



# NZX Investor Day 2014

Entering the next phase of growth

9 April 2014





## Agenda

- **Introduction** – Andrew Harnos, Chairman 3:00 pm
- **Overview** – Tim Bennett, CEO
- **Markets** – Aaron Jenkins, Head of Markets 3:30 pm
  - Capital markets
  - Dairy derivatives
  - Funds management
- **Rural** – Tony Leggett, Head of NZX Agri 4:15 pm
  - Agri information
- **Other** – Bevan Miller, CFO 4:30 pm
  - Market operations
  - Costs
  - Capital expenditure
  - Dividend policy
- **Summary and conclusions** – Tim Bennett 4:45 pm
- **Q&A**



# Overview

Tim Bennett, CEO





## Key Themes

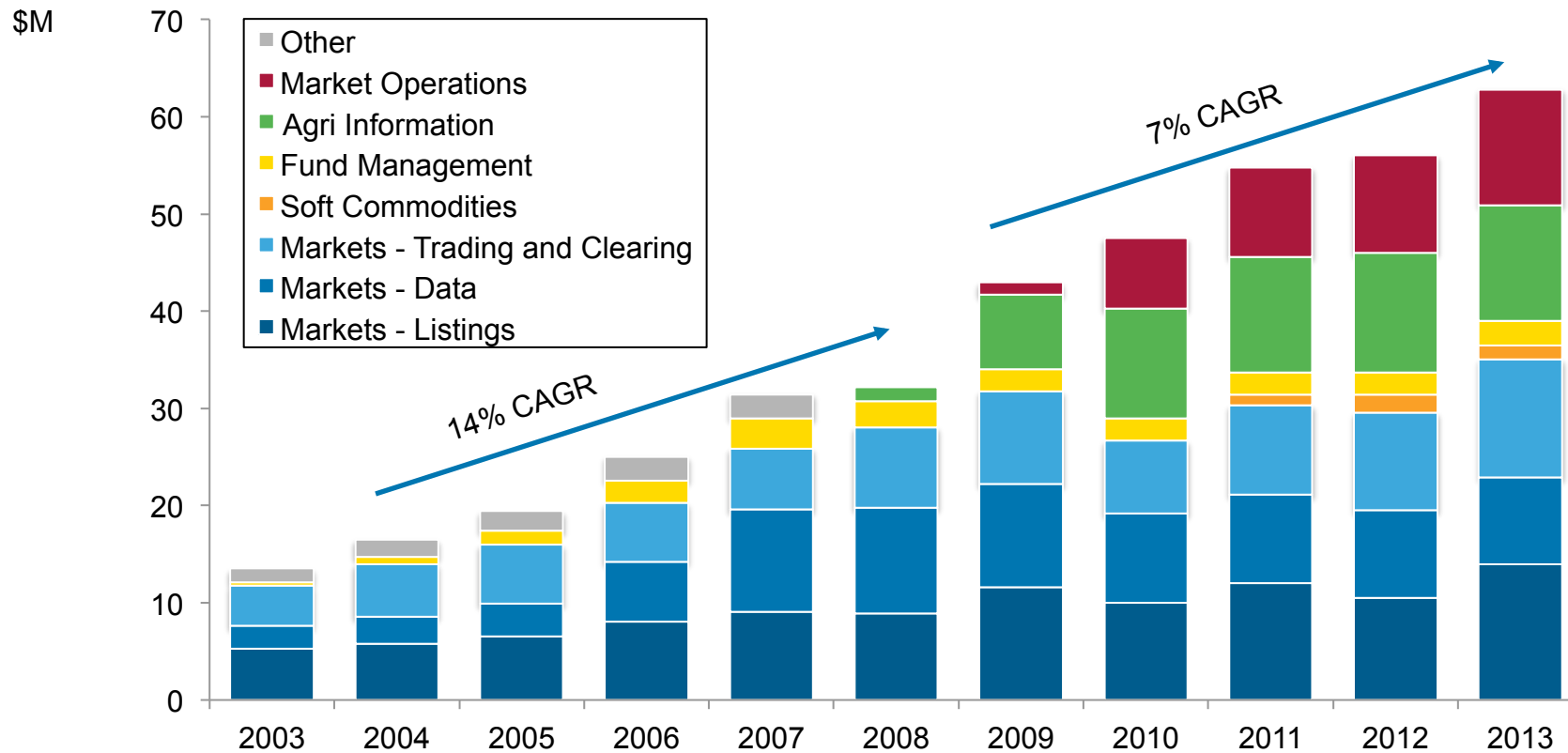
- We have significant growth potential across most of our businesses
  - Beyond the current cycle
  - 2-3 years to realise the upside
- Over the past 18 months we have put in place the people and infrastructure to realise this potential
  - We are at the end of an investment cycle for the company
  - The incremental investment and operating costs of new initiatives are relatively low
- We are executing against clearly defined plans in the areas where we consider the opportunity to be greatest
  - The focus remains on organic growth, but we continue to look for smaller acquisitions that fit with our growth agenda





