



NEW ZEALAND'S EXCHANGE

Delivering on the plan to build a stronger core market – six months into reshaping our business

NZX Half Year 2018
Investor Presentation
15 August 2018



Agenda



Executing on our strategy



Highlights from the first half



Divisional performance

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Important notice

This 2018 half year investor presentation should be read in conjunction with the management commentary and financial statements in NZX's 2018 interim report, which provides additional information on many areas covered in this presentation.

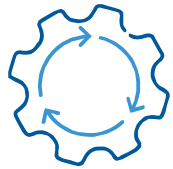
Executing on our strategy



Six months into the delivery of our five year strategy we are making good progress to build an efficient growth platform

New Zealand's Exchange

Refocus **Core**



- ✓ Divested non-core Agri businesses
- ✓ Transformed issuer service offering
- ✓ Increased on-market liquidity
- ✓ Listing rules review in final stage
- ✓ Global alliance strategy underway

Growth Opportunities



- ✓ Dairy derivatives market – extended trading hours, added additional trading functionality and sales resource
- ✓ Debt market – 11 new issuances in first half

Maximise **Options**



- ✓ SuperLife/Smartshares – new leadership in place, strategic review of operating model underway, continued FUM growth of 21.7% since June 2017
- ✓ Wealth Technologies – core platform development complete, new client go-live on track for October

Get **Fit**



- ✓ Continued automation of operational processes
- ✓ Further progression on IT infrastructure programme
- ✓ Reset capital structure – subordinated notes issued, mutualised default fund consultation completed and dividend reinvestment plan established

Executing on our strategy

Delivering on the plan to build a stronger core market for New Zealand



Issuer Relationships

\$4.4 billion capital raised in HY18, same as prior period

Customer engagement

- 100% issuers contacted in Q1, 150 recontacted in Q2/Q3 as part of proactive engagement programme
- Cross selling opportunities identified with Data & Insights and SuperLife teams
- Event programme developed, showcasing NZX listed companies to retail and institutional investors locally and offshore

Framework

- Second phase of listing rules review completed. Final rules on track for Q4 release, implementation Q1/Q2 2019

Product suite

- First green bond listed in June, four now listed

Marketing the market

- 100% engagement with market participants in HY18. New participant (Hobson Wealth Partners) joined in July
- Increased presence at industry events in Asia, United States and Europe

Increase on-market liquidity

- Revised trading and clearing pricing structure to be implemented alongside targeted rule and technology changes in October
- On-market value traded averaged above 53% each month in HY18

Functionality

- Changes applied to trading and clearing systems in HY18 included calendar spread trading functionality added in March, extended trading hours in July, four decimal place pricing on track for October
- Consultation underway for 2019 trading system upgrade. Vendor engagement and design study to occur in 2H18
- Indices strategy review underway, new dedicated resource added

Internal

- Monthly shareholder metrics revised to align with strategy

B2B

- Increased relationship activity with other customer segments

End user

- Pathway to PRA initiated, focus on dairy insights products

Capability

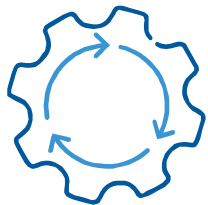
- Customer management components of data platform to be delivered by end of FY18

Secondary Markets

On-market trading reached record high of 56.8% in May 2018

Data & Insights

Dairy data product subscriptions up 28.7% on prior period



Core market

Executing on our strategy

Growing opportunities and maximising options that support growth in our core market



Growth opportunities

Spotlight on Dairy Derivatives

- 2018 volume target range 300,000 - 400,000 lots
- 147,180 lots traded in HY18



Maximise options

Smartshares & SuperLife

- 2018 target FUM growth plus 7%
- FUM growth HY18 7.1%



Wealth Technologies



Get fit

Expand global access

- Extended trading hours started in July, now capturing US morning through to European lunchtime

Boost sales and marketing

- Additional New Zealand based FTE hired to sell NZ milk price future and options contracts. Volume growth more than 50% YTD
- Progress made on Singapore office licensing, targeting 2019 opening
- New website launched, Chinese translation go-live H218

Extend product set

- Skim milk powder options launched December 2017
- New calendar spread functionality added March
- Options settlement consultation on track H218

Grow end users

- Continuing to support third party distributors
- SuperLife website launched February
- Two new corporate super clients secured (1,350 members)

Cross-sell

- SuperLife financial adviser fee channel opened in April

Go-live

- Core platform development completed Q2
- Large customer scheduled to go-live October

Clarity and alignment

- Divested non-core businesses

Efficiency improvements

- Continued automation of operational processes
- Further progression on IT infrastructure programme

Capital structure

- Subordinated notes issued, mutualised default fund consultation completed and dividend reinvestment plan established

Highlights from the first half*



Total operating earnings**

\$13.9

million



3.8%

Funds under management

\$2.9

billion



21.7%

On-market value traded

\$10.9

billion



33%

Total market capitalisation
(equity and debt)

\$164.6

billion



8.8%

Dairy derivatives



MILLIONTH
LOT TRADED IN MAY

Dividend

Interim

3.0

Special

1.5



cents per share

* financial results for the six months ended 30 June 2018, comparisons are to the six months ended 30 June 2017
** includes operating earnings from continuing operations of \$13.2 million and discontinued operations of \$0.7 million

