



NEW ZEALAND'S EXCHANGE

# NZX Full Year 2017 Results Presentation

19 FEBRUARY 2018



# Agenda



## Highlights

▲	03	Results
	04	Operational



## Overview

▲	05	Results
	06	Operating Earnings of \$29.0 million
	07	Operating Earnings Waterfall
	08	Operating Earnings Divisional Results



## Refreshed Strategy

▲	09	Refreshed Strategy
	10	Fundamental Reset of NZX
	11-12	Executing the Strategy



## Core Markets

▲	13	Revenue Overview
	14	Core Markets
	15	Issuer Relationships
	16	Secondary Market
	17	Data & Insights



## Growth Opportunities

▲	18	Dairy Derivatives
---	----	-------------------



## Maximise Options

▲	19	Revenue Overview
	20	Funds Management
	21	Wealth Technologies



## Financials

▲	22	Operating Expenses
	23	Other Income and Expenses
	24	CAPEX Activity
	25	Balance Sheet
	26	Cash Flows
	27	Dividend Policy
	28	Dividend



## Earnings Guidance 2018

▲	29	Earnings Guidance 2018
---	----	------------------------

This 2017 full year results presentation should be read in conjunction with the management commentary and financial statements in NZX's annual report, which provides additional information on many areas covered in this report.

# Results Highlights



NPAT  
**\$14.8**  
million

**61.6%**

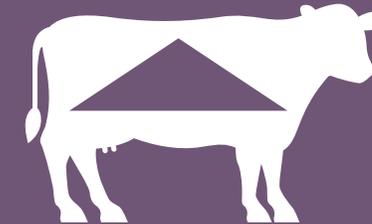
Operating earnings\*\*  
**\$29.0**  
million

**31.3%\***

Funds under management  
**\$2.7**  
billion

**25.8 %**

Dairy derivatives  
**311,675**  
Lots traded



**57.2%**

Revenue

**1.1%\***

Expenses

**11.6%\***

Dividend  
**6.1**  
Cents per share



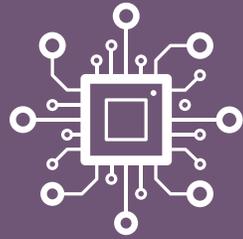
\* Excluding impact of 2016 Agri disposals

\*\* Operating earnings are before net finance expense, income tax, depreciation, amortisation and impairment, adjustment to provision for earnout, gain and loss on disposal of business and property, plant and equipment

# Operational Highlights



Refreshed strategy presented at Investor Day



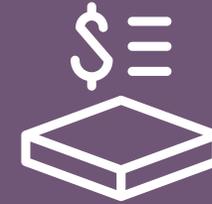
Technology projects completed – life-cycle upgrade to clearing and settlement system completed, participants moved to modern and robust telecommunications infrastructure, implemented changes to application of administrative trading halts, upgraded NZX.com



Policy projects completed – Corporate Governance Code published, Participant Rule Review delivered, stage one of Listing Rules Review completed



Record dairy derivatives trading, product suite extended, announced trading hours extension



Trial of tailored pricing structure in secondary market resulted in 32% increase in average daily on-market value traded, compared to prior period. NZX to migrate to trading and clearing model in line with global practice in the second half of 2018



Progress being made against strategy in 2018 – signed Memorandum of Understanding with HKEX, and NZIER Report released. Both underpin NZX's commitment to increase global presence and connection to the public market

# Results Overview



Result underpinned by significant permanent cost savings, establishment of clear delivery plan

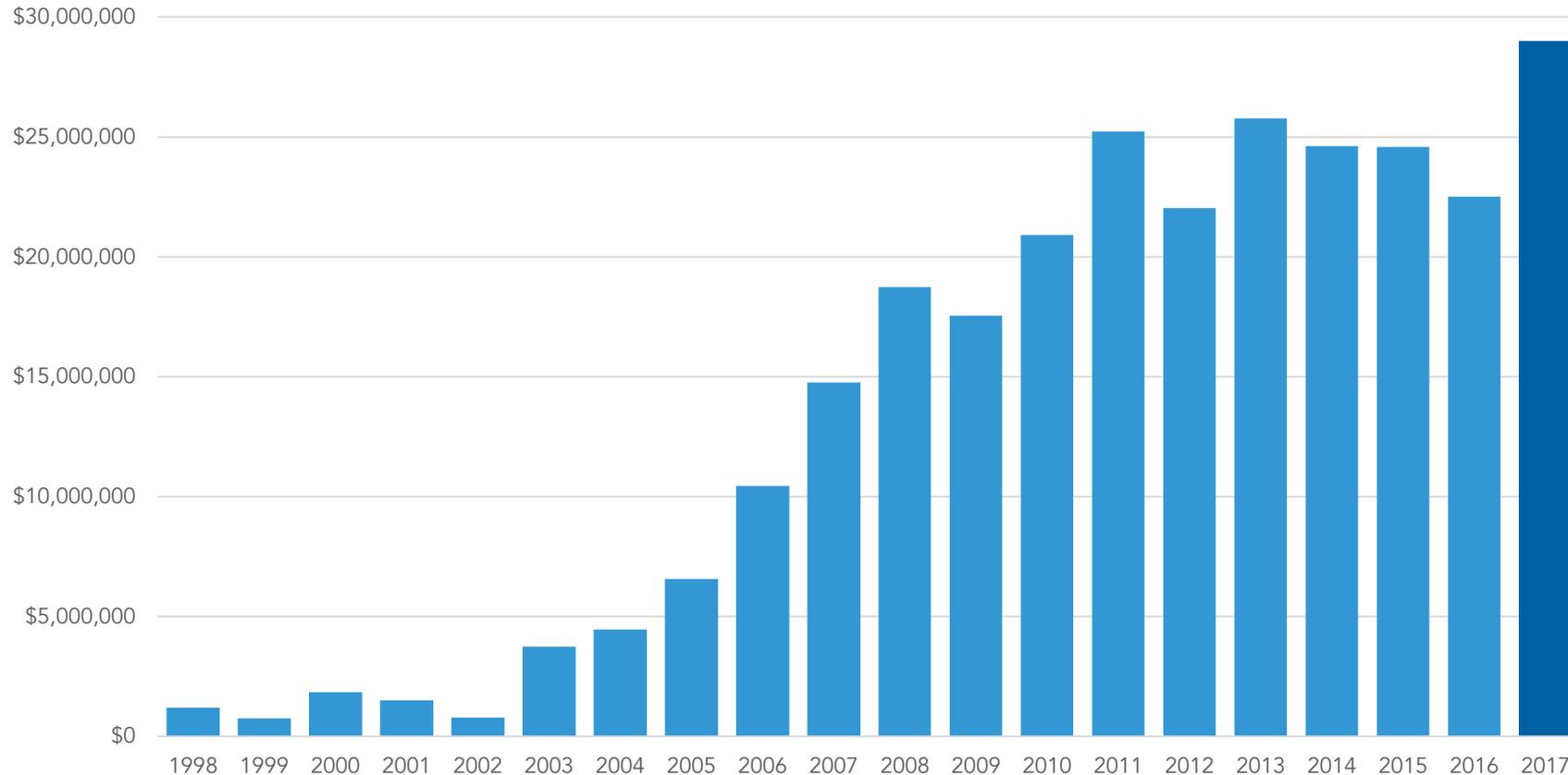
	2017 \$000	2016 \$000	Changes 2017 v 2016
Operating revenue	\$75,325	\$77,544	(2.9%)
Operating expenses	(\$46,322)	(\$55,027)	15.8%
<b>Operating earnings</b>	<b>\$29,003</b>	<b>\$22,517</b>	<b>28.8%</b>
Net finance expenses, tax, depreciation and amoratisation and gain on sale	(\$14,166)	(\$13,335)	(6.2%)
<b>Net Profit After Tax</b>	<b>\$14,837</b>	<b>\$9,182</b>	<b>61.6%</b>

2016 result included Agri businesses which were disposed in late 2016.

