



NZX Investor Day 2016

7 September 2016





Forward-looking statements

- This presentation may contain forward-looking statements. Forward-looking statements often include words such as expects, anticipates, believes, intends, plan, continue or other similar words in discussion of future operating or financial performance.
- These forward-looking statements are based on NZX's present expectations, estimates and assumptions regarding its business, performance and the current state of the markets in which it operates. As with any forecast or projection, forward-looking statements are inherently subject to risks, uncertainties and changes in circumstances.
- NZX's actual results may vary materially from what is expressed or implied in its forward-looking statements.

Agenda

- **Overview** – Tim Bennett – CEO 3:00 pm
- **Capital Markets** 3:20 pm
 - Mark Peterson – Head of Markets
 - Kathryn Jaggard – Head of Derivatives
 - Underlying growth
 - Competitive challenges
 - Growth from new products and services
- **Funds Services** 3:40 pm
 - Wealth Technologies – Paul Baldwin – Head of Wealth Technologies
 - Funds Management – Aaron Jenkins – Head of Funds Management
- **Economics** – Bevan Miller – CFO 4:20 pm
 - Cost structure
 - Balance sheet
- **Summary and Conclusions** – Tim Bennett 4:40 pm
- **Q&As**



Overview

Tim Bennett



Key Themes

- The portfolio of businesses has been successfully repositioned
 - Increased exposure to higher growth fund management sector
 - Continuing to reduce exposure to Agri businesses
- Our core markets business will continue to provide a strong foundation for future growth
 - Upgraded, scalable technology and operations, high quality regulation, highly capable team
 - Defendable competitive position
 - Capacity and capability to launch new products and services
- Post-investment phase, all businesses have moderate to strong growth prospects and inherent operating leverage



Reshaping the Portfolio

- Historically, like most exchange groups, NZX has diversified away from the core capital markets franchise:
 - Reduce exposure to capital markets cyclicality
 - Offset sharp declines in trading revenues – a trend that has not yet impacted NZX
- We are reducing exposure to the agricultural sector where the linkages to the Markets business are weak or the economics are unattractive
- We have made substantial investment in funds services: SuperLife, Smartshares and NZX Wealth Technologies (formerly Apteryx):
 - Gain exposure to a higher growth sector of the industry than NZX's capital markets business
 - Broaden the traded product offering – launched 18 new Exchange Traded Funds
 - Provide industry infrastructure to lower costs for advisors and fund managers – announced 1 new major client to the platform, 1 in pipeline

Reducing exposure to the Agri businesses

Good progress being made

Data

Agri data and analytics (\$3.8M)

- Dairy, red meat (NZ), Grain (Au)
- Relatively high margin, strong competitive position
- Moderate growth prospects
- Close linkages to Markets business e.g. launch of milk price futures

- Currently being reorganised as one business

Farmers Weekly

Farmers Weekly (\$5.4M)

- Broad reach to the rural sector
- Cyclical, not structural decline
- Largely variable cost base

Other

NZ Magazines (\$2.6M)

- Specialist audience
- Magazines in structural decline globally
- Terms agreed to sell effective 1 November (subject to final approvals)
- Not expected to have material impact on earnings

Clear Grain Exchange (\$0.9M)

- Volume growth plateaued
- Partners required for further volume growth
- Review of options nearing completion

2015 Revenues \$9.2M

2015 EBITDA \$2.0M

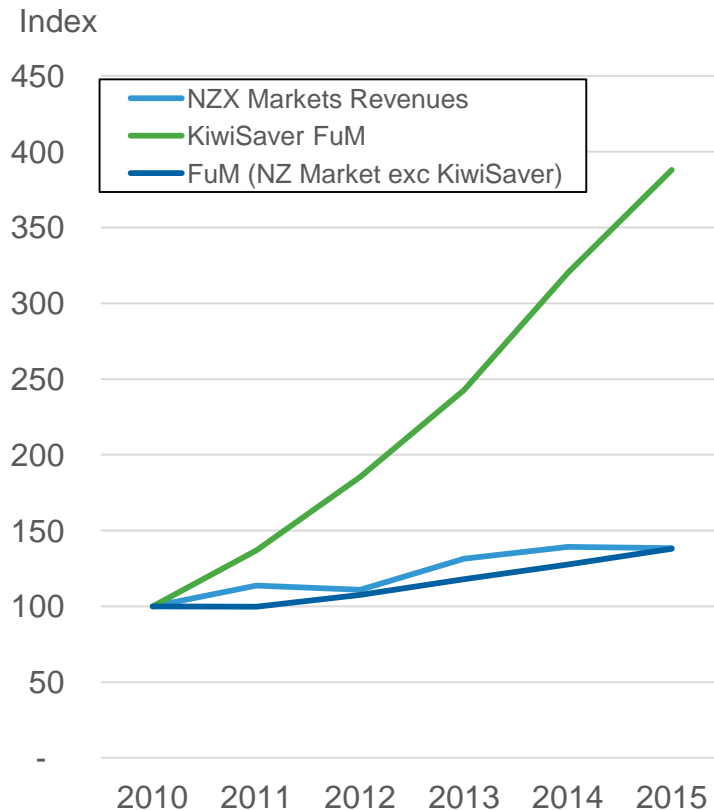
2015 Revenues \$3.5M

2015 EBITDA (\$1.0M)

Note: EBITDA estimates include overhead allocation across these businesses



Funds Services has and will grow faster than NZX's Markets business At attractive margins



Comment

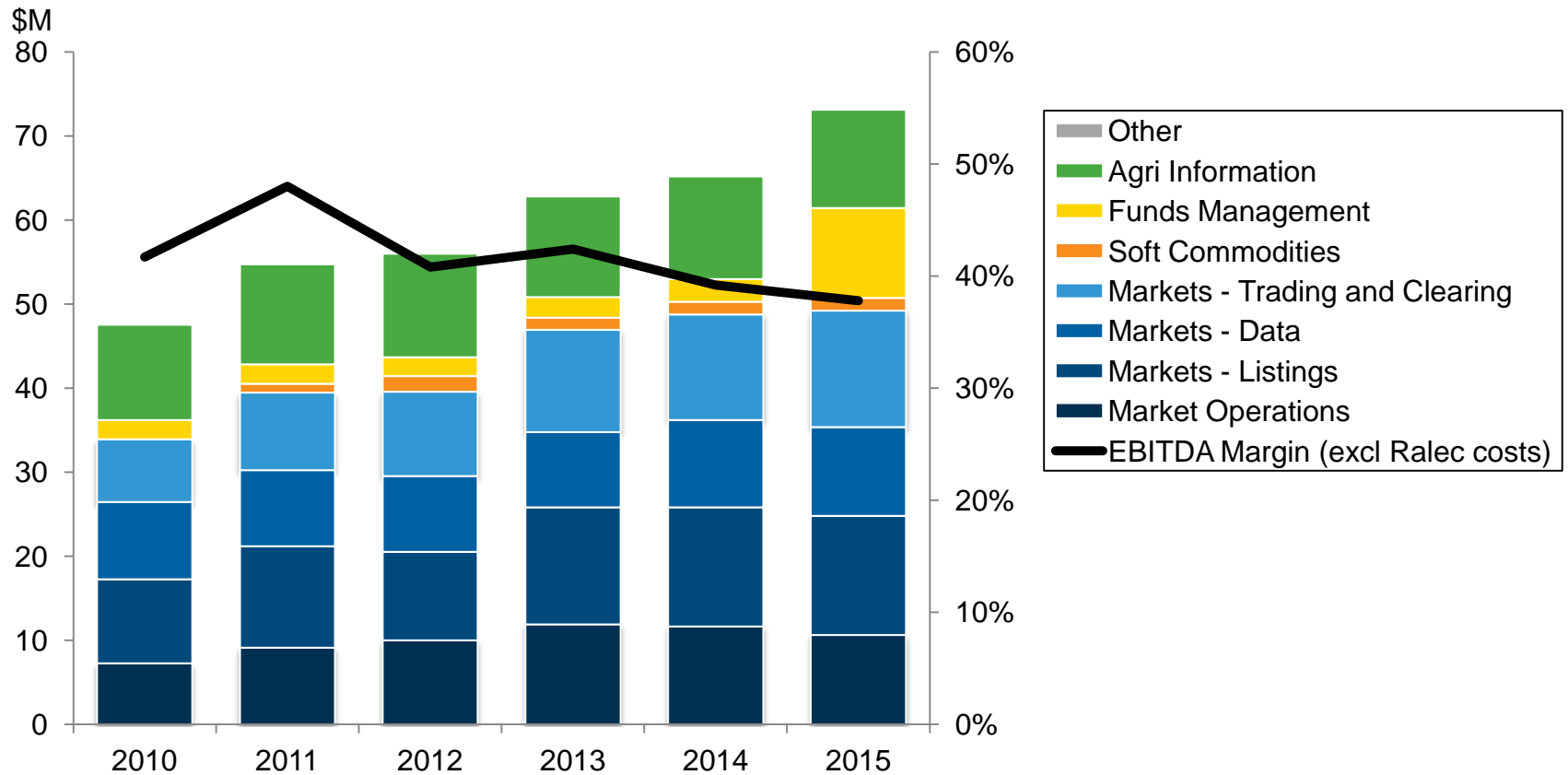
- KiwiSaver FuM expected to grow from \$35B to \$70B by 2020
 - Only ~10% invested in NZ equities – proportion likely to decline given the supply of IPOs
 - Remainder of assets invested in other asset classes and offshore
- Funds Services businesses have attractive margins and similar scalability to the Markets business. Comparable margins
 - Aegis (NZXWT competitor) – 65%
 - Wisdom Tree (US ETF provider) – ~45%
 - Historical Smartshares margins – ~40%

