

# Actively growing New Zealand's capital market

NZX INVESTOR DAY 29 APRIL 2019



NEW ZEALAND'S EXCHANGE  
TE PAEHOKO O AOTEAROA

# Today's agenda

## Welcome

10.00am



**Issuer Relationships**

10.20am

**Secondary Markets**

10.45am

**Data & Insights**

11.10am



**Dairy Derivatives**

11.35am

## Lunch

12.00pm



**Smartshares**

12.45pm

**Wealth Technologies**

1.10pm



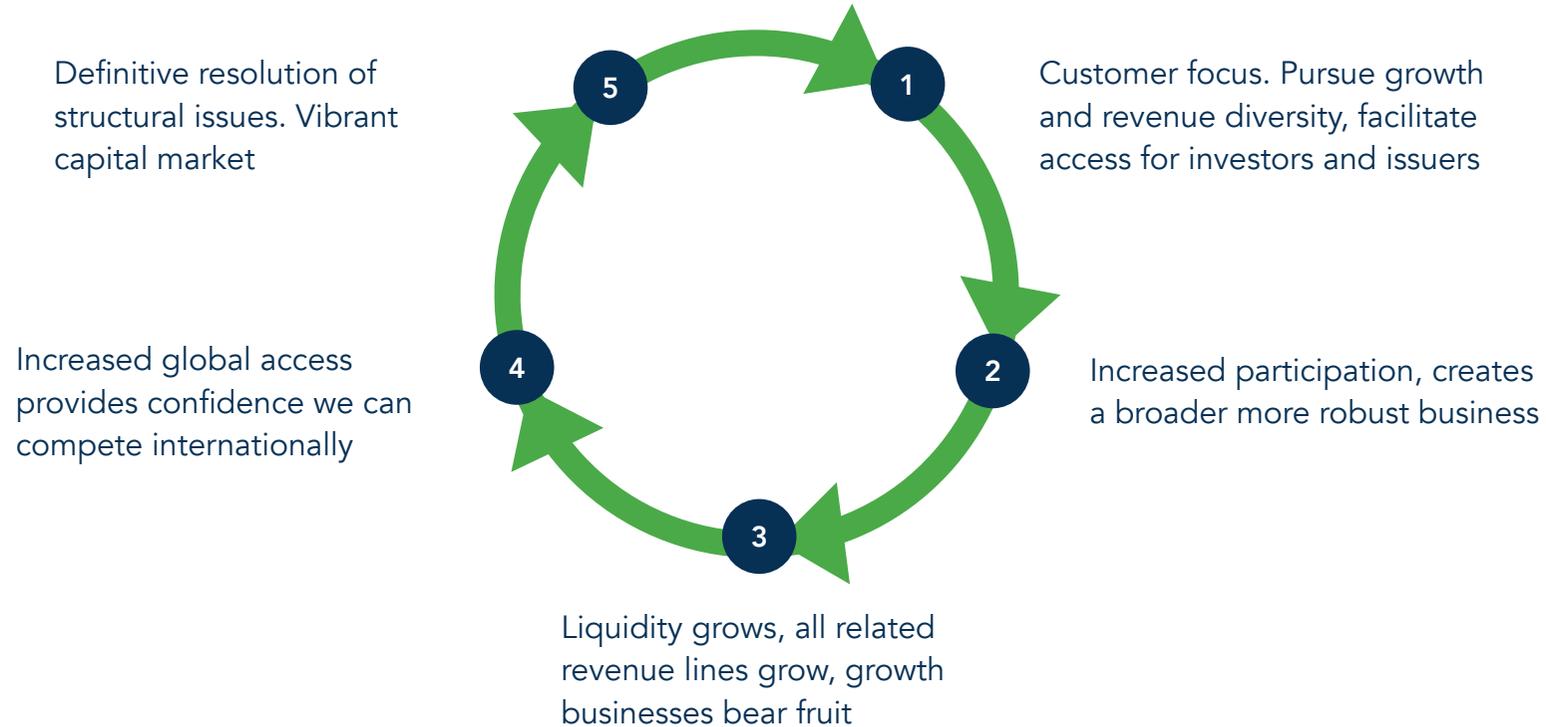
**Getting fit & reinvesting  
for growth**

1.35pm

## Close

2.10pm

# In 2017 we began a transformation to a new business focused on growth and value creation



# We are committed to our strategy – and we are delivering on it

- ✓ In Place
- ✓ Progressed

## New Zealand's Exchange

### Refocus core



- ✓ Issuer Relationships
- ✓ Secondary Markets
- ✓ Data & Insights

### Growth opportunities



- ✓ Debt
- ✓ Dairy Derivatives
- ✓ Energy and Environmental

### Maximise options



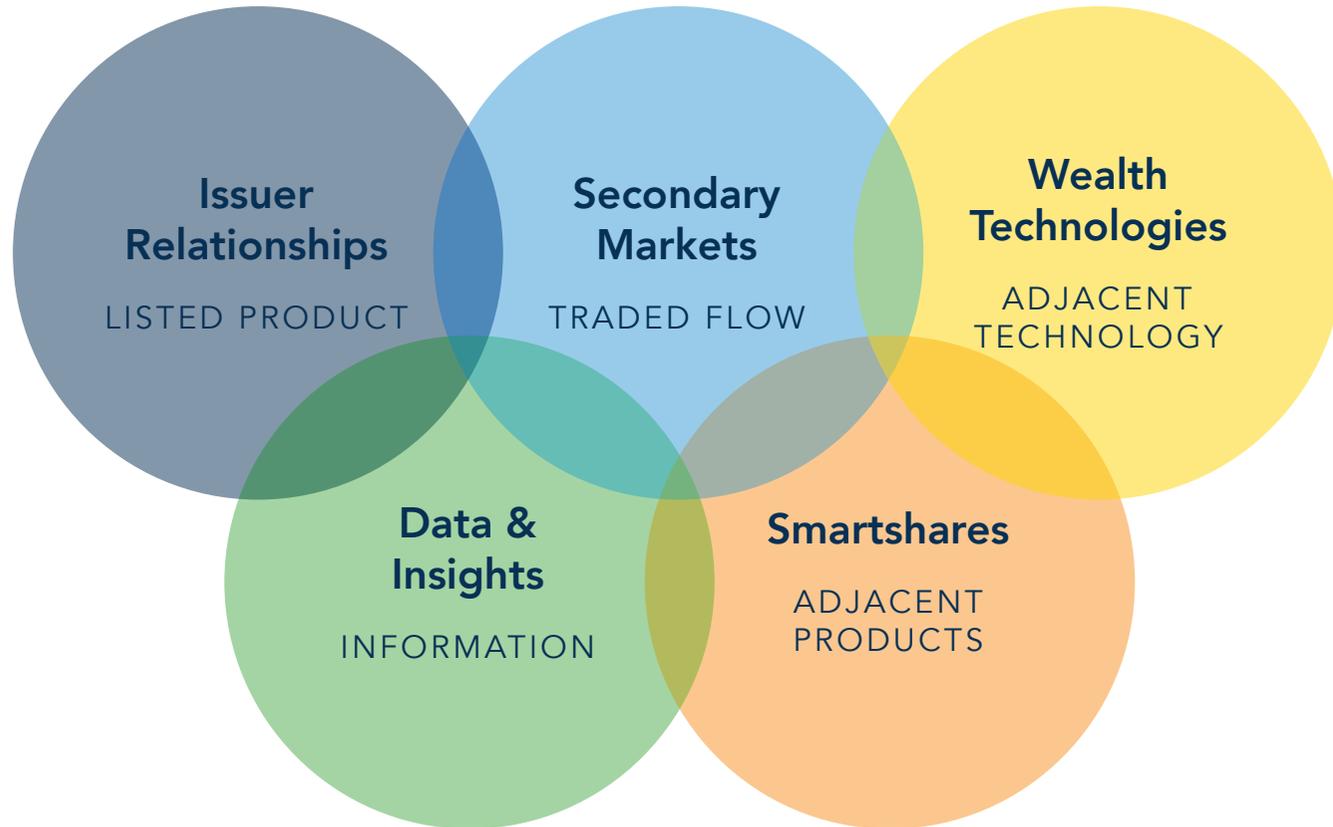
- ✓ Smartshares
- ✓ Wealth Technologies

### Get fit



- ✓ Divested non-core businesses
- ✓ Capital structure
- ✓ Culture and efficiency programme

# This is why growing the core collaboratively matters



# Issuer Relationships

Head of Issuer Relationships  
Joanna Lawn



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# We are responsible for creating a compelling listing proposition – 2018 saw us remove some of the blockages to growth



- 100% customer engagement
- Relationship Manager for every customer
- Transformed service offering and operational processes
- New customer events

- Updated market structure and rule set
- Enhancements to Market Announcements Platform
- Connectivity with global exchanges
- Website enhanced

- New listed products: green bonds and carbon fund

# ... and we are making good progress in a challenging global environment

**\$ 9.5 billion**  
total capital raised

**10% growth**  
in total capital raised

**# 5** new customers  
joined the market

**\$ 6.3 billion**  
debt issuance raised

**51% increase**  
in new debt issuance

**# 1** in S&P Developed  
Broad Market Index  
to have positive total return

# We are off to a good start in 2019

## Market

- Main Board market capitalisation up **14.6%** on Q1 2018
- S&P/NZX 50 reached all time high of **9,845** in March 2019
- Capital Markets 2029 initial areas of focus: IPO generation and capital markets pathways, investor base (including KiwiSaver), regulation and market structure

## New Products

Under updated rules

- Five wholesale bonds listed totalling **\$1.5 billion**
- Smartshares signalled intention to list further Exchange Traded Funds (ETFs)

## Debt

- 2 green bonds listed (**\$200 million**) and 1 sustainability bond (**\$500 million**)
- **7** retail debt offerings totalling \$2.1 billion under new rules
- **533%** growth in debt issuance on Q1 2018

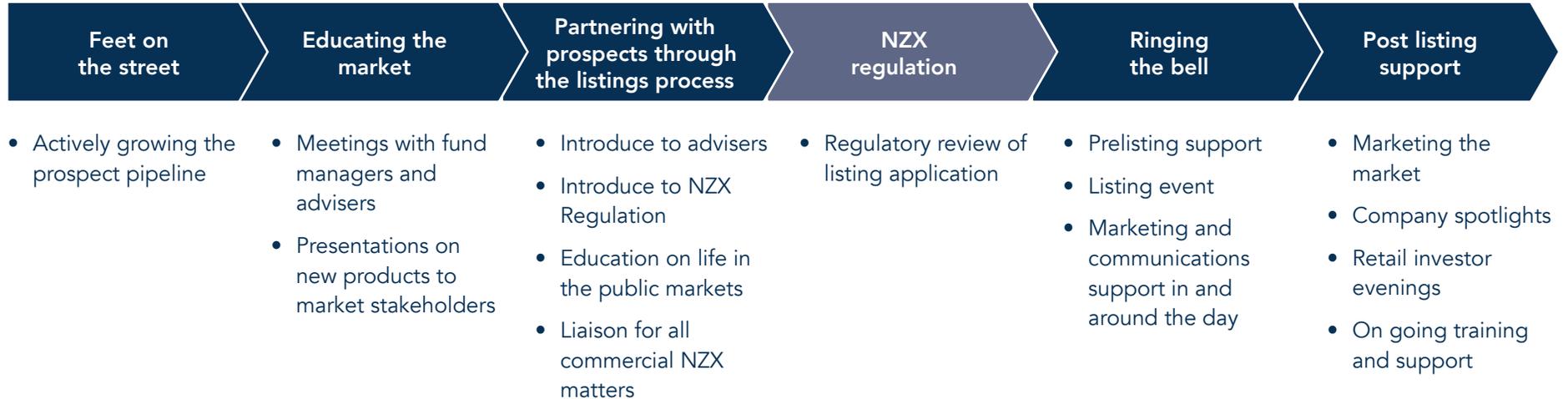
## Equity

- Intention for Napier Port IPO announced
- **8** further companies publically rumoured to list in 2019/2020

## Customer

- Marketing the market: 5 events held
- **16** prospect meetings
- Inaugural customer survey completed: **82%** of issuers saw an improvement in service

# This is how we now support prospects coming to market



# Actively marketing the benefits of listing

VIDEO WITH NEW ZEALAND KING SALMON



# Active pipeline development: where we see customers coming from



Marketing

Sales

Service

**COLD LEAD**

Educate and raise awareness



**WARM LEAD**

Engage and accelerate



**QUALIFIED**

Supply and support

**LISTING**

**POST LISTING SUPPORT**

**EQUITY**

- Local councils
- Banking sector
- Private companies
- Private equity

**FUNDS**

- Open ended funds/ exchange traded funds
- Closed ended funds

**DEBT**

- Retail bonds
- Green bonds
- Wholesale debt

**POTENTIAL REVENUE**

- Initial listing fees
- Annual listing fees
- Subsequent listing fees
- Trading fees
- Clearing fees
- Data fees

# Our 2019 plan is focused on ...

## THE CUSTOMER, IT IS HEAVILY WEIGHTED TO SALES AND MARKETING:

- Continue to enhance customer experience
- Deliver on listings pipeline across all products
- Focus on sales and marketing

## IMPLEMENTING OUR TRANSFORMED FRAMEWORK:

- Updated market structure and listing rules being implemented and issuers transitioned
- Deliver benefits of global alliances
- Engage with wider ecosystem as part of Capital Markets 2029