On a like-for-like basis:

- Revenue, up 1.1%
- Expenses, down 11.6%
- Operating earnings, up 31.3%

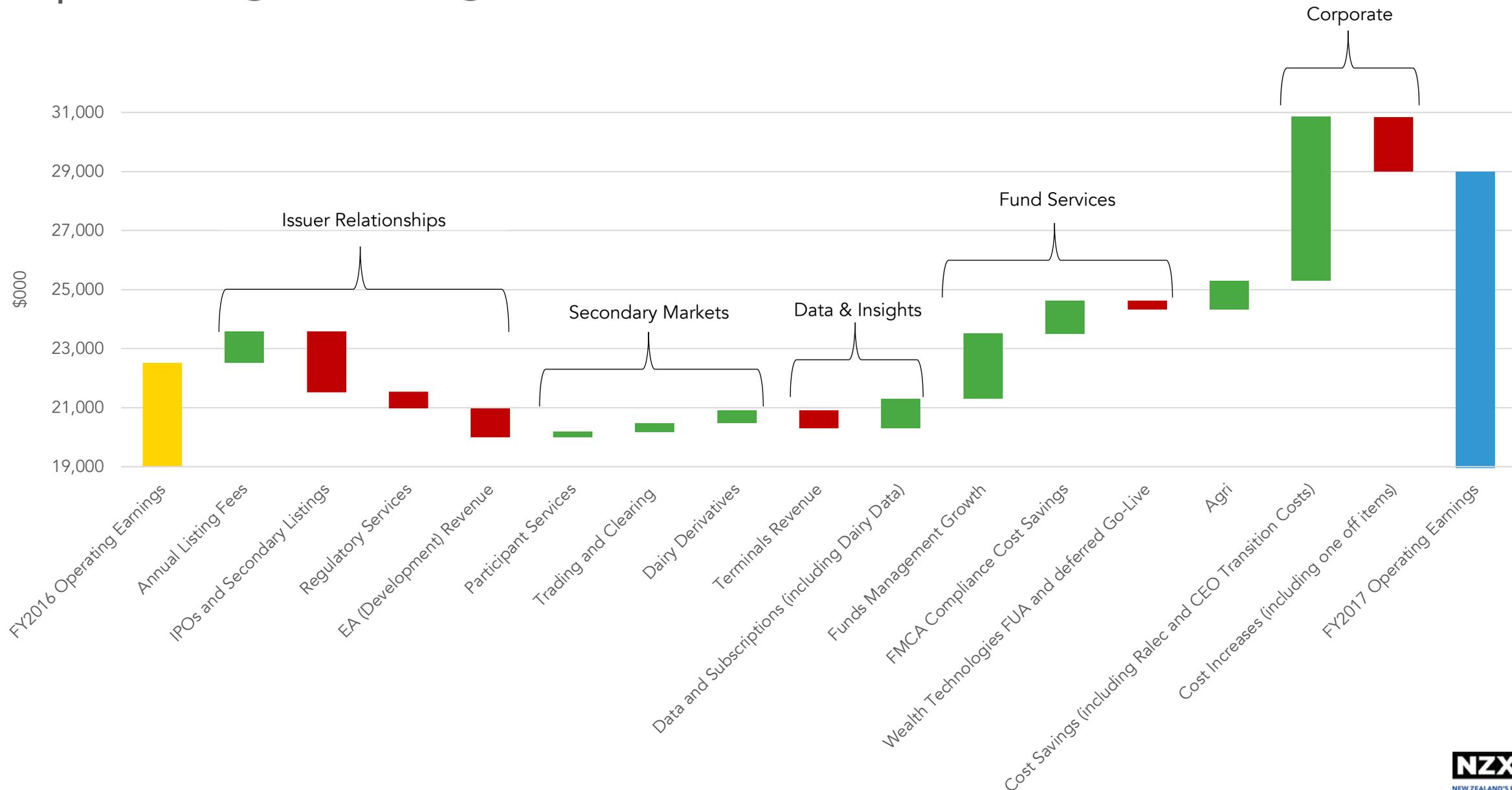
# Operating Earnings of \$29.0 Million



Highlights include:

- Funds Management business;
- Dairy Derivatives market; and
- Cost control

# Operating Earnings Waterfall



# EBITDA Divisional Results



Year ended 31 December 2017	Core Markets \$000	Agri \$000	Funds Services \$000	Corporate \$000	Total \$000
Operating revenue	52,350	8,184	14,791	-	75,325
Operating expenses	(12,317)	(6,427)	(12,066)	(15,512)	(46,322)
<b>Operating earnings</b>	<b>40,033</b>	<b>1,757</b>	<b>2,725</b>	<b>(15,512)</b>	<b>29,003</b>

Year ended 31 December 2016	Core Markets \$000	Agri \$000	Funds Services \$000	Corporate \$000	Total \$000
Operating revenue	53,574	10,938	13,032	-	77,544
Operating expenses	(12,442)	(10,148)	(13,348)	(19,089)	(55,027)
<b>Operating earnings</b>	<b>41,132</b>	<b>790</b>	<b>(316)</b>	<b>(19,089)</b>	<b>22,517</b>

## Core Markets:

- Issuer Relationships operating earnings \$17.7 million (2016: \$19.8 million) reduced due to lower initial listing and secondary issuance fees
- Secondary Markets operating earnings \$12.3 million (2016: \$11.4 million) increase driven by dairy derivatives
- Data & Insights operating earnings \$10.0 million (2016: \$9.9 million), increased subscription and license revenue offset by increased personnel costs which are no longer being shared with Agri

## Agri:

- Operating earnings improved due to 2016 disposals and the improved performance of Farmers Weekly

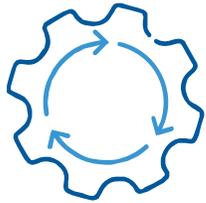
## Funds Services:

- Funds Management operating earnings \$4.4 million (2016: \$1.1 million) reflects growth in FUM and completion in 2016 of FMCA compliance project
- NZX Wealth Technologies (NZX WT) operating earnings \$(1.7) million (2016: \$(1.4) million). Core platform development expected to complete Q2 2018. Large client to go-live Q3 2018

# Our Refreshed Strategy

## New Zealand's Exchange

### Refocus Core



- ✓ Issuer Relationships
- ✓ Secondary Markets
- ✓ Data & Insights

### Growth Opportunities



- ✓ Dairy Derivatives
- ✓ Debt
- ✓ Environmental & Energy

### Maximise Options



- ✓ SuperLife
- ✓ Smartshares
- ✓ Wealth Technologies

### Get Fit



- ✓ Cost Management
- ✓ CAPEX
- ✓ Dividend

# Strategy resulted in a fundamental reset of NZX



- Rigorous **review** of business by board and management, market consultation with more than 200 stakeholders, global analysis of peers
- **Refreshed** leadership team to ensure right skill set, team now in place
- Organisational principles **aligned** to the customer
- Resources reallocated to **high value** areas
- KPIs, remuneration, reward and recognition programme aligned to **delivery**
- Culture shift evident in improved employee **engagement** survey

# Executing the Strategy

Rebuilding a strong foundation in the Core Market



Issuer Relationships

<b>Customer engagement</b>	Relationship managers appointed, more than 170 customers meetings completed, 100% issuer contact on target for end of Q1 2018
<b>Framework</b>	More than 70 listing review rules submissions received
<b>Product suite</b>	Engagement, consultation and marketing collateral in progress

Secondary Market

<b>Sales</b>	Engagement underway, first new participant on target for Q2 2018
<b>Increase on-market liquidity</b>	Revised trading and clearing pricing structure will be implemented alongside rule changes to be consulted on in Q2 2018. NZX remains commitment to delivering a pricing and rule structure that promotes on-market liquidity On-market average daily value traded 50.4% in January 2018 Additional electronic trading clients added
<b>Functionality</b>	Dairy derivatives functionality on track for March 2018 Consultation underway for 2019 system upgrade
<b>Post trade</b>	Default fund consultation complete

Data & Insights

<b>Internal</b>	Internal data process in place, data being delivered
<b>B2B</b>	Account planning underway
<b>End user</b>	Scoping of PRA complete, moving into development phase
<b>Capability</b>	Scoping for capability requirements underway

# Executing the Strategy

Growing opportunities and maximising options that will continue to drive growth



## Growth opportunities

### Spotlight on Dairy Derivatives

2018 volume target range  
400,000 – 500,000 lots



## Maximise options

### Smartshares & SuperLife

2018 target FUM  
growth plus 7%



### Wealth Technologies

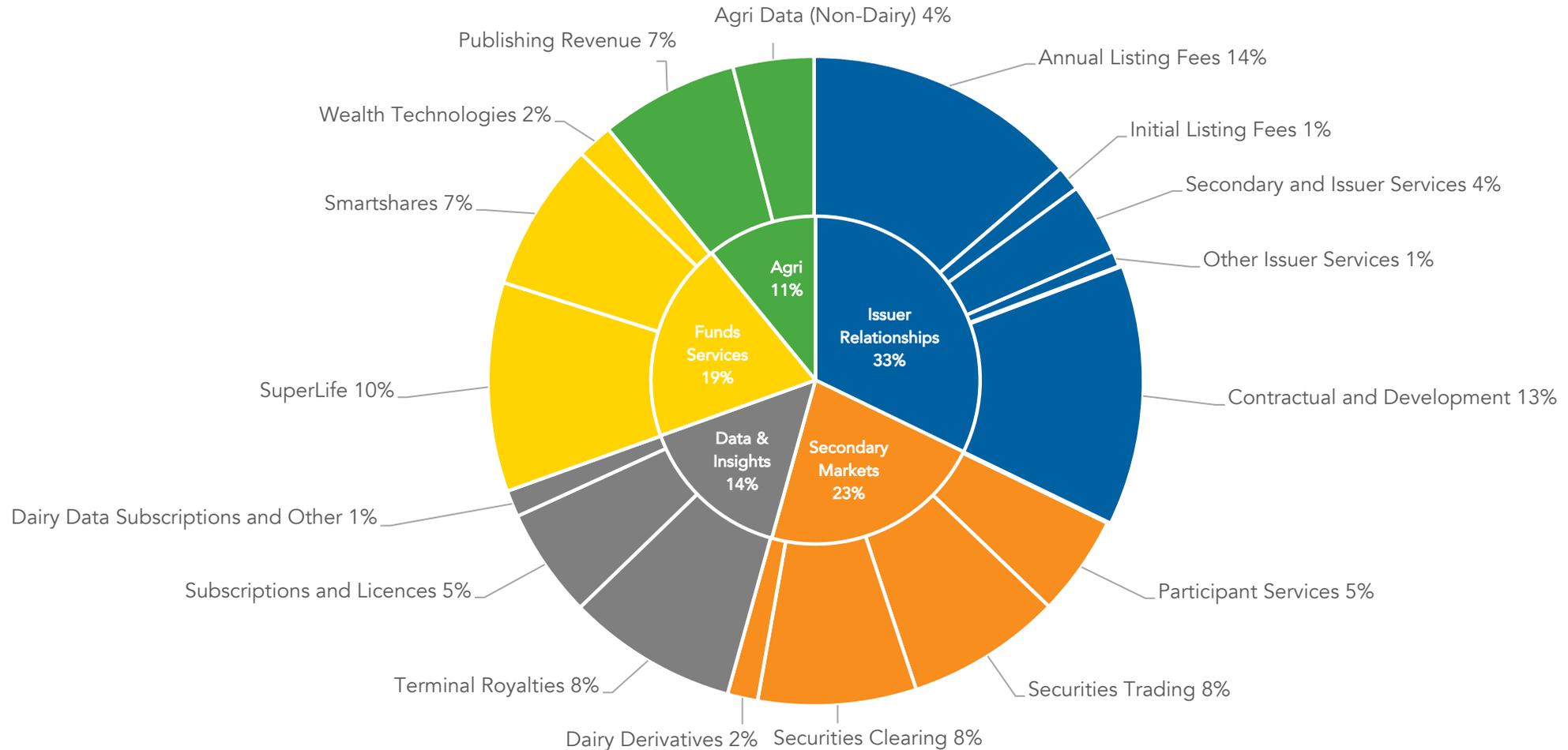


<b>Expand global access</b>	New calendar spread functionality March 2018, extended trading hours July 2018, options enhancements on track for second half of 2018
<b>Boost sales and marketing</b>	Additional New Zealand based FTE almost finalised, Asia office on target for second half of 2018, new website on target mid-2018
<b>Extend product set</b>	Skim Milk Powder Options launched December 2017, US Lactose consultation underway
<b>Grow end users</b>	Engaging with third party distributors, retail investor portal launched December 2017, SuperLife website launched February 2018  Smartshares direct applications up 84%, unitholders up 37.6%
<b>Cross-sell</b>	Ongoing discussion with third party distributors
<b>Go-live</b>	Core platform development expected to be completed Q2 2018. Large customer to go-live Q3 2018