Results overview

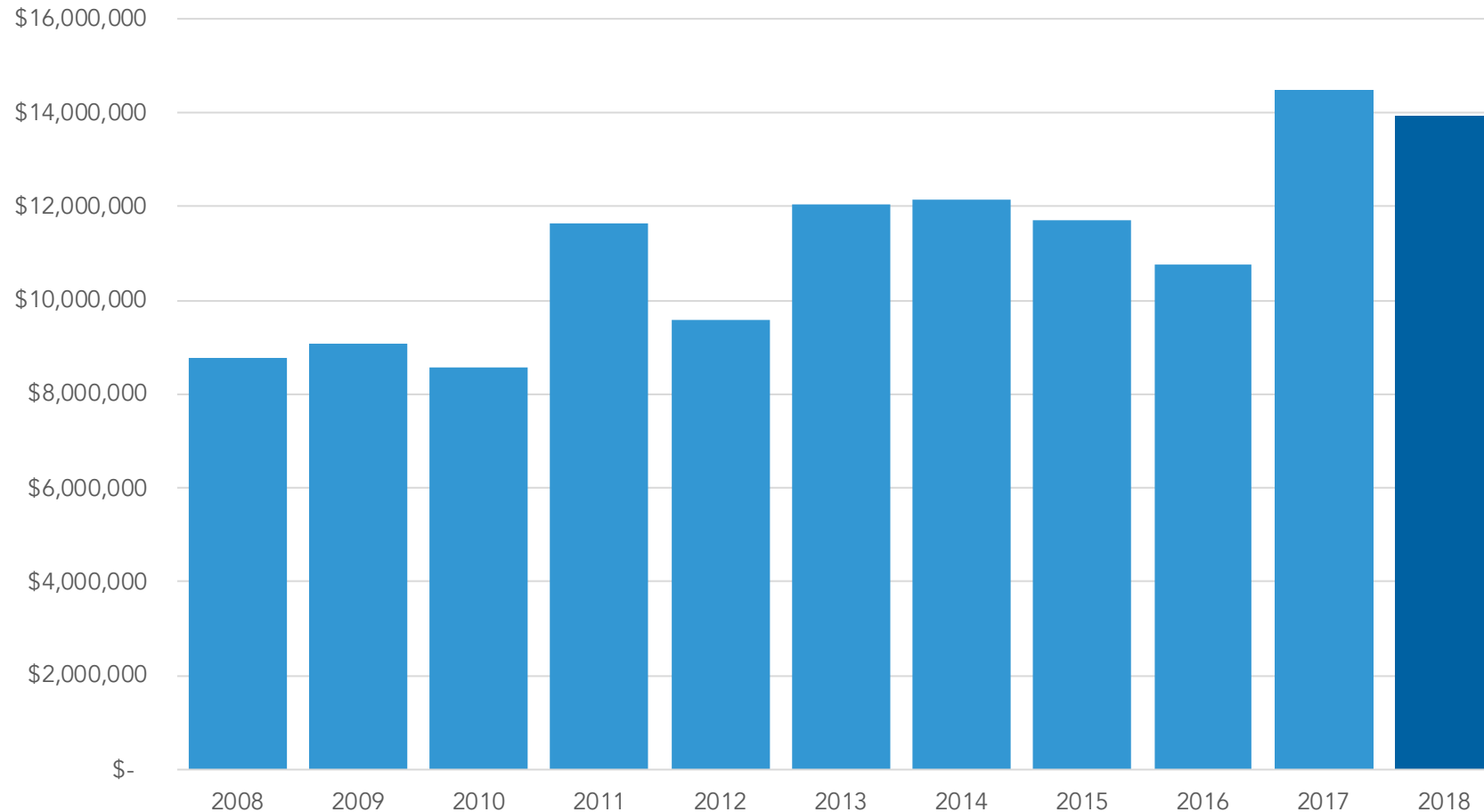
Result underpinned by divestment of non-core businesses and delivery of projects fundamental to growth of core exchange



	June 2018 \$000	June 2017 \$000	Changes Fav/(unfav)
Operating revenue	\$33,423	\$32,763	2.0%
Operating expenses	(\$20,206)	(\$18,828)	(7.3%)
Operating earnings	\$13,217	\$13,935	(5.1%)
Net finance expenses, tax, depreciation and amortisation and gain on sale	(\$6,284)	(\$6,123)	(2.6%)
Discontinued operations (includes impairments)	(\$2,524)	142	(1877.5%)
Net profit after tax	\$4,409	\$7,954	(44.6%)

- Revenue highlights include trading and clearing fees and growth in the funds management business
- Operating expenses include 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
- Discontinued operations relate to operating results, plus other income and expenses for agri businesses, including impairment of goodwill and intangibles of \$2.89 million