Source: NZX Data, RBNZ, Treasury



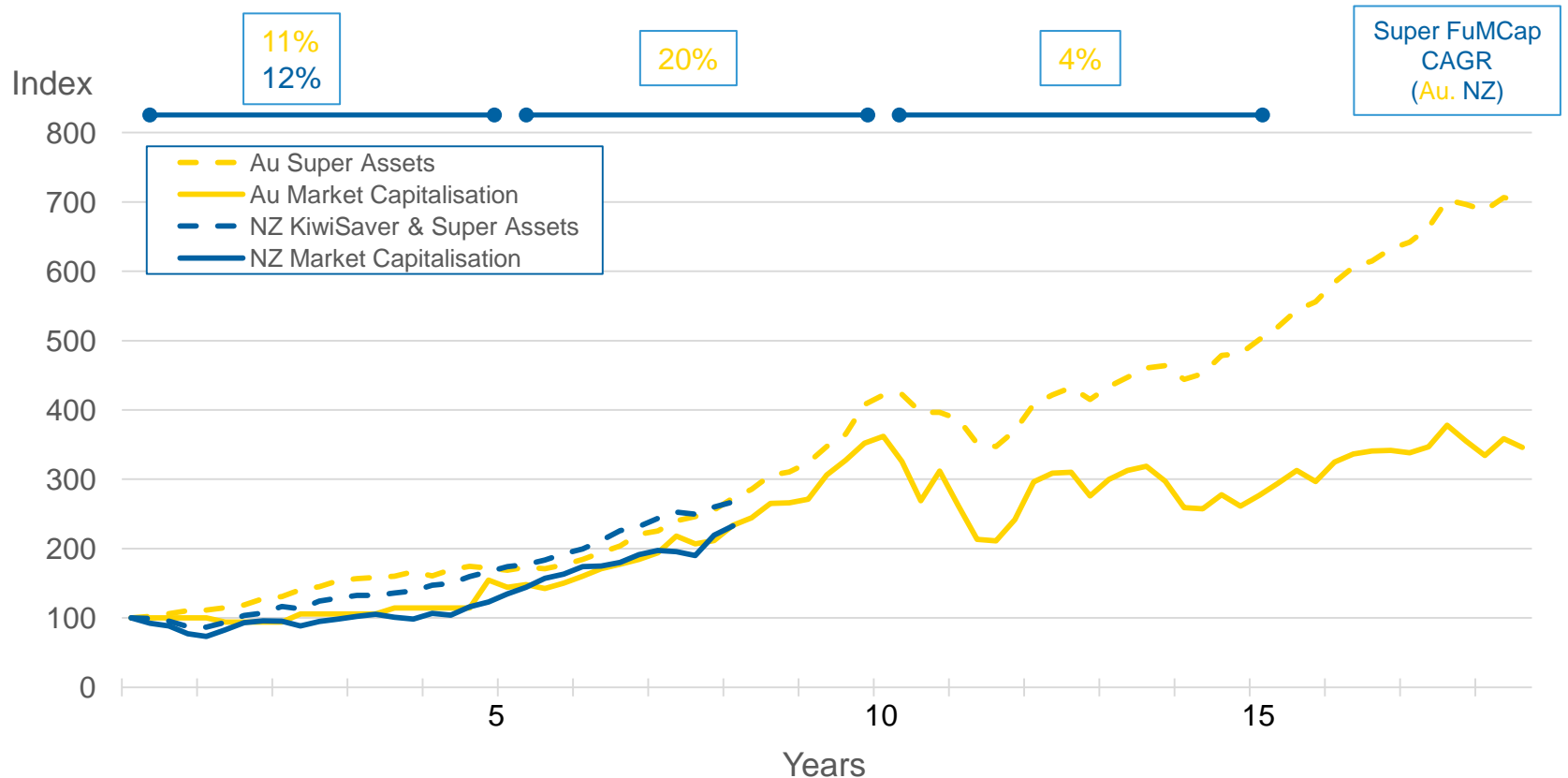
Markets remains the core of the NZX Group

Markets 70% of revenues in 2016



Continued growth potential in capital markets

The Twenty Year Journey



Source: NZX Data, WFE, AVA, RBA

Markets: strong foundation for future growth

What has been achieved

Area	Comments
Technology	<ul style="list-style-type: none">• Upgrade of trading systems completed 2012, upgrade of clearing system well underway• 99.99% uptime for core systems in 2015
Operations	<ul style="list-style-type: none">• Operational error rates down by up to 50%• Automation / outsourcing of high risk functions
Clearing	<ul style="list-style-type: none">• Capital base increased, \$50M liquidity facility in place• 4 new derivatives clearing participants
Market Supervision	<ul style="list-style-type: none">• Positive – no action required from FMA General Obligations Review 2014, 2015• Good progress on rule and guidance modernisation
Markets Team	<ul style="list-style-type: none">• Small team actively engaged with the market



Markets: strong foundation for future growth

The benefits

- Increased operational efficiency
 - Number of listed securities up 15% over past 3 years
 - Number of trades grown 183% in past 3 years
 - Markets, Technology, Operations and Market Supervision team size unchanged for past 2 years
- Faster time to market
 - Equity futures 24 months (launched 2014)
 - Milk price futures 6 months (launched 2016)
- A receptiveness to listing

*“5 years ago I would not recommend anyone to list on NZX.
Now, I actively encourage it as an option.”*

Leading corporate lawyer



Capital Markets

Mark Peterson



Markets Summary

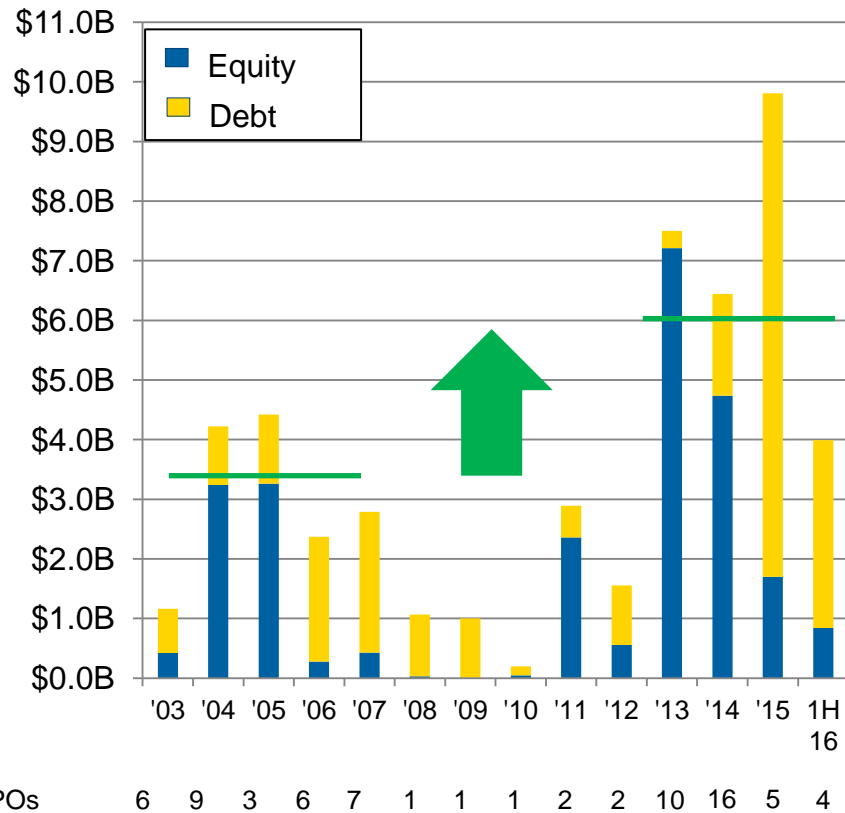
- Our markets are in good health
 - Step-up in activity can be sustained beyond the current cycle
 - Excluding capital raising, expect underlying growth of ~5% through the cycle
- NZX's position in an integrated Australian market is sustainable
 - More compelling for equity capital raising
 - Price discovery remains in NZ
- There is also additional medium-term upside in the core markets business
 - Debt
 - Derivatives
 - Settlement
- ... and some longer-term 'new market' opportunities; funds, energy, carbon



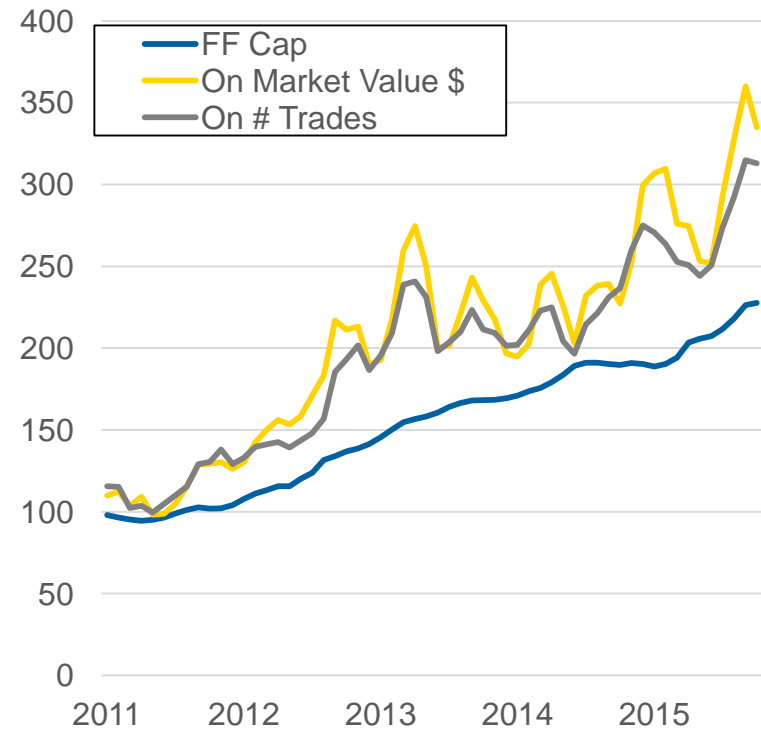
NZX markets are in good health

Step change evident beyond the current cycle

New Capital Listed



Trade Activity (Index, Moving Average)