# 2017 Revenue Overview



Issuer Relationships – Secondary Markets – Data & Insights – Funds Management – Wealth Technologies – Agri



\* NZX has a diverse revenue base

# Core Markets – Revenue Overview



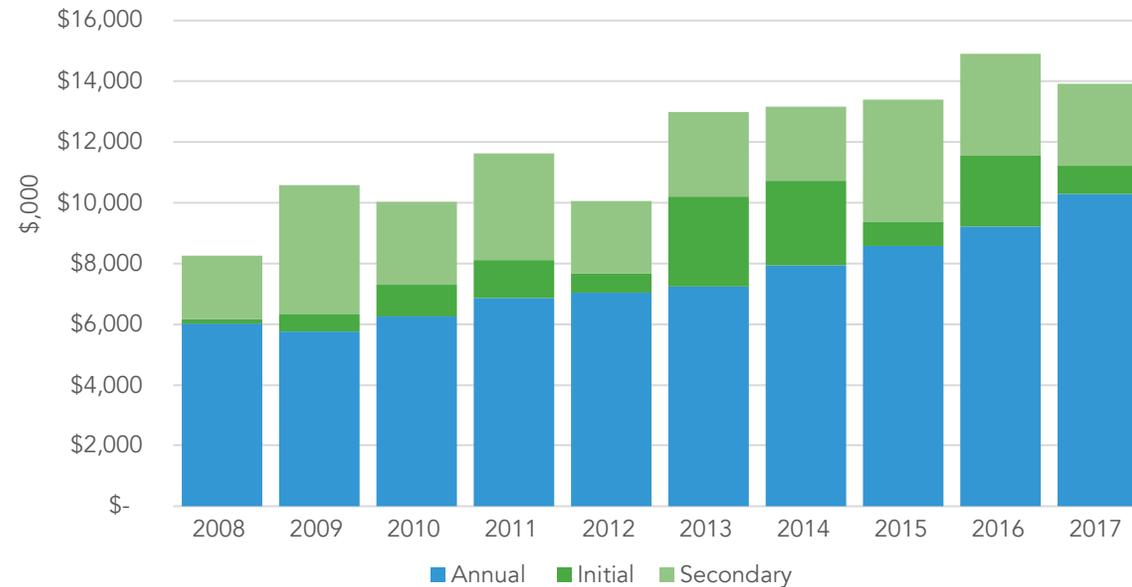
Core Markets revenue	2017 \$000	2016 \$000	Change FY17 v FY16
Issuer Relationships revenue	24,257	26,770	(9.4%)
Secondary Markets revenue	16,629	15,726	5.7%
Data & Insights revenue	11,464	11,078	3.5%
<b>Total Core Markets revenue</b>	<b>52,350</b>	<b>53,574</b>	<b>(2.3%)</b>



# Issuer Relationships



## Issuer Fees



### Notes

- Annual listing fee growth from increase in number and value of listed debt instruments and equity market capitalisation
- Substantial listing of new debt in 2016 not fully replicated in 2017
- Other issuer services revenue relates to activities undertaken by NZX Regulation
- Contractual and development revenue relates to the operation of electricity market (under contract from Electricity Authority) and Fonterra Shareholders' Market (under contract from Fonterra)

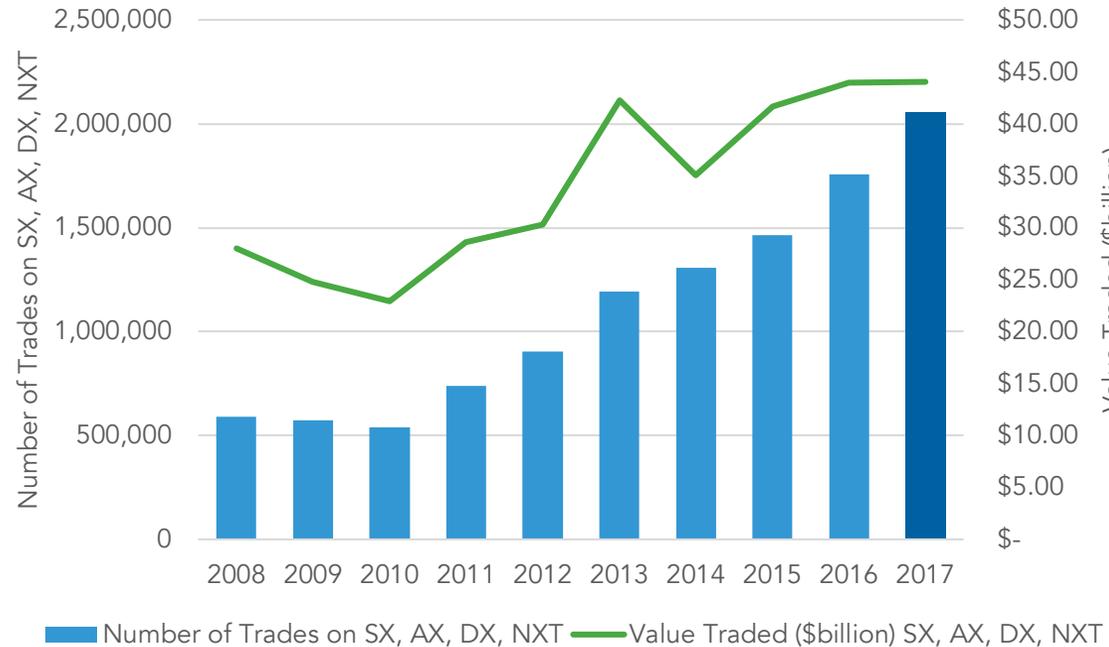
## Revenue

Revenue	2017 \$'000	2016 \$'000	Change FY17 v FY16
<b>Issuer Relationships</b>			
Annual listing fees	10,280	9,226	11.4%
Initial listing fees	931	2,330	(60.0%)
Secondary issuance fees	2,696	3,341	(19.3%)
Other issuer services	586	1,144	(48.8%)
Development revenue	428	1,493	(71.3%)
Contractual revenue	9,336	9,236	1.1%
<b>Total Issuer Relationships revenue</b>	<b>24,257</b>	<b>26,770</b>	<b>(9.4%)</b>
<b>Strategic metrics</b>			
Number of listed issuers	223	232	(3.9%)
Equity market capitalisation	135.2 billion	115.5 billion	17.1%
Debt market capitalisation	26.4 billion	25.7 billion	2.7%
Number of new equity listings	1	7	(85.7%)
Number of new debt listings	20	37	(45.9%)
Value of new equity listed	0.48 billion	2.1 billion	(77.1%)
Value of new debt listed	3.2 billion	6.4 billion	(50.0%)
Total secondary capital raised	4.4 billion	4.6 billion	(4.3%)

