

TRANSCRIPTION

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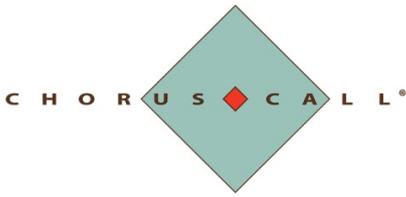
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Operator: Thank you for standing by and welcome to the NZX full year 2018 financial results briefing. All participants are in a listen-only mode. There'll be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the comments over to Mr. Mark Peterson, CEO, please go ahead.

Mark Peterson: Thank you everybody for joining the call. Welcome this morning. I am joined by Graham Law, our CFO, and Hannah Lynch, head of communications. We'll run through the pack today, the Investor Relations pack. I will lead off and I'll take you through the highlights and then the progress that we've made over 2018. Graham will take you through the financial result and then I'll speak to you about our progress and reporting transparency and our view on 2019 and beyond for the business. We'll then summarize and obviously happy to take questions at the end. Before we start, please note the important notice at the front of the IR Pack and that statement obviously applies to this call.

Now, I was going to talk through pages four, five and six in a rather holistic manner and I'd start off by saying you'll recall we set the strategy and delivered that strategy back in November 2017 and since then, we really have gone hard on delivery. We've got back to our core markets business, equity, debt, derivatives markets and we've sold] those non-core activities. We've restructured the business around our major client groups and we've got those groups to really connect with our existing clients, build pipeline in amongst those client groups and really start to develop some momentum in those areas. We needed to reset the platform and when I talk about platform, I'm really talking about listing rules and I'm talking about participant rules, but for the listing rules in particular, it was an enormous piece of work this year, plenty of consultation and interest from the broader market and we've ended up with a new set of rules which we think is a much better platform to go forward on.

It simplifies the equity markets, we'll bring those boards together and that's already started. It will facilitate growth in debt and it actually has established a fund market and a wholesale



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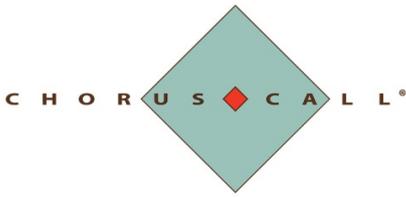
debt market as well. So, we think that they a much better position to go forward on. In addition to that, as we all know, there was plenty of commentary around increasing the value traded on the screen and we've made changes to the rule set that facilitates that, alongside some other changes that we've made as well which I'll get onto. The key stats for this year, they're sprinkled through the pack. So, when you look at it across all aspects of the markets total capital raised, 9.5 billion which is actually up 10% on last year. Strong performance by the debt side of the equation with primary issuance up 51%.

We know we're soft on equity listings and IPOs and we'll come back to that and address that a little bit later, but certainly from secondary equity issuance perspective, we actually had a pretty solid year. secondary trading levels came in at around 38 billion. This was down at a top-line level on 2017 but actually if you take out the international crossings which were something that we did implement this year, we were basically flat. Interestingly, when you look through the year, the first half of the year we actually had some very good growth in that area and then with the relative market conditions changing in the second half, it actually tapered off. So, we've ended up with a year of something similar at an underlying level to the year before.

We've had a big focus on lifting on market trading value, pleased to report that it's now on average reached 53% for 2018. that's up hugely on the year before and interestingly, in December 2018, it did reach as high as 57%. So, really good progress in that regard. Focusing on the growth opportunities, we articulated in the strategy debt, dairy, energy, funds and our wealth businesses, no wealth technologies business. As I mentioned before, really good growth in debt and we've opened up the market for green bonds and for wholesale debt and green bonds, with four issues there and there's a little in the pipeline coming. We feel that that's actually going to be a good growth opportunity for us going forward and we're optimistic about our wholesale debt market as well.

Dairy derivatives, it was up 11% on the year before. That is a record. We probably would have liked it to have been a little more, but at the end of the day, the volatility has been a little benign for dairy prices through the course of the year. The new trading functionality and extended trading hours that we delivered have been well received by the market and are starting to get well used, certainly the extended trading hours is seeing a lot of volume as we crossed the Asian close and the European open and the new trading functionality is starting to be used. So, pleased with what's going on there. Certainly also, what we're seeing is some good new risk managers joining the market. So, pleased about where that's going.