## Historical performance trajectory

Two phases of growth; capital markets ('03-'08), new businesses ('09-)





## Five businesses in the portfolio

Business Area		2013 (\$M)	2012 (\$M)	Change (%)	2010-2013 CAGR (%)	% of 2013 Revenues
<b>Capital markets</b>	<ul style="list-style-type: none"> <li>• Capital raising</li> <li>• Trading and Clearing</li> </ul>	14.7	10.0	47.4%	23.0%	23.4%
	<ul style="list-style-type: none"> <li>• Listings (annual)</li> <li>• Participants</li> <li>• Securities data</li> </ul>	20.2	19.5	3.5%	2.0%	32.3%
<b>Soft commodities</b>	<ul style="list-style-type: none"> <li>• Dairy futures</li> <li>• Clear Grain</li> </ul>	1.5	1.8	(17.8%)	20.2%	2.4%
<b>Agricultural information</b>	<ul style="list-style-type: none"> <li>• Publications</li> <li>• Agri Data (NZ and Aus)</li> </ul>	12.0	12.3	(2.9%)	2.4%	19.0%
<b>Funds Management</b>	<ul style="list-style-type: none"> <li>• Smartshares</li> </ul>	2.5	2.3	8.8%	2.6%	3.9%
<b>Market Operations</b>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Fonterra</li> </ul>	11.9	10.0	19.0%	10.5%	18.9%