Operating earnings of \$13.9 million in first half 2018

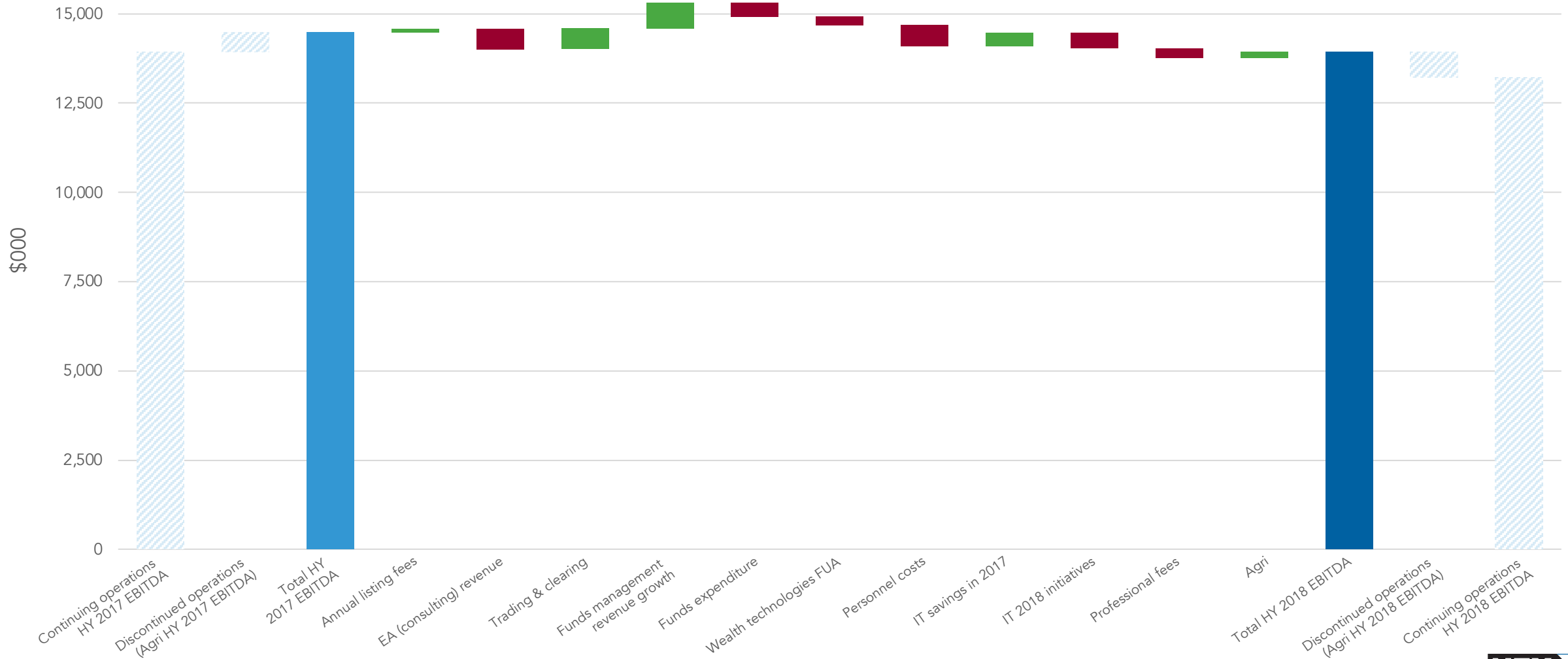


Operating earnings from:

- Continuing operations \$13.2 million; and
- Discontinued operations \$0.7 million.*

*Discontinued operations relate to recently divested Agri businesses (Farmers Weekly, Australian Crop Forecasters and Profarmer Australia and AgriHQ)

Operating earnings waterfall



EBITDA divisional results



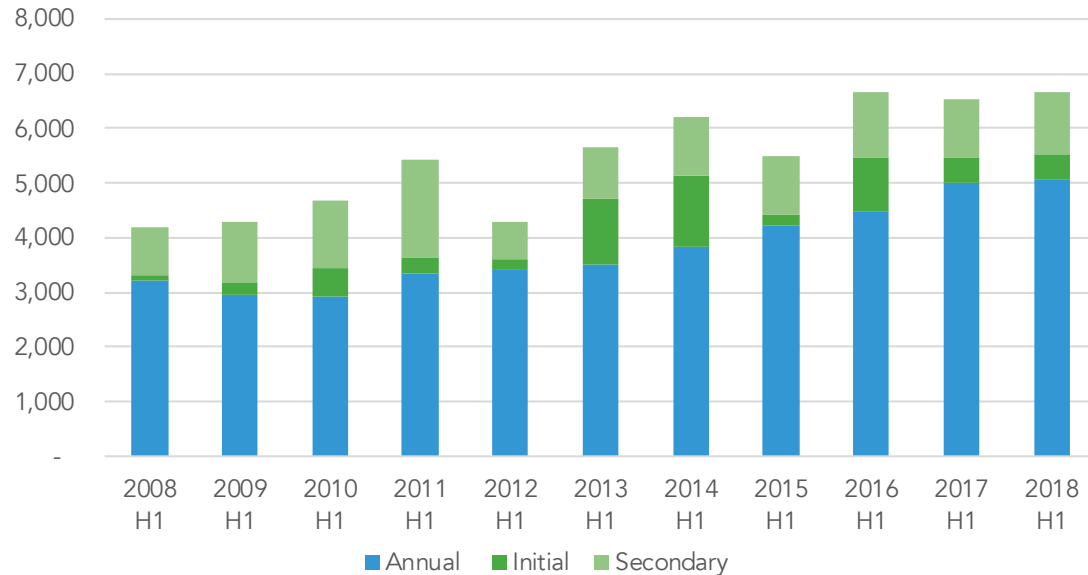
Six months ended 30 June 2018 \$000	Issuer Relationships	Secondary Markets	Data & Insights	Funds Management	Wealth Technologies	Corporate Services	Total continuing operations	Agri	Total (including discontinued operations)
Operating revenue	11,500	8,546	5,574	7,320	483	-	33,423	3,803	37,226
Operating expenses	(2,544)	(2,640)	(850)	(4,820)	(1,091)	(8,261)	(20,206)	(3,088)	(23,294)
Operating earnings	8,956	5,906	4,724	2,500	(608)	(8,261)	13,217	715	13,932

Six months ended 30 June 2017 \$000	Issuer Relationships	Secondary Markets	Data & Insights	Funds Management	Wealth Technologies	Corporate Services	Total continuing operations	Agri	Total (including discontinued operations)
Operating revenue	12,001	7,927	5,524	6,590	721	-	32,763	3,799	36,562
Operating expenses	(2,669)	(2,478)	(657)	(4,354)	(1,522)	(7,148)	(18,828)	(3,249)	(22,077)
Operating earnings	9,332	5,449	4,867	2,236	(801)	(7,148)	13,935	550	14,485