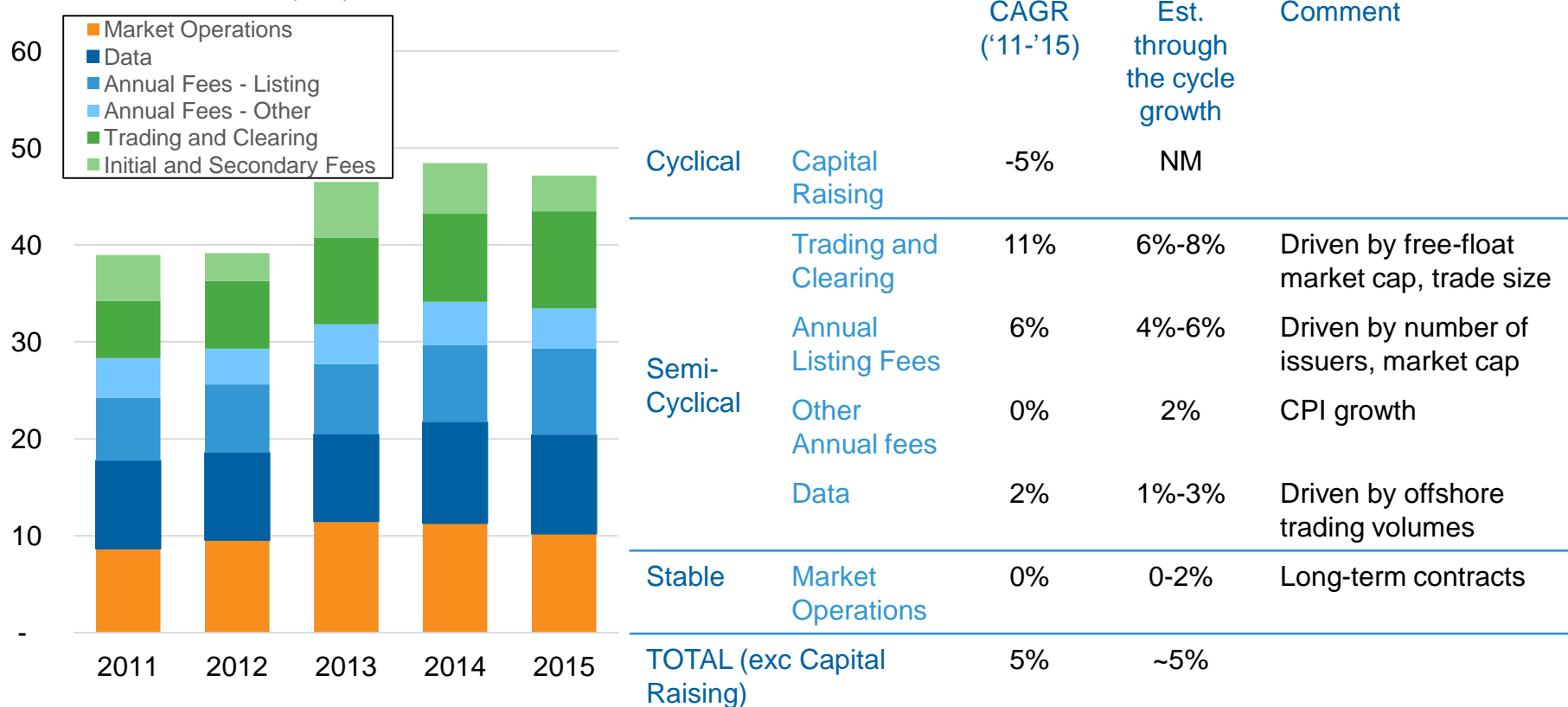


Source: NZX Data

Core Markets business will continue to deliver moderate revenue growth

Historical Revenues

Markets Revenues (\$M)





Position versus ASX not about listings ASX-only listing is not a “silver bullet”

Company	Listing Date	Listing Price	Close Price 31 Aug 2016	TSR
Volpara (VHT)	27 Apr 16	\$0.50	\$0.47	-6.0%
9 Spokes (9SP)	9 Jun 16	\$0.20	\$0.16	-22.5%
Martin Aircraft (MJP)	24 Feb 15	\$0.40	\$0.46	15.0%
Adherium (ADR)	26 Aug 15	\$0.50	\$0.48	-4.0%

For small companies, the ASX is a very overwhelming market

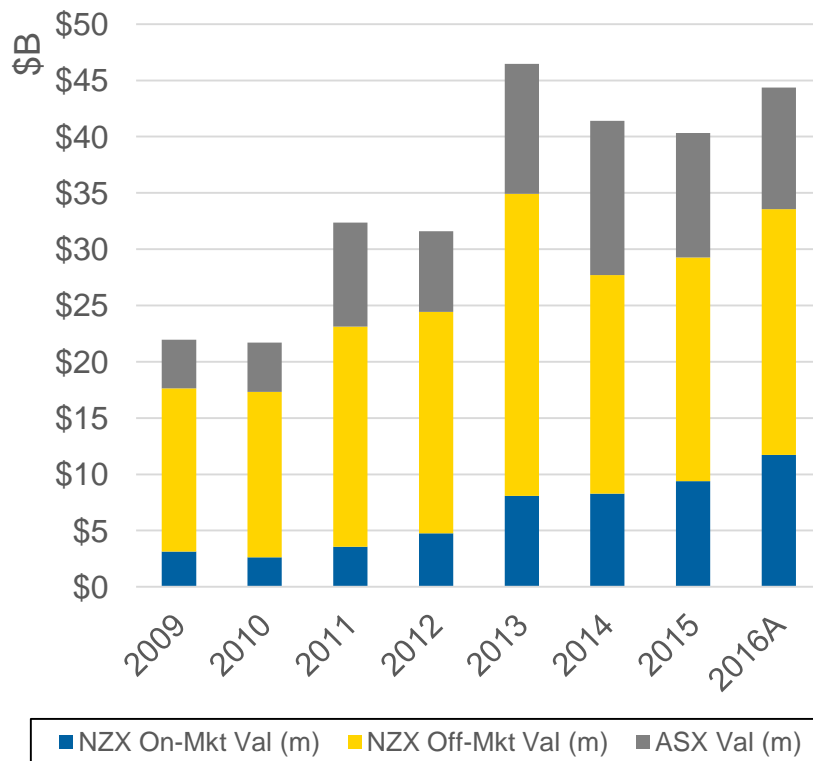
- Coverage, company story awareness and air time are more difficult to achieve
- Capital raising costs are high
- ASX is reviewing its minimum listing requirements
- NZX offer, NXT, competitive for the right companies

For dual-listed companies

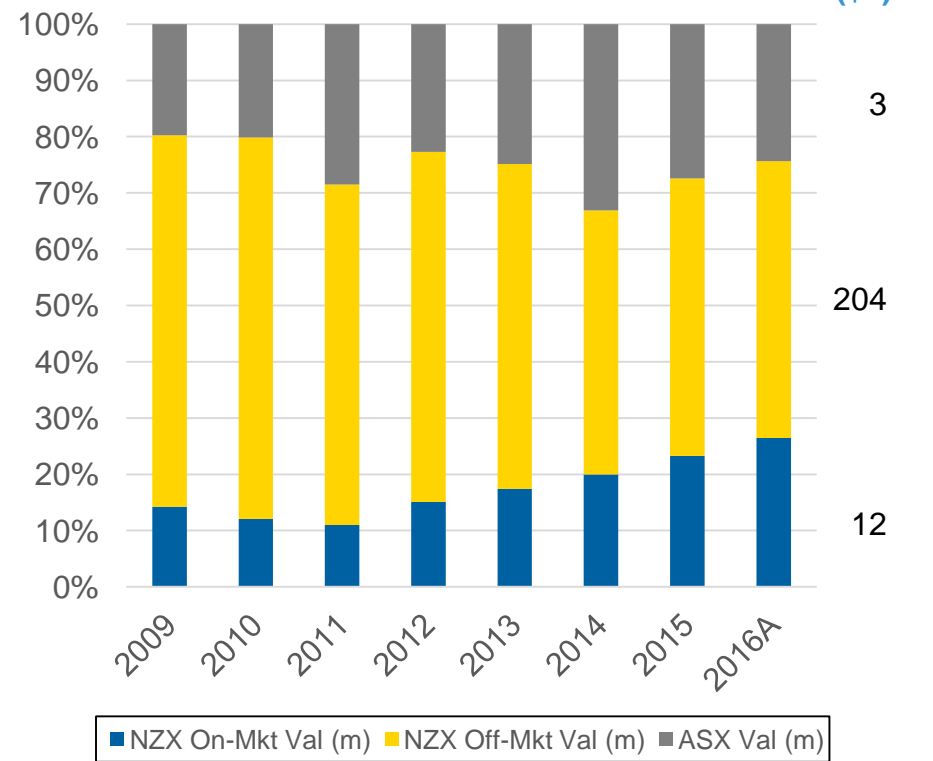
- Foreign-exempt issuers regulatory relationship remains with NZX
- Challenge to maintain price discovery / liquidity in NZ

... but rather ensuring price discovery remains in New Zealand
NZ share of value-traded remains stable

Value Traded

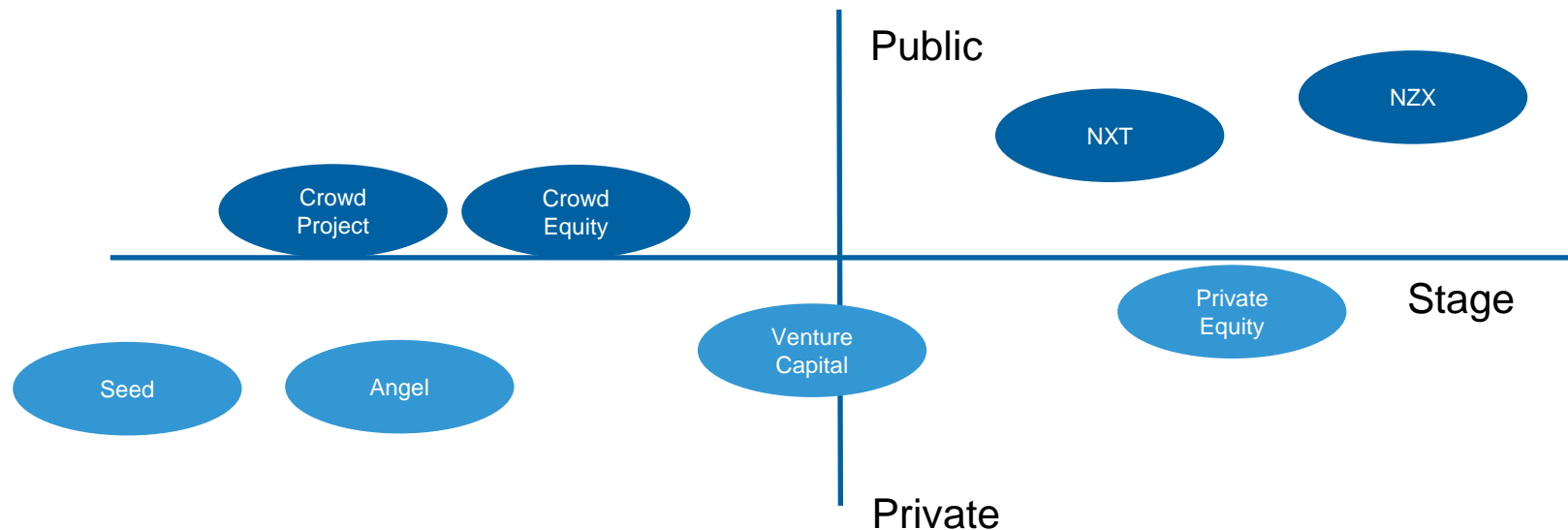


Value Traded



Segmented pricing of algo-activity to bring new liquidity to the market

Developing a tailored equity market offering Mid-market funding ecosystem



Focus on the mid-market

- Underpenetrated, requirement for capital
- A tailored set of markets – NXT, Main Board
- NXT meeting objectives – interest, advisors, liquidity

