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15 August 2018

New Zealand's exchange – delivering on plan to build a stronger core

NZX today announced its financial results for the six months ended 30 June 2018.[1]

NZX CEO Mark Peterson commented: "Six months into the delivery of our five-year strategy we have advanced the business materially. We have divested our non-core businesses, improved the exchange's customer service and business efficiency, increased liquidity in the secondary market, and progressed plans to simplify the New Zealand market's structure and rule set."

"Today's half year financial result reflects the delivery we have made against our strategy outlined last November. We are pleased with progress being made across the key strategic areas fundamental to our future growth, and remain on track to deliver within the earnings guidance range provided in February 2018."

Key financial results:

- Total operating earnings of $13.9 million[2] and net profit after tax was $4.4 million[3];
- Operating revenue from continuing operations was $33.4 million, up 2.0% driven by strong growth in trading and clearing fees and funds management revenues;
- Operating expenses from continuing operations increased 7.3% due to targeted investments in marketing, cyber security and the dairy derivatives market, one-off staff related costs, and fund expenditure which was driven by the growth in funds under management;
- Successful divestment of non-core businesses, including Farmers Weekly, AgriHQ and the Australian based Grain Information Unit; and
- Interim ordinary dividend, fully imputed, of 3.0 cents per share. Plus, a special dividend, fully imputed, of 1.5 cents per share, with the Board returning proceeds from disposals of non-core businesses to shareholders.

Business highlights

Core Markets

Revenues in this business – which includes issuer, participant and data services; derivatives; and markets operated for Fonterra Co-operative Group and the Electricity Authority – were relatively flat at $25.62 million.

Over the first half, $4.4 billion of capital was raised across the four markets, the same as a year earlier, and 10 debt issuers, including NZX, issued $1.7 billion of new debt. Auckland Council listed the exchange's inaugural green bond.

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[1] Comparisons are to the six months ended 30 June 2017

[2] Includes operating earnings from continuing operations of $13.2 million and discontinued operations of $0.7 million

[3] Includes net profit after tax from continuing operations of $6.9 million and discontinued operations of ($2.5) million (including impairment of goodwill and intangibles of $2.9 million)

Two new entrants joined the equity and debt markets respectively, QEX Logistics and Christchurch International Airport. WEL Networks joined the debt market post the balance date.

Total value traded increased 2.4%, while total trades grew to 1.6 million, contributing to an increase in trading and clearing revenues of 8.6% and 12.9% respectively during the period.

Hobson Wealth Partners Limited was accredited as an NZX cash market trading and clearing participant in June. The first New Zealand based participant to join NZX since the Clearing House was established in 2010.

The revised trading and clearing pricing structure was announced last week and will be introduced alongside targeted policy changes and improved trading system functionality in October. These changes aim to further improve on-market liquidity and enhance price transparency in the equity market, delivering on several strategic initiatives from November's strategy. They also lay the platform for long term future growth in the secondary markets.

These changes follow a successful trial of a new pricing structure in the secondary market over the past 12 months, which has helped contribute to an additional 33% in on-market value traded since August 2017. At the beginning of 2017 on-market activity was 39.8%, it is now 53.4%. This compares to 23% on-market value traded ten years ago, and 28.8% five years ago.

The exchange's global dairy derivatives market traded its millionth lot in May, a significant milestone in this market's journey towards maturity. Strategic actions promised in November 2017 were delivered, with additional trading functionality launched in March and extended trading hours in July.

Post the 30 June balance date a new record volume day was reached at 6,415 lots, and a record trading month in July. This followed record trading days for the NZ milk price futures and the skim milk powder futures and options contracts in June.

Funds Management

Revenues in this business – which comprises Smartshares Exchange Traded Funds (ETFs) and SuperLife corporate superannuation and KiwiSaver – increased 11.1% to $7.3 million. Operating earnings were $2.5 million, up 11.8%.

Strong growth in these businesses support the development of New Zealand's public capital market and the exchange's core markets business, while reinforcing NZX's strategic decision to provide local investors with a high quality and low cost passive product offering.

Total funds under management (FUM) was $2.9 billion, up 21.7%. Smartshares FUM (excluding SuperLife) was $800 million, up 39.3%, and investor numbers continued to climb with application numbers, up 30.6%. SuperLife FUM reached $2.1 billion, up 16.0%. Membership numbers increased 6.3%, and two new corporate super clients were secured, adding 1,350 members.

Wealth Technologies

Core development of the platform which enables advisers and brokers to manage client investments was completed in Q2 and a large customer is scheduled to go-live in October. This will be a significant milestone for this business, the newest addition to NZX, as it moves into the next growth phase, focused on extending its product offering and client base.

Costs

Total operating expenses from continuing operations were $20.2 million. These costs include several targeted investments made in the first six months, with roles created in marketing, dairy derivatives and cyber security. A project management office was also established to ensure improved delivery following the strategy reset.

Several one-off costs were incurred in the first six months. These included the establishment of a dividend reinvestment plan, catch up costs for two LTI schemes, the issue of company shares to employees to encourage engagement and align interests with shareholders, and financial consulting costs associated with the Australian GST audit and internal audit program. Growth in funds under management increased the FUM driven costs.

Savings from projects delivered in 2017, which modernised and simplified the data centre and network infrastructure, were partly offset by one-off implementation costs that will create a more robust and flexible mechanism for participants to connect to NZX's core markets and wealth technologies platforms.

Capital structure

NZX board completed a capital structure review. Outcomes include, the issuance of subordinated notes, the implementation of a mutualised default fund for the Clearing House, and the establishment of a dividend reinvestment plan. These actions will help to ensure the exchange has a balance sheet risk profile appropriate for a business, which is a critical component of New Zealand's capital markets infrastructure.

Dividend

The Board declared an interim ordinary dividend, fully imputed, of 3.0 cents per share which will be paid on 14 September 2018. Following the divestment of non-core businesses, each shareholder will also receive a special dividend, fully imputed, of 1.5 cents per share. As communicated in February, a dividend reinvestment plan has been established and will be available for the 2018 interim and special dividends, at a discount rate of 2.5%.

Guidance

When the 2017 full year results were released in February 2018, the Board advised it expected full year 2018 operating earnings to be within a range of $28.0 million to $31.0 million. As per normal, it is subject to market outcomes, particularly with respect to initial public offerings and secondary capital raising and equity and derivatives trading volumes. It assumes no material adverse events, significant one-off expenses or major accounting adjustments. It also assumes no further acquisitions or divestments.

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