Issuer Relationships



Issuer fees



- Annual listing fee growth from increase in number and value of debt instruments and equity market capitalisation. Comparable listing of new debt in 2018, equity IPOs weaker than expected
- Secondary issuances totalled \$2.8 billion (equity and funds \$2.3 billion, debt \$0.5 billion)
- Other issuer services revenue relates to NZX Regulation
- Contractual, consulting and development revenue relates to operation of electricity market (under contract from Electricity Authority) and Fonterra Shareholders' Market (under contract from Fonterra)
- Focus on the energy market software upgrade due for completion in September 2018 impacted consulting and development revenue

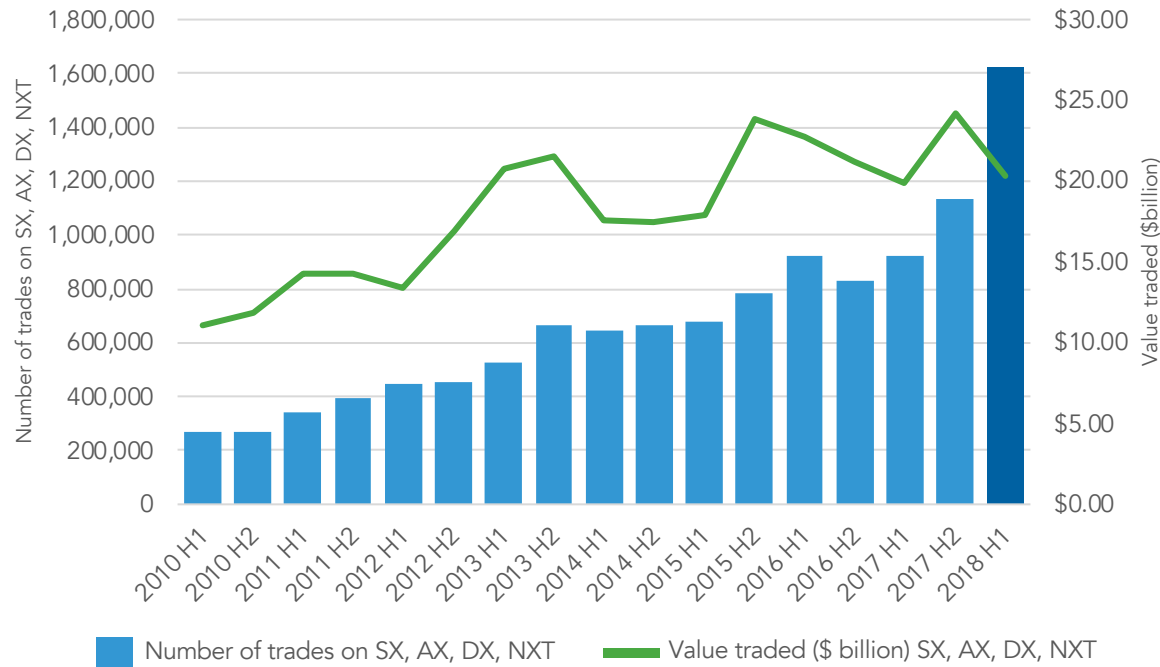
Operating earnings

	June 2018 \$'000	June 2017 \$'000	Change Fav/(unfav)
Revenue			
Annual listing fees	5,082	4,996	1.7%
Initial listing fees	434	452	(4.0%)
Secondary issuance fees	1,158	1,101	5.2%
Other issuer services	313	293	6.8%
Consulting and development revenue	155	728	(78.7%)
Contractual revenue	4,358	4,431	(1.6%)
Total revenue	11,500	12,001	(4.2%)
Total expenses	(2,544)	(2,669)	4.7%
Total operating earnings	8,956	9,332	(4.0%)
Strategic metrics			
Number of unique issuers	200	209	(4.3%)
Equity market capitalisation	137.0 billion	123.8 billion	10.6%
Debt market capitalisation (including green bonds)	27.6 billion	27.4 billion	0.6%
Number of new equity listings	1	1	-
Number of new debt listings	10	10	-
Value of new equity listed	0.02 billion	0.48 billion	(95.9%)
Value of new debt listed	1.67 billion	1.53 billion	9.0%
Total secondary capital raised	2.75 billion	2.44 billion	12.5%

Secondary Markets



Value and volume traded



- New pricing structure commences 1 October 2018. Estimated impact includes reduction of net securities trading and clearing revenues of \$150,000 to \$200,000
- Changes follow successful trial of new price structure over last 12 months, helping to contribute an additional 33% in on-market value traded over the first six months of 2018
- New cash trading and clearing participant (Hobson Wealth Partners) joined in July
- Dairy derivatives lots traded relatively flat. Post 30 June balance date, record number of lots traded in July (41,651 lots)

