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## **NZX Half Year 2016 results announcement**

### **Strong performance in NZX's markets business; funds services growth reflects investments made**

NZX's financial results for the six months to 30 June 2016 demonstrate the strong performance of its markets business and growth in its funds services business, reflecting the strategic investments it has made. Total NZX revenues for the half year of \$37.9 million were up 10.3% on the previous corresponding period.

Earnings before net finance expense, tax, depreciation and amortisation and gain on sale were down 8.0% to \$10.8 million as a result of a \$1.6 million increase in Ralec litigation costs, with the Ralec trial concluding in July. Excluding costs associated with that litigation, EBITDA was up 5.3% to \$13.7 million.

Reported Net Profit After Tax of \$3.6 million included an impairment charge on brand assets in NZX's agri business and an adjustment to the provision for the NZX Wealth Technologies (NZXWT) earnout. Excluding these items and the gain on the sale of NZX's stake in Link Market Services in the prior year, net earnings of \$4.0 million were 34.9% down on the prior year.

Highlights for the half year include increased trading and listing revenues in NZX's markets business along with continued growth in NZX's Debt Market, with the equity and debt listing environment continuing to be stronger than in the same period last year.

There was growth in NZX's funds services business following the launch of 18 new Smartshares Exchange Traded Funds (ETFs) in 2014/2015, and excellent progress by NZXWT (acquired in August 2015) leading to the signing of its first major new client in August.

The launch and subsequent take up of NZ milk price futures and options was another notable highlight in the first half. In addition, post balance date, a key milestone of 50% equity market capitalisation to GDP was reached for the first time since this ratio was first reported by NZX in 2003.

Weighing on the performance of NZX's agri business was a weak dairy sector which impacted earnings. In addition, the strategic investment NZX is making in growing the Smartshares range of ETFs and the NZX Wealth Technologies business impacted current period earnings.

NZX Chief Executive Tim Bennett commented: "Strong performance of our markets and successful execution of our funds services strategy underpin NZX's half year financial result. We are pleased the Ralec trial and associated costs, which weighed on our result, are behind us now. We continue to deliver against our strategic objectives to grow the business and the markets for the long term."

"We are continuing to see a good pipeline of small to medium sized listing candidates, while debt raising activity is expected to continue at levels above historical averages."

Business unit results are summarised in the table below:

\$000	HY2016	HY2015	Change 2016 v 2015
Segment earnings:			
Markets	19,146	17,371	10.2%
Funds Services	358	1,611	(77.8%)
Agri	291	462	(37.0%)
Corporate <sup>1</sup>	(9,019)	(7,733)	16.6%
Earnings before net finance expense, tax, depreciation and amortisation and gain on sale	10,776	11,711	(8.0%)

<sup>1</sup>Includes Ralec litigation costs

## Business Highlights

### Markets

Revenues in NZX's markets business – which includes capital raising, trading and clearing, listings, participant services, securities data and derivatives and markets operated for Fonterra and the Electricity Authority – were up 7.9% on the prior period to \$25.3 million, driven by substantial growth in trading volumes, and increased listing and capital raising activity. In contrast, costs were up marginally at 1.2% reflecting increased IT costs, resulting in EBITDA for the markets business growing by 10.2%.

**Capital Markets:** The number and value of trades were up 35.8% and 24.5% respectively during the half year, largely driven by increased interest in NZX's markets from offshore investors. This contributed to a lift in securities trading revenue and securities clearing revenue up 27.5% and 15.9% respectively during the period.

Listing and capital raising activity was up substantially in the first half of 2016 compared to the same period last year, with the listings of Tegel (IPO) and NZME (compliance listing) on the Main Board, and Oceania Natural and Marlborough Wine Estates Group on the NXT Market.

NZX's Debt Market continued its strong growth due to the low interest rate environment and increased use of the same class offer exclusions within the Financial Markets Conduct Act (FMCA). Listed debt is proving a cost-effective capital raising option for corporates, banks and local government, with a further \$3.2 billion of debt listed on the NZDX in the first half.

