debentures and Commercial Paper | Principal ($CAD millions) | Maturity | All-in Rate |
|---|---|---|---|
| Series B Debentures | 250 | Oct. 3, 2023 | 4.461% |
| Series D Debentures | 300.0 | Dec. 11, 2024 | 2.997% |
| Series E Debentures | 200.0 | Jun. 5, 2028 | 3.779% |
| Commercial Paper | 177.0 | July 8 to July 31, 2020 | 0.308% |

## Other Credit and Liquidity Facilities

CDCC maintains a $27,012 million REPO uncommitted facility ($18,102.0 million at December 31, 2019) that is in place to provide end of day liquidity in the event that CDCC is unable to clear the daylight liquidity facilities to zero. On April 30, 2020, the amount was further amended from $20,622.0 million at March 31, 2020 to $27,012.0 million. On February 28, 2020, CDCC extended this facility to February 26, 2021. The facility would provide liquidity in exchange for securities that have been received by, or pledged to, CDCC.

CDCC also maintains a $320.0 million syndicated revolving standby liquidity facility ($400.0 million at December 31, 2019) to provide end of day liquidity in the event that CDCC is unable to clear the daylight liquidity facilities to zero. Advances under the facility are secured by collateral in the form of securities that have been pledged to or received by CDCC. On February 28, 2020, this facility was extended to February 26, 2021. As at June 30, 2020, CDCC had drawn $12.3 million to facilitate a failed REPO settlement. The amount is fully offset by liquid securities included in cash and cash equivalents and was fully repaid subsequent to the reporting date.

CDS Clearing maintains a secured standby liquidity facility of US$720.0 million, or Canadian dollar equivalent, that can be drawn in either United States (US) or Canadian currency. On March 24, 2020, CDS Clearing extended the maturity date to March 23, 2021.

CDS Clearing also has a secured standby liquidity facility of $2.0 billion or US equivalent that can be drawn in either Canadian or US currency. On March 24, 2020, CDS Clearing extended the maturity date to March 23, 2021.

# MANAGING CAPITAL

Our primary objectives in managing capital and our capital maintenance requirements are described in our 2019 Annual MD&A.

As at June 30, 2020, we were in compliance with each of these externally imposed capital maintenance requirements. See **Credit Facility** and **Other Credit and Liquidity Facilities** and **MANAGING CAPITAL** in our 2019 Annual MD&A for a description of the financial covenants imposed on us.

## QUARTERLY FINANCIAL INFORMATION

| (in millions of dollars except per share amounts - unaudited) | Jun 30 2020 | Mar 31 2020 | Dec 31 2019 | Sep 30 2019 | Jun 30 2019 | Mar 31 2019 | Dec 31 2018 | Sep 30 2018 |
|---|---|---|---|---|---|---|---|---|
| Capital Formation | $48.1 | $40.1 | $42.6 | $43.7 | $52.6 | $41.8 | $45.4 | $45.1 |
| Equities and Fixed Income Trading | 34.7 | 33.2 | 22.7 | 23.5 | 25.6 | 26.2 | 28.6 | 25.1 |
| Equities and fixed Income - clearing, settlement, depository and other services (CDS) | 24.8 | 25.0 | 28.4 | 21.8 | 23.0 | 22.3 | 26.3 | 20.3 |
| Derivatives Trading & Clearing | 30.0 | 40.5 | 33.3 | 33.5 | 33.8 | 32.6 | 35.1 | 30.2 |
| Global Solutions, Insights and Analytics | 81.0 | 79.8 | 75.9 | 73.6 | 75.6 | 74.6 | 73.8 | 72.1 |
| Other | (0.9) | 1.7 | (0.1) | 0.2 | (0.3) | — | 2.0 | — |
| Revenue | 217.7 | 220.3 | 202.8 | 196.3 | 210.3 | 197.5 | 211.2 | 192.8 |
| Operating expenses | 119.3 | 109.3 | 106.3 | 104.7 | 106.2 | 107.3 | 114.2 | 106.3 |
| Income from operations | 98.4 | 111.0 | 96.5 | 91.6 | 104.1 | 90.2 | 97.0 | 86.5 |
| Net income | 67.8 | 70.1 | 47.5 | 61.7 | 77.2 | 61.2 | 69.8 | 57.5 |
| Earnings per share[39] | | | | | | | | |
| Basic | 1.20 | 1.25 | 0.85 | 1.10 | 1.38 | 1.10 | 1.25 | 1.03 |
| Diluted | 1.19 | 1.24 | 0.84 | 1.09 | 1.37 | 1.09 | 1.24 | 1.02 |

***Q2/20 compared with Q1/20***

- Revenue was $217.7 million in Q2/20, down $2.6 million or 1% from $220.3 million in Q1/20 largely attributable to decreases in revenue from *Derivatives Trading and Clearing, CDS, Trayport,* as well as *Other* revenue, largely offset by increases in *Capital Formation, Equities and Fixed Income Trading* and *GSIA, excluding Trayport.*

- Operating expenses in Q2/20 were $119.3 million, up $10.0 million or 9%, from $109.3 million in Q1/20. The increase was largely related to net litigation settlement costs. There were also higher short term employee performance incentive plan, recruitment and COVID-19 pandemic related costs, which were offset by lower salary and benefits costs and reduced travel and entertainment expenses from Q1/20 to Q2/20.