Energy, a lot of the focus for 2018 was focusing on completing the project, three-year programs for the EA, which was delivered at the back end of Q3, and with respect to our funds business, obviously we've got new leadership in place, the real focus has been on growth and efficiency. Funds up 8.1% to 2.9 billion. Net cash inflow of 292 million, which is up 22% from two forty the year before and that's flowed through to operating earnings which has grown at 29%. So, good momentum in this business and we're optimistic about the future that this business holds. Wealth technologies, as we all know, the big focus for this year is to deliver the platform for Craig's Investment Partners, it was achieved, we



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actually landed a billion dollars onto that platform on the first of November. The conversion's gone well. The experience for the customer is good and we're very pleased to have delivered on this milestone. So, that sets us up nicely for the future.

Behind the scenes, we've reshaped our capital structure through the issuance of the subordinated note which repaid our bank loans and then we've implemented the mutualized default fund which clears the clearing capital burden without clearing customers and aligns to a global risk waterfall standards. Off the back of that, that does lower our risk profile and it certainly creates greater growth runway for our business. We continue to focus on automating operational tasks and simplifying our technology platform. I'm now on page seven which really talks to the fact that the behind the delivery that is obvious for the market sense for the business, we've actually been working hard on our culture and our engagement of our staff.

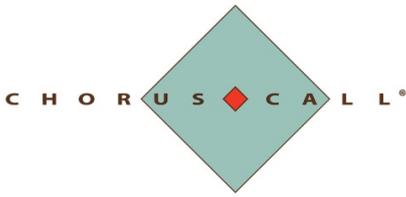
Staff engagement, as we measure it, is at the highest levels ever and staff attrition is actually at the lowest levels ever and that's certainly as far as we can determine. Our business focus has been very clear for all our staff and the quantum of delivery has lifted really impressively and I'm actually very proud of the work that ... the amount of work that people have been able to get through. 78 projects we've actually delivered in 2018, which was a massive year and certainly well up on any measure that we could find prior.

Moving on to page eight. Just results at a glance, with the sale of our non-core businesses, we obviously focus the results here on our continuing operations level. Operating earnings for the year of 27.3 and that's up ever so slightly on 2017. Impact was low in 2017, largely due to the asset sales and the impairments that we've taken and that was obviously ... came through in the first half of the year. Our dividends, we're going to pay a final dividend of 3.1 cents per share and together with the interim and special dividends, which was the result of the sale proceeds being repaid back to shareholders, we'll pay out a total of 7.6 cents per share for the year. I'll stop now. I'll hand over to Graham. Graham is going to take you through the financial results in more detail.

Graham Law:

Thanks Mark. I'd just like to reiterate Mark's comments on the important notice on slide two. The presentation contains information statements and long-term aspirational targets which reflect the current assumptions with the exception of the earnings guidance, these are not financial forecasts and of course subject to market outcomes and the assumption there's no material changes and events or circumstances and should be viewed in that light. The annual report contains a new sustainability report which adopts the principles of the formal framework, the Global Reporting Initiative, GRI. As a result of that, the management commentary that would have traditionally been in our annual report is now effectively moved into appendix one of this presentation. It provides significantly more detail by divisional unit than we've provided in the past. I'll talk more at a group level, but should you wish to see any further information on the divisions, please look at appendix one.

Starting on slide 10, we've presented the income statement in a slightly alternative format to the financial statements to show the operating activities were discontinued operation



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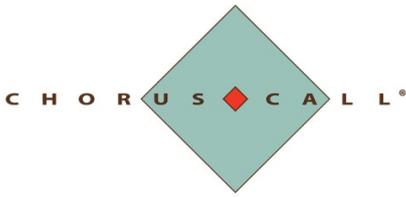
separate to the impairment. At a high-level, our operating earnings from continuing operations has increased point one percent in a combination of an increase in revenues, half a percent and an increase in expenses of roughly point eight percent. Other expenses include increased interest arising from the new subordinated note which of course was released in June, issued in June 2018, and an impairment expense related to the funds source business. That has resulted in a net profit after tax of 11.6 million. This is lower than 2017 as a result of the disposal of the non-core businesses and their related impairments. This was due to the strategic decision to focus on our core market business, which resulted in the disposal of those non-core asset businesses with the proceeds being returned through the special dividend that was paid out during the year.

For continuing activities, the net profit is down 4.9%, predominantly as a result of the increased interest from the subordinated note. Moving to slide 11, the graph shows the total operating earnings compared to the last ten years or so. In the graph this year, it separated out the discontinued operations and the continuing operations. As I mentioned in the previous slide, the continuing operations were up point one percent, so from an operating earnings point of view, it's the discontinued operations that have resulted in the drop in the particular graph.