NZX expanded its portfolio of risk management tools during the half with the launch of the NZ milk price futures and options contracts in May. Early trading in these products surpassed expectations with the equivalent of more than 9 million kilograms of milk solids (kg/ms) traded since launch.

Low levels of volatility in the dairy commodities market saw dairy futures and options lots traded down 20.2% on the prior corresponding period. However, the number of active participants in this market increased 86% underlining the strong long term potential for growth.

Securities data revenue was down 6.8%, impacted by a decrease in data terminals and the timing of the relaunch of FundSource, NZX's investment research house.

In June, the Financial Markets Authority reported in its annual Market Operator Obligations Review, which assesses and reports on NZX's compliance as a market operator, that NZX continued to effectively carry out its regulatory role and was not required to take any specific actions.

**Market Operations:** NZX successfully retendered for the four market operator contracts with the Electricity Authority in October 2015, and these new contracts commenced in 2016. A decrease in pricing for the existing contracts was offset by work to upgrade the systems used to run the market.

#### **Funds Services**

**Funds Management:** Funds under management (FUM) in SuperLife's KiwiSaver business grew 26.6%, while total SuperLife FUM increased by 13.1%. Highlights in that business included winning four new group superannuation mandates.

Total external FUM in NZX's Smartshares business – which provides a range of 23 simple, low cost Exchange Traded Funds – was up 6.9% on the same period last year.

Smartshares (incorporating SuperLife) has been granted a licence as a manager of a registered scheme by the FMA under the FMCA. As part of the process of FMCA compliance, NZX will amalgamate the Smartshares and SuperLife legal entities in Q4 2016 (while the two brands will remain separate).

**NZX Wealth Technologies:** NZX acquired NZXWT (formerly Apteryx) in August 2015. Earlier this month NZX announced it had signed an agreement with Craigs Investment Partners (Craigs) to provide the NZXWT platform for Craigs' KiwiSaver product. This is the first major client signed since NZX purchased the business, and NZX continues to discuss with a range of other potential clients their future requirements for wealth platforms.

**Agri:** Revenues in NZX's Agri business – which includes its print and online publications, data and analytic reports in Australia and New Zealand, and the Clear Grain Exchange in Melbourne – were down 6.1%. The performance of this business remains negatively impacted by the challenging environment in the New Zealand dairy industry, which has affected confidence in the sector and accordingly reduced advertising spend. This resulted in an 11.1% decline in paid advertising equivalents.

During the half year there was a shift to a more corporate base of customers in the agri data business with the majority of the 21% year-on-year growth in agri data revenue coming from corporate customers.

Due to a longer selling season, the performance of NZX's Australian grain trading business Clear Grain Exchange was up, with total volume of grain traded up 61.0% compared to the same period last year.



### **Costs**

There were increased costs in the half year due to the Ralec litigation (trial completed in July). No further significant Ralec trial costs are expected after July and NZX currently expects to receive a judgment before the end of 2016.

The cost line also reflects targeted investment made to grow the new ETFs, along with investment in the NZXWT business. Together with the increase in Ralec costs, this meant that total operating expenses grew by 19.7%. Excluding these items, operating costs grew by 3.3%.

### **Outlook**

NZX expects FY 2016 EBITDA to be in the range of \$22.5 million to \$26.5 million. This is subject to market outcomes, particularly in respect to initial public offerings, secondary capital raising, trading and clearing volumes for equity, derivatives and grain trading volumes. This guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments. It also assumes no acquisitions or divestments.

### **Dividend**

The Board declared an interim dividend of 3.0 cents per share, fully imputed. The record date will be 2 September 2016, with a payment date of 16 September 2016.

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### **About NZX Limited**

NZX builds and operates capital, risk and commodity markets and the infrastructure required to support them. We provide high quality information, data and tools to support business decision making. We aim to make a meaningful difference to wealth creation for our shareholders and the individuals, businesses and economies in the countries in which we operate. To learn more about NZX please visit: [www.nzxgroup.com](http://www.nzxgroup.com)