- *Income from operations* decreased from Q1/20 to Q2/20 largely due to the lower revenue and higher operating expenses.

- Net income in Q2/20 was $67.8 million, or $1.20 per common share on a basic and $1.19 on a diluted basis, compared with a net income of $70.1 million, or $1.25 per common share on a basic and $1.24 on a diluted basis, for Q1/20. The decrease in net income and earnings per share was driven by the lower *income from operations* in Q2/20 compared with Q1/20. During Q1/20, there was a change in the expected U.K. corporate income tax rate. This resulted in an increase in deferred income tax liabilities and a corresponding increase in income tax expense of $7.4 million, which reduced net income for Q1/20. The decrease in basic and diluted earnings per share was also due to an increase in the number of weighted-average common shares outstanding in Q2/20 compared with Q1/20.

[39] Earnings per share information is based on net income.

***Q1/20 compared with Q4/19***

- Revenue was $220.3 million in Q1/20, up $17.5 million or 9% from $202.8 million in Q4/19 largely attributable to increases in revenue from Equities and Fixed Income Trading, Derivatives Trading and Clearing, GSIA, including Trayport, as well as Other revenue, somewhat offset by decreases in Capital Formation and CDS revenue.

- Operating expenses in Q1/20 were $109.3 million, up $3.0 million or 3%, from $106.3 million in Q4/19. The increase in costs was largely related to higher short term and long term employee performance incentive plan costs of $8.1 million. There was also an increase in payroll taxes of $3.0 million. Offsetting these increases, certain recoverable costs related to CDS's clearing operation, previously netted, are now included in both CDS revenue and Selling, general and administration expenses. The amounts reclassified to Selling, general and administration expenses were $5.3 million for Q4/19 compared with only $1.1 million in Q1/20. In addition, there was also a decrease in travel and entertainment expenses as well as in recruitment costs from Q4/19 to Q1/20.

- Income from operations increased from Q4/19 to Q1/20 largely due to the higher revenue somewhat offset by higher operating expenses.

- Net income in Q1/20 was $70.1 million, or $1.25 per common share on a basic and $1.24 on a diluted basis, compared with a net income of $47.5 million, or $0.85 per common share on a basic and $0.84 on a diluted basis, for Q4/19. The increase in net income and earnings per share was driven by the higher income from operations in Q1/20 compared with Q4/19. In addition, there was a non-cash impairment charge of $18.0 million related to Shorcan in Q4/19 and no similar charge in Q1/20. However, during Q1/20, there was a change in the expected U.K. corporate income tax rate. This resulted in an increase in deferred income tax liabilities and a corresponding increase in income tax expense of $7.4 million, which reduced net income for Q1/20. The increase in basic and diluted earnings per share was also somewhat reduced by an increase in the number of weighted-average common shares outstanding in Q1/20 compared with Q4/19.

***For additional information on the six previous quarters, please see Select Annual and Quarterly financial information in our 2019 Annual MD&A.***

## Accounting and Control Matters

**Changes in accounting policies**

The following amendments were effective for TMX Group from January 1, 2020:

- IFRS 3, Business Combinations;

- IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimate and Errors; and

- Amendments to conceptual framework.

There was no impact on the interim financial statements as a result of their adoption.

### *Changes in Internal Control over Financial Reporting*

There were no changes to internal control over financial reporting (ICFR) during the quarter ended June 30, 2020 that materially affected, or are reasonably likely to materially affect, our ICFR.

## CAUTION REGARDING FORWARD-LOOKING INFORMATION

This MD&A of TMX Group contains “forward-looking information” (as defined in applicable Canadian securities legislation) that is based on expectations, assumptions, estimates, projections and other factors that management believes to be relevant as of the date of this MD&A. Often, but not always, such forward-looking information can be identified by the use of forward-looking words such as “plans,” “expects,” “is expected,” “budget,” “scheduled,” “targeted,” “estimates,” “forecasts,” “intends,” “anticipates,” “believes,” or variations or the negatives of such words and phrases or statements that certain actions, events or results “may,” “could,” “would,” “might,” or “will” be taken, occur or be achieved or not be taken, occur or be achieved. Forward-looking information, by its nature, requires us to make assumptions and is subject to significant risks and uncertainties which may give rise to the possibility that our expectations or conclusions will not prove to be accurate and that our assumptions may not be correct.