Moving on to slide 12, the waterfall highlights the more significant movements in the revenue and expenses from continuing operations relative to 2017. In the next slide, we'll talk in slightly more detail on those movements and revenue and expenses, but revenues increased due to increases in the funds management, participants, services, dairy derivatives and data revenue streams and these have been partly offset by decreases in the trading and clearing fees which was as a result of the strategic decision that we communicated earlier in the year and the wealth technology revenues. Expenses have increased partly because of four new rules we've created to drive strategy or increased capability in cybersecurity, dairy derivatives, indices and marketing.

These costs have been partially offset by reduction in I.T costs and funds expenditure. Slide 13 to 15 provides some detail, firstly on the total operating margin and then on the operating earnings from continuing activities. The total operating margin has increased to 39.2% from 38.5%. With the disposal of the non-core businesses and the alignment of the funds management operating model, which I'll touch on in a bit more detail later, we would expect the total operating margins to improve further in 2019. To illustrate this, if I normalized for those factors I've just mentioned, the 2018 total operating margin would be up 42.6%. The 2017 equivalent would have been slightly lower at 40.4%, so an increase. The high-level impacts in revenue are for the issuer relationship business, the largest factor is a decrease in the consulting and development revenue. This is as a result of resources being refocused to ensure the energy market software upgrade was delivered and they weren't, those resources weren't available for consulting and development activities.

For the secondary markets, the trading and clearing pricing came in in the final quarter, but that was offset by an increase in the dairy derivatives revenue. In the data and insight business there have been significant royalty receipts resulting from audits, terminal royalty



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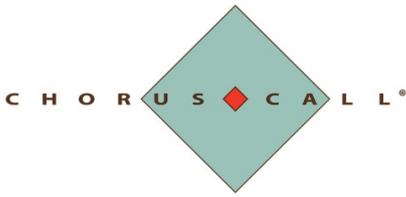
receipts rather. The front management revenue continues to increase. We have aligned the smart shares and super light operating models with regard to fund expenses, effective from October 2018. This effectively results in the fund expenses being incurred by the funds, rather than by NZX and the management fees are now received net of those fund expenses. The underlying fund management revenue, net of fund expenses has increased at 15.9% during the year when you treat all fund expenses as being headed off against revenue.

The wealth technologies revenues have been impacted by a decrease in funds under administration for customers in the old platform, offset by revenue from the inaugural plant onto the new platform, which went live in November 2018. The high-level impacts on expenses are from a net personnel cost, they reflect the four new roles that we created the drive strategy execution and the derivatives and indices areas and an increase in capabilities in cybersecurity and marketing. From a gross personnel cost on capitalization perspective, the increase ... there was an increase in development resources deployed during the year to ensure the successful delivery of capital projects particularly the wealth technology's new platform and the energy system software upgrade.

The IT course reflect the impacts of efficiencies gained over the last few years offset by increased capabilities, particularly for cyber security and some increased system and software costs, for example, for minor upgrades to the clearing system. Professional fee costs include increases in terminal royalty audit face which is proportionate to the revenue increase which I talked about slightly earlier. Other professional fee costs related to the ongoing assurance program which covers some of our contractual obligations, some of our regulated requirements on our internal audit program. There are various other legal and tax advice unknown annual reviews which I've summarized there. As we enter our second year of our strategy, there's more focus on driving sales led culture as such, there's a greater focus on supporting the business owners, the market, their divisions to drive out growth and hence an increase in the marketing expenses.

Other expenses reflected increased rents as a result of reviews of the current insurance market and travel cost, as we step up those efforts in marketing across the group and a particular marketing that ... marketing the New Zealand market internationally. This has been predominantly led by our secondary markets team and forms part of our own NZX Investor Relations program. Finally, the capitalized expenses relate to costs incurred and all of those above expense categories, which relate the capital activities. Slide 16 summarizes the other income and expenses. The subordinated note was issued in June 2018, it increased the interest costs for the second half of the year. We estimate the full-year impact would add an additional 400,000 to the interest costs.

Amortization of the wealth technologies platform commenced in November 2018 when the inaugural customer migrated to the system. We estimate that the full year impact would be an additional 1.35 million of amortization costs. The impairment expense relates to fund source and the discontinued operations relates to the agribusinesses, being their operating results left the impairment of [inaudible] On slide 17, I summarized the capital expenditure. 2018 reflects the resources deployed during the year to ensure the successful delivery of



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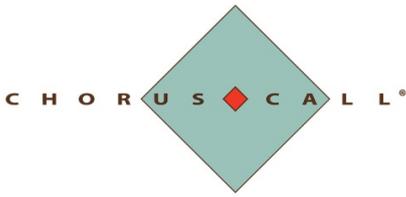
capital projects, particularly the wealth technologies' new platform and the energy system software upgrade.