Operating earnings

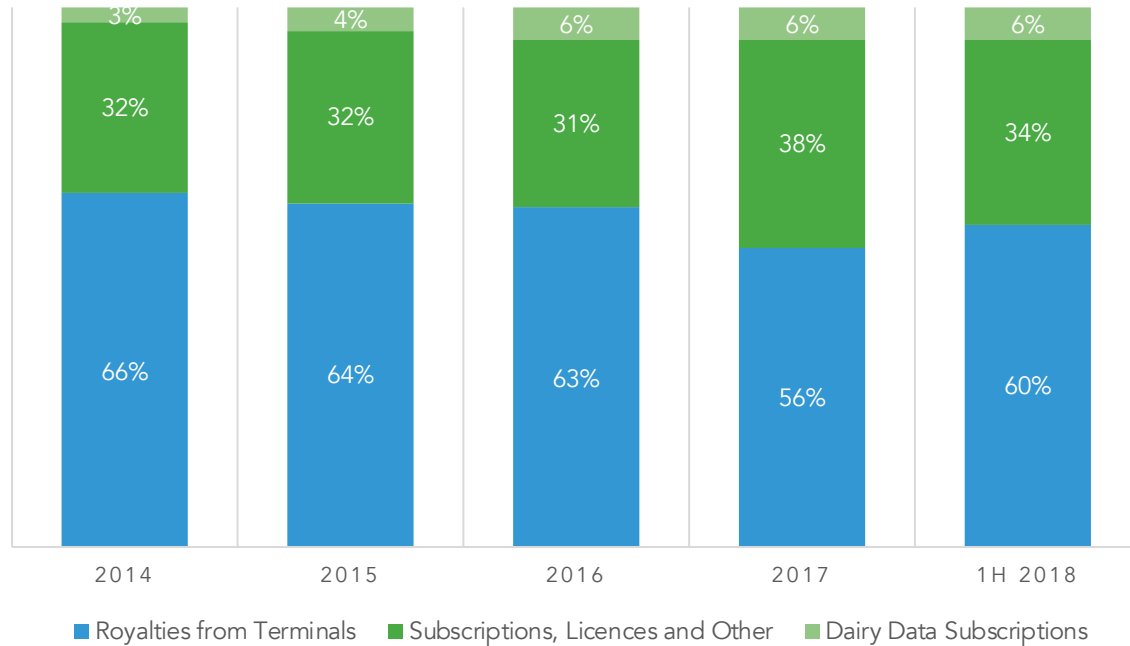
	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Participant services revenue	1,935	1,886	2.6%
Securities trading revenue	2,962	2,728	8.6%
Securities clearing revenue	3,105	2,751	12.9%
Dairy derivatives revenue*	544	562	(3.2%)
Total revenue	8,546	7,927	7.8%
Total expense	(2,640)	(2,478)	(6.5%)
Total operating earnings	5,906	5,449	8.4%
Strategic metrics			
Number of trades	1.6 million	0.9 million	75.7%
Total value traded	20.3 billion	19.8 billion	2.4%
Percentage of value on-market	53.4%	40.3%	32.5%
Dairy derivatives lots traded	147,180	155,222	(5.2%)
Number of participants	36	34	5.9%

* Excludes annual membership fees charged to derivatives participants

Data & Insights



Percentage of revenue



- Terminal numbers decreased (predominantly professional terminals), this has been offset by receipts from royalty audits
- Subscriptions and licence mix of low and high value subscriptions and licenses has resulted in lower fees
- Work underway to expand dairy data offering to support trading in dairy derivatives market