Examples of forward-looking information in this MD&A include, but are not limited to, growth objectives; the expected impact of the VisoTech acquisition on TMX Group's results; the proposed relaunch of the Two-Year Government of Canada Bond Futures; our target dividend payout ratio; the ability of TMX Group to de-leverage and the timing thereof; the modernization of clearing platforms, including the expected cash expenditures related to the modernization of our clearing platforms and the timing of the modernization; other statements related to cost reductions; the impact of the market capitalization of TSX and TSXV issuers overall (from 2019 to 2020) on TMX Group's revenue; future changes to TMX Group's anticipated statutory income tax rate for 2020; factors relating to stock, and derivatives exchanges and clearing houses and the business, strategic goals and priorities, market conditions, pricing, proposed technology and other initiatives, financial results or financial condition, operations and prospects of TMX Group which are subject to significant risks and uncertainties.

These risks include: competition from other exchanges or marketplaces, including alternative trading systems and new technologies, on a national and international basis; dependence on the economy of Canada; adverse effects on our results caused by global economic conditions (including COVID-19) or uncertainties including changes in business cycles that impact our sector; failure to retain and attract qualified personnel; geopolitical and other factors which could cause business interruption (including COVID-19); dependence on information technology; vulnerability of our networks and third party service providers to security risks, including cyber-attacks; failure to properly identify or implement our strategies; regulatory constraints; constraints imposed by our level of indebtedness, risks of litigation or other proceedings; dependence on adequate numbers of customers; failure to develop, market or gain acceptance of new products; failure to effectively integrate acquisitions to achieve planned economics, or divest underperforming businesses; currency risk; adverse effect of new business activities; adverse effects from business divestitures; not being able to meet cash requirements because of our holding company structure and restrictions on paying dividends; dependence on third-party suppliers and service providers; dependence of trading operations on a small number of clients; risks associated with our clearing operations; challenges related to international expansion; restrictions on ownership of TMX Group common shares; inability to protect our intellectual property; adverse effect of a systemic market event on certain of our businesses; risks associated with the credit of customers; cost structures being largely fixed; the failure to realize cost reductions in the amount or the time frame anticipated; dependence on market activity that cannot be controlled; the regulatory constraints that apply to the business of TMX Group and its regulated subsidiaries, costs of on exchange clearing and depository services, trading volumes (which could be higher or lower than estimated) and revenues; future levels of revenues being lower than expected or costs being higher than expected.

Forward-looking information is based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions in connection with the ability of TMX Group to successfully compete against global and regional marketplaces; business and economic conditions generally; exchange rates (including estimates of exchange rates from Canadian dollars to the U.S. dollar or GBP), commodities prices, the level of trading and activity on markets, and particularly the level of trading in TMX Group's key products; business development and marketing and sales activity; the continued availability of financing on appropriate terms for future projects; productivity at TMX Group, as well as that of TMX Group's competitors; market competition; research and development activities; the successful introduction and client acceptance of new products; successful introduction of various technology assets and capabilities; the impact on TMX Group and its customers of various regulations; TMX Group's ongoing relations with its employees; and the extent of any labour, equipment or other disruptions at any of its operations of any significance other than any planned maintenance or similar shutdowns.

In addition to the assumptions outlined above, forward looking information related to long term revenue cumulative average annual growth rate (CAGR) objectives, and long term adjusted earnings per share CAGR objectives are based on assumptions that include, but not limited to:

- TMX Group's success in achieving growth initiatives and business objectives;
- continued investment in growth businesses and in transformation initiatives including next generation post-trade systems;
- no significant changes to our effective tax rate, recurring revenue, and number of shares outstanding;
- moderate levels of market volatility;
- level of listings, trading, and clearing consistent with historical activity;
- economic growth consistent with historical activity;
- no significant changes in regulations;
- continued disciplined expense management across our business;
- continued re-prioritization of investment towards enterprise solutions and new capabilities;
- free cash flow generation consistent with historical run rate; and
- a limited impact from the COVID-19 pandemic on our plans to grow our business over the long term including on the ability of our listed issuers to raise capital.

While we anticipate that subsequent events and developments may cause our views to change, we have no intention to update this forward-looking information, except as required by applicable securities law. This forward-looking information should not be relied upon as representing our views as of any date subsequent to the date of this MD&A. We have attempted to identify important factors that could cause actual actions, events or results to differ materially from those current expectations described in forward-looking information. However, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended and that could cause actual actions, events or results to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. These factors are not intended to represent a complete list of the factors that could affect us. A description of the above-mentioned items is contained in the section "***Enterprise Risk Management***" of our 2019 Annual MD&A which is incorporated by reference into this MD&A, and also in the section **"*Update to Enterprise Risk Management*"** in this MD&A.