Our expectations for 2019 is that capital expenditure will not be as high. We do have some large projects, the wealth technology capital expenditure level will be dependent on a couple of factors. Firstly, the requirements of phase two over inaugural clients migration, which is currently being scoped and secondly, are hopefully successful in gaining new clients and what their particular requirements should be. Of course, both of these factors will be dependent on obtaining an appropriate economic return. Additionally it's highlighted at the half-year the trading system will require an upgrade over the 2019-20 period. The costs are expected to be comparable to those incurred in 2012 for the last upgrade and it's estimated that about three quarters of the cost will be incurred in 2019.

There will also be the normal life cycle replacements for I.T equipment and software. Finally, we aren't expecting any further energy system upgrades in 2019. The balance sheets noted on slide 18, the key points that I'd like to make on the balance sheet are that cash and cash equivalents includes 20 million of risk capital and approximately 5 million of quasi regulatory capital relating to the clearing house and the fund management working capital requirements. These balances are not available for general use. The subordinated note has replaced the bank term loans and as everyone will remember, that was to ensure a more robust balance sheet to protect the business in the unlikely case of a major market event occurring, and then additionally, I'd like to note that the mutualized default fund commenced on October 2018, ensuring that the appropriate risk structure for the clearing house and providing us with additional runway given the anticipated growth in the dairy derivative market. It will mean that we won't have to add additional risk capital for approximately five to six years.

Cash flows are summarized in slide 19. Investing activities reflect the capital expenditure, payment of the super life earn out which was in February 2018 and receipts from the divestment of non-core businesses. Financing activities reflect receipts from the subordinated note being used to repay bank term loans and the dividends payout, net of the participation of the dividend reinvestment plan. Slide 20 details the final dividends for the year. Our fully imputed final dividend will be 3.1 cents per share which together with the instrument special dividend results in a total dividend for the year of 7.6 cents per share fully imputed.

The final dividend will be paid on the 22nd of March. The dividend reinvestment plan is available for that final dividend unless the shares will be issued at a discount of 2%. On slide 21 are details, an impact that will occur in 2019 for the implementation of a new accounting standard APRA 16 on leases. That standard is effective from 1 January onwards and will result in comparative information being restated in our 2019 financial statements. The new standard requires operating leases which for NZX are mainly property rental leases, to be recognized as a right of use asset with a corresponding lease liability. These are quantified in a discounted future cash flow basis. The right of use asset is then depreciated and the lease liability discount unwinds as an interest expense. In short, what this means for the NZX



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business is that rental property costs will be reduced by the lease component, not the op ex component and instead, replaced with an interest charge and a depreciation cost.

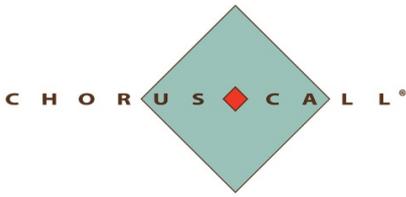
What the table shows is there's no significant impact of a net profit after tax line, however, there's a significant impact on the operating earnings. 2018's been a year of transitions for the business, with the focus on delivery and insuring we have the right platform for growth, this has been reflected on our annual results. So, on slide 22, I've shown the impact of the significant changes and how they would've affected the 2018 year as if they've been there for the full year. The impacts that are quantified are the changes to the trading and clearing price structure, based on 2018 actual volumes, it came in for the last quarter.

The second thing is the anticipated disposal of the fund source business. The third is the impact of wealth technologies inaugural clients who came on board in November 2018. The fourth is the change in the small shares operating model which came into effect on the final quarter. Finally, as I've noted in the previous slide, the impact of APRA 16leases. The table shows that the overall net impact, there's a slight increase in operating earnings. At this point, I'd like to hand it back to Mark to discuss the 2019 strategic direction and outlook and I'll be happy to answer any questions at the end of the presentation.

