

TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the NZX Half Year Results Briefing. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

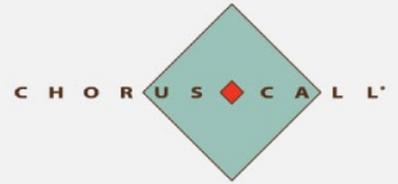
I would now like to hand the conference over to Mr. Mark Peterson, NZX CEO. Please go ahead.

Mark Peterson: Thank you operator. Good morning everybody. Welcome to the 2019 Half Year Results call for NZX. I'm Mark Peterson and I'm joined by Graham Law, NZX's CFO and Hamish McDonald, NZX's head of external relations and general counsel.

Today I will take you through the highlights of our first-half performance. Graham will speak to the financial performance and we're both happy to answer questions at the end. Before we start, please note the important notice on the front of the investor pack as this statement applies.

I'm now speaking to pages four, five, six and seven of the investor pack and the key message that we want to get across in this results announcement is that growth is materialising and the business continues to build positive momentum. On a like-for-like basis, we have delivered operating earnings growth of 4.3% higher than the same period last year. We are growing across almost all aspects of our business, where it speaks to the work that we've undertaken as a team to reshape the business over the last two years. Being a more tighter, more focused business is paying off. We have our direction clearly defined and the team is very focused on our customers' growth and creating value across the various business areas.

The proof points of this strategy delivering growth are now evident. Growth is largely across all elements of the business and we have outlined these proof points for the first half of the year on page four of the investor pack. Just running through these. New and secondary capital raised in listed 7.7 billion for the half, which is up 73.5%. Total value traded is down



on the same time last year to 18.4 billion, and I'll explain this in the associated revenue element shortly. Data and insight revenue, 6.3 million, up 13.9% on the same time last year. Dairy derivative volumes, up 27 and a half percent again on the same time last year. Smartshare's funds under management stand now at 3.5 billion at the end of June, which is up 600 million or 19.4% on the same time last year. And another point to note is that net cash inflow was 175.4 million for the half, which is up 8.1% on the same time last year. And that's translated to a 27.4% lift in operating earnings for that business.

Wealth technologies, you'll recall we transitioned our foundation client onto the platform late last year. Happy to report that all is going well and we now stand at 2.1 billion funds under administration and we also feel positive about our position with prospects.

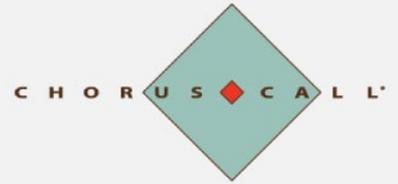
Digging deeper into the proof points, breaking up the total capital raised. New capital issued came from 4 billion of debt listings which is up 140% on last year. But breaking that down. 2.5 billion is retail debt, which is up 52% and the wholesale debt issuance totaled 1.5 billion, which has obviously come onto the newly launched market. Secondary capital raised total 3.6 billion which is up 32% and this is broken down into 2.6 billion of equity, 500 million of funds, and 540 million of secondary debt.

In summary, a good mix of capital raisings across the board. We feel positive about the outlook for the rest of the year, across all asset classes and we are hopeful that alongside the Napier Port IPO, we might have some further IPO activity towards the end of the year.

Turning to secondary trading. We needed to set the foundation for future growth and improving liquidity, sorry, and improving liquidity has been the focus for us since the strategy reset in 2017, with particular emphasis on lifting liquidity that is traded on the screen. The policy changes and reshaping our pricing structure have worked and we are happy to report that we continue to make good progress lifting onscreen trading percentages, with June reaching 61%. Traded value was down on last year, partly in due to market conditions and obviously recalling that 2017 was a bumper year last year, and we also had some major index rebalancing events last year which we didn't see this year. These factors, along with the pricing changes, have affected our revenues from trading and clearing, most of which was expected due to the fee change.

Looking forward, we have made some recent participant pricing adjustments in July, which is driving a circa 9% lift in fees. Resetting the platform for trading here is driving an increased interest from firms connecting to our market. Hobson Wealth, you will recall, joined as a trading and clearing firm last year. Sharesies is the most recent example of a new trading and clearing participant this half and they're growing fast and at present contribute about a million dollars of value per day.