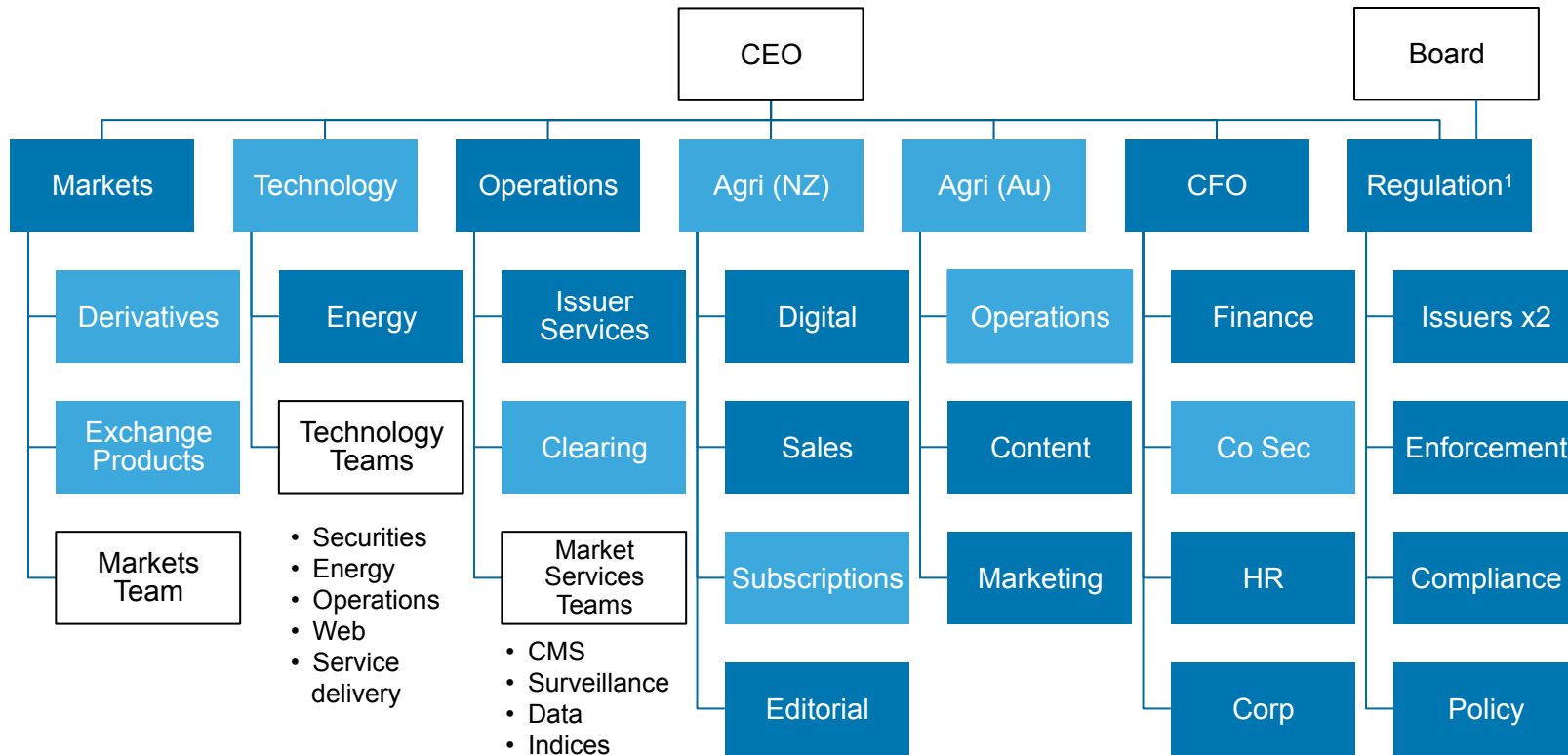


## Growth Opportunities

Business Area	Growth Opportunities
<b>Capital markets</b>	<ul style="list-style-type: none"><li>• Regulatory environment (FMA, FMCA)</li><li>• Demand: KiwiSaver to underpin growth</li><li>• Supply: Under penetration of listed companies in NZ</li><li>• Other opportunities: Products, Markets, Adjacencies</li></ul>
<b>Soft commodities</b>	<ul style="list-style-type: none"><li>• Agri exports growing 4-5% through 2050, price volatility to increase</li><li>• Existing businesses embryonic</li><li>• Potential to grow product depth and breadth</li></ul>
<b>Agricultural information</b>	<ul style="list-style-type: none"><li>• Unique content transitioning from print to online</li><li>• Unmet demand for data and analytics to aid decision making</li><li>• Current sources and aggregators fragmented</li></ul>
<b>Funds Management</b>	<ul style="list-style-type: none"><li>• KiwiSaver FuM expected to grow 10-15% p.a. through 2050</li><li>• Passive management under-penetrated in NZ</li></ul>
<b>Market Operations</b>	<ul style="list-style-type: none"><li>• Existing contracts provide stable, attractive revenue streams</li></ul>



## New structure and management team in place Organisation now resourced for growth



### Approx. change in FTEs (Beg 2011 – End 13):

80%	40%	20%	10%	(20)%	(10)%	25%
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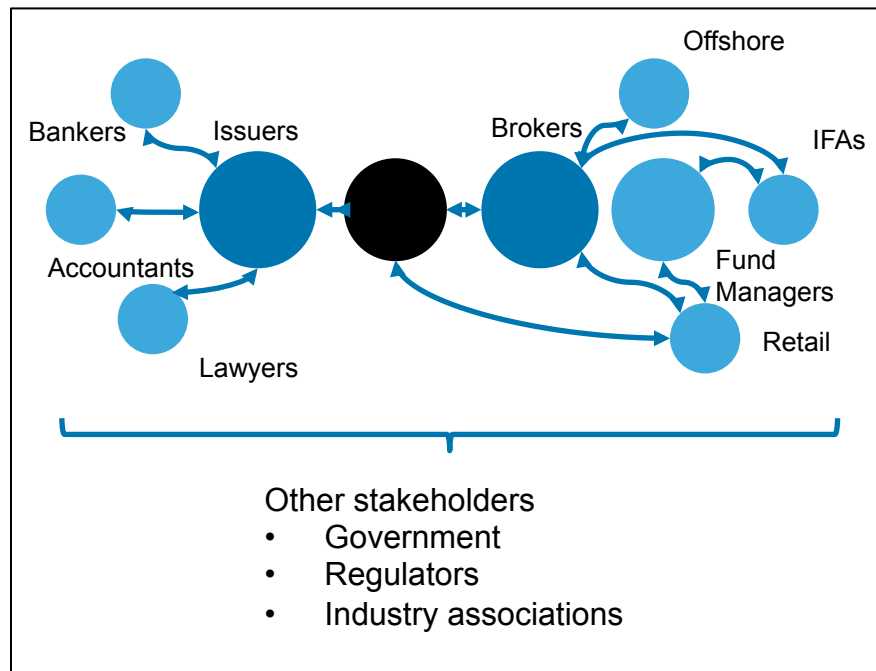


(1) Role change in progress



## Significant investment in managing the network Cooperation vital for successful market and business development

### Markets are a network business



### Engagement initiatives

- Systematic relationship management programme in place for all stakeholders
- Comprehensive corporate communications programme including public events
- Issuers
  - Issuer days
  - Issuer services team
- Brokers
  - Regional visits (bankers, advisors, traders)
  - Engagement with SIA



## Growth Opportunities

Four areas covered in detail today

Business Area	Building the foundation	Accelerating growth
<b>Capital markets</b>	<ul style="list-style-type: none"><li>• Equity derivatives</li><li>• New market</li><li>• Information and research</li></ul>	<ul style="list-style-type: none"><li>• IPO pipeline</li><li>• Broader product offering</li><li>• Expansion into adjacencies</li></ul>
<b>Soft commodities</b>	<ul style="list-style-type: none"><li>• CFTC approval, extended hours</li></ul>	<ul style="list-style-type: none"><li>• New contracts</li><li>• CGX: geographic and product expansion</li></ul>
<b>Agricultural information</b>	<ul style="list-style-type: none"><li>• Online platform in place</li><li>• Expansion of grain, dairy offering</li></ul>	<ul style="list-style-type: none"><li>• Increase product breadth</li><li>• Potential acquisitions (data)</li></ul>
<b>Funds Management</b>	<ul style="list-style-type: none"><li>• Operational improvement</li><li>• Launch 2 new funds</li></ul>	<ul style="list-style-type: none"><li>• New offerings</li><li>• Grow FuM</li></ul>
<b>Market Operations</b>	<ul style="list-style-type: none"><li>• Focus on delivery</li></ul>	<ul style="list-style-type: none"><li>• Evaluate other markets</li></ul>