Mark Peterson:

Thanks Graham. I'm now going to talk to pages 24 through 26 and then onto 27. I want to talk about three further items. They basically relate to giving greater insight into our business and how we actually think about the future. The market's been asking for us to increase our transparency across the business and express a view on what our aspirations might be, to assist our shareholders, measure our financial and delivery performance. Firstly as Graham mentioned, we are pleased to say that we've adopted the global reporting initiative or GRI, reporting framework and delivered our first sustainability report which can be found in the annual report this year. Secondly, now talking to pages 25 and 26, we're articulating our view of 2019. To set the scene, with many foundations now in place, we are really shifting our emphasis of the business to a much greater sales and marketing focus. This includes issuance, gathering new participants, selling more data, growing our funds and wealth technologies business.

That relates to all parts of our activities. But we wanted to be clearer for shareholders on what we're looking to achieve in 2019. So, we've outlined the key elements that we think drive the majority of our business performance and the market and have set ourselves some ambitious goals for 2019. We've articulated also some of the actions we intend to take across those various areas. We know product growth, capital raising, secondary trading across cash and derivatives markets, attracting new participants and driving growth out of our data and insights business are the key elements for core markets. Hard times look good in these areas across the issuance activity and that includes equity. We're seeing some positive signs in that market. Debt's been strong last year and we continue to think it's going to be strong particularly with green and wholesale markets opening up, and the funds business, Joanna's having ... Joanna Lorne is having a number of very positive discussions with a wide range of people who are interested in listing some products.



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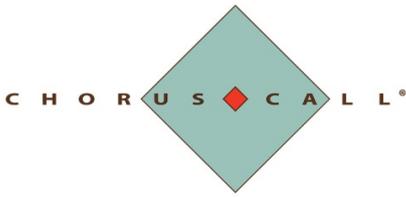
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Ben Philips, who is focused and his team are focused on developing the cash and derivatives markets, both from a trading and a participation perspective. They've got probably the most positive pipeline for some time in that area. That covers advising, trading, trading and clearing and depository participants. For the funds management business again, it's about growth in sales and funds under management, alongside creating further operating leverage as we bring these two business models of super licence march heads together. We should see further margin improvement in this business through 2019. Wealth technologies as we've mentioned before, it is about winning another major client and leveraging that investment that has been made in that business. Across the board, in addition to the above, we will continue to have a strong focus on improving operational efficiency and we will be running a very tight attitude around costs.

Looking out to 2023, and I'm now on page 27, and recognizing that these are not forecasts, we wanted to outline where we think we're going to get the ... where we're going to drive the business to. We recognize that these are quite aspirational, but we need them to be. We've gone for the same metrics, total capital issued, secondary traded value, dairy derivatives volume, data subs and licenses, funds for the funds business and funds under administration for our wealth technologies team as the key areas to focus on. We've expressed our view for the 2023 aspiration in a range and you can understand why we would do that because there are so many things that we might feel that they're uncertain. But flowing those assumptions through, it actually gives you a view of what we think our earnings might look like and what we've expressed there is a low range of 42 million and a high ... sorry, a low mark of 42 million and a high mark of say 54 million if everything went well.

Again, that's based on current assumptions. Alongside all of this, particularly for the core markets team, the capital markets 2029 industry initiative will play an important part in outlining recommendations that should unlock further growth. On this topic ... we're really pleased, enthusiasm has been high from all parts of the market to contribute to this initiative. That obviously starts from government who have been very supportive from the beginning, alongside the SMA and ourselves, in facilitating the set up, but the broader ecosystem is also very enthusiastic and we are optimistic about what that review could deliver.

With respect to page 20 - 28, and our earnings guidance, we've set the range at 28 to 31 million, and that is for operating earnings, but we do note that this takes account of the new pricing for trading and clearing fees alongside the impacts from the changes of APRA 16 and what that will pose as a price and it also includes obviously a full year of us operating without businesses that we sold through the course of 2018. Obviously, our range is dependent on market conditions and outcomes and it actually assumes no material adverse events. So, in summary, 2018 has been a big year of delivery for the organization. We are one year in to a five year plan. The financial results were solid as we've transitioned the business and we've reshaped our business and set the foundations for future growth. We're seeing a good pipeline building for growth across issuance participants of funds and wealth tech.



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2019, is going to be really about lifting the emphasis of the business towards sales, marketing and winning new business. We are doing all the things that we can control, but alongside that, the initiation of capital markets 2028 is all about bringing the industry together, setting the vision and outlining the activities and change that are required to deliver on that vision. Lastly, we actually worked out that the organization is just over 150 years old and not many New Zealand organizations have that level of history and we have obviously always operated at the heart of the economy. So, you'll see that through the course of this year that we will ensure this milestone is known, recognized and celebrated. Thank you for listening and we're very happy to take questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pickup the hand set to ask your question. Your first question comes from Jack Crowley from first NZ capital. Please go ahead.