Again, we are positive on the pipeline that is building and as you'll be aware, BMP joined as a depository participant in the half and was up and running in July and progress is being made with further prospects in that part of our business.



The story behind the data and insights business is one of growth and terminal numbers in licences plus a step up and focus on data audits to ensure we are collecting revenue that we should. These efforts are paying off and at the same time, we are ensuring that these entities are licenced appropriately going forward.

Our funds management business had another standout half. Funds under management is up circa 600 million for the half to 3.5 billion. 175 million of that growth is net new cash flows, as I mentioned. Sales success is coming from our Pacific Series and other sponsored superannuation scheme wins. KiwiSaver has been solid for us over the half, with the ETF business up 35% to almost 1.1 billion. We continue to adjust the operating model to streamline the business and improve efficiency. Our outlook here is very positive. Investors may have noted that we added another 120 million of FUM in the July monthly stats of which approximately two thirds was net new cash.

Wealth technologies has bedded in our foundation client and the platform is performing well. We have over 20,000 portfolios being administered every day and we continue to progress well towards securing our next client.

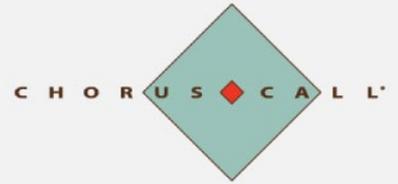
Finally, before I hand over to Graham, just a few comments on our people and culture. The business has undergone a significant change in the past 18 months as we have stepped up our delivery in just about every area. This has put pressure on the teams, but I'm pleased to say that our staff engagement continues to lift for the sixth successive survey in the past couple of years. Myself along with the wider SLT, are mindful of creating the right culture at NZX and one where diversity and inclusion is embraced and this will remain a focus for us. I'd now like to hand over to Graham to take us through the numbers in more detail.

Graham Law:

Thank you, Mark. Starting on slide nine, the table summarises the income statement for the period ended June, 2019. There are a couple of comparability points to note. Firstly, the June, 2018 numbers have been fully restated for the adoption of the new accounting standard, NZ IFRS 16 Leases. The new accounting standard changes resulted in the operating lease expense, which is predominantly property leases, being reclassified as a right-of-use asset, which is depreciated by the depreciation expense, and a lease liability which includes an interest unwind bar the interest expense. The details of this change can be seen in the interim financial statements, note five.

Secondly, the funds management operating model for Smartshares changed in October, 2018 to align with SuperLife. Since then, the fund expenses have been incurred directly by the funds and the funds management revenue is received net of fund expenses. Consequently, the income statement for the period ended June, 2018 is not comparable to that ended June, 2019.

On slide 12, I will show the adjustments that achieve a like-for-like comparison, but that like-for-like comparison shows that for continuing operations, operating revenue has increased four and a half percent and operating expenses has increased 4.6% with operating earnings



being 4.3% higher than 2018. A detailed management commentary by divisional unit is provided in Appendix One of this presentation.

Moving to the non-operating expenses, they included increased interest arising from the new subordinated note issued in June 2018 and increased amortisation due to the commencement in November 2018 of amortisation of wealth technologies' core platform. As a result, the continued operations net profit after tax is down 7.2%, with the full net profit after tax being 45.8% higher due to 2018 including the discontinued operations.

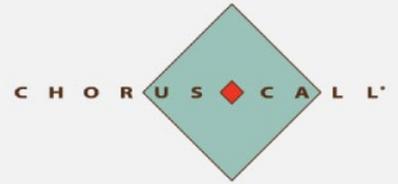
Moving to slide 10, the graph shows both the operating earnings from continuing operations relative to the last six years and the operating margin which has increased to 44.0% primarily due to the funds management operating model change, which I'll talk about shortly.

The waterfall in slide 11 highlights the more significant movements in operating revenue and operating expenses relative to 2018. Operating revenues increased in all areas except trading and clearing fees, which is partly as a result of last year's strategic fee decision which had the objective of growing the market. The operating expenses have increased with 2019's personnel costs reflecting firstly a full period of the new roles created through 2018 to drive strategy or increased capability. For example in cyber-security, dairy derivatives, indices and marketing. And secondly, to address last year's Financial Markets Authority annual market operator obligations review. And finally, the addition of Smartshare sales resources. These costs have been partially offset by a reduction in IT costs.