**Capital markets**  
Aaron Jenkins, Head of Markets



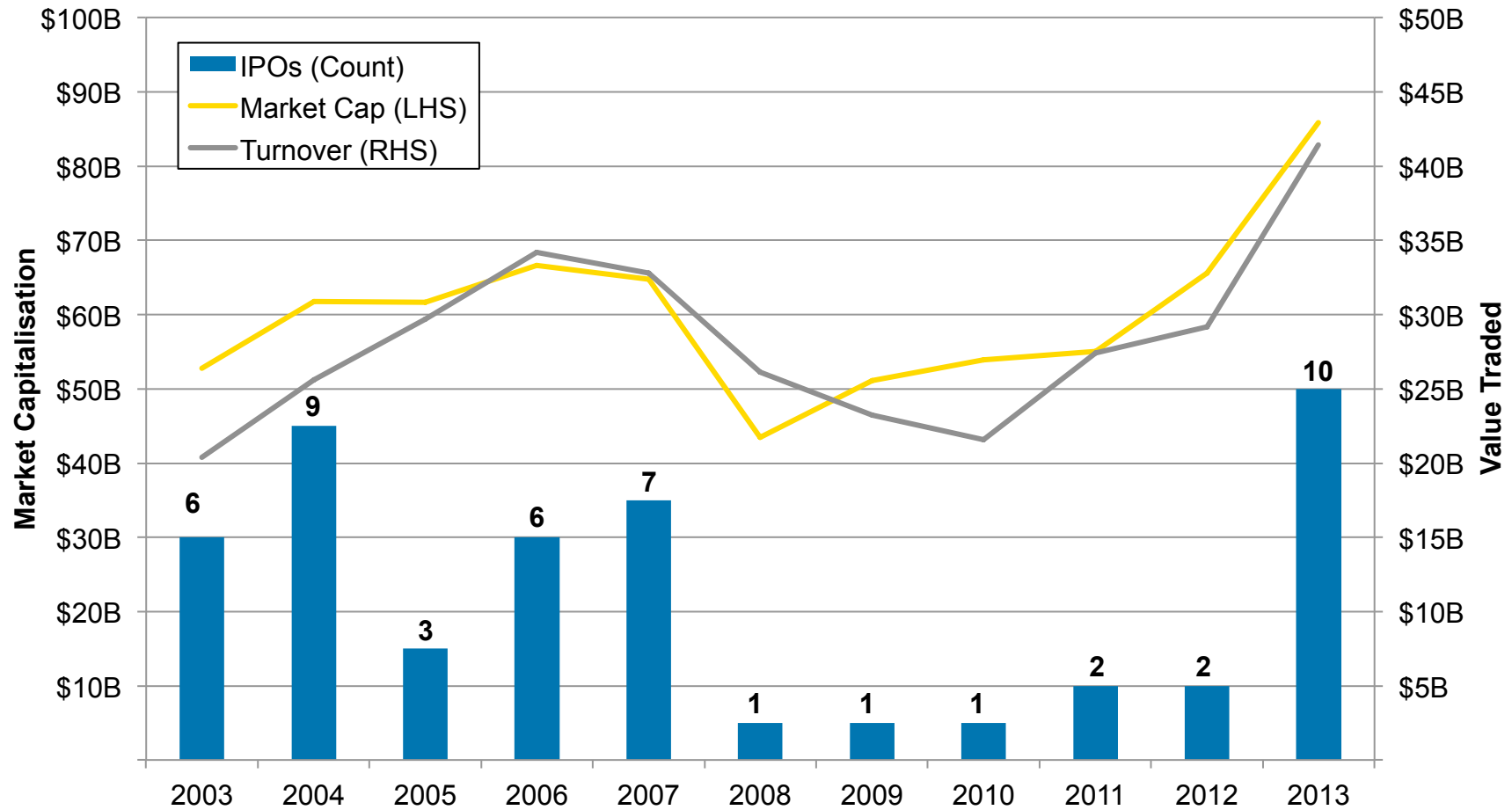


## Key messages

- Strong underlying growth in NZ capital markets
  - Supply: Low penetration of listed companies
  - Demand: increase in KiwiSaver FuM
- Three areas of growth we are focusing on this year
  - Existing markets: fee structure, IPO pipeline, debt (FMCA), investor and issuer engagement
  - New markets: Growth market, equity derivatives
  - Adjacencies: Fund Management and Clearing
- Longer term roadmap developed in each area
  - Continued emphasis in all three areas above
  - Ability to execute with the current team