## ENHANCING THE ABILITY TO EXPAND OUR PRODUCT SUITE:

- Leverage demand for debt
- Establish listed funds market
- Explore foreign exempt fund listings

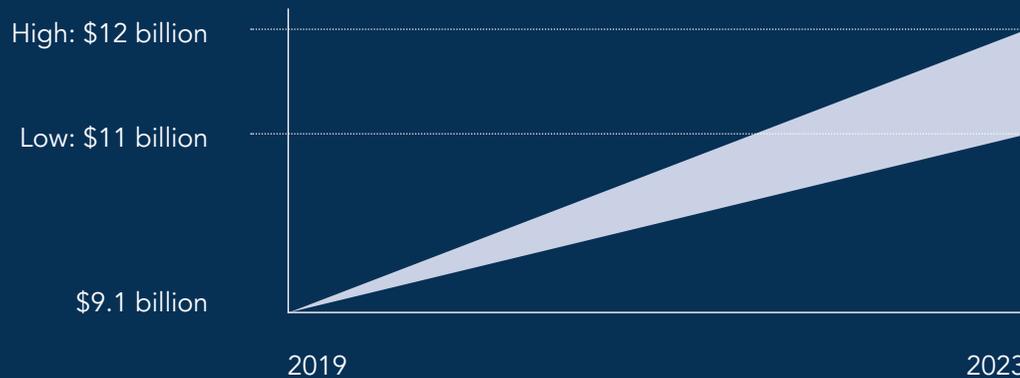
# Our long term goal is to become a vibrant and diverse capital raising hub, not just an IPO centre. We will do this by:



## External dependencies

- Listing ecosystem dependent on others
- No major market correction
- Capital Markets 2029 recommendations not factored in

2023 aspirational average capital raise target range



“We believe 2018 will be a bridging year of a more vibrant capital market in New Zealand from 2019 onwards”

- Chapman Tripp: New Zealand Equity Capital Markets Trends & Insights Report (February 2019)

# Secondary Markets

Benjamin Phillips  
Executive Director, Markets Development & Clearing



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# Secondary markets is a high margin business with a renewed focus on growth

**\$16.7** million revenue  
in 2018

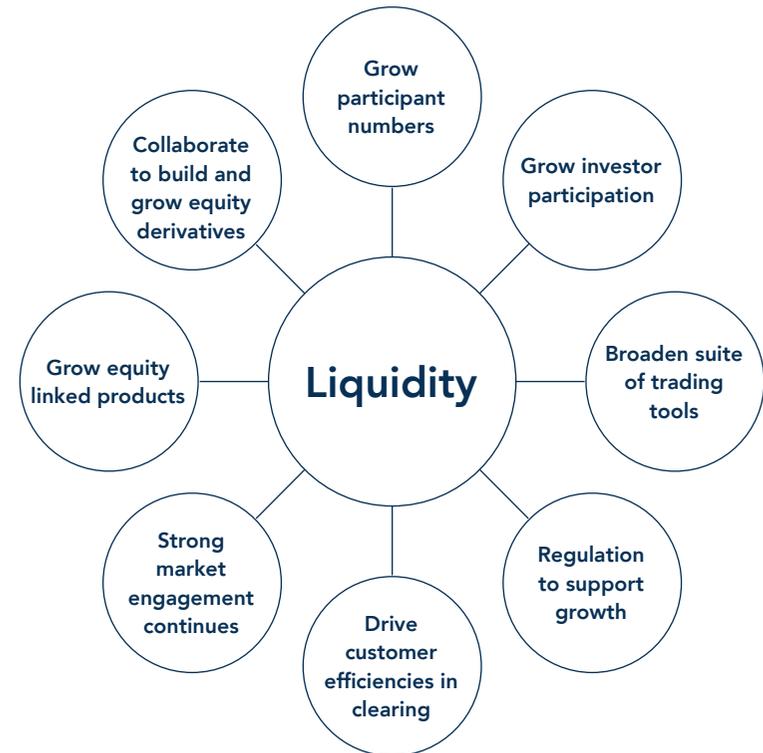
**66%** operating  
margin  
in 2018

**\$11** million EBITDA  
delivered  
in 2018

**837** participants

# We delivered what we said we would in 2018

- Strong pipeline developed, new cash market trading and clearing participant joined
- Significantly improved market access
- Marketed the market at many levels
- Created efficiency through technology
- Mutualised default fund
- Renewed focus on indices strategy

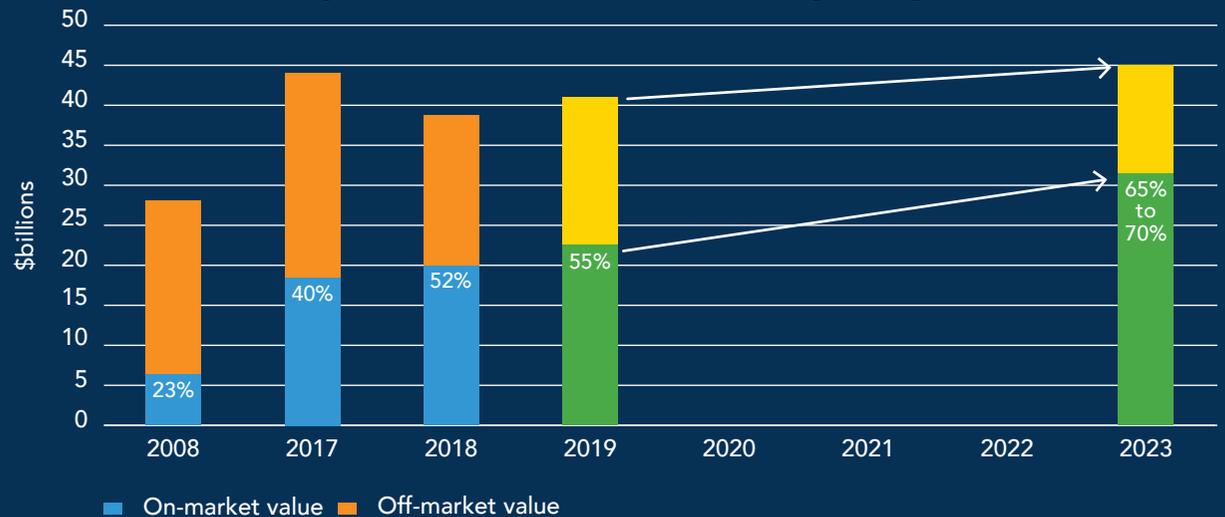


# It is early days but 2019 is off to a strong start



- Participation has widened:
  - Depository participant: BNP Paribas Securities Services (Australia)
  - Cash trading and clearing participants: Sharesies and Top Capital Partners (Tiger Brokers) signalled intentions
- Marketing the market to reach retail investors
- Increased indices revenue
- Strong market engagement continues

## Markets development delivers record liquidity levels



Source: NZX Data & Insights

"Since 2017 NZX's Markets Development team has been one of the most responsive and engaged relationship management functions of any exchange I have worked with across our global business. The NZX team has consistently demonstrated a willingness to actively assist in navigating and removing any structural impediments to the growth of our business in New Zealand. This proactive approach to growth and client engagement is extremely helpful and has directly contributed to our continued engagement with the New Zealand market."

– Virtu, Managing Director – Asia, Brett Fairclough.

Virtu is connected to 235 exchanges and is a designated market maker on NYSE

# 2019 will be heavily focused on sales as we drive increased participation



## Growing participation through engagement

- Bring on additional participants, prioritising impact
- Continue to reduce barriers for investment in NZX

## Optimising trading tools and ensuring efficient regulation

- Engage with market for input on trading tools and system upgrade
- Revisit \$50,000 threshold for price improved trades to further enhance on-market activity
- Further market enhancement consultations

# Our 2019 plan also includes ...



## Driving further Clearing House efficiencies

- Stability
- Efficiency
- Scalable

## Delivery of indices strategy to drive revenue

- As passive investment rises indices will drive significant growth
- NZX has outperformed in global index markets “the cream of the crop” – there remains significant headroom to market out market<sup>1</sup>
- Benchmark indices with reputable product increase underlying market liquidity

<sup>1</sup>Wall Street Journal, March 2019

# What further success looks like in 2019

## Initiatives

- \$3 billion additional traded value (total: \$41 billion)
- 55% trading on-market

- Increased participation, targeting:
  - One new trading participant
  - Two active depository participants

- Broaden trading tools suite: design for market expanding tools completed, trading system project on track for Q2 2020

- Indices strategy

## Potential revenue

- Trading and clearing fees

- Annual participant fees, incremental additional trading and clearing fees
- Annual fees, depository settlement fees and Stock Lending Borrowing revenue
- New revenue for fees relating to more sophisticated order types and features

- Targeting revenue 15% uplift

# Paving the way for meaningful growth by 2023

- \$45+ billion traded market value
- 65% to 70% trading on-market
- Deep and active retail trading base
- Global third party clearer
- New Zealand's primary central securities depository
- Deep lending pool supporting liquidity
- Increase indices revenue by 50%
- Deep passive investment consistent with global trends

# Data & Insights

Executive Director, Data & Insights  
Jeremy Anderson



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# Data & Insights is a high margin business with untapped growth opportunity

**\$10.6** million  
revenue  
in 2018<sup>1</sup>

**85%** operating  
margin  
in 2018<sup>1</sup>

**\$9.1** million EBITDA  
delivered  
in 2018<sup>1</sup>

**45%** increase  
in non-display  
applications  
licence billing

<sup>1</sup> Revenue excludes indices and dairy conference revenues. Source: NZX Data & Insights

# We offer essential tools for investors, traders and commentators globally

## We sell...

### Data

Information derived primarily from issuance and secondary trading e.g. share prices, value traded, volumes

### Insights

Value added products which provide data with context and supplementary commentary e.g. dairy reports

## To...

- Data vendors
- Banks
- Fund managers
- Advisers
- Brokers
- Retail investors

## ... and generate revenue through



# Execution in 2018 focused in four key areas

# 1

## Divested non-core businesses

- Improved efficiency and focus on high margin business
- FundSource in the process of being divested

# 2

## Team restructured, now customer led

- Actively marketing our market across royalties, license fees and subscriptions

# 3

## Actively leveraging core growth

- Leveraging adjacent markets e.g. dairy derivatives
- Building new products to support all markets e.g. dairy report, indices
- Servicing new core customers e.g. algorithmic firms

# 4

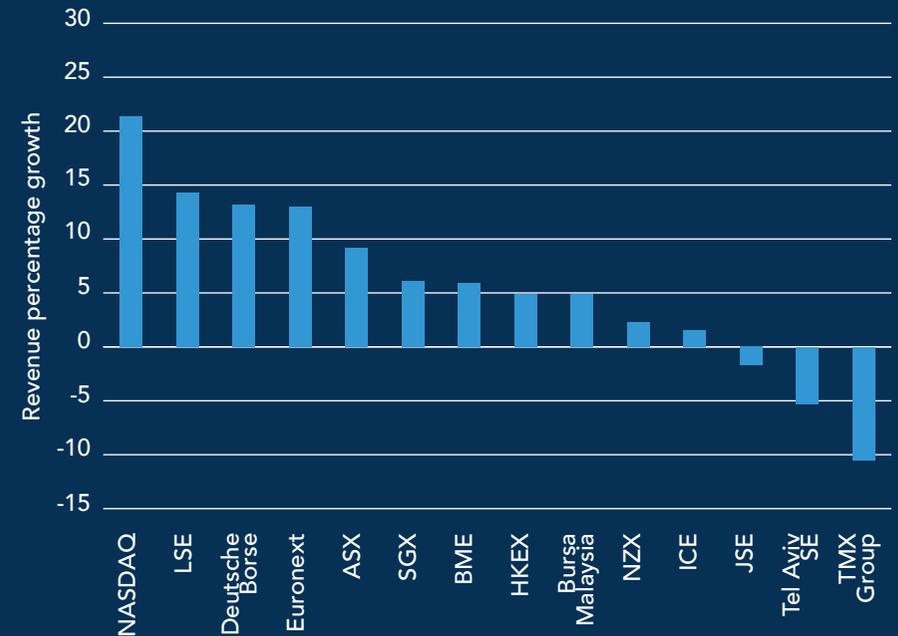
## Clear delivery plan to achieve 2023 aspirations

# Data is a growth opportunity

- Adjacent markets driving licence, royalty and subscription revenues e.g. derivatives
- New products and services e.g. value add insights, indices, regulatory requirements
- New customers e.g. algorithmic traders
- New technology e.g. automation of product development and delivery

**This is supported by a customer-led team**

## Exchange comparisons: Data & Insights equivalents



Sources: 2018 financial results from LSE, Euronext, ASX, NASDAQ, SGX, HKEX, BME, Bursa Malaysia, Deutsche Bourse, NZX, ICE, Tel Aviv SE, JSE, TMX Group

# In 2019 we will continue to grow revenue by ...

## Transforming customer engagement

- Partner to sell more terminals in under represented regions e.g. China
- Grow data sales through customer acquisition e.g. algorithmic firms coming to market
- Targeted sales approach to increase revenue in growth areas e.g. dairy data as derivatives market grows
- Capturing licence annuity revenues by transforming audit process to be more customer centric

## Developing our product

- New products e.g. environmental, social and governance reporting methodology
- Build foundations to become a price reporting agency e.g. Platts of the dairy industry
- Creation of energy insight products outside of Electricity Authority obligations

## Enhancing our platform

- Data management: capture, storage, processing and analysis
- Information distribution: Data & Insights to end users via most appropriate channels
- Customer data management: full lifecycle management through systems