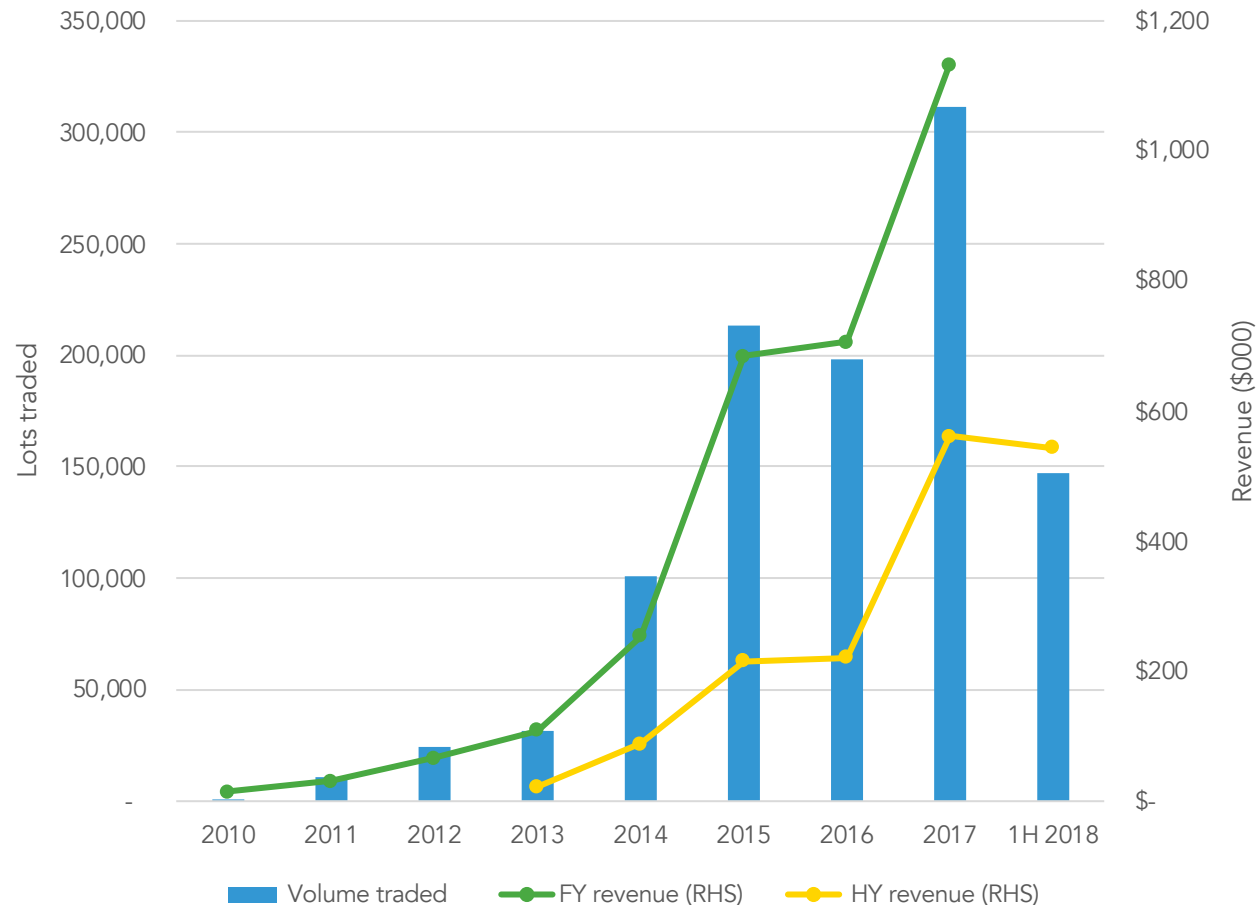
Operating earnings

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Royalties from terminal	3,335	3,175	5.0%
Subscriptions and licenses	1,802	1,922	(6.2%)
Dairy data subscriptions	343	341	0.6%
Other	94	86	9.3%
Total revenue	5,574	5,524	0.9%
Total expense	(850)	(657)	(29.4%)
Total operating earnings	4,723	4,867	(2.9%)
Strategic metrics			
Terminal numbers (12 month average)	7,295	7,426	(1.8%)
Number of licences	96	94	2.1%
Number of proprietary security products subscription	395	389	1.5%
Number of dairy data products subscription	1,031	801	28.7%

Dairy Derivatives Market



Dairy derivatives yearly volumes traded and revenue



Delivered on the actions promised in November strategy:

- Additional trading functionality added (March)
- Additional FTE added to sell NZ milk price future and options contracts. Volume growth more than 50% YTD
- Website redesigned, Mandarin translation on track for second half
- Extend trading hours launched (July)

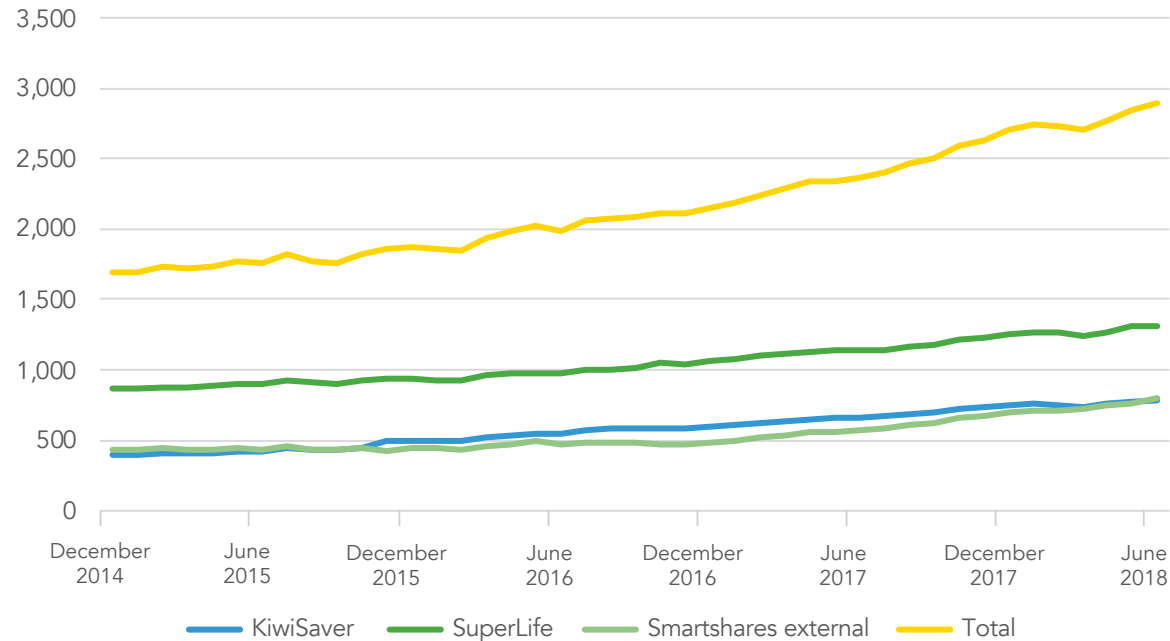
Records on records:

- Post 30 June balance date record trading days recorded. Lots traded flat in first half due to lack of volatility (147,180 lots traded as at 30 June 2018)
- Millionth lot traded in May
- Active traders up 60% on comparable period (note this excludes the additional users from the 15 omnibus accounts)

Funds Management



Funds under management growth



- Total external Funds Under Management (FUM) has grown to \$2.9 billion from \$2.7 billion at 31 December 2017, reflecting increased retail and adviser utilisation
- SuperLife member numbers up 6.3% on comparable period
- Smartshares total unitholders (the number of investors in each ETF) up 30.8%
- Fresh leadership in place, strategic review of operating model underway

Operating earnings

	June 2018 \$'000	June 2017 \$'000	Change Fav/(unfav)
Revenue			
SuperLife revenue	4,189	3,902	7.4%
Smartshares revenue	3,131	2,688	16.5%
Total revenue	7,320	6,590	11.1%
Total expense	(4,820)	(4,354)	(10.7%)
Total operating earnings	2,500	2,236	11.8%

Strategic metrics			
SuperLife member numbers	51,963	48,888	6.3%
SuperLife external FUM	2.1 billion	1.8 billion	16.0%
Smartshares external FUM	0.8 billion	0.6 billion	39.3%
Smartshares SuperLife FUM	1.7 billion	1.3 billion	32.5%
Total Smartshares FUM	2.5 billion	1.9 billion	34.6%
Total FUM (external)	2.9 billion	2.4 billion	21.7%

Wealth Technologies



Operating earnings

	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Revenue			
Administration fees	393	631	(37.7%)
Development fees	90	90	0.0%
Total revenue	483	721	(33.0%)
Total expenses	(1,091)	(1,522)	28.3%
Total operating earnings	(608)	(801)	24.1%
Strategic metrics			
Total FUA (external)	1.1 billion	1.2 billion	(7.9%)