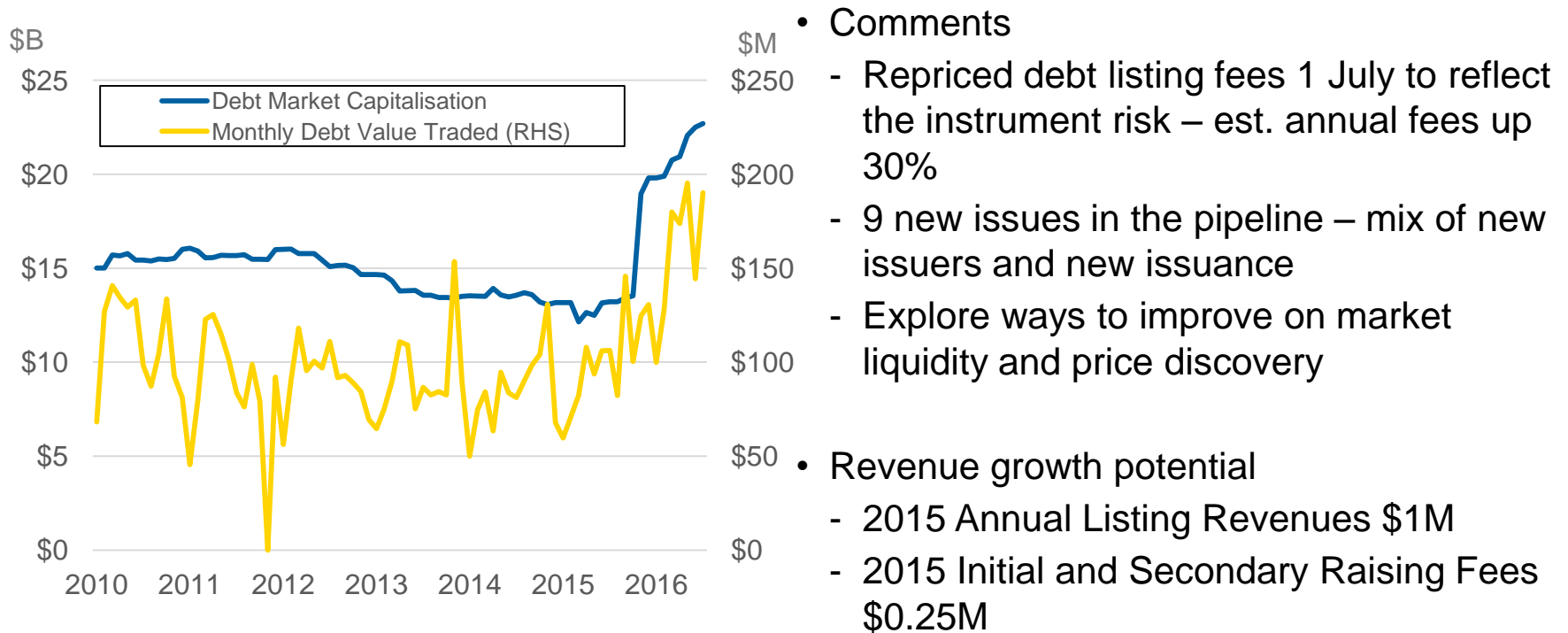
Still more work to be done

- Prove NXT capital raising model
- Increase distribution – linkage to crowdfunding
- Access through advisors and funds esp. KiwiSaver
- Issuer services

Regulation delivery a differentiator

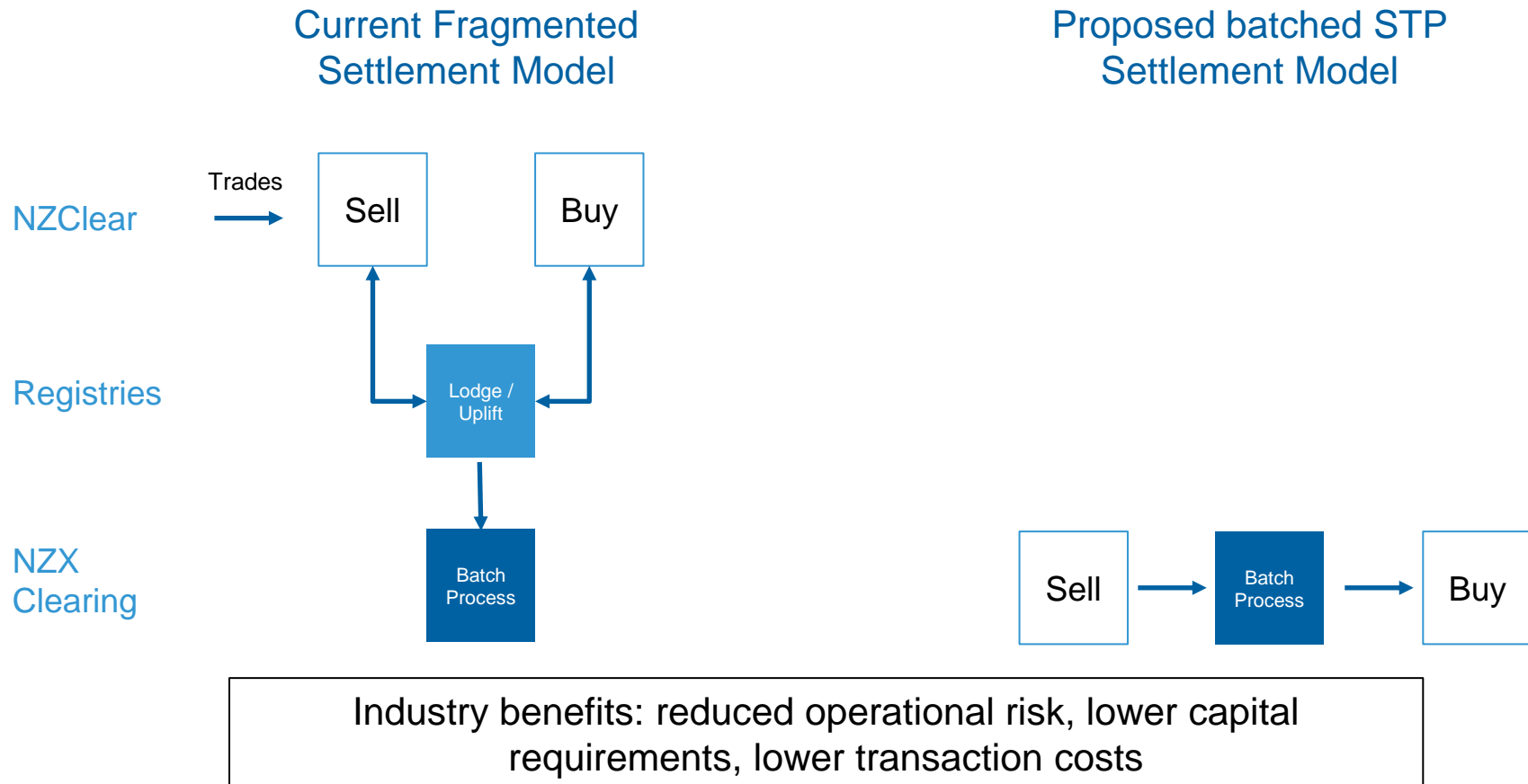
- Engagement with issuers
- Increased clarity around obligations
- Changes to guidance and rules

Potential to further develop the debt market



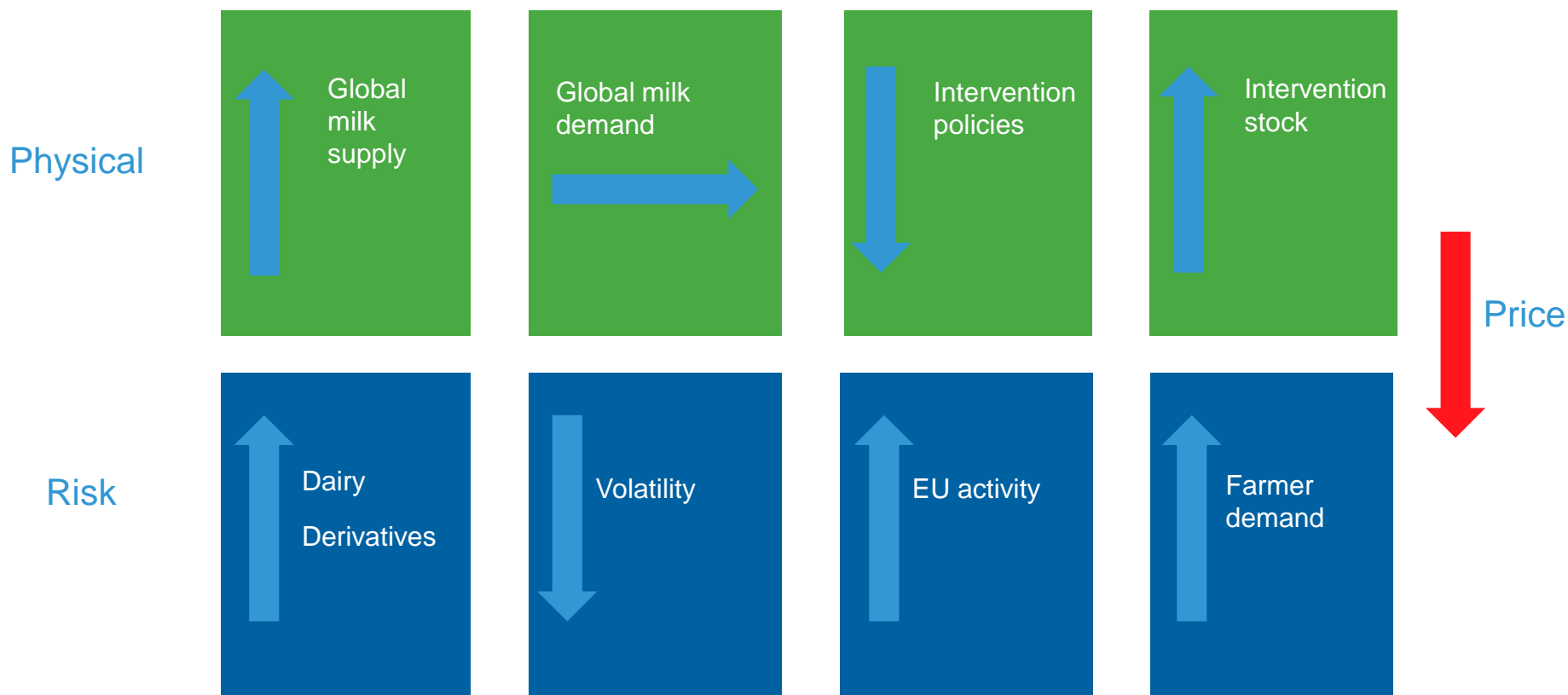
Testing introduction of batch settlement with the market