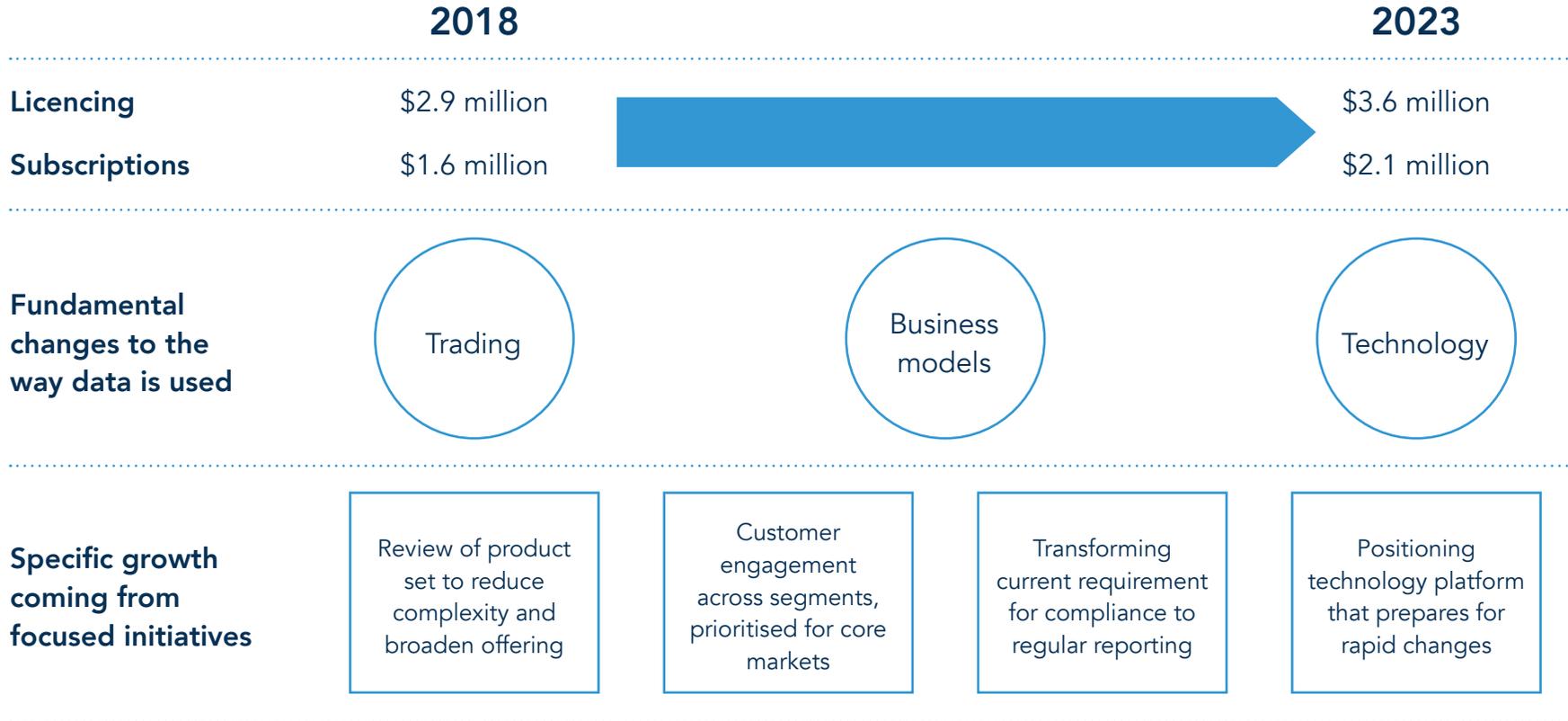
**Q1 2019 on target: 8%<sup>1</sup> revenue growth**

**2019 target revenue growth: 4%**

**2019 target EBITDA growth: 5%**

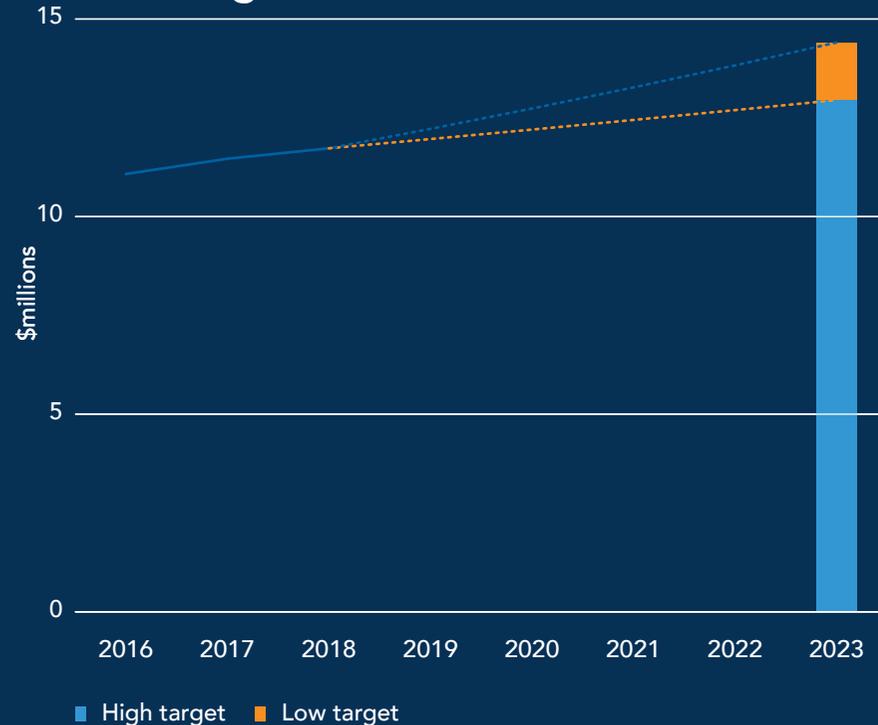
<sup>1</sup> Growth rate excludes indices, dairy conference and one off licence revenues. Source: NZX Data & Insights

# 2023 growth will come from licencing and subscription revenue



# 2023 growth target in line with strategic move towards recurring revenue and less reliance on royalty revenue

## Data & Insight revenue<sup>1</sup>



- Revenue growth forecast between 2.0% and 4.2% 3 year rolling average
- New products will enable issuance and trading growth
- Develop value added services for issuers (e.g. collection of environmental, social and governance metrics)
- Support indices revenue growth

<sup>1</sup> Revenue includes indices and dairy conference revenues

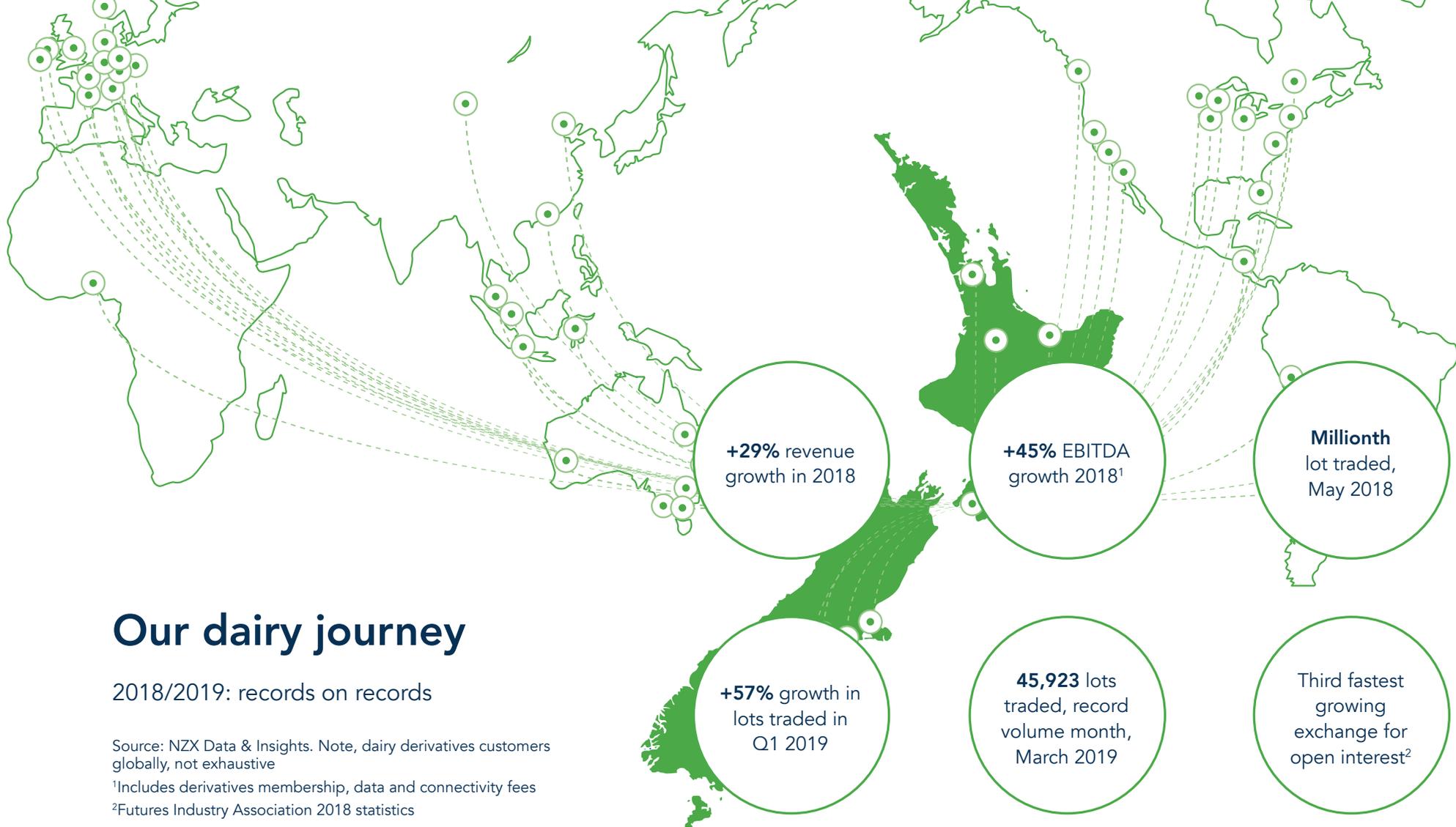
Source: NZX Data & Insights. Note changes in product codes for 2019 resulted in changes of product mix for 2018

# Dairy Derivatives

Head of Derivatives  
Nick Morris



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## Our dairy journey

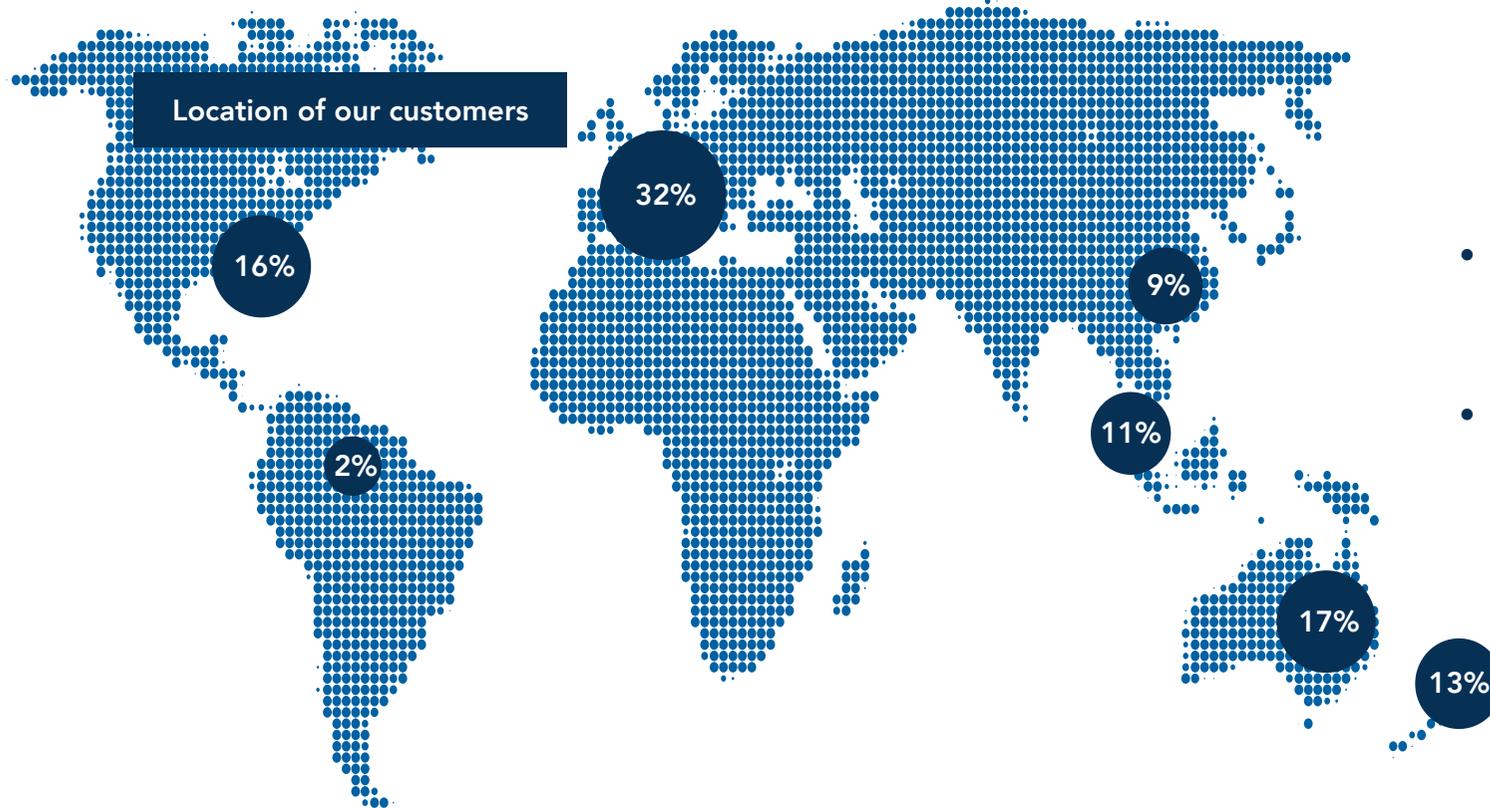
2018/2019: records on records

Source: NZX Data & Insights. Note, dairy derivatives customers globally, not exhaustive