# Secondary Markets



## Value and Volume Traded



## Revenue

Revenue	2017 \$000	2016 \$000	Change FY17 v FY16
<b>Secondary Markets</b>			
Participant services revenue	3,768	3,592	4.9%
Securities trading revenue	5,817	5,765	0.9%
Securities clearing revenue	5,911	5,663	4.4%
Dairy derivatives revenue	1,133	706	60.5%
<b>Total Secondary Markets revenue</b>	<b>16,629</b>	<b>15,726</b>	<b>5.7%</b>
<b>Strategic metrics</b>			
Number of trades	2.05 million	1.75 million	17.1%
Total value traded	44.0 billion	44.0 billion	-
Dairy lots traded	311,675	198,303	57.2%
Number of participants	36	35	2.9%

### Notes

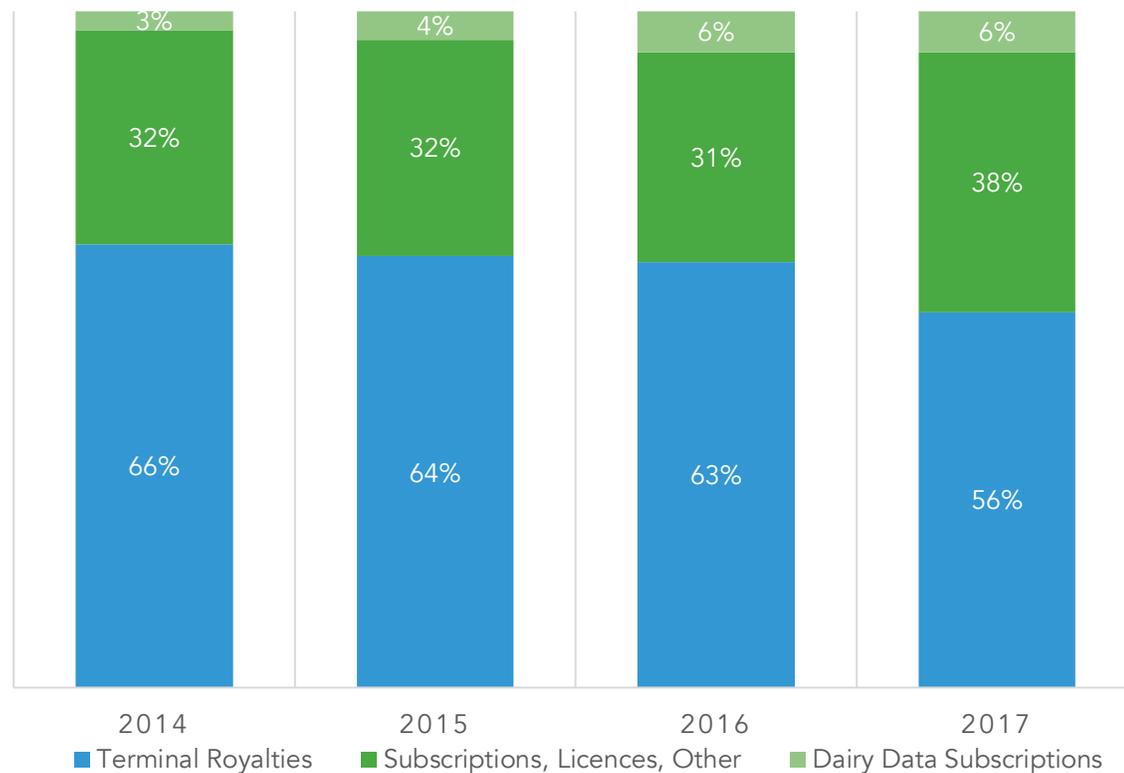
- Impact of pricing trial (aimed at increasing electronic trading flow) is reflected in 2017, number of trades out pace actual value traded
- Trial did not include a fixed per trade fee component, increase in number of trades does not reflect revenue collected

\*Please note Dairy Derivatives revenue and trading lots are included in Growth Opportunities on page 18

# Data & Insights



## Percentage of Revenue



## Revenue

Revenue	2017 \$000	2016 \$000	Change FY17 v FY16
<b>Data &amp; Insights</b>			
Royalties from terminal	6,367	6,965	(8.6%)
Subscriptions and licences	4,099	3,288	24.7%
Dairy data subscriptions	693	672	3.1%
Other	305	153	99.3%
<b>Total Data &amp; Insights revenue</b>	<b>11,464</b>	<b>11,078</b>	<b>3.5%</b>
<b>Strategic metrics</b>			
Terminal numbers (12 month average)	7,379	7,407	(0.4%)
Number of licences	97	92	5.4%
Number of proprietary security products subscription	404	395	2.3%
Number of dairy data products subscription	774	584	32.5%