Alternative to NZClear - \$3-5M revenue opportunity



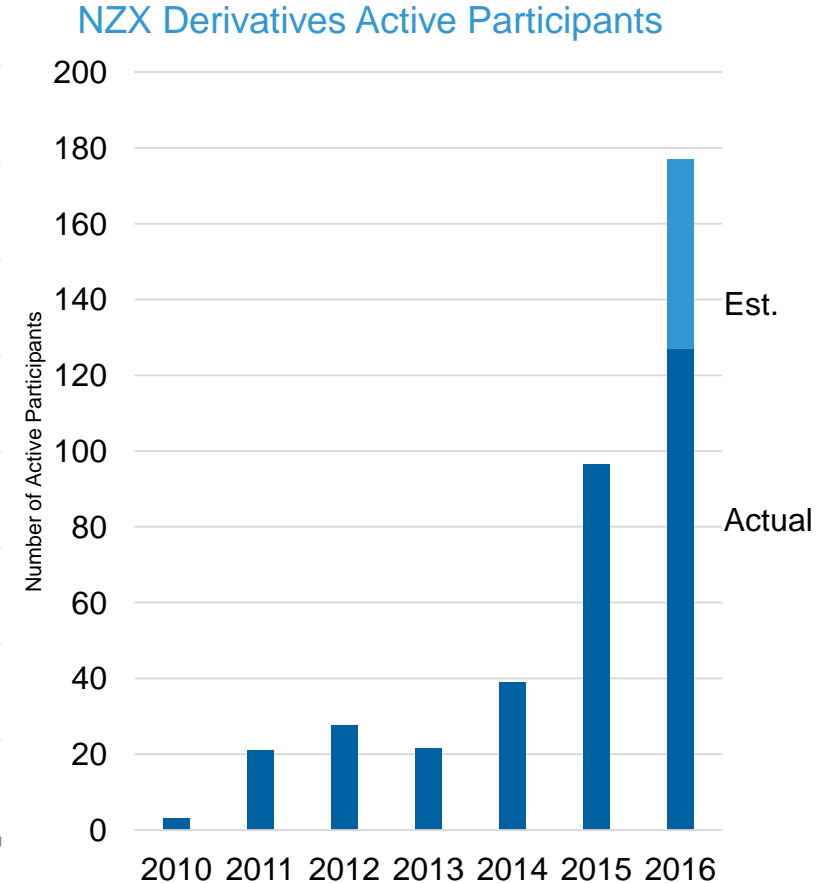
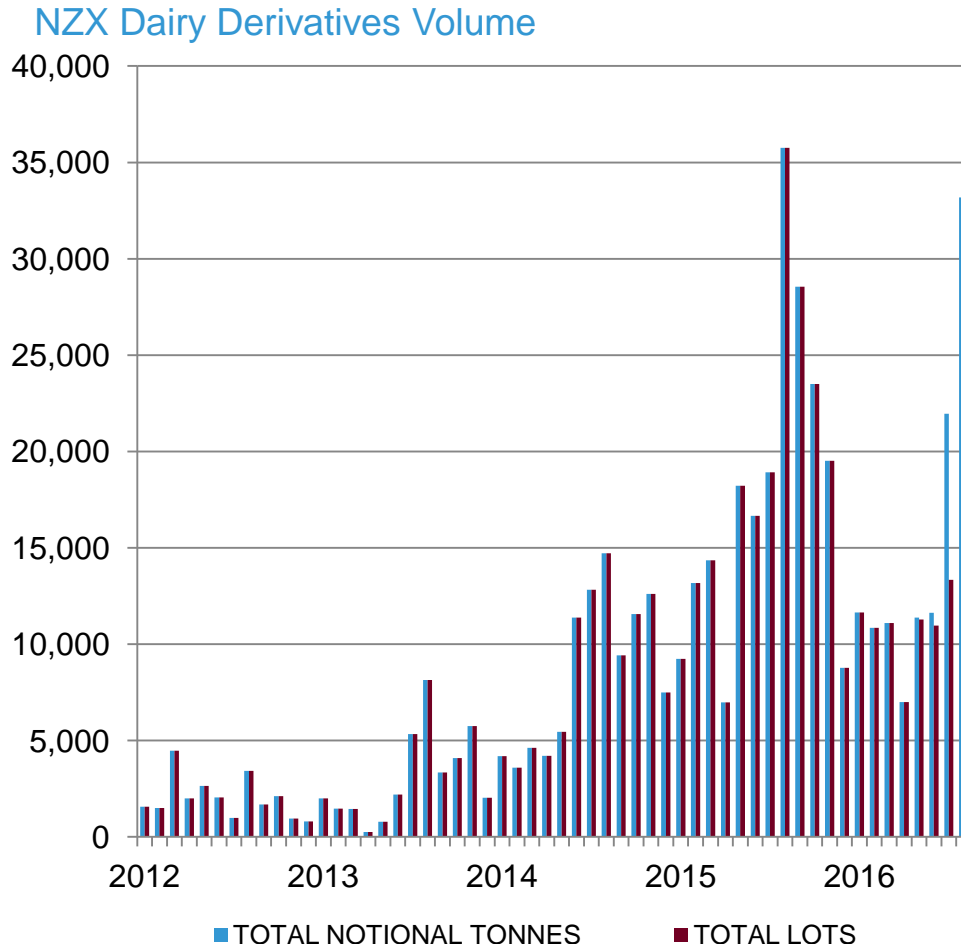
Dairy Derivatives

Global demand for risk management continues to grow





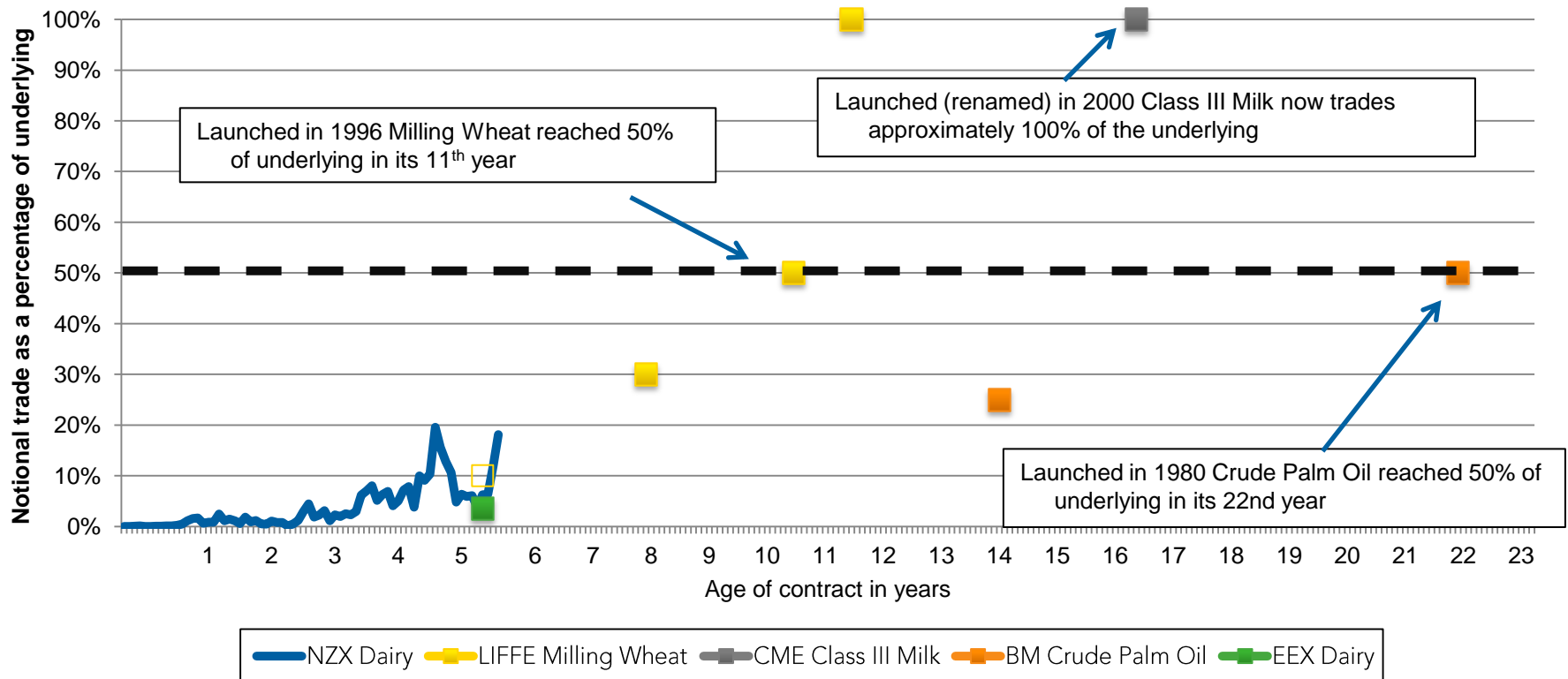
NZX Dairy Derivatives most successful dairy futures launch ever 2016 a period of consolidation – successful launch of milk price futures



Market Potential

Goal 50% of underlying physical

NZX growth as % of the Underlying



50% of 2.2m tonnes underlying = 4,400 lots average daily volume = \$4.6m annual revenue



Markets

Priorities for 2017

- Continue to deepen the NZ Capital Markets
 - Increase products on offer
 - Continue to focus on mid-market capital raising ecosystem
 - Create further “points of difference” – tailored markets
- Increase further the operating leverage of NZX
 - Growth in debt, commodities derivatives
 - Potential introduction of batch settlement
- Monitor and respond to changes in market structure
 - Trading trends and economics



Funds Services

Paul Baldwin and Aaron Jenkins





NZX Wealth Technologies

Product offering

- Wealth Technologies offers a fully integrated, flexible, and easy to use range of NZ-centric wealth management services that are accessible via the web
 - **Comprehensive range** of services that are easy to use, manage and integrate with other financial systems
 - **Multi service offering** from the one wealth platform
 - **Client centric view** of all wealth products and service
 - **Flexible connectivity** to counterparties including brokers, custodians and banks
 - **Service innovation** to develop new products and ways to deliver them
 - **Customised** 'build and operate' solutions the next generation of wealth platforms for larger organisations
 - NZAM
 - Craigs Investment Partners; KiwiSaver, Superannuation and IMA
 - **Turn-key** solution for small to medium organisations