<sup>1</sup>Includes derivatives membership, data and connectivity fees

<sup>2</sup>Futures Industry Association 2018 statistics

# A truly global marketplace

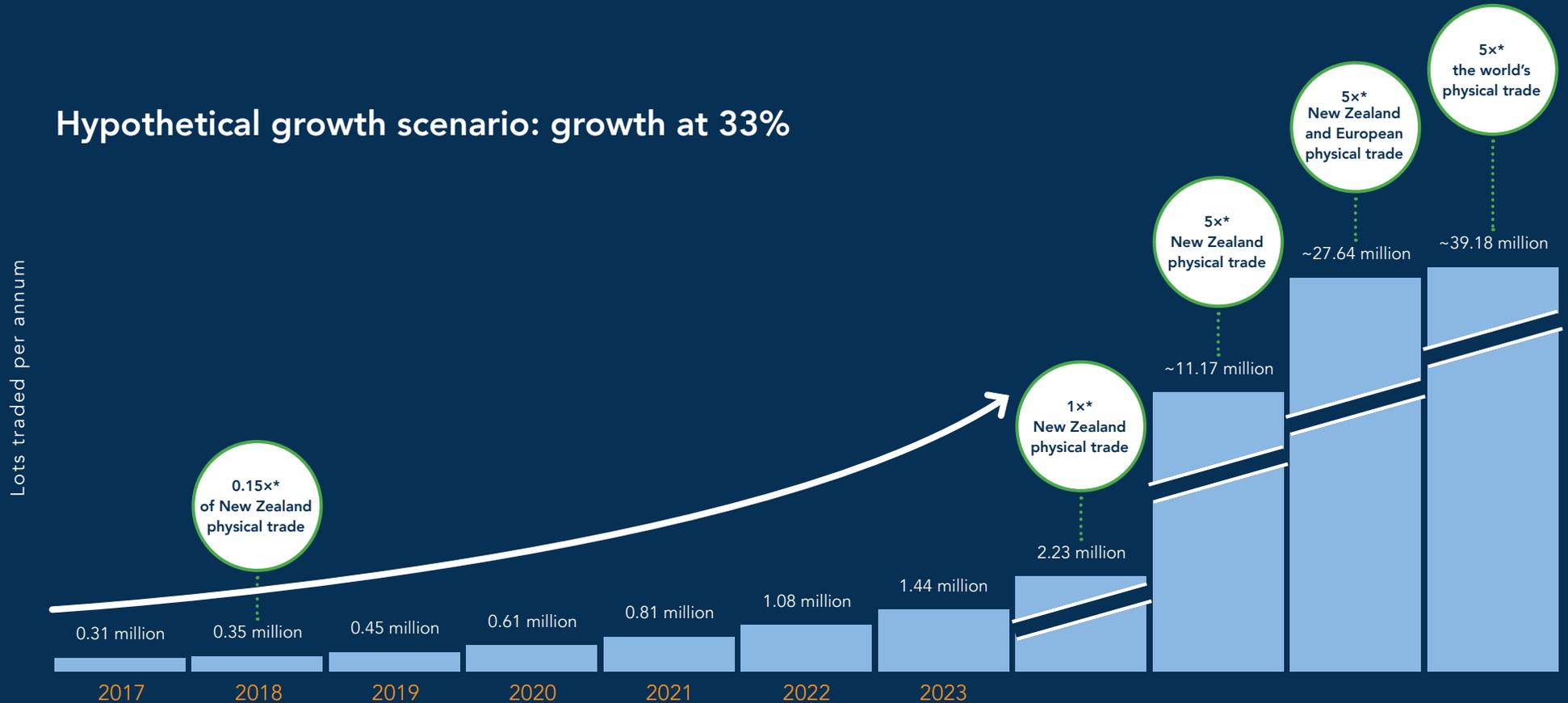


- NZX dairy derivatives are being traded in over 50 locations globally
- On average 31% of volumes are from Asia – 21% from China

Source: NZX Data & Insights. Note percentage of trading accounts located in each region based off 2018 whole milk powder, skim milk powder, anhydrous milk fat, butter known underlying customer numbers, not exhaustive

# Mature derivatives markets trade at a multiple of underlying

Hypothetical growth scenario: growth at 33%



Sources: Euronext; Bursa Malaysia; NZX Data & Insights

\*Excludes cheese and whey

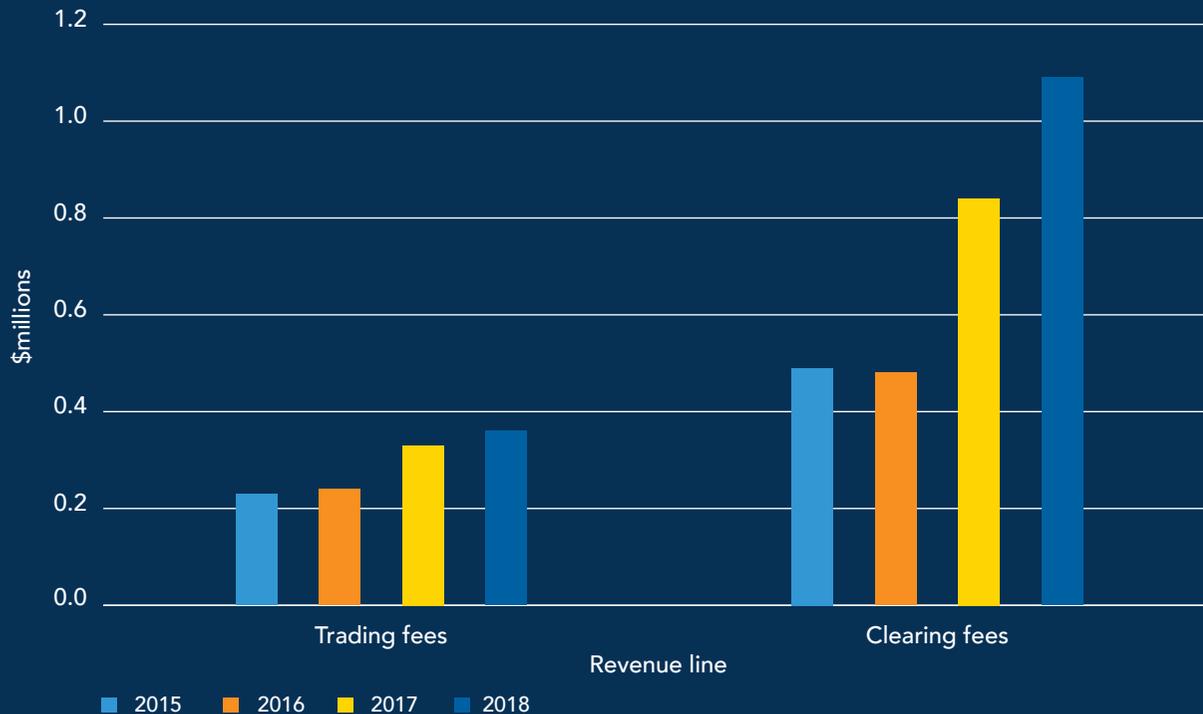
# Our customers think we are doing great

ROB CHESLER, EXECUTIVE DIRECTOR - GLOBAL DAIRY & FOOD GROUP AT INTL FCSTONE



# Every lot counts

## Dairy derivatives revenue line distribution

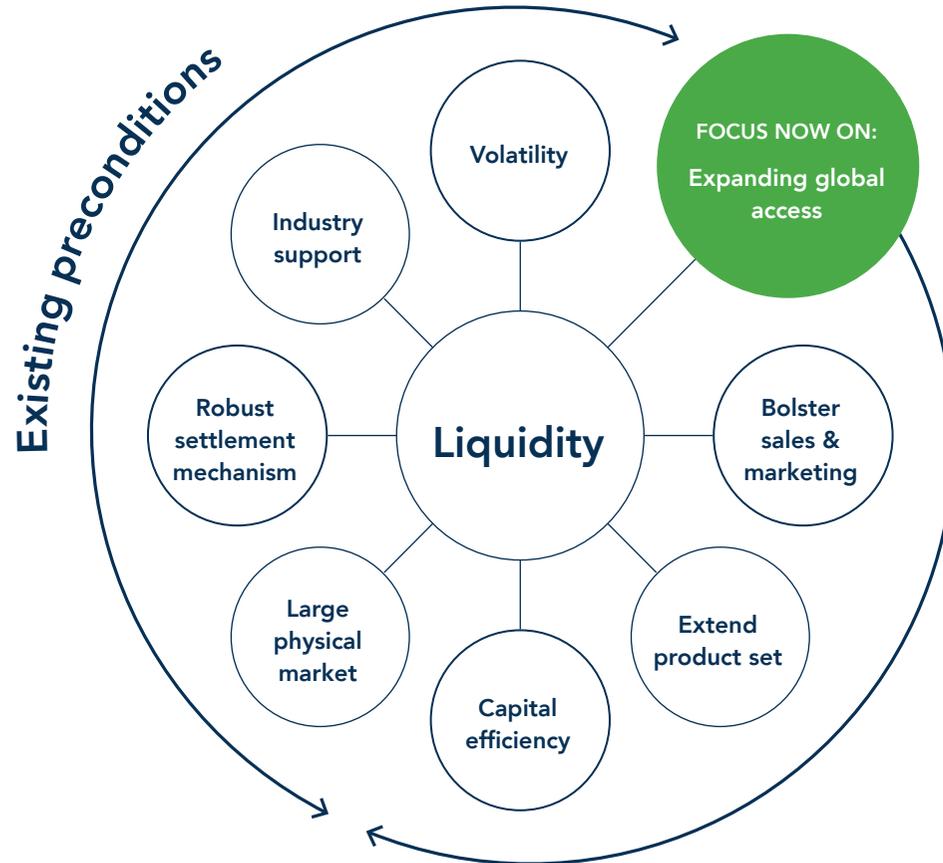


- Trading and clearing per lot fees revenue range from **\$3.64 to \$4.21<sup>1</sup>**
- Additional revenue generated from:
  - Annual membership fees
  - Data license and subscriptions
- Market data is a growing revenue stream, up 43% in 2018 – significant growth potential ahead

Source: NZX Data & Insights

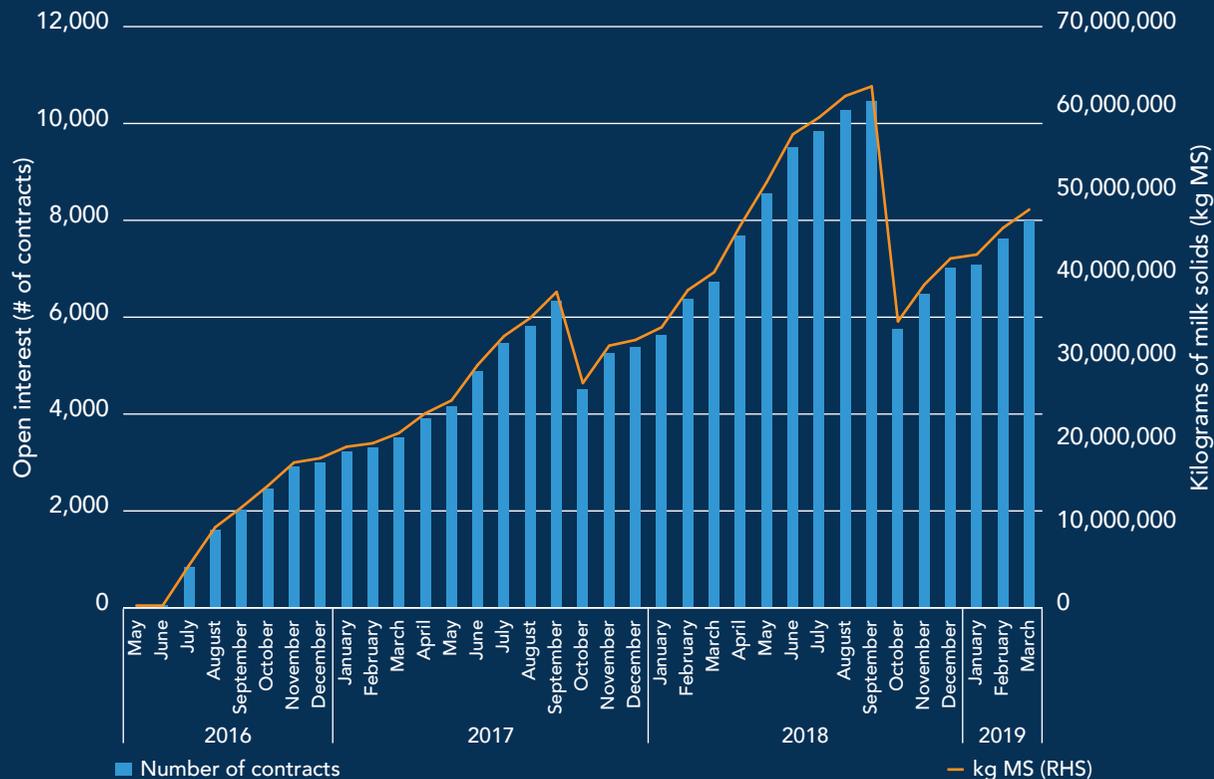
<sup>1</sup> Based off revenue earned: 2016 to 2018. Excludes derivatives membership, data and connectivity fees