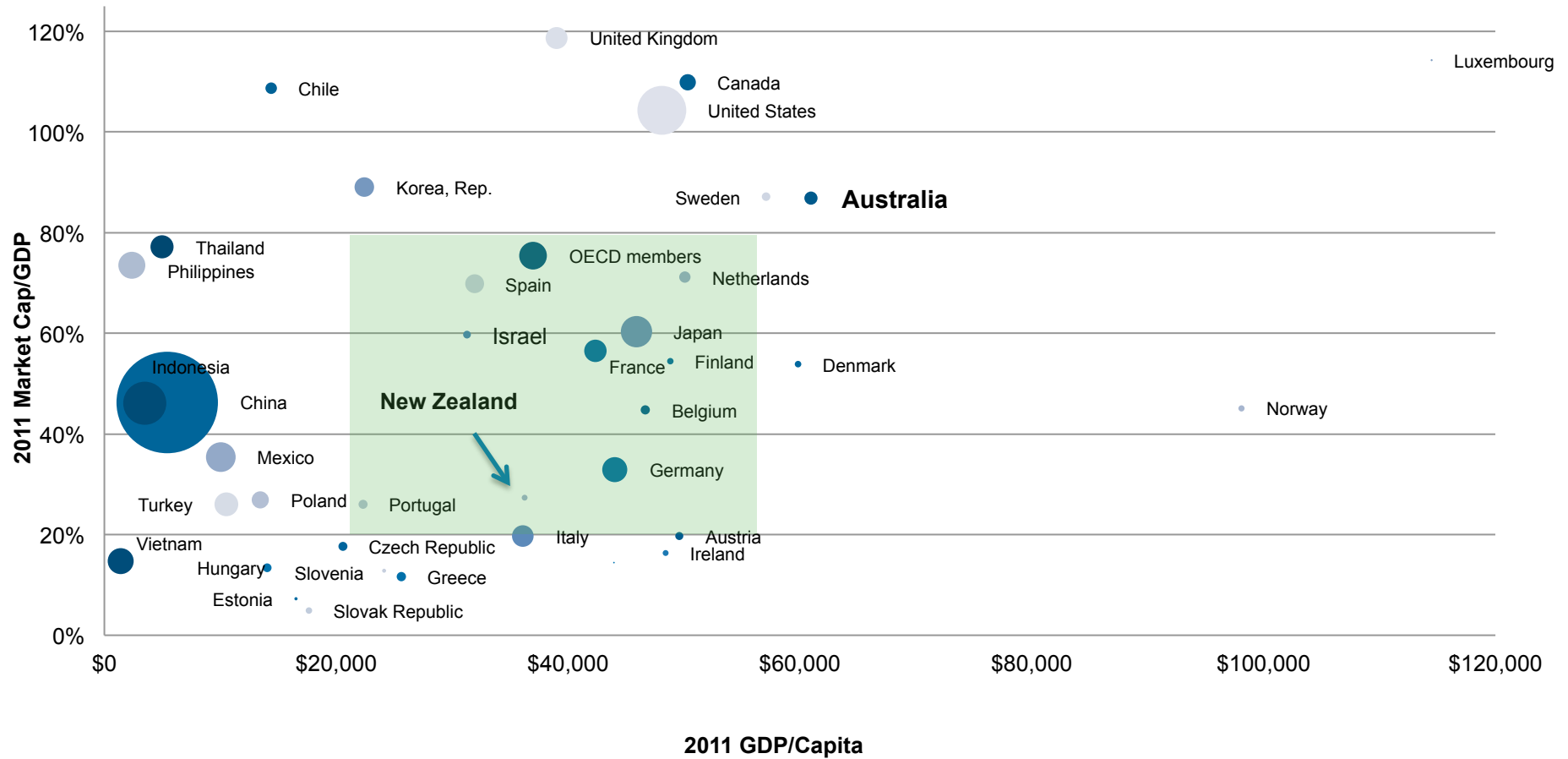
## Capital Markets Growth



Source: NZX Data



## NZ's capital markets under-developed Relative to comparable economies

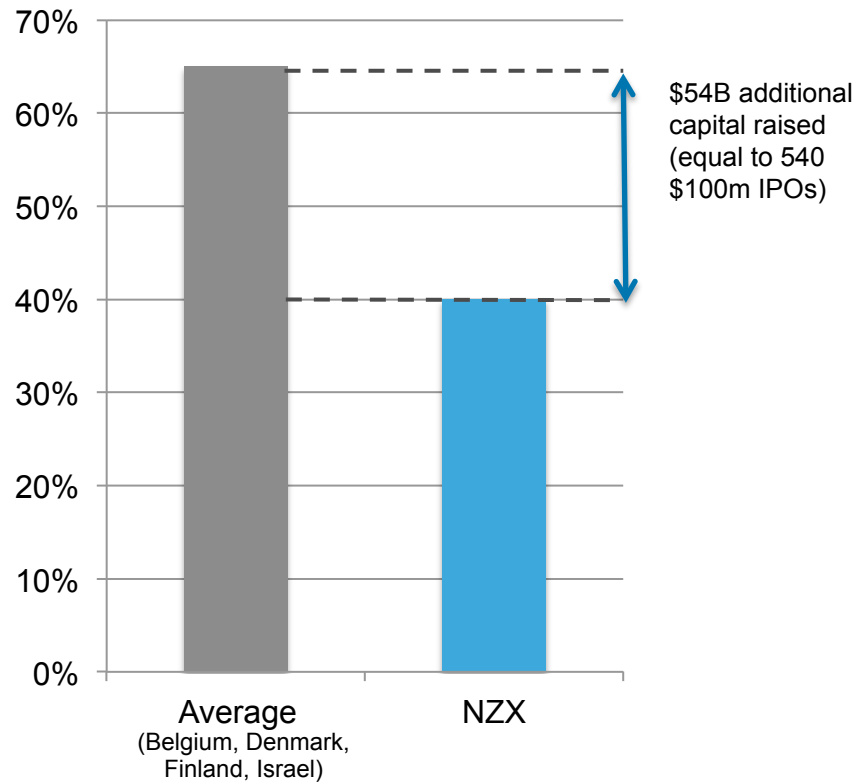


Source: World Bank

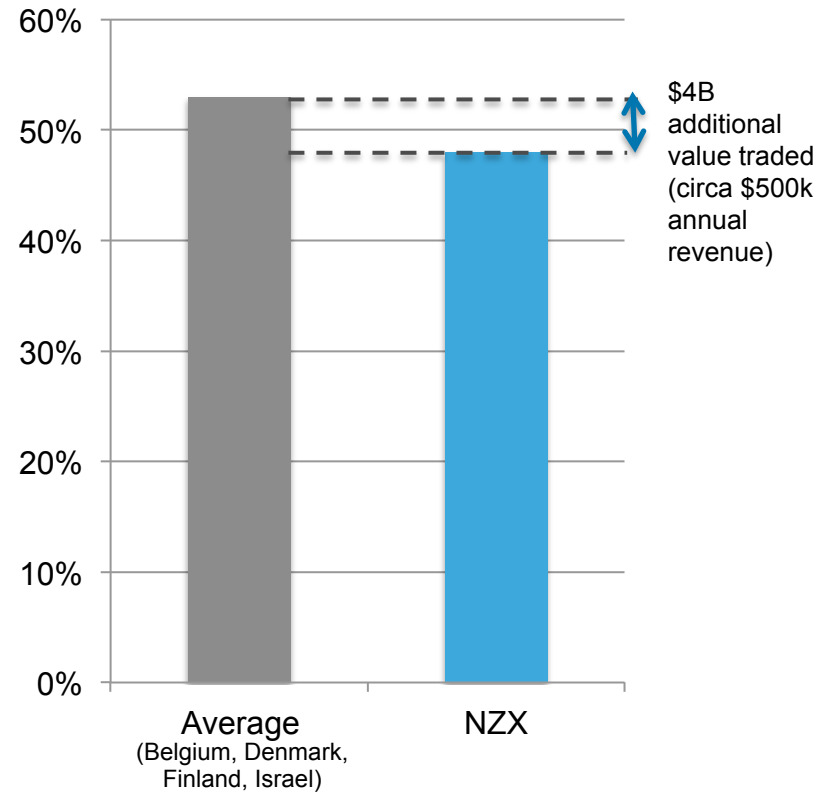