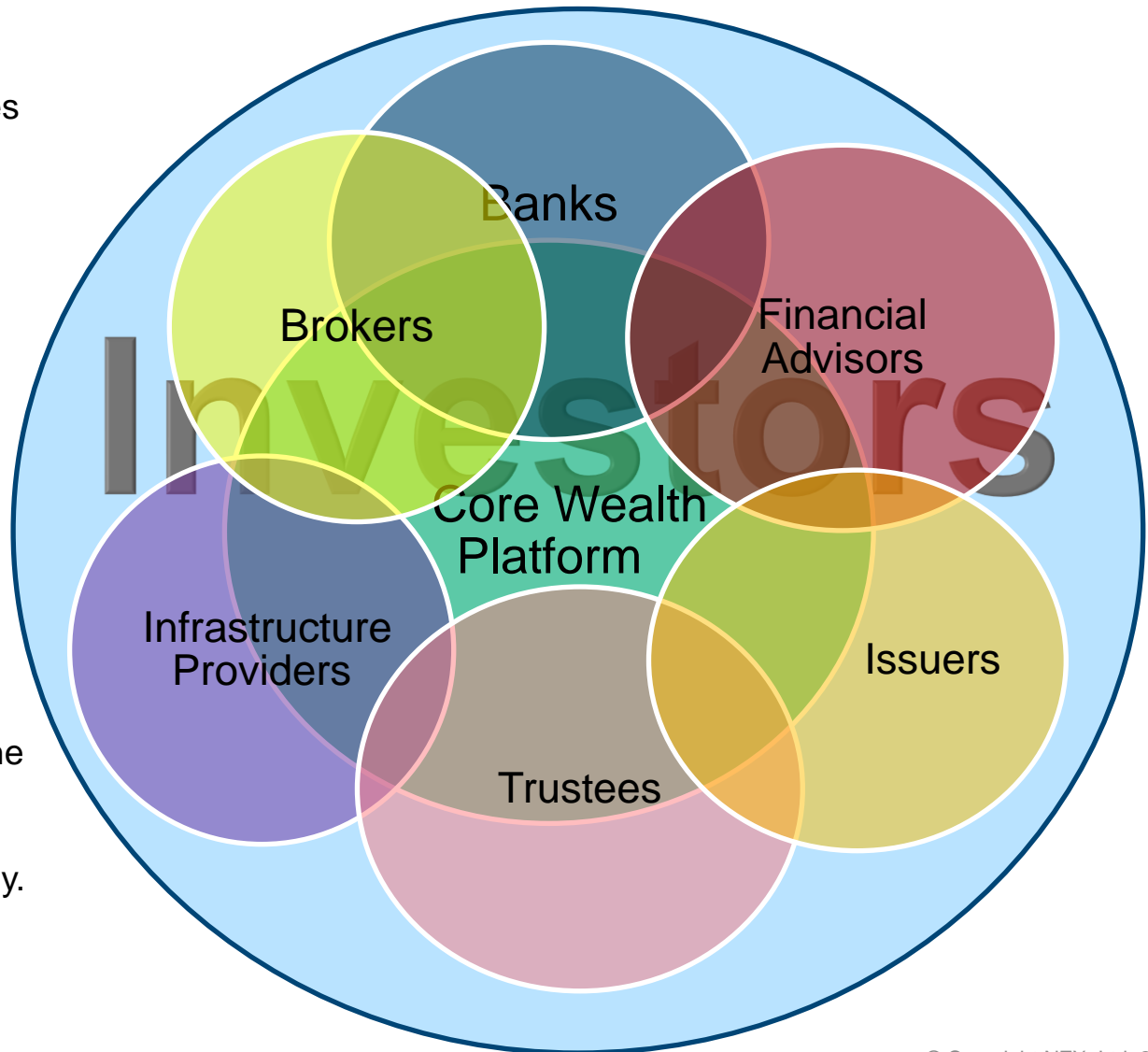
Market positioning

The NZX Wealth Technologies platform is, in effect, a **financial services hub** that supports and empowers different business models.

The wealth management platform can offer the key participants in the wealth sector a flexible and efficient way to **align and integrate** at both the advisor and client level.

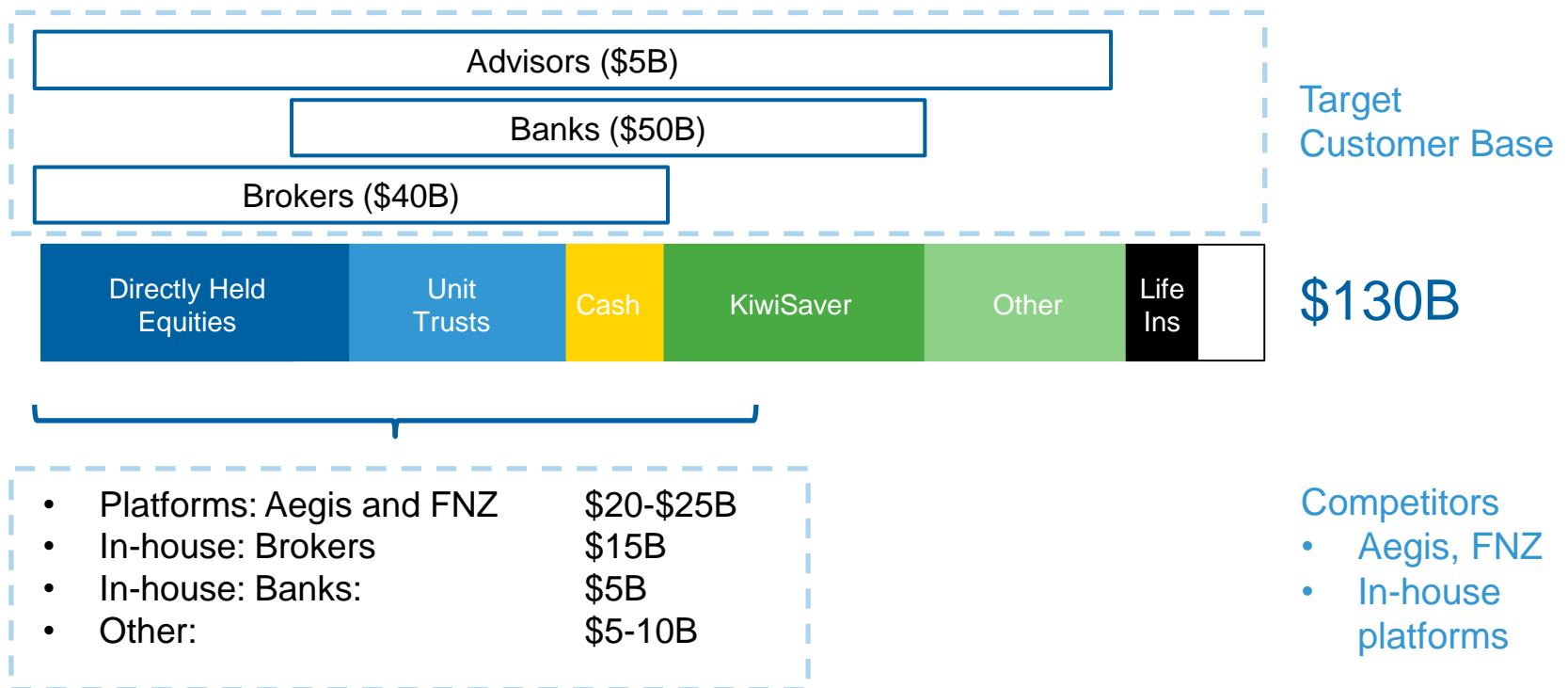
Leverage off NZX Group capability and support.

With its **open architecture** the platform presents innovation opportunities for participants individually and collaboratively.



Market Structure and Competitive Environment

Targeting larger customised platforms and mid tier financial services groups



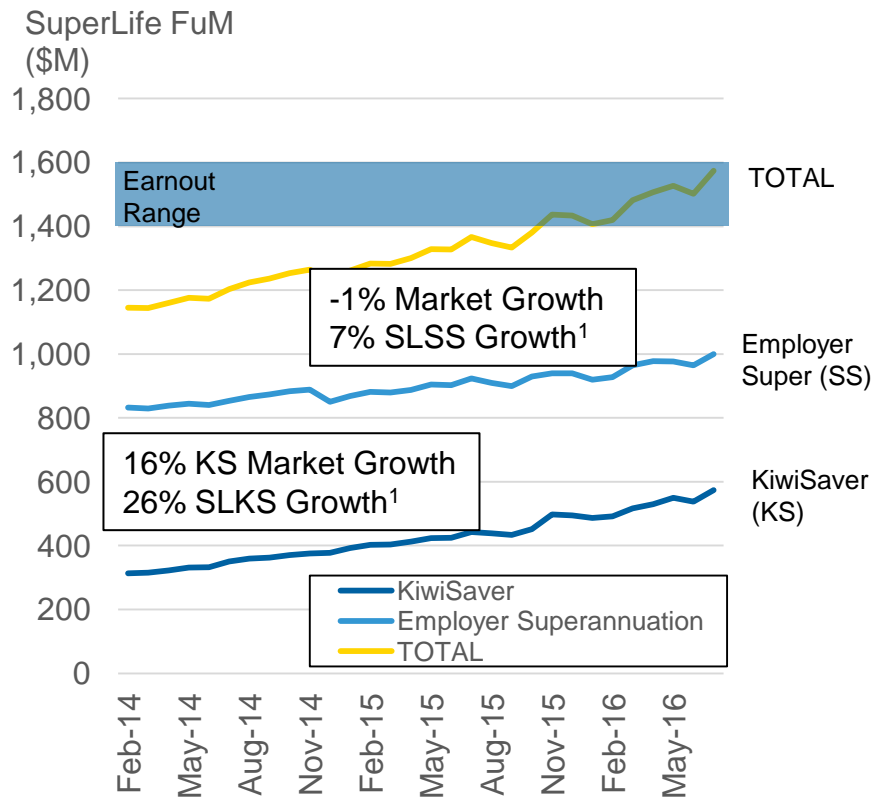


Funds Management

Aaron Jenkins

SuperLife acquisition exceeding expectations

Overview



Comments

- Ahead of earn out targets: 7%-11% CAGR over 3 years
- Both employer superannuation and KiwiSaver FuM growing faster than market
- Businesses fully integrated
 - Combined Smartshares and SuperLife teams
 - Relocated to Zurich House
- FMCA licence awarded, transition to new regime in Sep/Oct
 - Substantial management effort
 - ~\$500k in one-off costs in 2016

Note

1. 12 months through June 2016. Source NZX, RBNZ

SuperLife KiwiSaver

Highly competitive product offering

- 42 different investment options, plus the Age Steps product that automatically increases allocation to lower risk products as you age
- Access to Smartshares' full range of 23 ETFs
- NZ's first balanced ethical investment option, Ethica
- Lowest fees for KiwiSaver on Aggressive (top 8 lowest fund options), 2nd lowest Growth, 3rd lowest Balanced
- Daily, online, fee free changes between investment options
- The Investment Statement for the SuperLife KiwiSaver products is available on the SuperLife website



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fund that **changes**
automatically
as you grow older.

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SuperLife KiwiSaver

Distribution

- Current focus on direct distribution
 - Default KiwiSaver provider for ~80 companies
 - 19 SuperLife seminars around NZ in 2016
 - Direct to retail marketing campaign launched July 2016 with encouraging results



Not all cuts hurt.