# Delivery of key initiatives has enhanced the market's scalability



# Scalability means new products achieve positive EBITDA quickly

## Open interest in New Zealand milk price futures & options since launch

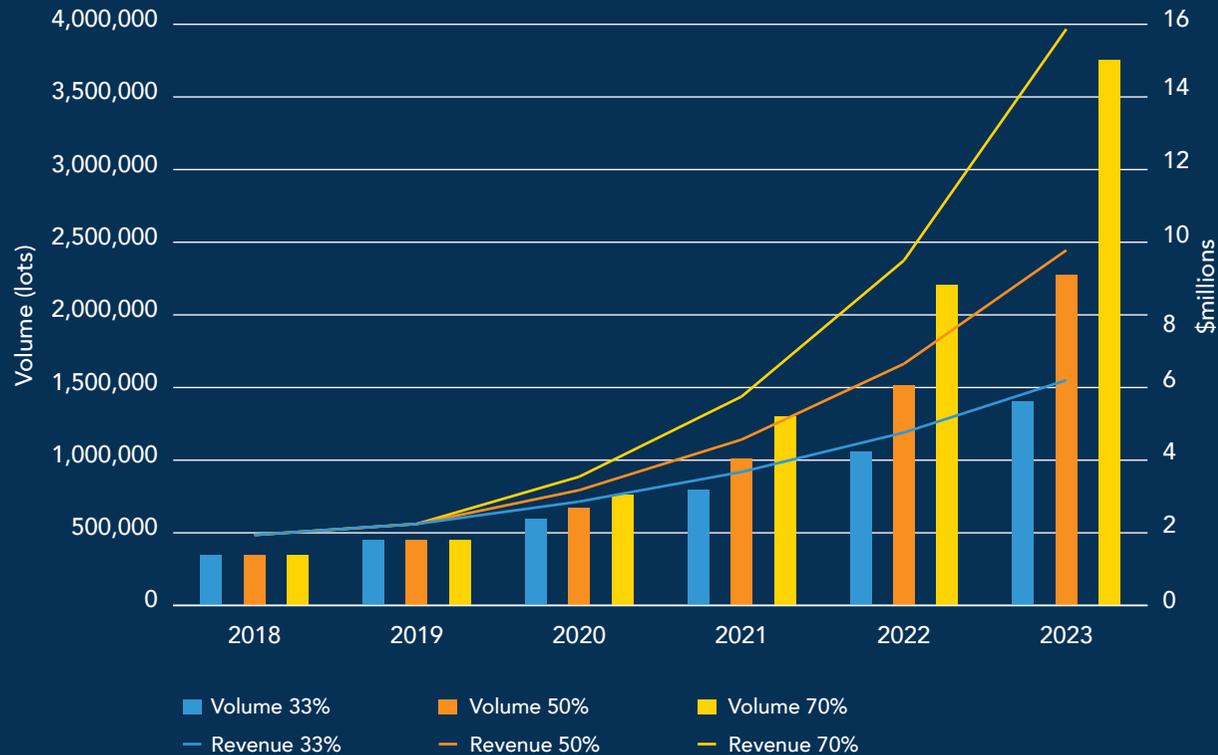


- NZX launched liquid milk futures and options contracts in 2016
- These have grown four times faster than Whole Milk Powder<sup>1</sup>

Source: NZX Data & Insights  
<sup>1</sup> Measured in metric tonnes

# Growth is happening now – and continues to 2023

## Sensitivity analysis of markets growth potential



## 2019 targets

- Target volume ~450,000 lots
- Increase end user base through persistent sales and education
- On screen liquidity improvement
- 2023 aspirational target lots +33%

Source: NZX Data & Insights

# Smartshares

Head of Funds Management  
Hugh Stevens



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# Smartshares excelled against its 2018 targets

New management team and governance structure	New Chair, CEO and CIO
Exceptional earnings growth	Operating earnings up 29%
Tight expense control	Costs held to 5.4%
Improved margin	Operating margin 49.4% (2017: 44.3%)
Strong funds under management (FUM) growth	FUM \$2.9 billion (up 8%) FUM at 31 March 2019 \$3.2 billion
Positive cash flow	Net new cash flows \$292 million (up 21.8%)
2023 strategy launched	Target: \$5 to \$5.75 billion funds under management (14% 3 year rolling average growth)

Sources: NZX Data & Insights. Statistics are as at 31 December 2018 adjusted to net fund expenses against revenue

# We are well positioned in a fast changing world

GLOBAL DRIVER	HOW SMARTSHARES IS WELL POSITIONED
<b>Emerging Asia</b>	<ul style="list-style-type: none"> <li>• Asia Region Funds Passport</li> <li>• NZX Memoranda of Understanding with regional exchanges</li> <li>• Pacific Island opportunities</li> </ul>
<b>Technology and automation</b>	<ul style="list-style-type: none"> <li>• Developing a new generation of digital tools to provide efficiency self-service and advice</li> <li>• Strong relationships with new self-directed investment platforms</li> </ul>
<b>Regulatory change</b>	<ul style="list-style-type: none"> <li>• Fee-for-service advice driving shift to ETF and passive products               <ul style="list-style-type: none"> <li>– and we are New Zealand’s only provider</li> </ul> </li> <li>• Improved disclosure driving fee transparency and margin compression               <ul style="list-style-type: none"> <li>– and we are already low cost</li> </ul> </li> </ul>
<b>Retirement and demographic shift</b>	<ul style="list-style-type: none"> <li>• Increased public engagement in savings</li> <li>• Retirement income, insurance and investment products, packaged as financial wellbeing solutions</li> </ul>

# We have created strong competitive advantages

## What we do

Only ETF issuer.  
Scale in passive  
investing

In-house member  
admin and IT

Licensed fund  
manager

Broad product  
coverage

Diverse sales  
channels

## Benefits

Fastest growing  
market segment.  
New Zealand in  
catch up

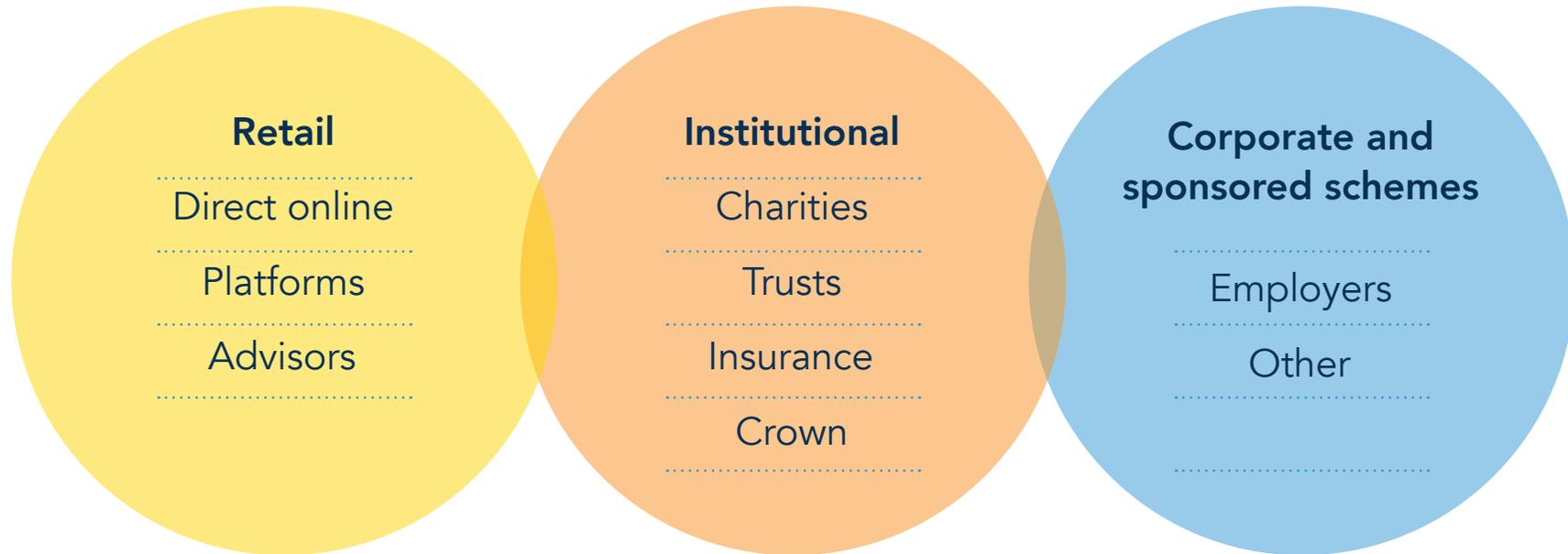
We have full  
control over  
customer  
service and cost

High barriers  
to competitor  
market entry

Benefiting from  
high-growth  
KiwiSaver and  
retail markets

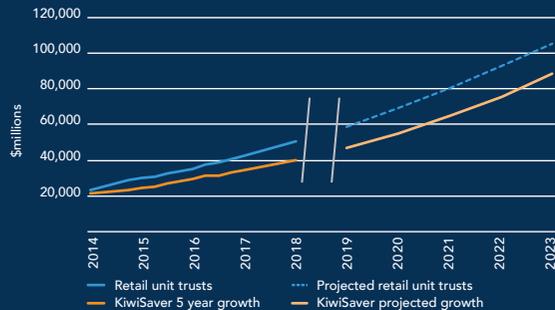
Direct and indirect  
channels including  
high-growth  
platforms and  
large adviser pools

# We are driven by our customer needs ...



# ... and are making the most of the opportunity

Annual funds under management  
June 2014 – June 2018: 5 year projected growth

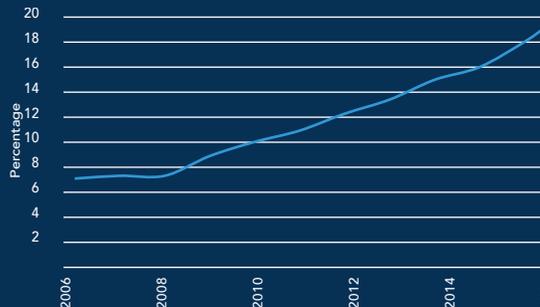


## Retail

- KiwiSaver
- Retail unlisted funds
- ETF catch up

Sources: Smartshares, NZX Data & Insights

Global assets under management by fund type



## Institutional

- New Zealand institutional investors are still to catch up to global average
- 3% of New Zealand FUM is passive, global average is 20%

Sources: BIS, S&P DJI

Corporate superannuation opportunities

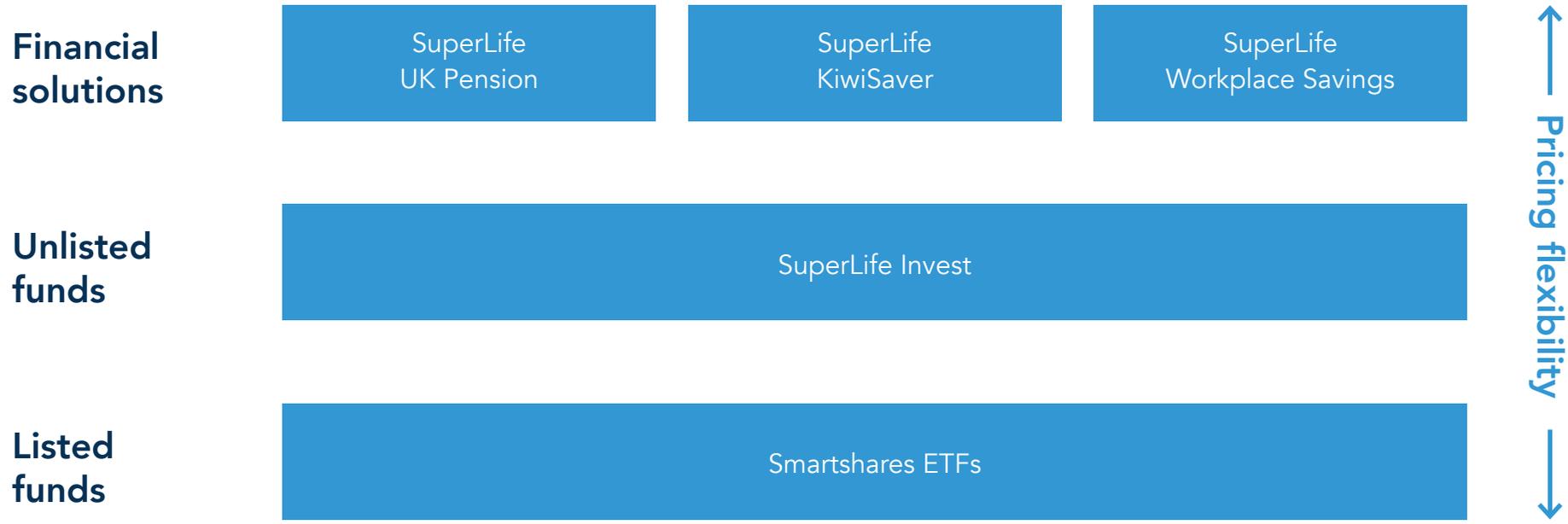


## Corporate

- Three accessible pools of legacy superannuation
- Total FUM \$19 billion

Sources: Smartshares, NZX Data & Insights

# We have pricing flexibility



# This is what success looks like in 2023 ...

TARGET	2023 TARGET	SMARTSHARES' CAPABILITIES ARE WELL-POSITIONED
<b>Funds under management</b>	\$5.75 billion	<ul style="list-style-type: none"> <li>• Targeting high-value retail flows, multiple products and long-term relationships</li> <li>• Launching institutional investor segment to grow scale and realise operating leverage</li> </ul>
<b>Investor cash flows</b>	\$450 million per annum by 2023	<ul style="list-style-type: none"> <li>• 2018 net cashflow more than 10% of FUM</li> <li>• Supported by enhanced brands, strong distribution channels, marketing and sales capability</li> </ul>
<b>Operating margin</b>	Greater than 50% of total revenue (net of fund expenses)	<ul style="list-style-type: none"> <li>• Improved margins through controlled introduction of a more efficient operating model, tight cost control, and increased investor self-service</li> </ul>