Jack: Yeah, morning Mark, Graham. Thanks for the time today. Just a couple of questions from me if I may. The first one is, in terms of the new pricing structure for trading and clearing, is there any kind of context you can give us around what might be a break even level, either in terms of kind of on market activity or improvements for market liquidity where you'd kind of see that one and a half million dollars of annualized impact offset or should we kind of more think about that from kind of promoting the general appeal of the NZX as a market and kind of recuperating some of the kind of losses back there through things like annual listing fees?

Mark Peterson: I can ... did you have another question Jack you want to articulate or should I answer that one first?

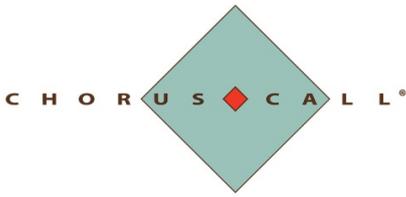
Jack: Maybe start with that one would be very useful thanks.

Mark Peterson: Yep. I must admit, I don't have a calculator in front of me, but you could clearly take the fees which are purely value based and effectively divide back and probably get to the values that would need to lift to deliver on that million to a million and a half. I just don't have that capability in front of me at the moment, I'm sorry.

Jack: Yes, sure, no, that's no problem. I guess it's just the other wash of things that go into the secondary market, the kind of space which kind of makes it difficult from the outside, but is it realistic at a breakeven outcome kind of could be achieved in the next couple of years if trading activity picks up or should we kind of think about like I was just questioning, as a broader investment and promoting the NZX as an exchange?

Mark Peterson: Certainly that's our aspiration. We change the fee structure to facilitate growth and to align to the way that the broken community now want to trade, so clearly we'd do that to unlock further growth. What we're also seeing is with the change in the pricing structure, that it is actually more appealing now for new participants to start to think about joining our market. So, totally agree. That's the reason why we did it and that would be our aspiration.

Jack: Okay.

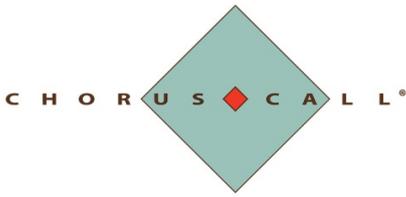


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- Graham Law:** Just add to Mark's comments on the mathematics of it, it's not quite a two dimensional problem because the percentage on market trading impacts the actual impact of the value traded, so that's why it's sort of aspirational, we intend to be back breakeven by 2013, I believe it.
- Jack:** Okay.
- Graham Law:** 2023.
- Jack:** That makes more sense, thank you. Thanks for that Mark and Graham. The only other one from me is just is there any context you can provide around how we should think about the quantum of cost in from a sales and marketing stand point?
- Mark Peterson:** It's not going to be a huge impact. I guess from our point of view, I think about when I articulate sales and marketing, it's an attitude, more so than spend and if I look at the organization sort of back in time and certainly when I sort of first joined, it was fairly internally focused and a big factor for 2018 is to reshape us around customers and get more people looking outward rather than looking inward and whilst we haven't changed overall staff numbers hugely, we've probably got about 30% more people actually looking outward and my point around sales and marketing is getting those people to be hungry, getting those people to be connected to the market and getting those people to look for opportunities and close opportunities.
- So, that's the majority of the intent of that point. Not withstanding that. We do know that there are parts of our business that can actually do with a boost with respect to sales and marketing activity, particularly around funds and particularly around some aspects of our core business and that's the point that was made earlier with respect to hiring a specialist in that area.
- Graham Law:** Additionally, the wealth technology business moves from one of development into more of a sales focused to increase it's funds under administration. So, that would be the secondary [overtalk]
- Mark Peterson:** But just to reemphasize the point, we're not ... I guess the primary reason for talking about moving to that culture is not to impose a whole heap of cost into the cost base, it's actually an attitude thing more than anything else.
- Jack:** Got it. Excellent. That's all from me. So, thanks very much. I appreciate the time guys.
- Mark Peterson:** No trouble Jack.
- Operator:** There are no further questions at this time. I'll now hand back to Mr Peterson for closing remarks.



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Mark Peterson:

Excellent. Thank you operator. Just like to thank everybody for joining the call this morning and if you have further questions, please feel free to ... please feel free to fire those through to Hannah and we will respond. Appreciate everybody's time.

[END OF TRANSCRIPT]