## Significant upside in listings Supply: underrepresentation of listed companies

### Ratio of Market Capitalisation to GDP



### Ratio of Value Traded to Market Capitalisation



Source: Bloomberg, World Bank, NZX Data

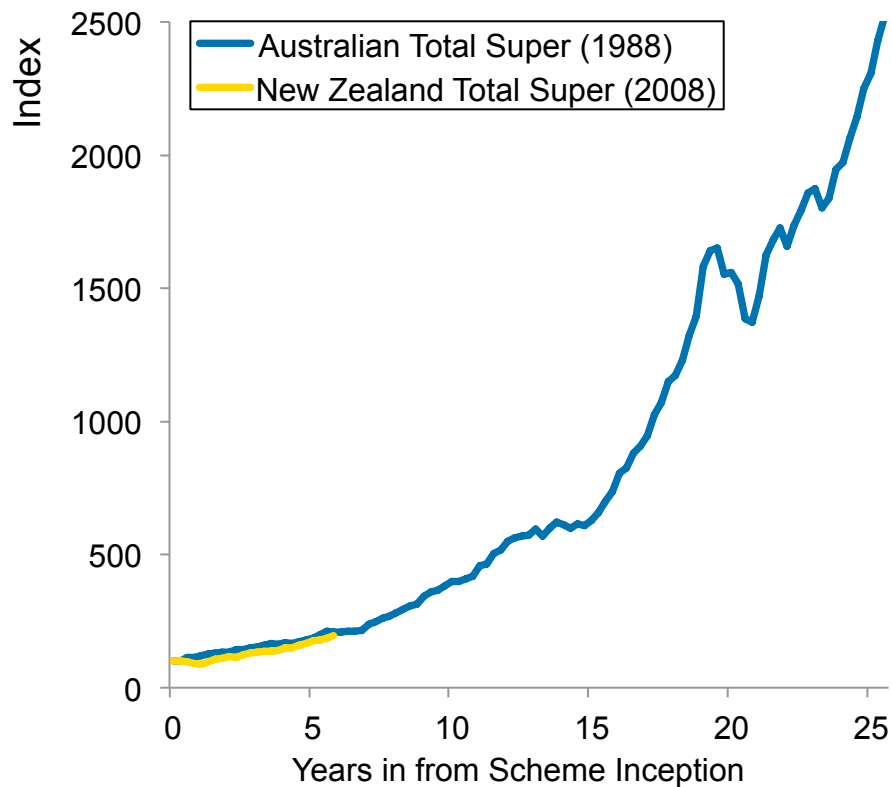
1. Assume GDP \$215B, NZ Market Capitalisation \$85.9B