# ... Our 2023 strategy builds off existing strengths. This is where we will play

## Our five strategic priorities for 2023

Ambition	First in systematic investment management	Leading financial wellbeing solutions, including KiwiSaver	First in sponsored and corporate superannuation	Launched institutional investor offering	Implemented low cost operating model that supports great customer outcomes
Actions	<ul style="list-style-type: none"> <li>• In-house investment management expertise</li> <li>• Front-office operating model</li> <li>• Partnerships with global systematic investment managers</li> <li>• Smartshares brand</li> <li>• Financial adviser relationships</li> <li>• Simplify on-boarding</li> <li>• Product packaging and pricing plans</li> </ul>	<ul style="list-style-type: none"> <li>• Cross-sell</li> <li>• Improve brand</li> <li>• Sustainable solutions</li> <li>• Digital tools</li> <li>• Financial advice</li> <li>• Fintech collaboration</li> </ul>	<ul style="list-style-type: none"> <li>• Sales team and plan</li> <li>• Member education and advice</li> <li>• Selected active equity managers on platform</li> <li>• Pacific Islands and Iwi investment plans</li> </ul>	<ul style="list-style-type: none"> <li>• Sales team and plan</li> <li>• Product innovation</li> <li>• Client service and reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourced fund admin</li> <li>• Project delivery and customer onboarding capability</li> <li>• Unitise SuperLife Invest to broaden distribution and reduce cost and risk</li> <li>• Digital tools for robo advice and investor self-service</li> <li>• Continuous improvement programme for operational efficiency</li> <li>• Focus on cost, headcount, customer outcomes</li> </ul>

# These are the steps we will take in 2019

- Build relationships with financial advisers, fund distribution platforms, institutional investors, consultants and employers
- Build investment management team and leadership in systematic investment management
- Build a brand recognised and trusted by our customers
- Finalise operating model for Smartshares ETFs and SuperLife Invest schemes
- Deliver first digital tools for improved self service and customer outcomes

# Wealth Technologies

Head of Wealth Technologies  
Lisa Brock



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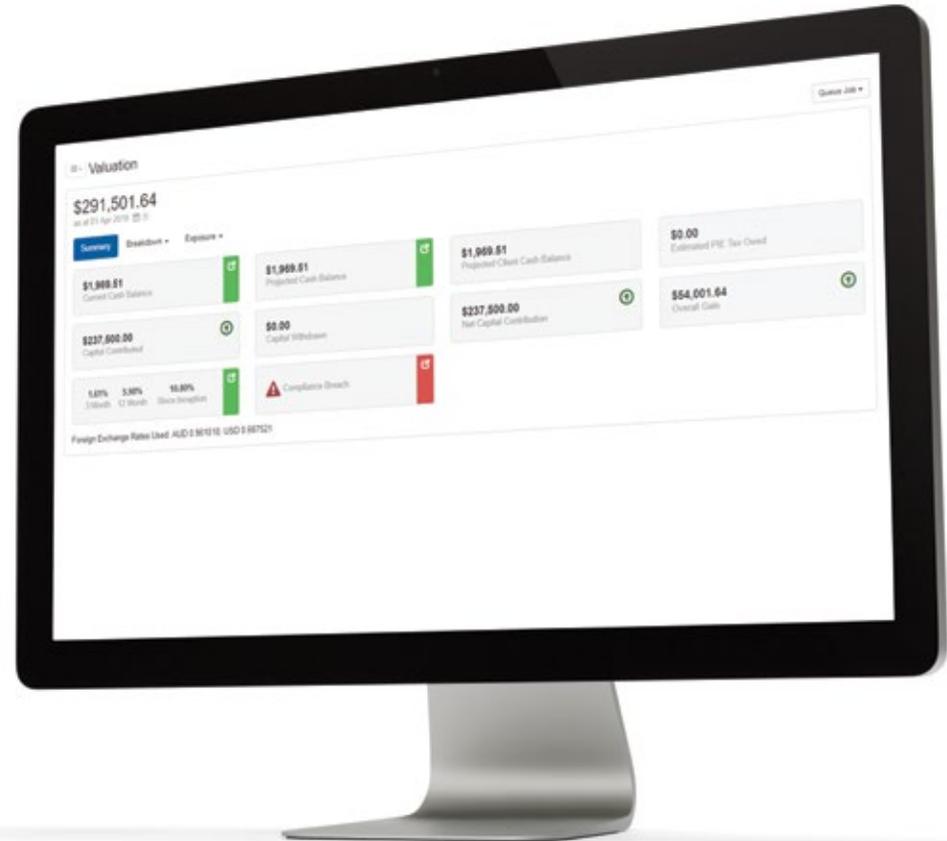
# The current landscape offers growth opportunities for Wealth Technologies

- Until the entry of NZX Wealth Technologies New Zealand's wealth management platform landscape was stagnant
- Systems were outdated and not keeping up with customer needs
- Barriers to market entry are high due to New Zealand specific tax legislation
- We have entered the market with comprehensive functionality and a first class service offering



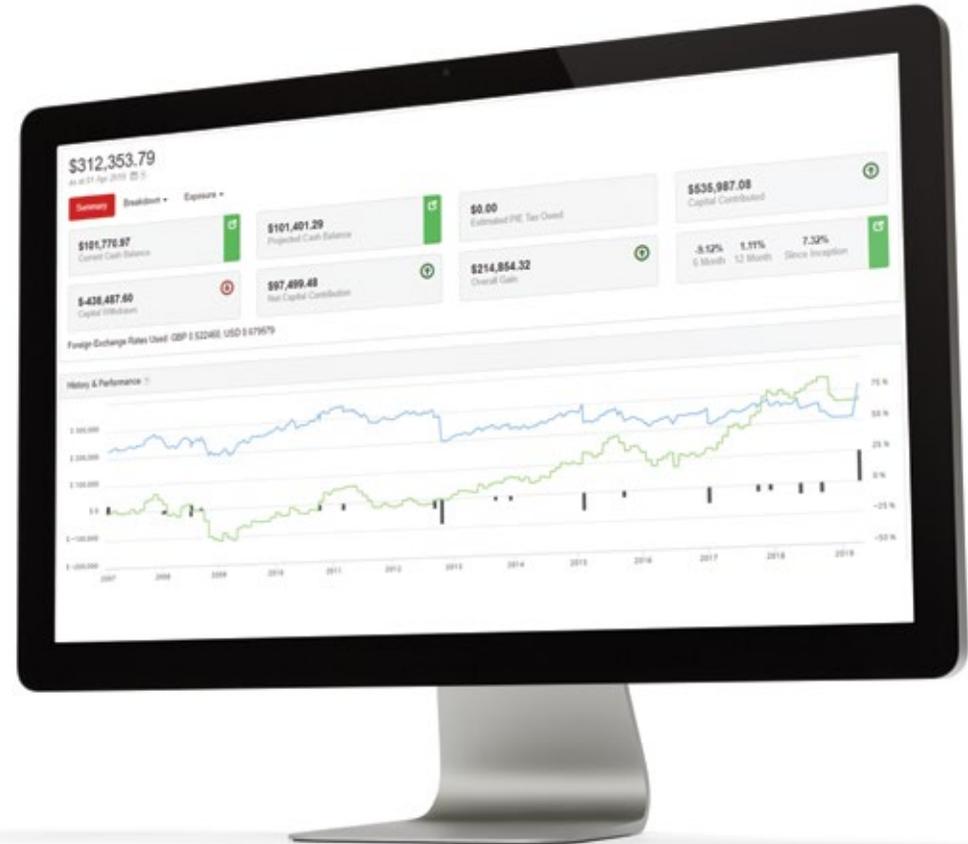
## In 2018 we have ...

- Launched a scalable platform with a highly skilled team
- Built strong capability to execute new customer projects
- Grown funds under administration by 70.2%
- Created an opportunity pipeline of \$40 billion



# We have a strong competitive advantage, with a scalable platform for an industry ready for new solutions

- Fully integrated New Zealand tax and sole wrap provider offering KiwiSaver
- Solution flexibility caters to different business models
- Technology allows agile development
- Strong integrated reporting functionality allows customisation of look and feel for brand consistency
- New Zealand opportunity is significant: we enable capital markets

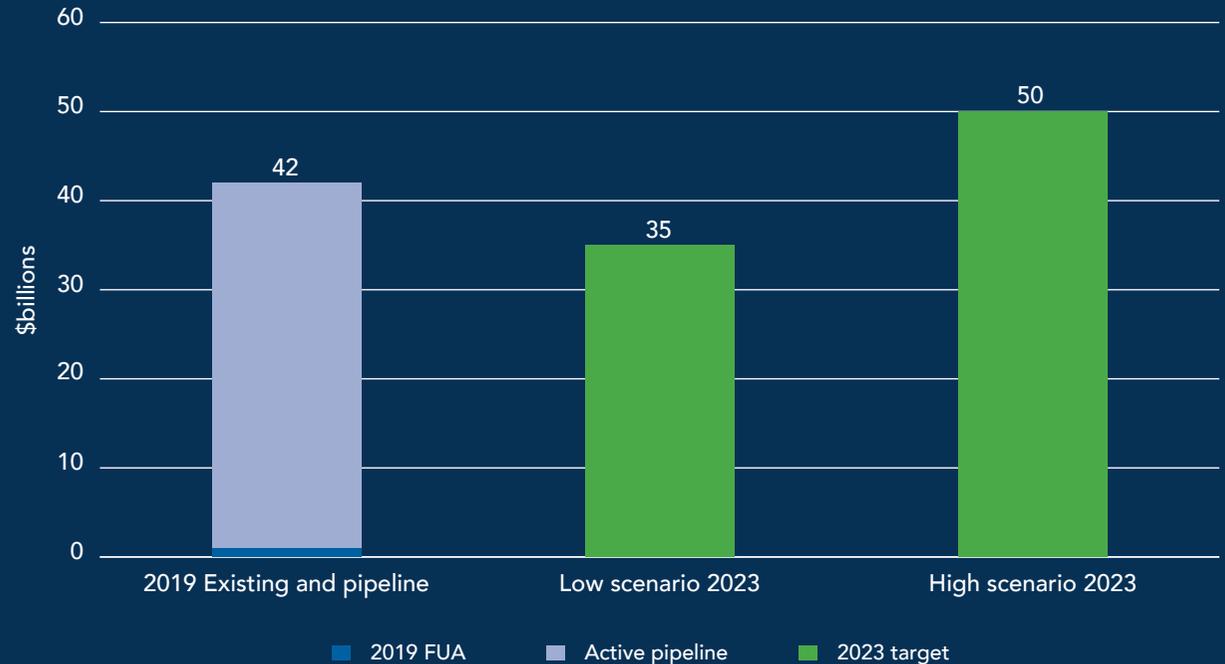


NZX Wealth Technologies platform: valuation and performance history

# 2019 pipeline of \$40 billion paves way for 2023 target

- Strong pipeline in play:
  - Pitching for: \$32 billion
  - Discussions underway: \$8 billion
- Core development work will be driven by new customers

## Funds under administration opportunity



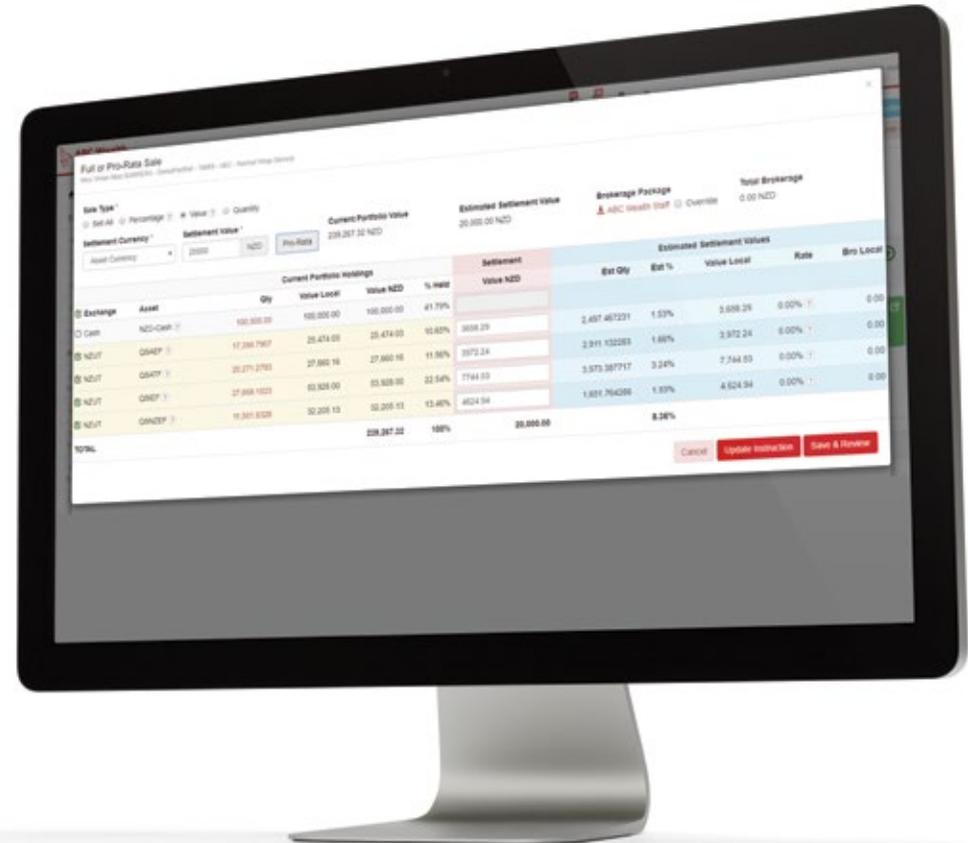
## What our customers are already saying about us ...