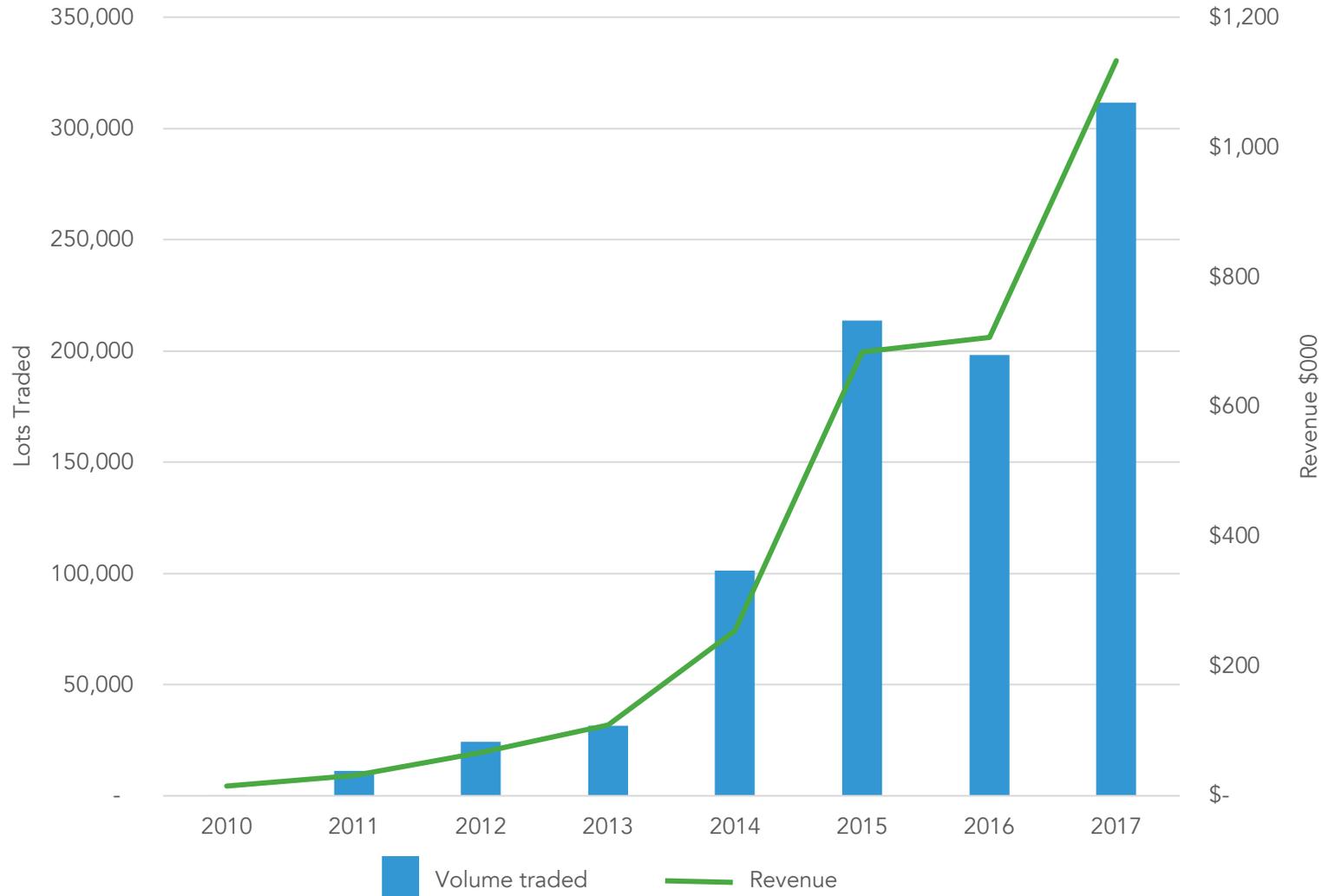
### Notes

- Terminal numbers remained relatively flat in 2017
- For subscriptions and licence fees we have implemented a new pricing policy around Non-Display Applications
- Opportunity to expand dairy data offering to support the Dairy Derivatives market

# Growth Opportunities – Dairy Derivatives



## NZX Dairy Derivatives Yearly Volumes Traded and Revenue



- Record volume traded up 57.2% on 2016, directly translated into revenue growth of 60.5% to \$1.13 million
- Number of active traders up 60% on prior year (note this excludes the additional users from the 15 omnibus accounts)
- Delivering against strategy – product suite extended, announced trading hours extension and further trading functionality

# Funds Management & NZX WT – Revenue Overview

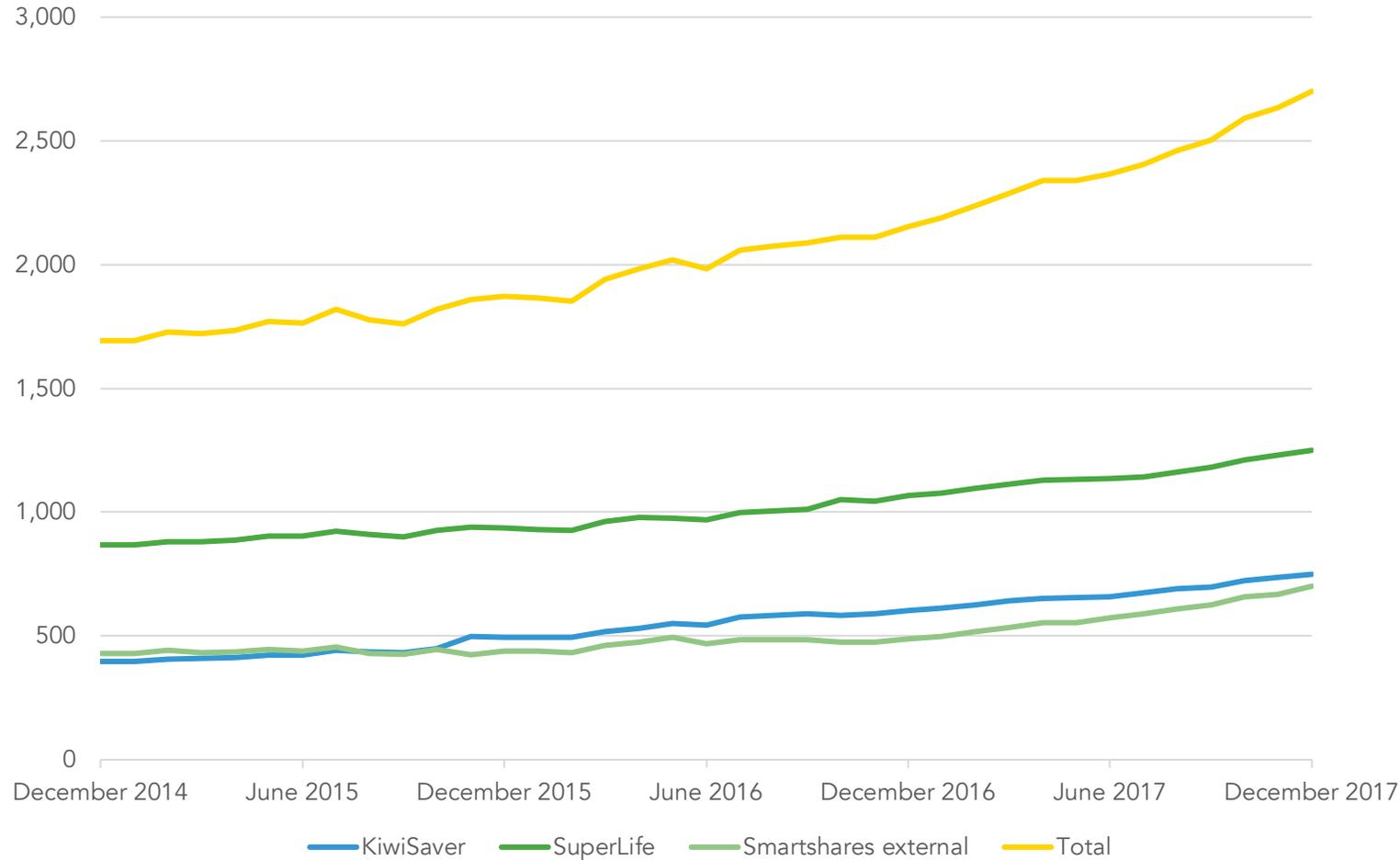


Revenue	2017 \$000	2016 \$000	2015 \$000	Change FY17 v FY16
<b>Funds Management</b>				
SuperLife revenue	7,846	7,038	6,433	11.5%
Smartshares revenue	5,602	4,589	3,562	22.1%
<b>Total Funds Management revenue</b>	<b>13,448</b>	<b>11,627</b>	<b>9,995</b>	<b>15.7%</b>
<b>Wealth Technologies</b>				
Administration fees	1,163	1,365	689	(14.8%)
Development fees	180	40	-	350.0%
<b>Total Wealth Technologies revenue</b>	<b>1,343</b>	<b>1,405</b>	<b>689</b>	<b>(4.4%)</b>
<b>Total Funds revenue</b>	<b>14,791</b>	<b>13,032</b>	<b>10,684</b>	<b>13.5%</b>
<b>Strategic metrics</b>				
SuperLife member numbers	50,304	48,015	43,713	4.8%
SuperLife external FUM	1,999 million	1,660 million	1,433 million	20.4%
Smartshares external FUM	701 million	487 million	440 million	43.9%
Smartshares SuperLife FUM	1,430 million	1,218 million	1,050 million	17.4%
<b>Total Smartshares FUM</b>	<b>2,131 million</b>	<b>1,705 million</b>	<b>1,490 million</b>	<b>25.0%</b>
<b>Total Fund Management FUM (external)</b>	<b>2,700 million</b>	<b>2,147 million</b>	<b>1,873 million</b>	<b>25.8%</b>
<b>Total Wealth Platform FUA (external)</b>	<b>1,167 million</b>	<b>1,292 million</b>	<b>1,317 million</b>	<b>(9.7%)</b>