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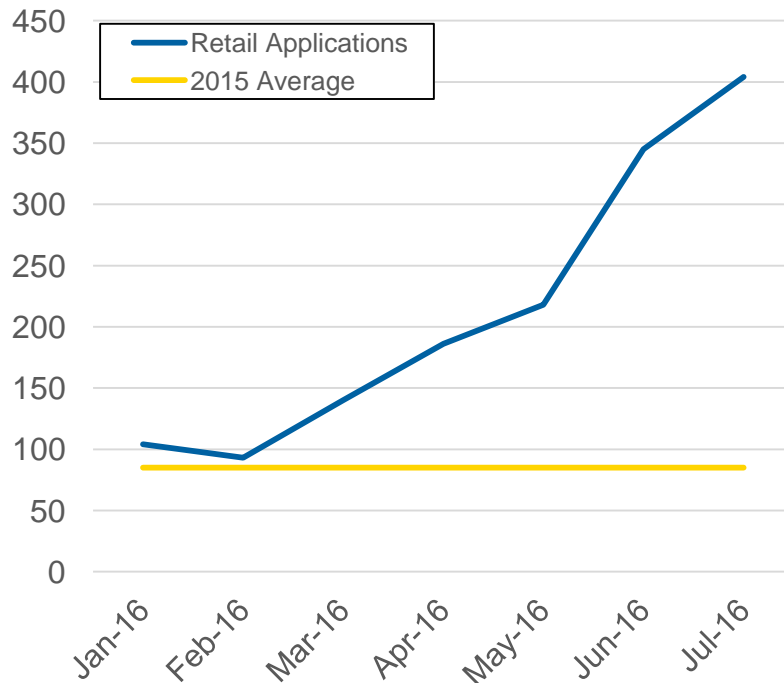
Smartshares Digital Marketing



Smartshares

Launch of new funds has shifted the growth trajectory

Online Applications



Liquidity

- \$175m in market trades in 2016
- Main broker firms now trading on a monthly basis Macquarie, FNZC, Craigs, Forsyth Barr
- Spreads narrowed by 50%-75%

Retail distribution

- ~\$30m annualised in new funds in July, 65% elect the regular savings plan

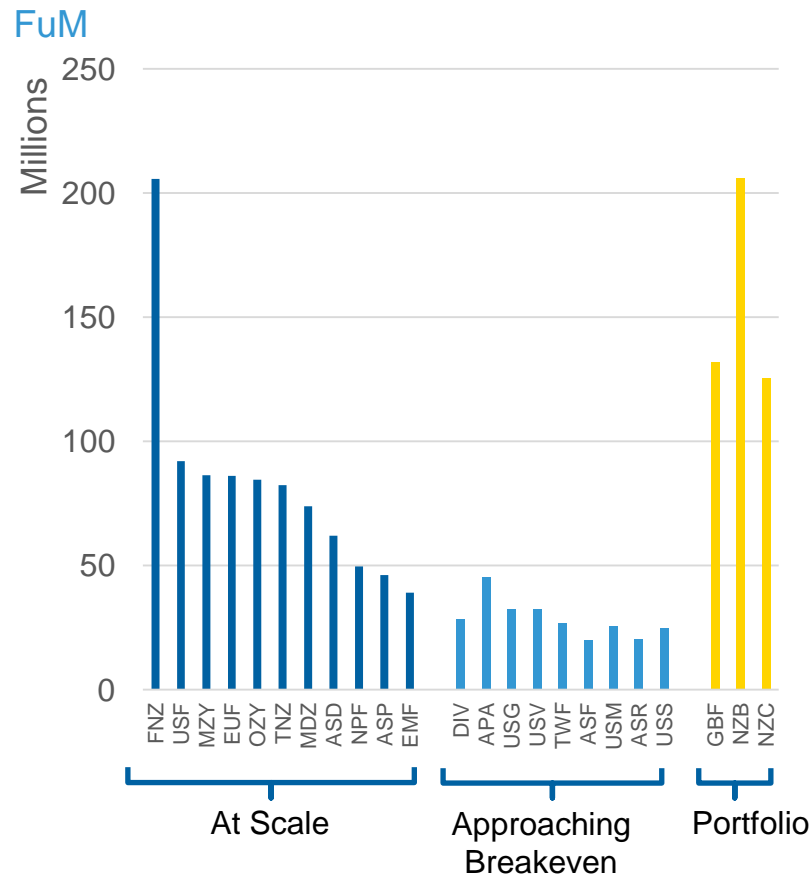
Advisor engagement

- ETF Masterclass participation up 50% in 2016
- Addition of ETFs into model portfolios. NZ Property ETF into a recent model portfolio added 1.2m units
- Brokers becoming more sophisticated with some indicating the use of the ETFs as an equitising tool for client cash

24% increase in unit holders YoY in the 12 months to July

Smartshares

Investments made in a highly scalable model



Category	# Funds	Comment
At Scale	11	<ul style="list-style-type: none"> Average 22 bps margin¹
Approaching Breakeven	9	<ul style="list-style-type: none"> Majority launched November 2015 Additional \$3-\$5M required per fund At scale margin 10-20 bps
Portfolio	3	<ul style="list-style-type: none"> Required for advisor portfolio construction

1. Margin after direct fund costs



Funds Services Priorities for 2017

Funds Services

- On-boarding of new major customers
- Increase sales efforts of 'turn key' product for smaller advisor groups

Funds Management

- Expand digital distribution
- Launch initial iteration of robo-advice
- Increased efforts to include ETFs in model portfolios for smaller adviser groups

Both businesses

- Leverage the technology and back-office infrastructure of both businesses



Economics

Bevan Miller

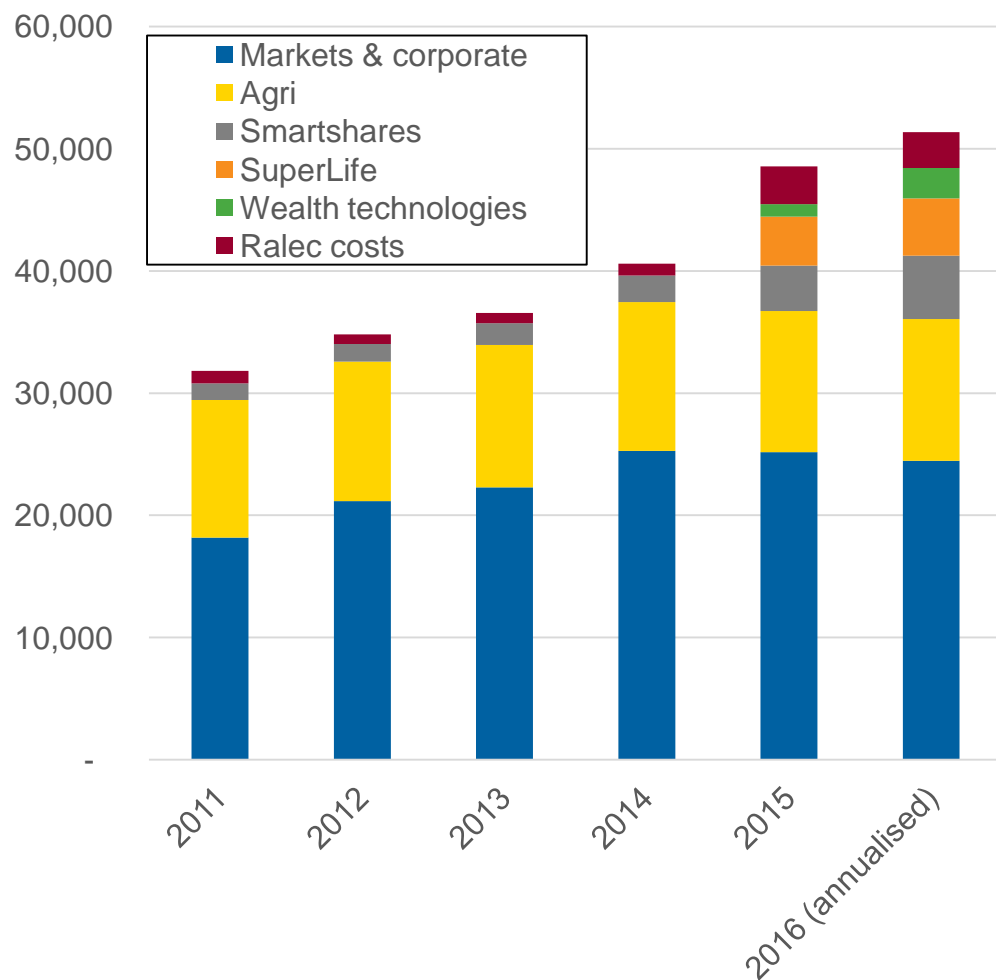


Group positioned to deliver operating leverage

- Two phases to cost growth
 - Rebuilding organisational capability, focused on the Markets business, plus launch of FSM 2011 to 2014
 - Strategic investment in funds services businesses 2014 to 2016
 - One time step up in costs following acquisitions of SuperLife and NZX Wealth Technologies
 - Significant cost investment from launch of 18 new ETFs, part year incurred in 2015, full year cost impact in 2016
- Going forward
 - Ralec litigation: trial completed, no significant further costs expected
 - Markets and corporate cost base stable
 - Only significant area of cost growth in 2017 expected to be from growth in NZX Wealth Technologies staff to service new clients (with commensurate growth in revenues)
 - Costs in Agri business to reduce as this business is reshaped

Investment in the business

Expense growth (2011-2016)

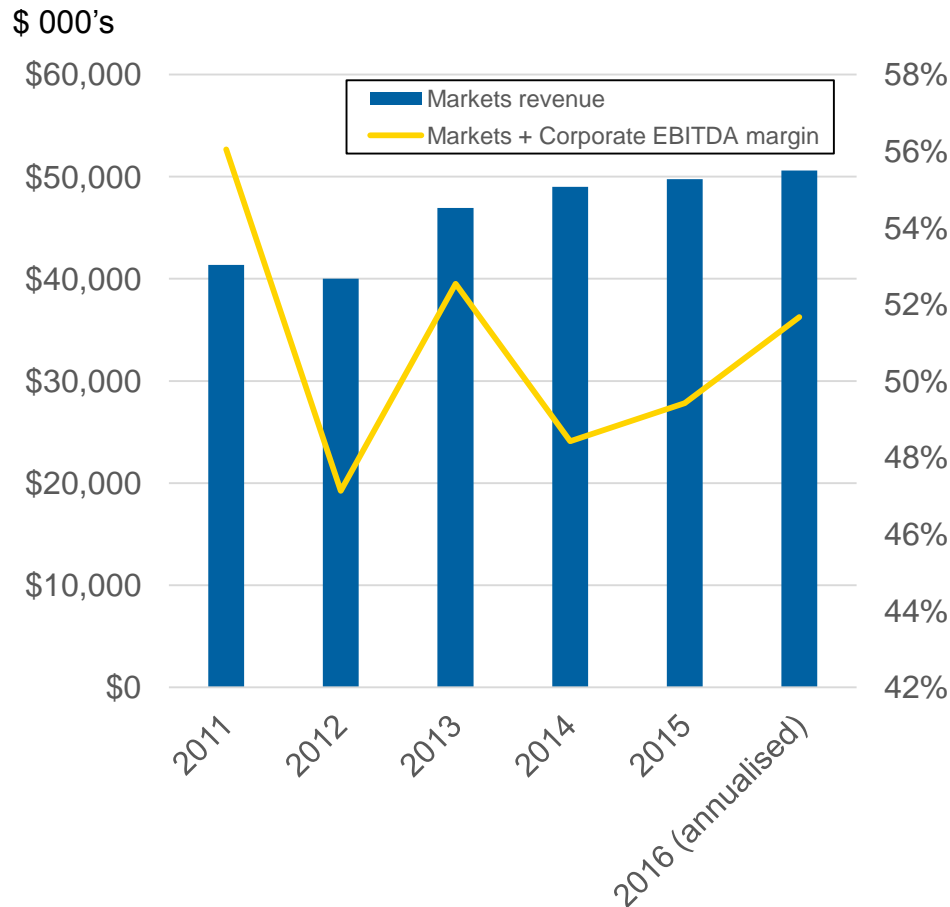


	CAGR 2011- 2014	CAGR 2014- 2016
Ralec Costs	-2%	75%
NZX WT	NM	NM
SuperLife	NM	NM
Smartshares	17%	54%
Agri	3%	-2%
Markets	12%	-2%

