



NZX Limited
Level 1, NZX Centre
11 Cable Street
PO Box 2959
Wellington 6140
New Zealand
Tel +64 4 472 7599

www.nzx.com

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NZX Full Year 2015 results announcement

Good progress in NZX's funds services strategy; continued deepening of the capital markets

NZX's full year financial results to 31 December 2015 reflect the positive impact of the company's investment in its funds services strategy, a broader product offering, increased transaction growth and participation in the capital markets, and the sale of NZX's shareholding in Link Market Services NZ. Total revenues for the year of \$73.2 million were up 12.2% on 2014. Earnings before interest, tax, depreciation, amortisation, foreign exchange gain, and gain on disposal of associate (EBITDA) were unchanged at \$24.6 million.

Highlights in 2015 include the acquisition of funds services businesses SuperLife and Apteryx; the first listing on NZX's NXT market for small, higher growth companies; the listing of \$5.6 billion of Local Government Funding Agency (LGFA) bonds; and NZX's retention of the Electricity Authority contracts that were extended for a minimum of eight years.

In addition, NZX realised significant shareholder value in June when after more than 10 years in a successful joint venture, it sold its 50% stake in leading New Zealand share registry Link Market Services NZ for \$13.8 million, with a further payment of \$0.5 million in June 2016 dependent on Link NZ's financial performance over that period.

NZX Chief Executive Tim Bennett commented: "NZX's full year financial result is in line with expectations – performance is underpinned by the execution of NZX's funds services strategy, and positive progress in capital markets development, putting more 'products on the shelves' including the launch of 16 new Exchange Traded Funds."

Reported results are summarised in the table below:

	Year ended 31 Dec 2015 \$m	Year ended 31 Dec 2014 \$m	Change %
Revenue	73.2	65.2	12.2%
Operating expenses	(48.6)	(40.6)	19.7%
EBITDA*	24.6	24.6	(0.1%)
Net finance income	0.2	0.1	95.4%
Depreciation & amortisation	(7.0)	(5.5)	27.3%
Gain on disposal of Link NZ	11.8	-	NM
Associate income	0.4	0.7	(38.9%)
Tax expense	(6.1)	(6.8)	(10.7%)
Net Profit After Tax	23.9	13.1	82.1%

* Earnings before net finance income, income tax, depreciation and amortisation, share of profit of associate and gain on sale of associate.



Business Highlights

Capital Markets: In NZX's capital markets business – which includes revenue from capital raising, trading and clearing, listings, participant services and securities data – revenue was up 5.0% to \$39.3 million, from \$37.4 million in 2014. This was driven by a significant increase in secondary capital raising activity, largely due to additional capital raised by dual listed banks, following changes to risk capital requirements in Australia.

Also contributing to the result was increased trading and clearing volumes through the year that are tangible benefits of the wave of IPOs in recent years.

The market saw a shift in activity to secondary capital raising from IPO activity, which declined in 2015 from record levels. In 2015 there were four IPOs on the Main Board; one NXT market listing (representing the launch of NXT after several years of market development); one Main Board compliance listing; a transition from the NZAX to the Main Board, and a transition from the NZAX to NXT.

The ratio of market capitalisation of NZX equity markets to Gross Domestic Product (GDP) increased to 45.2% at the end of 2015, from 42.1% at the end of 2014.

Tim Bennett commented: “Based on the Australian experience, where compulsory superannuation was introduced in the 1990s, our markets are at the start of a 10-15 year growth journey. Industry-wide commitment to harness this growth potential is imperative, and NZX continues to focus on tackling these challenges on behalf of the industry, and ultimately all New Zealanders.”

NZX's debt market grew substantially in 2015 in what was an exceptional year for debt listings. New debt issues were up 374.3% with \$8.1 billion listed, including the listing by the LGFA of all six existing series of its bonds, representing a total principal amount of \$5.6 billion. NZX's debt market capitalisation increased in 2015 by 50.3% to \$19.8 billion, or 8.1% of GDP.

NZX dairy derivatives continued its exponential growth trajectory in 2015, with lots traded up 111.5% on the prior year, mainly due to increased interest from Asian-based traders. NZX's markets team is focussed on executing on the growth opportunities in this business and evaluating new areas for derivatives market development.

Tim Bennett commented: “Price volatility will continue to be a feature in agricultural markets – we need to focus on developing a deep risk management culture and capability in that sector to ensure New Zealand is not disadvantaged versus other agricultural exporters.”