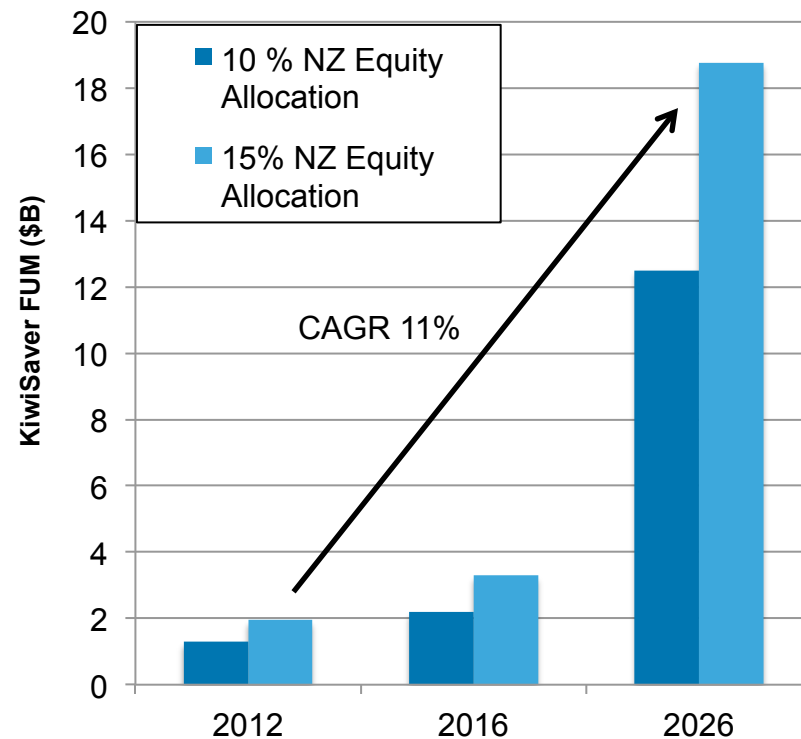
## Significant upside in listings

Demand: growth in KiwiSaver FUM and NZ equity allocation projected

### Comparison of Superannuation AuM



### Potential KiwiSaver NZ Equity Allocation



Source: Infometrics

Projected market cap assumes a compound annual growth rate of 3%



## Changes in fee structure

### Two changes made in 2013

#### Listing fees – aligning more to market cap

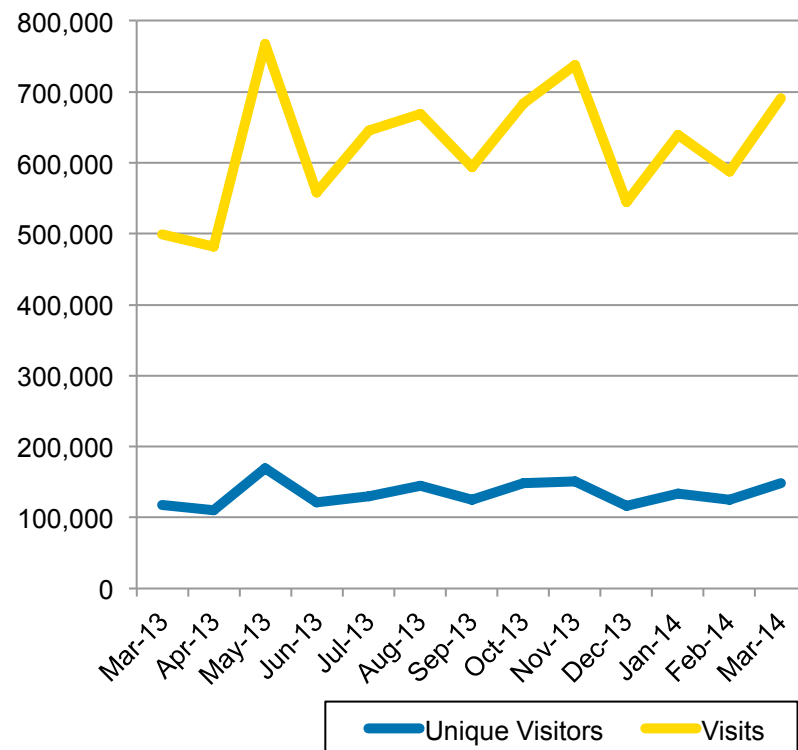
- Fees for larger issuers increased and skewed more to market cap in 2013
  - Increase capped at 8% last year
  - No cap planned for 2014
- Fees for smaller issuers to be revised in 2014 on the basis of value delivered
- Growth market fees to be similar to fees for AX market

