19 August 2013

NZX Half Year 2013 results announcement

NZX today reported revenues for the six months to 30 June 2013 of $30.3 million, 14.3% higher than the comparable period in the prior year (pcp). Revenue growth was driven by the strong performance of the capital markets business coupled with increased revenue from Market Operations including operation of the Energy and Fonterra markets. This was partly offset by the impact of the worst drought in 70 years on NZX Agri's performance.

NZX CEO Tim Bennett commented: "Capital markets activity in New Zealand was the strongest it has been in a decade, reflecting a more positive global environment, but more importantly, the impact from a number of structural changes in the market that are not only benefiting NZX, but the economy as a whole."

These changes include the reforms undertaken by successive governments as a result of the Capital Market Development Taskforce in 2009 and the growth in KiwiSaver.

Reported results are summarised in the table below.

	6 months ended 30 June 2013 $m	6 months ended 30 June 2013 $m	Change %
Revenue	30.3	26.5	14.3
Operating expenses	18.2	16.9	7.7
EBITDA*	12.1	9.6	26.0
Net Profit After Tax	6.4	3.2	100.0
Net Profit After Tax (adjusted for Markit forex)	6.4	4.8	33.3
Free cash flow	3.7	2.4	54.2

*Earnings Before Interest, Tax, Depreciation and Amortisation

Included in the current period EBITDA were one-off expenses of $0.3 million. The prior period EBITDA included one-off items totalling $2.3 million, comprising revenue reductions of $0.3 million and cost increases of $2.0 million. Prior period net profit also included a one-off foreign exchange loss on the realisation of the Markit investment of $1.5 million (pre-tax).

Business Highlights

NZX capital markets businesses performed strongly. Initial Public Offering activity included the listing of Mighty River Power in May 2013, which was the first offer in the Government's Share Offer Programme, along with SLI systems. The period also saw the compliance listing of Snakk Media and the reverse listing of Mad Butcher. This activity has continued into the second half of 2013 with the Synlait Milk and Wynyard Group listings in July, and Z Energy's listing today.

NZX CEO Tim Bennett commented: "The level of IPO activity will be extremely beneficial for New Zealand's capital markets in the long-term, adding greater depth to the market, a broader range of investment opportunities for New Zealanders and, particularly in the case of the Government Share Offers, bringing new investors into the market. While the listing fees associated with this IPO activity have contributed to NZX's current year results, these new listings will also provide recurring annual listing, trading and clearing revenues.

"Given the favourable market conditions, which we believe are structural in nature, one of our core priorities to ensure that private companies are fully aware of the benefits of listing."

The market performed strongly during the six months, with the NZX 50 up 9.2%. Average daily trades were up 18% on the first six months of 2012, while average daily value traded was up 57%. This growth in activity drove a significant increase in trading and clearing revenue.

Market Operations revenue was up 48.8% on the first six months of 2012 benefiting from a full six months of operation of the recently established Fonterra Shareholders' Market. In addition, NZX's Energy business earned additional revenue through one-off contract work for the Electricity Authority.

In contrast to the capital markets, performance in NZX's Agri information business was impacted by the worst drought in 70 years, directly reducing advertising revenue across all of its publications.

However, there were some highlights in the Agri business during the period including a steady increase in visitors to Farmers Weekly Online. In addition, the launch of the Dairy Trader website diarytrader.co.nz – a central point for dairy market information including coverage of NZX's Dairy Futures market – was a key milestone.

In Australia, Clear Grain Exchange volumes were impacted by higher volumes earlier in the 2012/13 harvest cycle. Operational highlights included the successful launch of the secondary trading (Trade 2 Trade) market.

Securities information underperformed expectations with terminal numbers declining due to an increased focus on operational costs by clients.

Conversely, registry business Link Market Services, which is 50% owned by NZX, increased its earnings by 57% over the first six months of 2012.

As well as focusing on delivering value in its existing businesses, NZX also progressed a number of growth initiatives during the period.

NZX CEO Tim Bennett commented: "We are leveraging the existing cost base to develop a range of growth options including the launch of equity derivatives, new agri information products, new exchange traded funds and the development of a new growth market. There also remains the potential for bolt-on acquisitions in the future.

"While dairy derivatives is still in the early stage of its lifecycle, it was promising to see real growth momentum in volumes in recent months – this is a business with considerable long term potential."

Costs

A reset of the cost base, as previously signalled, was necessary to build a stable foundation for future growth. It reflects an increase in staff costs (a mix of additional staff to support growth in Market Operations, and to rebuild capability more broadly), which has seen staff numbers increase to 182 at 30 June 2013, compared to 140 a year ago.

An increase in IT costs reflects the ongoing refresh of non-core systems along with a full six months of costs associated with operating the X-Stream trading system that was completed in November 2012.

Funds management costs in the six months to 30 June 2013 were increased by one-off restructuring costs.

While the investment of additional resources to rebuild capability has added to the cost base of the organisation, it provides a stronger base to build growth from.

Staff turnover reduced to 8.5% in the six months compared to 20.3% in the first half of 2012. This was supported by the increased breadth of experience in the senior management team that is now successfully up and running, following key appointments made in the past year.

NZX CEO Tim Bennett commented: “I am extremely pleased with the team we have put in place and the efforts we have collectively made over the past year to establish a strong, scalable platform for growth off the existing cost base.”

Outlook for the remainder of 2013

Although some caution and uncertainty remains across the agri sector, NZX Agri’s revnues are expected to rebound from the effects of this year’s drought. In addition, crop forecasts for the coming Australian 2013/14 harvest are promising for Clear Grain Exchange.

In the markets business, the external environment for Initial Public Offerings remains favourable, demonstrated by today’s listing of Z Energy. The potential listing of Meridian Energy may occur in the fourth quarter of 2013, and there is the possibility of other smaller listings.

Trading activity has seen a strong start with year-to-date volume and value up 19% and 51% respectively, with growth expected to continue, although at a lower rate.

The additional one-off market development work performed by NZX’s energy business during the first six months is not currently expected to continue into the second half.

Dividend

The NZX Board has declared a second quarter dividend of 1.25 cents, fully imputed, in line with the current dividend policy. The dividend record date will be 2 September with a payment date of 13 September.

In accordance with the current dividend policy of increasing annual distributions through to 2013, NZX currently anticipates making total dividend distributions of 5.6 cents in relation to the 2013 financial year.

As previously signaled, the Board anticipates that from 2014, NZX will move to a more conventional pay out ratio dividend policy.

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