- Core platform development completed in Q2, includes trading, valuation, cash and asset reconciliation, corporate actions and investor and management reporting
- Large customer scheduled to go-live this October. Data migration reconciliation, UAT and migration dry runs under way
- Business then moves to growth phase, focus shifts to sales and product refinement, pipeline remains strong

Operating expenses



	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Gross personnel costs	(13,625)	(12,402)	(9.9%)
Less capitalised labour	2,065	1,435	43.9%
Personnel costs	(11,560)	(10,967)	(5.4%)
Information technology costs	(3,712)	(3,646)	(1.8%)
Professional fees	(936)	(676)	(38.5%)
Marketing	(205)	(144)	(42.4%)
Funds expenditure	(1,965)	(1,573)	(24.9%)
Other expenses	(1,828)	(1,822)	(0.3%)
Total expenses	(20,206)	(18,828)	(7.3%)

Strategic metrics			
Staff numbers (FTEs) – continuing	217	203	(6.9%)
Staff numbers (FTEs) – discontinuing	28	29	3.4%

Personnel costs:

- Additional fixed term staff employed to complete major capital projects in Wealth Technologies and energy systems;
- Investment in staff through the issue of \$1,000 (gross) of company shares;
- CEO LTI scheme introduced and back dated to 1 April 2017, LTI scheme also introduced for new Head of Funds Management;
- No Head of Issuer Relationships in prior period; and
- Targeted new roles in cyber security, derivatives and marketing.

Technology:

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

Professional fees

- Legal costs from issue of shares to employees, set-up of dividend reinvestment plan and LTI schemes;
- Costs associated with Australian GST audit and timing of internal audit; and
- Royalty commission costs increased in line with royalty audit receipts.

Funds expenditure:

- Funds costs increased in relation to FUM growth

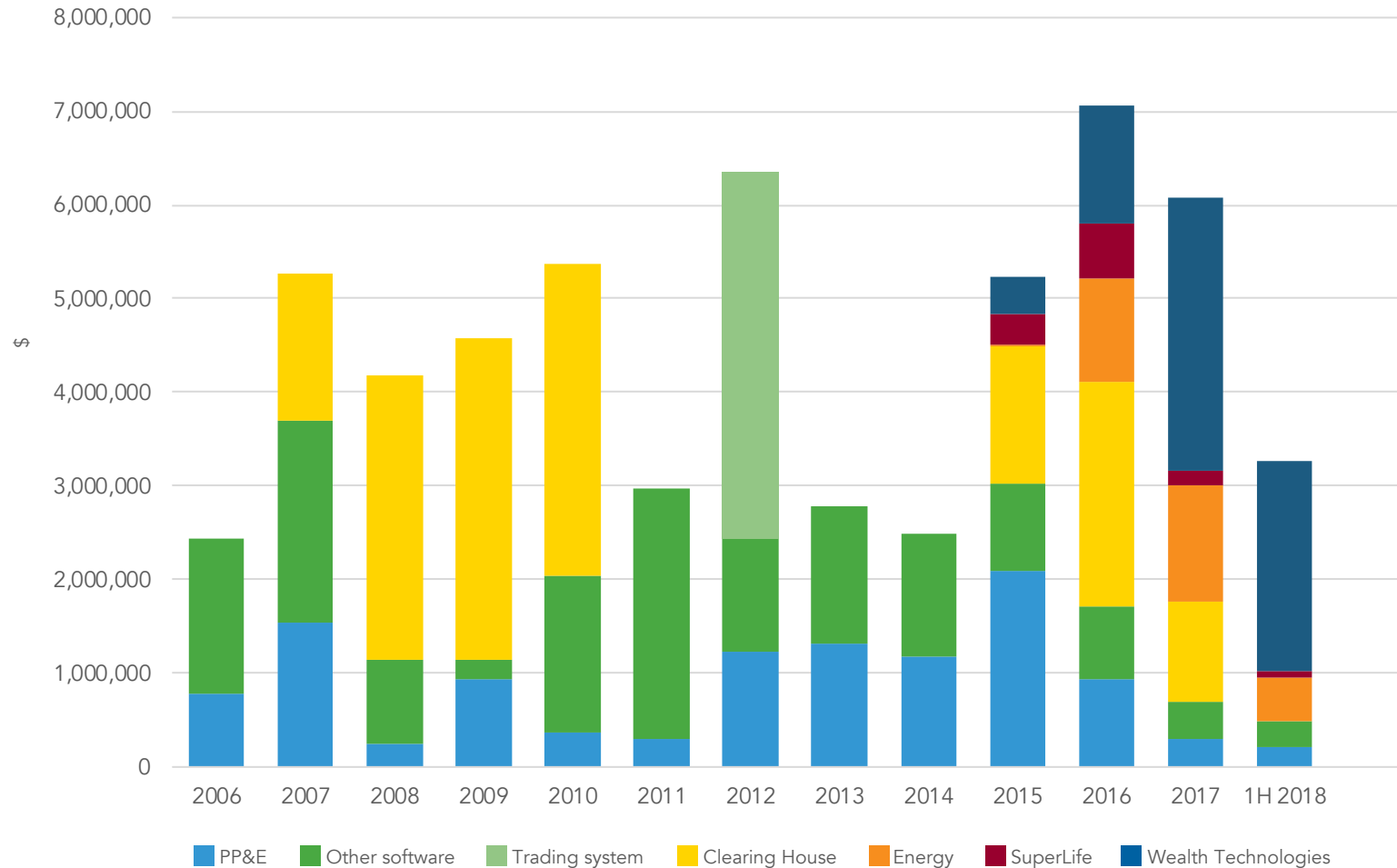
Other income and expenses



	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Interest income	391	471	(17.0%)
Interest expense	(608)	(566)	(7.4%)
Net gain/(loss) on foreign exchange	33	30	10.0%
Net finance income / (expense)	(184)	(65)	(183.1%)
Depreciation of PP&E	(428)	(557)	23.1%
Amortisation of intangibles	(2,686)	(2,430)	(10.5%)
Total depreciation and amortisation	(3,114)	(2,987)	(4.3%)
Adjustment to provision for earnout	15	-	-
Tax expense	(3,001)	(3,071)	3.3%
Total net finance expenses, tax, depreciation and amortisation, adjustment to provision for earnout, and gain on sale	(6,284)	(6,123)	(2.6%)
Profit/(loss) from discontinued operations (net of tax)	(2,524)	142	(1877.5%)