Slides 12 to 14 provides some details on the operating earnings from continuing activities. As I noted earlier, the funds management operating model for Smartshares changed in October, 2018 to align with SuperLife. Since then, fund expenses are incurred directly by the funds and we received funds management revenue net of funds expenses. The table on the right hand side of slide 12 adjust the 2018 total operating revenue and total operating expenses to provide comparability.

The high-level impacts on operating revenue are, for issuer relationships, the largest factors are for primary listings. There's been a high level of wholesale debt listings which are at lower fee rates. And for secondary issuance, there has been a high level of equity raised which are at higher fee rates. There's also been an increase in consulting and development revenue. Since the completion of the energy market software upgrade last year, resources have been focused, for the electricity market, on consulting activities. For secondary markets, the biggest impact is from the trading and clearing pricing changes which were implemented in October 2018. And as anticipated, have improved market liquidity and attracted new participants such as Surety. That will in time deliver growth.

Additionally, revenue is also being impacted by both the total value traded and tiering being approximately 9.7% lower and by the trading patterns which have seen large takes across index rebalance periods and low turnover in between, which has resulted in the trading fees cap being hit more often and a lower average fees under the clearing fees tiered structure.



The fee structures were updated from 1 July 2019 to address these issues. For example, increasing the trading fee cap level.

For data and insights, the sales execution processes have improved, driving an increase in revenue. Terminals that aren't royalty or terminal royalty audits are ongoing and do not feature significantly in these interim results. Funds management revenue continues to grow extremely strongly with FUM-based revenue up 23.3% on a like-for-like basis driven by strong cash flows and market growth. Member-based revenues up 10.1% driven by increased investor numbers. Wealth technology revenues have been increased by the foundation client who migrated to the new platform from November, 2018.

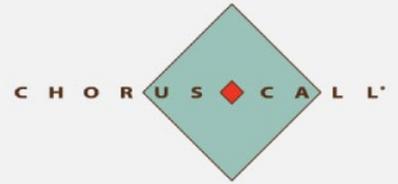
The high-level impacts and operating expenses. Our personnel costs have increased due to a combination of wage inflation, short-term contractor resources to assist with the delivery of increased energy consulting activity, and the movement in the average FTE numbers arising from the additional strategic roles we created throughout 2018 having a full period impact and the additional Smartshare sales and on-boarding resources. Capitalization of internal development resources which mainly relates to wealth technologies and NZX's trading system upgrade have remained comparable to last year. The IT costs reflect the ongoing impacts of efficiency gains over the last few years. Marketing efforts have been focused on the Smartshares fund management business and initiatives to market the market domestically. Professional fees that are discretionary have been focused on Smartshares investments for growth such as SuperLife, Invest unitization which opens up the wholesale investor market sales channel. Also setting up the Blackrock iShare's new ETFs, and an extension of the SuperLife Pacific Series to other nations. There is, of course, the ongoing assurance programme and royalty audits that are proportionate to revenue, for example, stock lending and borrowing costs.

Other expenses reflect the current insurance market and travel costs as we step up our sales efforts and capitalised expenses really at the cost incurred in all the expense categories which relate to capital activities.

My final comments on the operating cost is to note that they are approximately 0.1% higher than the equivalent operating costs for the second half of 2018. This can be derived using the information provided in note seven of the interim financial statements and adjusting for the fund expense.

Non-operating income and expenses are summarised on slide 15. The subordinated note issued in June 2018 increased the interest costs, the increase in depreciation amortisation costs relates to the wealth technologies platform where amortisation commenced in November 2018. The loss and disposals, really it's mainly the FUM source, and finally the 2018 discontinued operations of the agribusiness operating results less an impairment of goodwill and intangibles.

Slide 16 summarises the capital expenditure. The main projects this year are the continued extension and refinement of the wealth technologies platform and NZX's trading system



upgrade. Our expectations for the full year are that capital expenditure remains in the range or expectations remain that capital expenditure will be in the range of seven and a half, to eight and a half million.