- Funds Management operating earnings \$4.4 million (2016: \$1.1 million) reflects growth in FUM and completion of FMCA compliance project
- SuperLife revenue is derived from 79% variable FUM fees and 21% fixed membership fees
- NZX WT operating earnings \$(1.7) million (2016: \$(1.4) million)

# Funds Management

## Funds under management growth



- Strong growth in funds management continued on back of increased retail and adviser investment
- SuperLife member numbers up 4.8%
- Smartshares unitholders (the number of investors in each ETF) up 37.6%
- Smartshares ETF direct applications up 84%
- Fresh leadership in place - Hugh Stevens joined in February 2018

# NZX Wealth Technologies



- Core platform development expected to complete Q2 2018 - this includes data migration automation and reconciliation, operational readiness, UAT and migration dry runs
- Development delays been experienced. Large customer to go-live Q3 2018
- Continued interest from potential customers

# Operating Expenses



	2017 \$000	2016 \$000	Changes 2017 v 2016
Gross personnel costs	28,912	32,708	11.6%
Less capitalised labour	(3,075)	(2,855)	7.7%
Personnel costs	25,837	29,853	13.5%
Information technology costs	7,807	7,303	(6.9%)
Professional fees	2,296	5,593	58.9%
Marketing, print and distribution	2,594	3,064	15.3%
Fund expenditure	3,489	3,660	4.7%
Other expenses	4,299	5,554	22.6%
<b>Total operating expenses</b>	<b>46,322</b>	<b>55,027</b>	<b>15.8%</b>
Strategic metrics			
Staff numbers (FTEs)	238	234	-

- Personnel costs reduced significantly following completion of major projects in 2016, absence of CEO transition costs
- Capitalised labour relates to clearing and settlement, NZX WT and energy systems upgrades
- Reduction in professional fees (Ralec litigation and FMCA compliance project substantially completed in 2016), slightly offset by strategy costs
- Marketing, print and distribution costs primarily relate to agricultural publications (magazine titles sold November 2016)
- Fund expenditure reduced due to the renegotiation of contracts which more than offset FUM increase. Fund expenditure is a 75% variable based on FUM
- Underpinned by management applying well disciplined cost control, which has been partly offset by recruitment and governance costs

# Other Income and Expenses



	2017 \$000	2016 \$000	Changes 2017 v 2016
Interest income	(880)	(943)	(6.7%)
Interest expense	1303	1,233	(5.7%)
Net (gain)/loss on foreign exchange	(95)	83	214.5%
Net finance expense	328	373	12.7%
Depreciation of PP&E	1,116	1,294	13.8%
Amortisation of intangibles	5,926	6,642	10.8%
Total depreciation and amortisation	7,042	7,936	11.3%
Gain on disposal of associate	-	-	NM
Other loss/(gain) on disposal	(6)	467	101.3%
Total losses/(gains)	(6)	467	101.3%
Share of profit of associate	-	-	NM
Impairment expense	353	793	55.5%
Adjustment to provision for earnout	390	(731)	(153.4%)
Tax expense	6,059	4,497	(34.7%)
<b>Total net finance expenses, tax, depreciation and amortisation and gain on sale</b>	<b>14,166</b>	<b>13,335</b>	<b>(6.2%)</b>

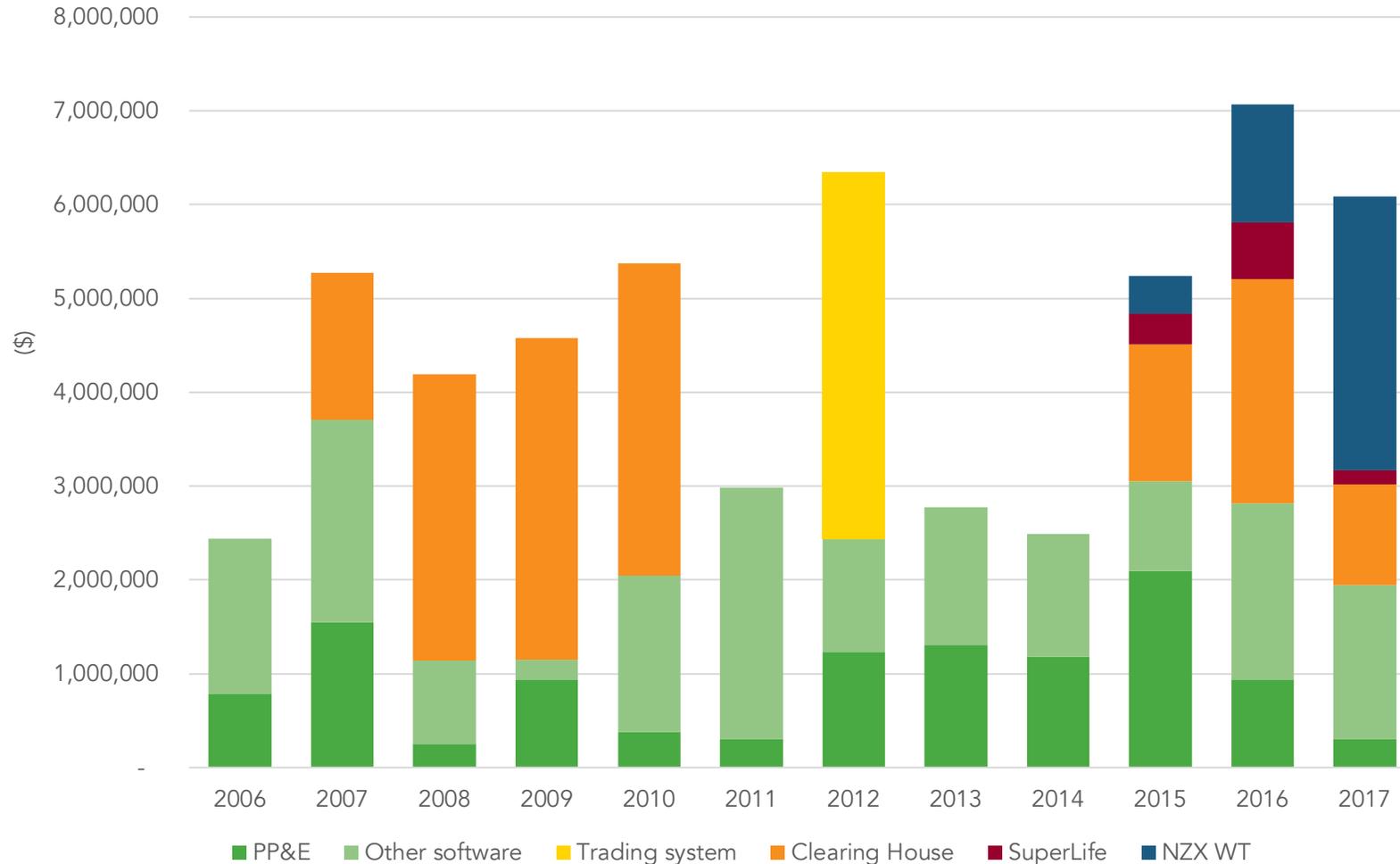
Net finance expense relates to:

- Interest income on cash balances, Clearing House risk capital and regulatory working capital;
- Interest expenses on loans, overdrafts and earn out; and
- Foreign exchange gains/losses

Impairment relates to Agri business being sold.

SuperLife achieved 100% earn out targets (based on FUM) resulting in an adjustment to the earn out provision.

# CAPEX Activity



- CAPEX driven by specific systems life cycles which result in large multi year projects
- Clearing House upgrade went live in June 2017, completing a two and a half year project
- NZX WT core system development scheduled to continue until Q2 2018
- Energy systems upgrade scheduled to continue until second half 2018
- CAPEX will continue on NZX WT and software projects (particularly on the energy systems and IT upgrades)

# Balance Sheet



	2017 \$000	2016 \$000	Change FY17 v FY16
<b>Current assets</b>			
Cash and cash equivalents	34,881	30,804	13.2%
Receivables and prepayments	10,940	15,923	(31.3%)
Funds held on behalf of third parties	58,890	70,847	(16.9%)
<b>Total current assets</b>	<b>104,711</b>	<b>117,574</b>	<b>(10.9%)</b>
<b>Total non-current assets</b>	<b>75,078</b>	<b>76,390</b>	<b>(1.7%)</b>
<b>Current liabilities</b>			
Trade payables	3,810	5,632	32.4%
Other current liabilities	24,246	14,394	(68.4%)
Funds held on behalf of third parties	58,890	70,847	16.9%
<b>Total current assets</b>	<b>86,946</b>	<b>90,873</b>	<b>4.3%</b>
<b>Non-current liabilities</b>			
Term loan	20,000	20,000	-
Other non-current liabilities	4,120	13,416	69.3%
<b>Total non-current liabilities</b>	<b>24,120</b>	<b>33,416</b>	<b>27.8%</b>
<b>Net assets/equity</b>	<b>68,723</b>	<b>69,675</b>	<b>(1.4%)</b>

 Cash includes \$20 million Clearing House risk capital which is not available for general use

 Additionally the Clearing House complies with International Organisation of Securities Commissions principles requiring retention of sufficient working capital (including cash of approximately \$3.9 million)

 Similarly Funds Management maintains sufficient net tangible assets (including cash of approximately \$1.6 million)

 Focused on receivables collection

 Other current liabilities includes SuperLife \$9.97 million paid 1 February 2018 (2016 classified as non-current liability \$9.09 million)

 Term loan expires January 2020, ratios comfortably met

# Cash Flows



	2017 \$000	2016 \$000	Changes 2017 v 2016
Operating activities	\$24,384	\$13,574	79.6%
Investing activities	(\$6,077)	(\$6,969)	12.8%
Financing activities	(\$14,230)	(\$16,094)	11.6%
<b>Net Increase in cash and cash equivalents</b>	<b>\$4,077</b>	<b>(\$9,489)</b>	<b>143.0%</b>



Cash from operating activities reflects increased profit and better working capital management



Investing activities relates to software development – Clearing House, NZX WT and energy systems



Financing activities are mostly dividends. In 2017 there were proceeds from former CEO's share scheme settlement

# Dividend Policy



- The current dividend policy is based on a target payout ratio of 80% of free cash flow (defined as operating cash flow less purchase of property, plant and equipment and intangible assets)
- A new dividend policy will come into effect for the 2018 financial year onwards
- New policy is to pay between 80% to 110% of adjusted Net Profit After Tax, subject to maintaining a prudent level of capital to meet regulatory requirements
- The board considers that a policy based on Net Profit After Tax is comparable with peers, and provides sufficient headroom to manage the ongoing capital structure requirements of the exchange, and pursue future relevant opportunities should they arise

# Final Dividend - Full Year 2017



- Final fully imputed dividend of 3.1 cents per share for the 2017 financial year (2016: 3.0 cents per share)
- Total fully imputed dividends for the 2017 financial year are 6.1 cents per share (2016: 6.0 cents per share)
- Final dividend payable on 23 March 2018 to shareholders registered as at 9 March 2018
- The board is pleased to announce it will offer a dividend reinvestment plan which will be in place for the 2018 interim dividend in response to shareholder feedback. Further details, including the full offer document will follow in due course

# Capital Management



- Board completed capital structure review
- Consultation on a mutualised default fund underway to advance Clearing House's risk model to meet global standards. This is important to ensure we have an appropriate Clearing House risk structure to meet anticipated dairy derivatives market growth
- The board will explore use of a capital note to ensure NZX has a more robust balance sheet to protect the business in the unlikely case of a major market event

# 2018 Earnings Guidance



- 2018 sets the platform for NZX's future growth. The divestment of non core assets (including Farmers Weekly) and changes to the clearing and trading pricing structure (effective in the second half of 2018) will rebase the operating result
- NZX expects full year 2018 operating result to be in the range of \$28.0 million to \$31.0 million
- This is subject to market outcomes, particularly with respect to initial public offerings, secondary capital raising, equity trading and derivatives trading volumes. This guidance assumes no material adverse events, significant one-off expenses or major accounting adjustments. It also assumes no further acquisitions or divestments

# Summary



2017 operating earnings of \$29.0 million, up 31.3%

Result underpinned by performance of Funds Management and Dairy Derivatives businesses, disciplined cost control and efficiency improvements

Refreshed strategy marked fundamental reset of NZX – completion of final reset initiatives in 2018 will set business up to deliver long term returns

Farmers Weekly held for sale reinforcing strategic shift back to Core Market

First dividend increase since 2013, new dividend policy in place. Board completed capital structure review

2018 operating earnings expected to be in the range of \$28.0 million to \$31.0 million

# Contacts



**Mark Peterson**  
Chief Executive Officer

 [mark.peterson@nzx.com](mailto:mark.peterson@nzx.com)  
 +64 21 390 636



**Graham Law**  
Chief Financial Officer

 [graham.law@nzx.com](mailto:graham.law@nzx.com)  
 +64 21 276 7359



**Hannah Lynch**  
Head of Communications

 [hannah.lynch@nzx.com](mailto:hannah.lynch@nzx.com)  
 +64 21 252 8990