- Net finance expense relates to:
 - Interest income on cash balances, Clearing House risk capital and regulatory working capital;
 - Interest expenses on loans, overdrafts and earn out; and
 - Foreign exchange gains/losses.
- Subordinated notes issued on 20 June 2018, will increase net finance costs in the second half of 2018
- Discontinued operations relate to operating results, plus other income and expenses for Agri businesses, including impairment of goodwill and intangibles of \$2.9 million

Capex activity



- Capex driven by specific system life cycles which result in large multi-year projects
- Wealth Technologies core system development completed Q2. Customisation for a large client continues ahead of scheduled October go-live. Stage two development on track for 2019 completion. Future clients may require degree of customisation
- Energy systems software upgrade on track for September completion
- Scoping underway for system changes following publication of final revised listing rules
- Trading system upgrade required in 2019, scoping underway

Balance sheet



	June 2018 \$000	June 2017 \$000	Change Fav/(unfav)
Current assets			
Cash and cash equivalents	38,307	27,243	40.6%
Receivables and prepayments	21,846	26,259	(16.8%)
Funds held on behalf of third parties	89,373	89,009	0.4%
Assets held for sale	5,606	-	-
Total current assets	155,132	142,511	8.9%
Total non-current assets	66,752	76,228	(12.4%)
Current liabilities			
Trade payables	6,508	7,159	(9.1%)
Other current liabilities	16,866	28,571	(41.0%)
Funds held on behalf of third parties	89,373	89,009	(0.4%)
Liabilities held for sale	1,055	-	-
Total current liabilities	113,802	124,739	8.8%
Non-current liabilities			
Interest bearing liabilities	38,770	20,000	(93.9%)
Other non-current liabilities	4,054	4,247	4.5%
Total non-current liabilities	42,824	24,247	(76.6%)
Net assets/equity	65,258	69,753	(6.4%)

- Cash includes \$20 million Clearing House risk capital. Not available for general use
- Clearing House also complies with International Organisation of Securities Commissions principles requiring retention of sufficient working capital (including cash of approximately \$4.2 million)
- Funds Management maintains sufficient net tangible assets (including cash of approximately \$1.7 million)
- Focused on receivables collection and working capital management
- Other current liabilities included SuperLife earn out \$9.97 million paid 1 February 2018
- Subordinated notes (net of issue costs) replaced term loans
- Funds held on behalf of third parties (assets and liabilities) offset. These relate to issuer bond deposits, participants' collateral deposits and deposited funds. Amounts are repayable to issuers and participants

Cash flows



	June 2018 \$000			June 2017 \$000			Change Fav/ (unfav)
	Continued operations	Discontinued operations	Total	Continued operations	Discontinued operations	Total	Continued operations
Operating activities	5,176	480	\$5,656	7,110	505	\$7,615	(27.2%)
Investing activities	(12,677)	-	(\$12,677)	(3,101)	(25)	(\$3,126)	(308.8%)
Financing activities	10,447	-	\$10,447	(8,050)	-	(\$8,050)	229.8%
Net increase / (decrease) in cash and cash equivalents	2,946	480	\$3,426	(4,041)	480	(\$3,561)	172.9%

- Cash flow from operating activities reflects decreased profit and working capital movements
- Investing activities relates to software development – Clearing House, Wealth Technologies and energy systems and payment of SuperLife earnout in first half of 2018
- Financing activities include subordinated note receipts net of debt repayment and dividends paid

Dividends – interim and special



- NZX's Dividend Policy has been expanded to pay between 80% to 110% of adjusted Net Profit After Tax overtime, subject to maintaining a prudent level of capital to meet regulatory requirements.
- Interim dividend, fully imputed, of 3.0 cents per share (2017: 3.0 cents per share)
- Special dividend, fully imputed, of 1.5 cents per share. Returning proceeds from disposals of non-core businesses to shareholders
- Dividend to be paid on 14 September 2018 to shareholders registered as at 31 August 2018
- Dividend reinvestment plan available for interim and special dividend. Shares will be issued at 2.5% discount

Capital management



- Capital review completed
- Subordinated notes listed on 20 June 2018. Ensures NZX has a more robust balance sheet to protect business in unlikely case of a major market event. Offer extremely well supported by the market
- Mutualised default fund consultation completed, implementation October. Will advance Clearing House's risk model to global standards. Important in ensuring appropriate Clearing House risk structure to meet anticipated dairy derivatives market growth
- 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

2018 earnings guidance



- 2018 sets the platform for NZX's future growth. The divestment of non core assets (including Farmers Weekly) and changes to the clearing and trading pricing structure (effective October 2018) will rebase operating earnings
- As the board communicated in the 2017 full year results, 2018 operating earnings are expected to be in the range of \$28.0 million to \$31.0 million
- This is subject to market outcomes, particularly with respect to initial public offerings, secondary capital raising, equity trading and derivatives trading volumes
- This 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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