3 May 2013

NZX Annual Meeting 2013
CEO's Address

Good morning, and thanks for the warm welcome. After exactly one year as CEO of NZX, I thought it would be appropriate to reflect on the past year, and outline the opportunities for our businesses as I see them going forward.

But first a brief comment on our first quarter revenues that we released this morning. Overall revenues were up 4% over the first quarter of 2012 and broadly in line with our expectations.

Within the businesses, the picture is more mixed. Our agricultural information businesses were impacted by the drought conditions we've experienced across most of New Zealand. Faced with adverse conditions, farmers largely stopped spending, and rural advertising spend followed suit.

Securities data revenues declined as a result of the impact of a higher New Zealand dollar and decreased spending in the capital markets businesses, which has been experienced by all exchanges, not just NZX.

By contrast, our Market Operations businesses – the Fonterra Shareholders' Market and the Electricity Market – performed slightly ahead of expectations due to higher than expected development work.

More positively, capital markets revenues (listing, trading and clearing) were up 13%, reflecting a strong increase, 54%, in the value of trading activity in the first quarter of the year. This was in part due to a number of one-off sell-downs, but also an increase in underlying volumes, which were up 14%.

Reflecting on what someone mentioned to me was a fast year that went very slowly, it was in a lot of ways a year of two halves. Internally, we spent much of last year addressing an unsatisfactory level of staff turnover, the breadth of the management teams, and putting in place appropriate systems and processes for an organisation of our size and importance to the markets. All three of which led to number of one-off charges, which were taken in the middle of last year.

I am pleased to say that now we have a terrific team in place at all levels of the organisation and have reduced staff turnover to manageable levels. We have made some progress on improving our processes, in particular how we manage our customers, but getting these to the level we expect will take more time and will remain a priority for the reminder of this year.

Externally, the market environment has changed significantly in the past 12 months. In May last year the listing of Mighty River Power was delayed and value traded in June and July was down 11% and 13% respectively compared to the prior year.

As I mentioned, this changed dramatically in the fourth quarter with a number of large sell-downs, and the listings of the Fonterra Shareholders' Fund and Moa Breweries.

Significantly, it demonstrated to potential issuers the depth of the pool of capital available in the New Zealand market. As a result we have the strongest listing pipeline we have had in a decade or more.

This pool of capital is an early indicator of one of the two structural trends that have the potential to significantly enhance long-term returns for you, our shareholders. Those structural changes are the growth in KiwiSaver assets, in conjunction with the Government share offer programme, and the growth in demand for our agricultural commodities from China.

In 1990, the Australian sharemarket looked, on a couple of metrics, not too dissimilar to the New Zealand's today. Market capitalisation to Gross Domestic Product was 36%, and liquidity was 31%. NZX's numbers for 2012 was 32% per Dec12 monthly metrics and 45% respectively. Of course, Australian market cap to GDP today is 103% and liquidity in 78% in 2012.

While there are a number of factors that have driven growth in Australia, the fundamental drivers have been the introduction of compulsory superannuation and the privatisation of CBA and Telstra.

We are at the starting point of the same journey Australia embarked upon 20 years ago. For NZX, it represents a generational opportunity to both grow and participate in the growth of the capital markets.

We are therefore investing heavily in the rebuild of the market – supporting growth in the listings pipeline, launching equity derivatives in the middle of the year, and developing a new growth market for smaller companies, which we hope to launch by the end of the year.

By the end of the third quarter, we will also launch an upgrade to nzx.com, that will provide an enhanced set of information on companies that currently do not enjoy analyst coverage. We are also looking at ways to increase our exposure to the growth in assets under management and trading activity, including the expansion of the Smartshares franchise.

A critical component of this is ensuring we continue to build confidence in the markets, through our front line regulation and operation of the markets, and the underlying technology on which it operates.

The growth in demand for soft commodities from Australia and New Zealand, from China and the rest of Asia, is the second structural change, which plays to NZX's strengths. The increasing investment requirements and price volatility in the agricultural sector is generating significant demand for high quality information and data, to better manage the underlying risks in the business.

We have unique, high quality content in a number of commodities, largely with an Australasian bias. We are in the process of shifting our content online, first with Farmers Weekly and our other publications, and secondly with dairy industry data in a new site, which will launch in late May.

The shift online allows us to both increase our reach and to implement new revenue models. We are continuing to improve the relevance of the data we provide, in particular the forward looking indicators of price or volumes and the underlying drivers or supply and demand. The Pasture Growth Index is the first example of this and we are starting work with one of the universities this month to develop a forward indicator of milk price.

Finally, we also continue to look for small add-on acquisitions, which would bolster the range and type of commodities we cover.

Ultimately, of course, we would like to offer a broad range of soft commodity risk management products. While our first efforts in this area, Dairy Futures and the Clear Grain Exchange have had, for different reasons, mixed results over the past 6-12 months, we continue to believe the growth upside is substantial. We are therefore spending a disproportionate amount of resources in growing these businesses.

In both these structural shifts, the underlying opportunity for NZX is significant. Our success will be determined not by the ideas we have but our ability to execute well and engage with our customers and the market. It will be an exciting time ahead.

Finally, I'd like to thank the Board, you, our shareholders and the management team for your support over the last year. As Andrew pointed out, a CEO transition is never easy, especially one from offshore, but your support has made the potentially difficult, easy.

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