The balance sheet is noted on slide 17. The two key points I'd like to note are that the cash includes 20 million of risk capital and approximately 3.7 million of quasi-regulatory capital related to the clearing house from the funds management business working capital requirements. These balances are not for general use. Secondly, the implementation of NZ IFRS 16 Leases has resulted in the recognition of the right-of-use assets, which is depreciated, and leased liabilities, which have an interest unwind.

Slide 18 summarises the 2019 cash flows. Operating activities include net interest paid, tax paid and working capital movements. Investing activities reflect the capital expenditure. The prior year included the SuperLife earnout payment of just under 10 million. Finally, financing activities reflect dividends paid net of participation in the dividend reinvestment plan. The prior year included the 2018 issue of the sub-note and repayment of bank debt which resulted in the net 12 million positive cash flow.

Moving to slide 19. Our fully imputed interim dividend is 3.0 cents per share, which will be paid on the 13th of September, 2019. The dividend reinvestment plan is available for the interim dividend and the shares will be issued at a 1% discount.

On slide 20, I have noted that the board reiterates the 2019 full-year guidance. NZX expects full-year 2019 operating earnings to be in the range of 28.0 to 31.0 million. This is, of course, subject to the usual market caveats that are listed on the slide.

That concludes our presentation. Mark and I are happy now to answer any questions you may have.

Operator:

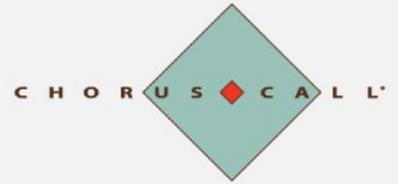
Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speaker phone, please pick up the handset to ask your question.

Your first question comes from Jack Crowley from First New Zealand Capital. Please go ahead.

Jack Crowley:

Yeah, morning team. Thanks for the time today. It's just one quick one from me. As always, you guys have done a very good job of kind of explaining the details.

Thinking about that fee structure increase with the trapped... the kind of capped trading fees and the trading side of the business. Could you just provide us with some kind of rough indication of what the potential kind of impact might have been in the first half if that was implemented then?



The fee increase that we took to address the trading patterns only became effective from 1 July, 2019.

Jack Crowley: Yeah, correct. So thanks, Graham. Understand that too. Just wanting to understand kind of what... Or I guess maybe if we think about the kind of the second half, then what impact do you think that might have relative to if you had kept the fee capped kind of as is in the first half?

Graham Law: Okay. The estimated impact using July numbers for the combination of the fee increase and the new participants entering the market is approximately a 9% increase, which on an annualised basis is around the half million mark. So half of that to the second half of the year would be your answer.

Jack Crowley: Okay. Perfect. That's all from me. Thank you.

Operator: Your next question comes from Simon Mornich with Harbour Asset Management. Please go ahead.

Simon Mornich: Hi guys. I'm just wondering what your wealth management average funds under administration on the platform was for the six months?

Mark Peterson: A rough, a rough number, Simon, would be about 3.2. If you take 2.9 through to 3.5 and assumed it sort of grew evenly, but we can probably come back to you with a more accurate number, if you like.

Simon Mornich: Is this for the funds under administration?

Mark Peterson: Oh sorry. Are you talking about, you talking about Smartshares or you talking about wealth tech?

Simon Mornich: Wealth tech, sorry.

Mark Peterson: Pardon me, pardon me.

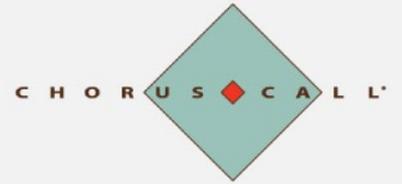
Graham Law: Wealth tech has been pretty consistent. It's at about the 2 billion mark rising to 2.1 by the end of the period. So the average-

Mark Peterson: The average would be about the middle of that.

Simon Mornich: Very good. Cheers.

Operator: Once again, if you wish to ask a question, please press star one on your telephone and wait for your name to be announced. I will now give you a short moment to register your questions. There are no further questions at this time.

I'll now hand back to Mr. Peterson for closing remarks.



Mark Peterson:

Thanks operator. Once again, thanks everybody for joining the call. If you've got further questions that you'd like to ask us, feel free to drop them through to myself, Graham or Hamish. But with that, again, I appreciate the time this morning and hope the day goes well for you. Thank you.

[END OF TRANSCRIPT]