"Part of our longer term growth strategy is to provide a flexible, yet seamless online experience for clients. Finding an Australasian based infrastructure provider with the capability to tailor a solution for us was difficult. This was due to the broad range of investment options we will continue to grow over time, coupled with the flexibility required for our self-managed investment products, 'out of the box' solutions were not suitable. This led us to partner with NZX Wealth Technologies."

– Craigs Investment Partners, Head of Client Services, Stephen Jonas

# We have delivered a modern and scalable piece of capital market's infrastructure

- Our platform allows wealth managers to efficiently maintain and report on their customers' investment portfolios
- Our platform can be utilised in two different ways:
  - Custody and operations services: we operate the platform for our customers
  - Technology services: our customers operate the platform, we support it



# Growth aspirations: where we hope to be in 2023

Range	CUSTODY & OPERATIONS		TECHNOLOGY SERVICE		TOTAL	
	Low	High	Low	High	Low	High
<b>FUA target</b> (\$ billion)	4	6	31	44	35	50
<b>Revenue<sup>1</sup></b> Standard bps range dependant on individual customer FUM	5 bps – 25 bps		1 bps – 15 bps		1 bps – 25 bps	

- 2019 FTEs: 36
- Staff costs account for approximately 80% of total operating costs
- Resources will be appropriately managed

<sup>1</sup> Variables:

- Mix of custody and operations versus technology services
- Complexity and speed of on-boarding projects
- Mix of customer size will impact average revenue bps

# Getting fit & reinvesting for long-term growth

Chief Financial Officer  
Graham Law



NEW ZEALAND'S EXCHANGE  
TE PAEHOKO O AOTEAROA

# We have come a long way in the last two years<sup>1</sup>

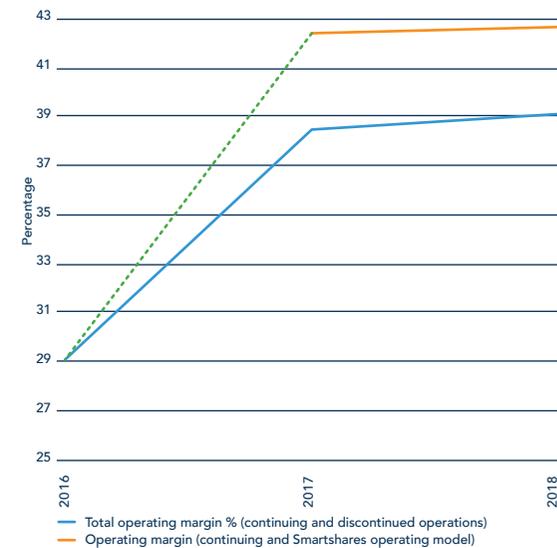
	2016 \$'000	2018 \$'000
<b>Revenue</b>	77,544	67,493
<b>Expenses</b>		
Personnel (net)	29,853	22,945
Information technology	7,303	7,357
Other	17,871	9,908
Total expenses	55,027	40,210
<b>Operating result</b>	22,517	27,283

- Non-core businesses divested (2018), Ralec legal action completed (2016)
- Now focused on improving operating margin:
  - Our exchange peers targeting 55% in 2019 (2020: 52%)<sup>2</sup>
  - Our 2023 aspirational target is to be at or above our peers operating margin

<sup>1</sup> Mark Peterson Interim CEO, effective 1 January 2017  
<sup>2</sup> Finance Technology Partners (February 2019) EBITDA Margins (median) information for regional/country based exchanges

Note: divisional results (revenues, expenses and operating margins) discussed in 2018 full year financial results investor presentation (appendix one)

## Operating margin



# To achieve our 2023 aspirations, in 2018 we removed barriers to growth

## PROJECTS TO REMOVE MARKET BLOCKAGES TO DRIVE FUTURE REVENUE GROWTH INCLUDED:

- New trading and clearing fees
- Updated market structure and rule set
- Extended trading hours in derivatives market
- Mutualised default fund implemented
- SWIFT upgrade
- Australian point of presence established
- Participants portal established
- Market Announcement Platform enhancements
- Cyber security upgrades



Funded  
by savings  
(approx.  
\$700,000)  
generated  
from ...

- Consolidation of data centres, racks and networks
- Modernisation and consolidation of Internet services and data circuits
- Introduction of shared compute platform

# Our growth opportunities are driving value

## Smartshares FUM



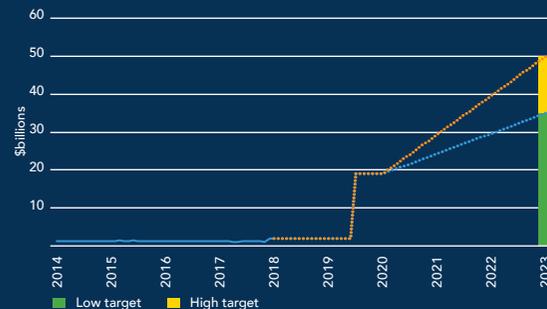
### Macro drivers:

- ETFs penetration rate compared to US/ Europe
- KiwiSaver long-term growth profile

### FUM growth at 14%:

- Net FUM inflow 2018: \$292 million is approximately 10% of FUM
- Portfolio mix long run average market return is 5.4%
- Sales activities: new resources and focus

## Wealth Technologies FUM



### Scalable platform launched with highly skilled operational team

- Inaugural client increased FUA by approx. \$1 billion
- Built strong capability and capacity to execute new customer projects
- Created \$40 billion FUA pipeline

## Dairy Derivatives number of lots



### Expanding global access

- Enhancing scalability and access e.g. extended trading hours
- Multilised default fund attracts new international participants

# And their growth is inextricably linked to a strong core market, which now has the right platform to succeed

## Capital raised



- New processes for supporting prospects
- Strong debt market
- Rules updated to facilitate growth in wholesale debt and funds
- Capital Markets 2029 impact not included

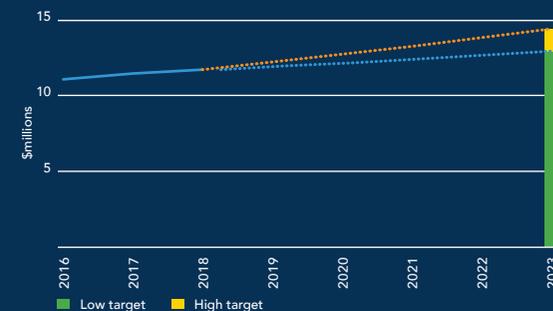
## Value traded

(ex international crossings)



- Significantly improved market access
- Strong participant pipeline developed
- Participation is widening: depository participant added

## Data & Insights revenue



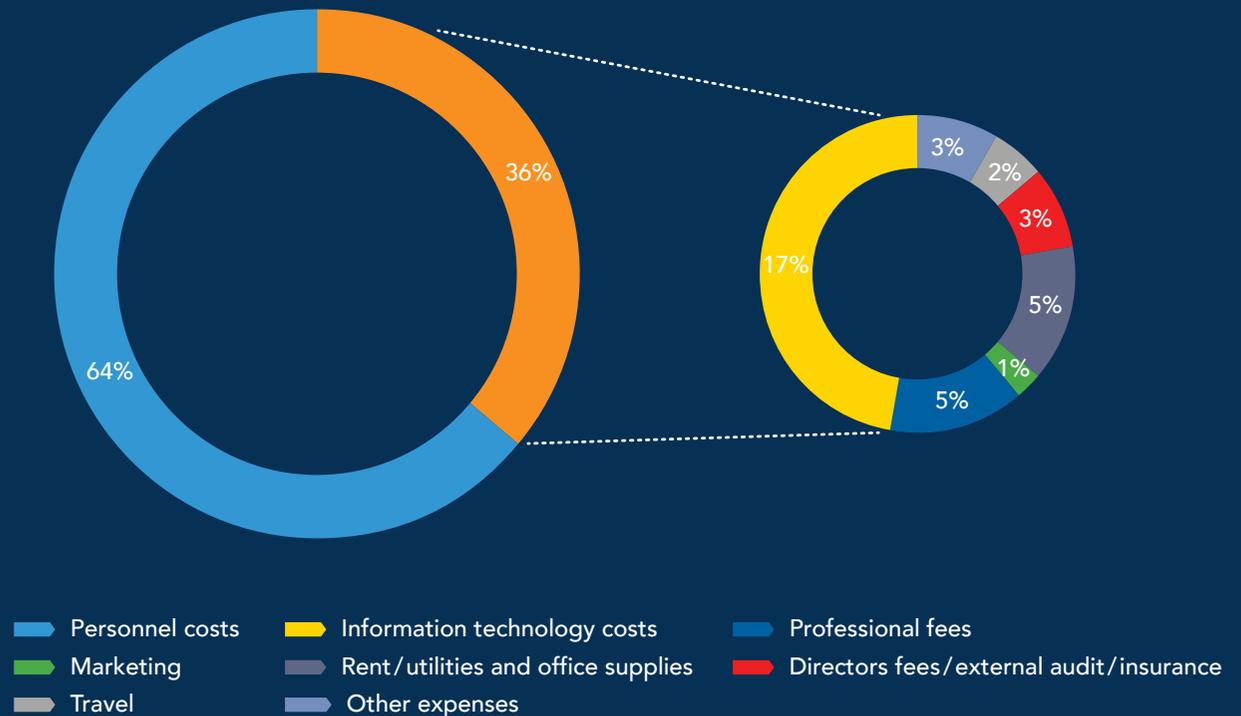
- Sales team in place
- Enhancing platform – data management and dissemination of data and insights to end users
- Building new products
- Vendor partnering to reach end users

# We aim to keep core market costs static, while investing in our growth opportunities

- Total cost base (excluding fund expenses, gross of capitalised personnel and overheads costs) is analysed in the opposite graph and discussed on the following slides
- For **core markets and corporate services** we aim to keep the cost base static in 2019 (absorbing inflation), with inflationary increases factored into our aspirational targets
- For our **growth opportunities** (Smartshares and Wealth Technologies) we will continue to invest for growth in 2019 and beyond

Note: non-personnel costs include rent costs (\$1.4 million), which are subject to IFRS 16 Leases adjustment in 2019

## Breakdown of 2018 cost base



# Cost drivers explained – people are our main investment

	ISSUER RELATIONSHIPS	SECONDARY MARKETS	DATA & INSIGHTS	SMARTSHARES	WEALTH TECHNOLOGIES	TOTAL FTEs
<b>Core Markets</b>	Issuer Relations: 5.0 FTEs	Markets: 3.0 FTEs	Data & Insights: 8.0 FTEs			29.8
		Clearing House: 10.9 FTEs				
		Dairy Derivatives: 2.9 FTEs				
<b>Regulation</b>	Regulation (IC): 9.0 FTEs	Regulation (PC/ Surv.): 11.8 FTEs				20.8
<b>Energy</b>	Energy (incl. IT): 23.6 FTEs					23.6
<b>Maximise Options</b>				Smartshares (incl. IT): 44.5 FTEs	Wealth & Technologies (incl. IT): 33.7 FTEs	78.2
<b>Sub total</b>	37.6	28.6	8.0	44.5	33.7 <sup>1</sup>	152.4
<b>Corporate Services</b>	Information Technology Development: 8.0 FTEs					61.7
	Information Technology Securities Market Technologies: 7.8 FTEs					
	Information Technology Operations: 16.0 FTEs					
	Project Management Office: 5.0 FTEs					
	Legal & Policy: 5.4 FTEs					
	Finance (9), Strategy (1), HR (3) & Communications & Marketing (3): 16.0 FTEs					
CEO and admin (including office managers / reception): 3.5 FTEs						
<b>Total FTEs</b>						214.1 <sup>2</sup>



- Aspirational targets reflect inflationary increases from 2020 to 2023:
  - Core Markets and Corporate Services FTEs remaining static. Exception, derivatives sales team (1-2 FTEs to be added)
  - Smartshares and Wealth Technologies FTEs potentially increasing dependant on service requirements of new investors/customers reflected in FUM/FUA growth

<sup>1</sup>Additionally there are 2.8 full time equivalent contractors  
<sup>2</sup>FTEs as at 31 December 2018