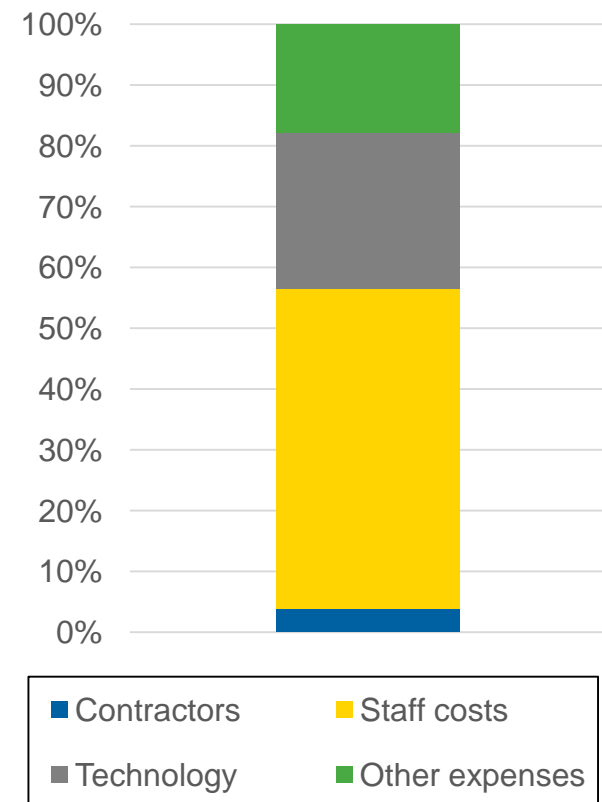
Markets

Stable cost base primarily comprising staff costs and IT costs

Markets Revenues and EBITDA (inc Corporate Costs)



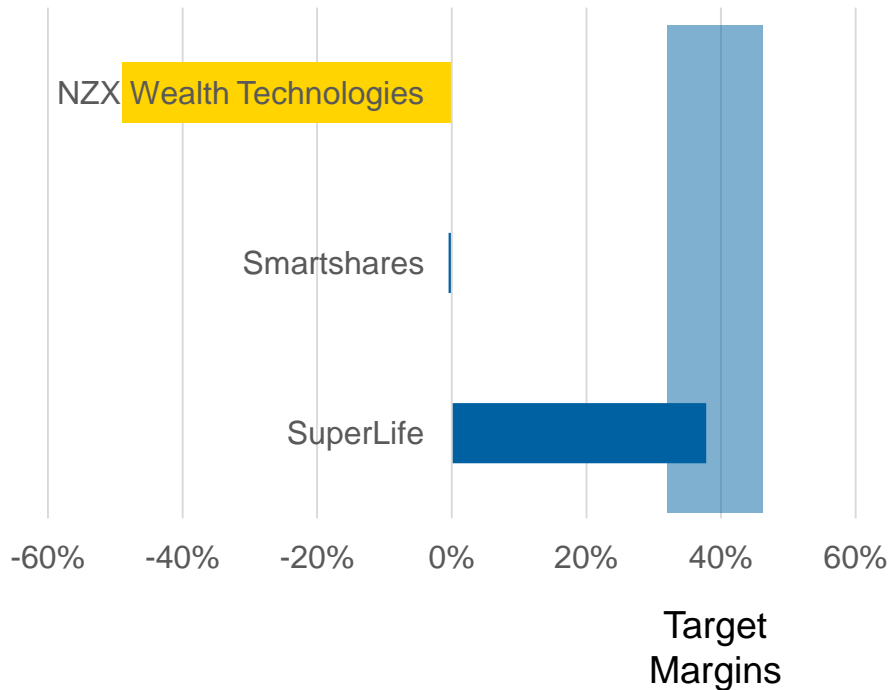
Markets + Corporate Cost Composition



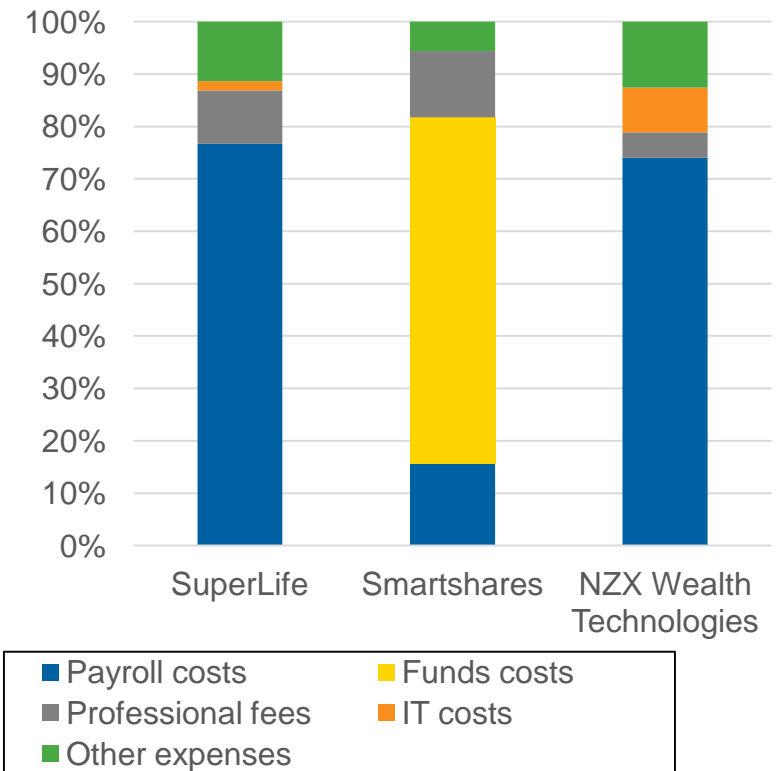
Funds Services

Underlying economics

Funds Services component margins 2015

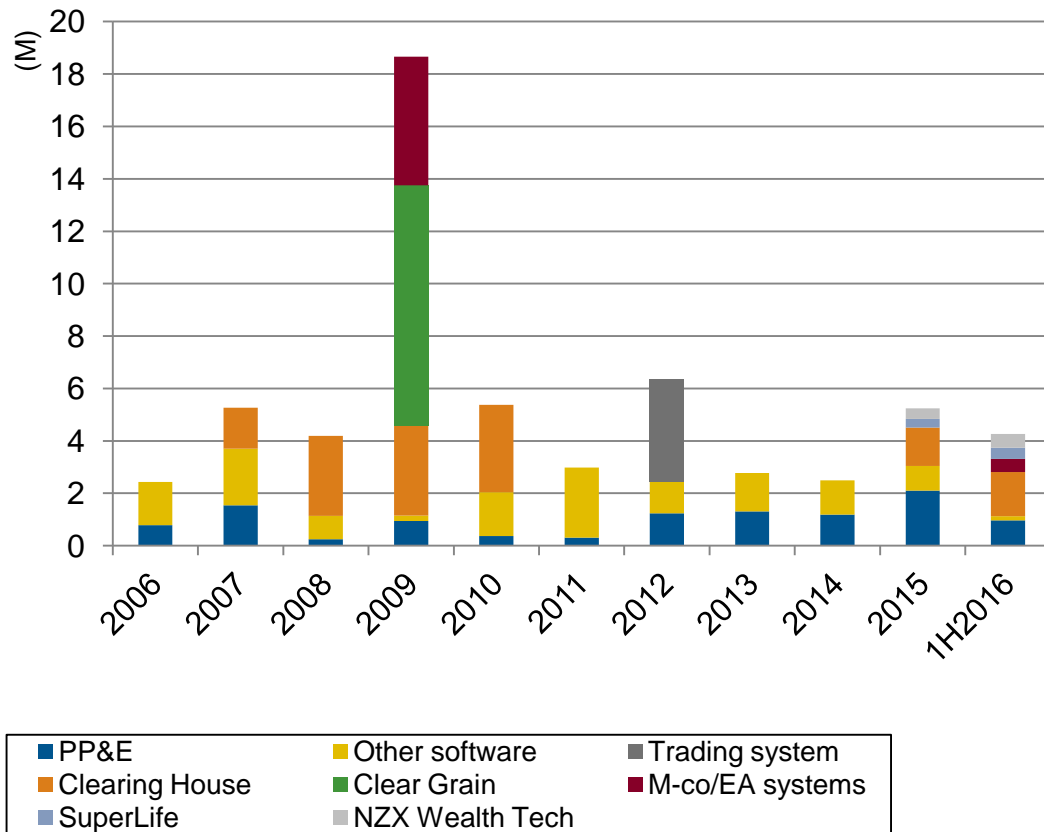


Composition of cost base



Capital position

BAU capex increased by NZX Wealth Technologies & SuperLife



Capital structure to be reviewed in 2H

- Currently annual distribution 6.0cps
- Clearing House system upgrade to complete in 2017
- EA system upgrades run through to 2018
- No net debt following the disposal of Link in 2015
- Capital structure to be reviewed in 2H 2016



Summary

Tim Bennett

Summary

Markets

- 90%+ of revenues have limited exposure to market cycles
- Past 3 years have signalled a step-function change in activity through the cycle
- Est. ~5% growth through the cycle, plus additional growth from debt, derivatives, settlement and potentially new markets
- Demonstrated operating leverage in the business

Funds Services

- Significant investments made in SuperLife, Smartshares and NZX Wealth Technologies
 - All provide exposure to the NZ funds management market which is expected to grow by between 10%-20% annually over next 5 years
- All three businesses are in a position to grow above market
 - Low market shares
 - Unique offerings in the market
- Once investment completed, all businesses have inherent operating leverage

Agri

- Planned changes, if progressed, will further reduce exposure to the sector
- Retain businesses that have strong linkages to the Markets business (data) or broad linkages to the sector (Farmers Weekly)
- Organisation being restructured, largely variable cost base



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