NZX continues to perform well in its role as frontline regulator of our markets, contributing to the operation of fair, orderly and transparent markets that drive confident, informed investor participation, fund business growth, and ultimately lower the cost of capital for businesses.

The Financial Markets Authority (FMA)'s fourth annual General Obligations Review released in 2015, which assesses and reports on NZX's compliance with its statutory obligations, concluded NZX complied with all of its statutory obligations in 2014. NZX was not required to take any specific actions in response to the review.

NZX's commitment to maintaining positive and robust relationships with other regulators was further cemented in 2015 through Memoranda of Understandings (MoUs) signed with the FMA and the Takeovers Panel. The MoUs set out engagement and cooperation frameworks between regulators, taking into account their respective regulatory roles.



NZX continues to proactively engage with participants in our markets to facilitate and develop the best practice regulatory and compliance culture that is fundamental to the operation of well functioning and vibrant markets.

Market operations: Energy consulting revenues declined in 2015 from high levels in 2014 due to lower levels of development activity, although contractual revenues were steady.

There was significant focus by NZX in 2015 on securing the four market operator contracts tendered by the Electricity Authority. This was successful, with NZX being awarded all four roles. The win highlighted NZX's independent market status and 20 years of experience providing services to the electricity sector.

Funds services: NZX significantly boosted the focus on its funds services business in 2015 with the acquisitions of leading superannuation and passive funds manager SuperLife in January and wealth management platform Apteryx in August.

The acquisition of SuperLife enabled the launch of 16 new Exchange Traded Funds (ETFs) during the year, bringing the total number of ETFs offered by NZX's Smartshares business to 23. The new ETFs give investors the opportunity to invest across all the main assets classes, being cash, bonds, shares and property. There was significant growth in units on issue in Smartshares due to investment by SuperLife and as a result of growth in the new ETFs.

SuperLife achieved strong growth in funds under management over the year, up 14.1% overall, including 22.3% growth in its KiwiSaver business (excluding the transfer of funds from smartkiwi to SuperLife's KiwiSaver Scheme).

The acquisition of Apteryx reflected NZX's commitment to investing in and growing areas of the capital markets that are undeveloped, and where we see considerable potential value creation for our shareholders. NZX is focussed on marketing the Apteryx solution to prospective clients to unlock significant growth potential in this business.

NZX Agri: NZX Agri's performance in 2015 was negatively impacted by adverse conditions in the rural sector, reducing advertising volumes in the rural publications.

Performance of NZX's Australian operation, Clear Grain Exchange was lacklustre, with grain trading revenues well down on the prior year due to an early end to the 2014/5 harvest and a slow start to the 2015/16 harvest.

Costs

Total growth in operating expenses was \$8.0 million. Of this amount, \$5.0 million resulted from the acquisition of SuperLife and Apteryx, and \$2.1 million from increased professional fees associated with the Ralec litigation.

Underlying expense growth of \$0.9 million included increased funds operating expenses of \$1.2 million resulting from the launch of the 16 new ETFs, partially offset by reduced costs in other business areas.

Outlook

Given the volatility that has affected global markets so far in 2016 and the decline in commodity prices impacting NZX's agricultural businesses, NZX sees a relatively wide range of possible revenue outcomes for 2016 in capital raising, trading, clearing and settlement, funds services and agri publishing businesses.



NZX therefore expects FY 2016 EBITDA to be in the range of \$22.5 million to \$26.5 million. This includes an expectation of similar level of Ralec litigation costs to 2015 and is subject to market conditions, particularly with respect to IPOs, secondary capital raisings, and trading and clearing volumes. This guidance assumes no material adverse events, significant one-off expenses or major accounting adjustments. It also assumes no acquisitions or divestments.

Dividend

The NZX board has declared a final dividend for the full year of 3.0 cents per share, fully imputed. The record date will be 16 March 2016, with a payment date of 30 March 2016.

For more information please contact:

Media

Kate McLaughlin
Head of Communications
T: 09 309 3654
M: 027 533 4529
E: kate.mclaughlin@nzx.com

Investors

Bevan Miller
Chief Financial Officer
M: 021 276 7359
E: bevan.miller@nzx.com

About NZX Limited

NZX builds and operates capital, risk and commodity markets and the infrastructure required to support them. We provide high quality information, data and tools to support business decision making. We aim to make a meaningful difference to wealth creation for our shareholders and the individuals, businesses and economies in which we operate. To learn more about NZX, please visit: www.nzxgroup.com