# Cost drivers explained ...

Technology is required to run the exchange. It has been rationalised



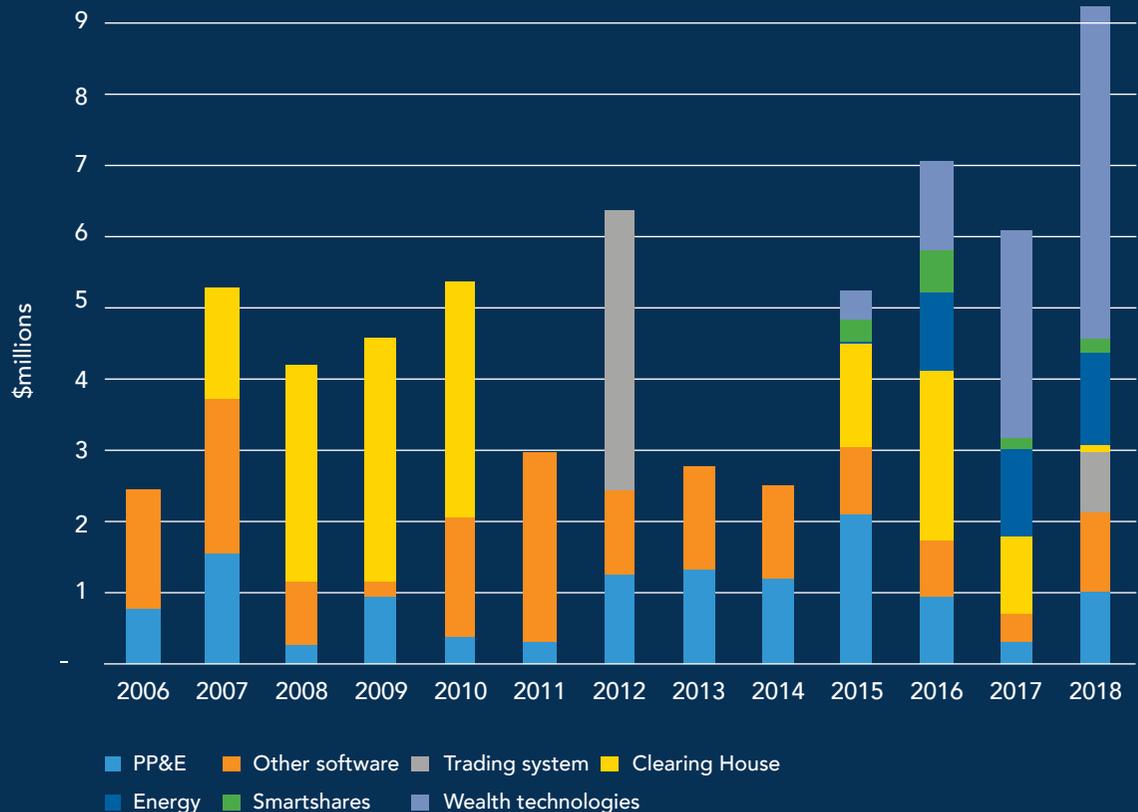
- Platform costs represent 50% of technology cost base
- IT costs recharged to market participants (27%) include systems connectivity charges, with revenue recognised in the Secondary Markets and Issuer Relationships (Energy)
- Costs expected to remain flat in 2019, with savings off set by cyber security capabilities and inflationary increases

Professional fees driven by revenue, regulatory obligations and contractual requirements



- Regulatory obligations or contractual requirements (usually assurance in nature), include the internal audit program, energy audits contractually requirements (priced into revenue), Clearing House annual operations audit, and conflicts annual audit
- Royalties and other costs relating to core markets revenue include, audit fees 30% of royalty revenue, stock lending and borrowing costs, and external data input costs for Data & Insight reports

# CAPEX explained, we will revert to lower levels in 2020



- Short term CAPEX driven by large multi-year projects for Wealth Technologies and trading system
- CAPEX for normal life cycle IT equipment replacements and software expected to be comparable to prior years
- CAPEX beyond mid-2020 will revert to lower levels reflecting normal life cycle replacements for IT equipment and software, plus Wealth Technologies customisation requirements

# 2018 saw us implement a revised capital structure

## Capital Structure successfully changed to help ensure NZX has a balance sheet risk profile appropriate for a business critical to New Zealand's capital markets infrastructure

- Subordinated notes issued 20 June 2018 replacing term loans
- Mutualised default fund implemented, October 2018

## Dividend

- Policy is 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
- Excess capital arising on the disposal of non core businesses was returned to shareholders as a special dividend of 1.5 cents per share

Note: cash (and cash equivalents) include regulatory risk capital (\$20.0 million) and working capital requirements (Clearing House \$3.0 million and Smartshares \$2.5 million) which are not available for general use

# We released a series of targets at our full year 2018 result ...

		EXTERNAL DEPENDENCIES	2019 DELIVERABLES	FIVE-YEAR ASPIRATIONAL TARGET RANGES (2023)**	
				LOW	HIGH
NZX Group	Total shareholder return (percentage)*	<ul style="list-style-type: none"> <li>Dependant on external factors outlined below</li> </ul>		TSR average of 9.29% p.a. to 11.29% p.a. by December 2022	
	Earnings per share*	<ul style="list-style-type: none"> <li>Dependant on external factors outlined below</li> </ul>		EPS average of 8% p.a. to 16% p.a. by December 2022	
	Operating earnings	<ul style="list-style-type: none"> <li>See earnings guidance</li> </ul>	\$28 – \$31 million	\$42 million	\$54 million
<b>Core Markets</b>					
Issuer Relationships	Capital raised (total primary and secondary capital issued or raised for equity, funds and debt)	<ul style="list-style-type: none"> <li>Listing ecosystem dependent on others</li> <li>No major market correction</li> </ul>	\$9.1 billion (average of two prior years)	Three year rolling average: \$11 billion	Three year rolling average: \$12 billion
Secondary Markets	Total value traded	<ul style="list-style-type: none"> <li>Participant activity levels drive value traded</li> <li>No major market correction</li> </ul>	\$41.0 billion	\$42.5 billion	\$45.0 billion
	Dairy derivatives lots traded	<ul style="list-style-type: none"> <li>Participant activity levels drive lots traded</li> </ul>	0.45 million lots	0.85 million lots	1.4 million lots
Data & Insights	Revenue growth (in subscriptions, licenses and dairy subscriptions changing revenue mix)	<ul style="list-style-type: none"> <li>Dependent on core markets growth</li> </ul>	<ul style="list-style-type: none"> <li>License growth: 10%</li> <li>Dairy subscription product growth: 24%</li> </ul>	Three year rolling average revenue growth: 2.0% p.a.	Three year rolling average revenue growth: 4.2% p.a.
Smartshares	Total FUM	<ul style="list-style-type: none"> <li>Investment market returns impacts FUM (all asset classes)</li> <li>No major market correction</li> </ul>	Continue three year rolling average growth: 14%	2023 average FUM: \$5.0 billion	2023 average FUM: \$5.75 billion
Wealth Technologies	Total FUA	<ul style="list-style-type: none"> <li>Investment market returns impacts FUA (all asset classes)</li> <li>No major market correction</li> </ul>	Prepare for new client phase two migration and transition of current clients	2023 average FUA: \$35 billion	2023 average FUA: \$50 billion

Impact from Capital Markets 2029 has not yet been factored into our core markets aspirational targets

\* Consistent with CEO long term incentive programme, see share based payments note in 2018 financial statements for more information

\*\* These are not financial forecasts

# ... and we are on the right track to achieve them

## Progress to date – progress against aspirational metrics in Q1 2019

- Capital raised: \$3.0 billion (primary and secondary): above target
- Total value traded: \$9.3 billion (cash market): below target
- Dairy derivative lots traded: 95,487: above target
- Data & Insights revenue: +8% (excludes indices, dairy conference and one off license revenues): above target
- Total FUM: \$3.2 billion: above target
- Total FUA: \$2.0 billion: on target

Progress towards 2019 deliverables can be monitored by monthly shareholder metrics

## Earnings guidance remains unchanged

- NZX reaffirms that it expects full year 2019 EBITDA to be in the range of \$28.0 million to \$31.0 million
- Expects 2019 expenses to be in the range of \$37.0 million to \$38.0 million

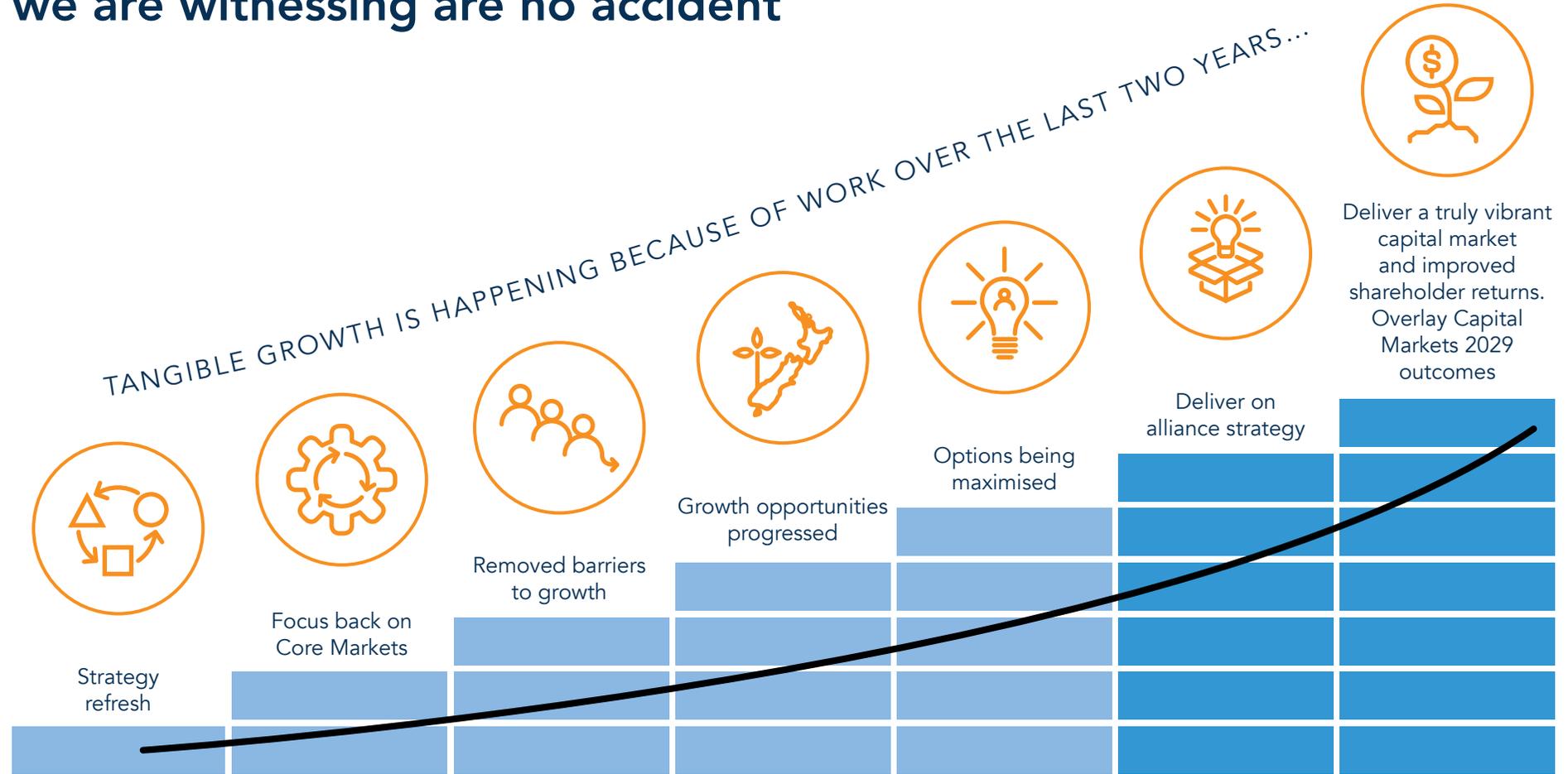
Close

Chief Executive Officer  
Mark Peterson



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# The green shoots of success and optionality we are witnessing are no accident



# NZX is now a changed business, with strong value proposition and unique growth opportunities

	Global growth		NZX growth	
Traditional exchange model	<b>Capital raising diversification</b> e.g. SGX debt contributes 20% of revenue	➔	<b>Retail debt issuance</b> contributes 4.5% of revenue	Traditional exchange model
	<b>Derivatives</b> average contribution to revenue is 29% <sup>1</sup>	➔	<b>Derivatives</b> still just 2.1% of total revenue, significant growth to come	
	<b>Data</b> is driving growth, indices are a big part of this e.g. ASX growth in information services revenue is 9.3%	➔	Refocused on driving <b>data revenue up 8% in Q1 2019</b> <sup>2</sup>	
Adjacent opportunities	<b>Passive</b> 20% CAGR over last decade in the US market	➔	<b>Passive fund manager providing 21% share of total revenue</b> and more to come	Growth opportunities unique to NZX
	<b>Technology</b>	➔	<b>Wealth Technologies providing green shoots</b> for the future <b>with 70.2% growth in FUA last year</b>	

Sources: SGX annual report, ASX annual report, HKEX annual report, Bloomberg, NZX Shareholder Metrics 31 December 2018, NZX Data & Insights

<sup>1</sup>Average of ASX, HKEX and SGX

<sup>2</sup>Excludes indices, dairy conference, and of licence revenues

**We look forward to continuing to update you  
on our progress.**

**Our half year 2019 financial results will be  
released on Tuesday 13 August.**