#### Trading fee – cap changed

- Trading: Per trade fee accounts for circa 70% of total trading fees while value charge accounts for the remainder
  - Limited number of trades hit the current fee cap which is now reached at \$3.75m in trade value (prior fee cap was at \$1m)
  - DMA programme introduced for smaller algo-like trades
- Clearing: per trade fee accounts for circa 20% of clearing fees while value charge accounts for the remainder

## Providing more information through NZX.com Monetise through advertising and subscriptions

### Monthly statistics

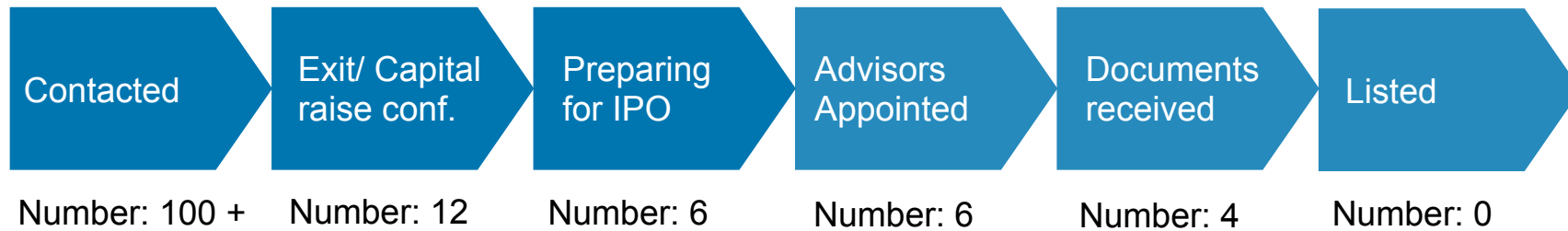


### Comments

- Objective: Build site as the source of news and information on NZ capital markets
  - Provide low-cost IR, news and research, particularly for smaller issuers
  - Engage retail investors
  - Integrate fragmented NZX online platforms
- Focus this year
  - Issuers: basic IR functionality, dairies, directors database
  - Investors: expansion of news offering, including video
  - New Market
  - Virtual trading
  - Advertising and sponsorship

## IPO Pipeline

Systemic sales process in place



Our focus

Our focus

Marketing

- Advisors
- Videos

- Regulation
- Commercial

Events

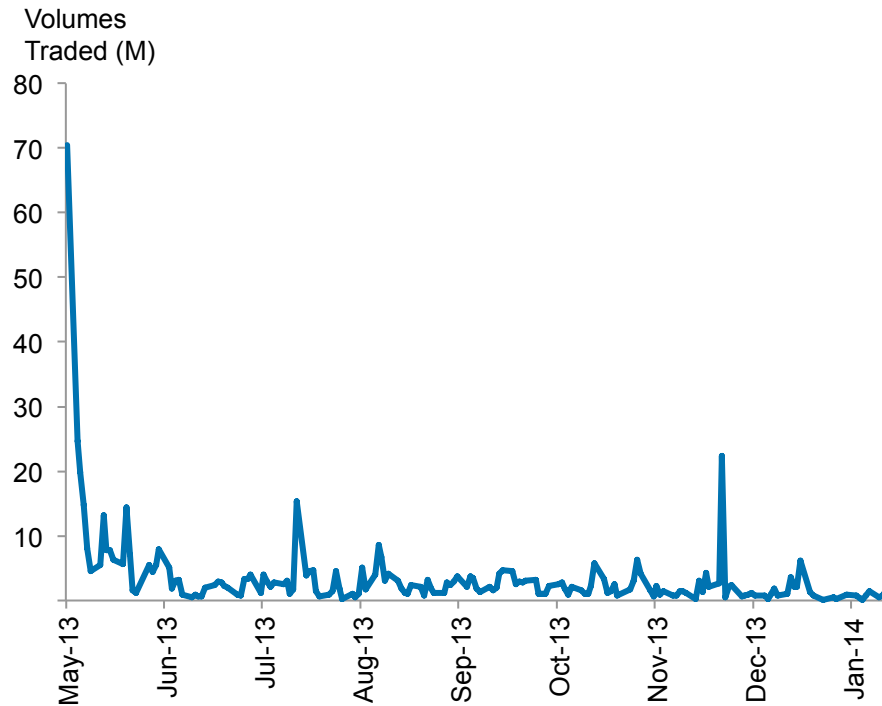
- IPO Masterclass
- Infinz awards
- Hi-Tech awards
- Deloitte Fast 50

One-on-one contact

- 30+ visits YTD

## Ongoing listing and trading revenues from IPOs

Example of year 1 trading volumes: Synlait

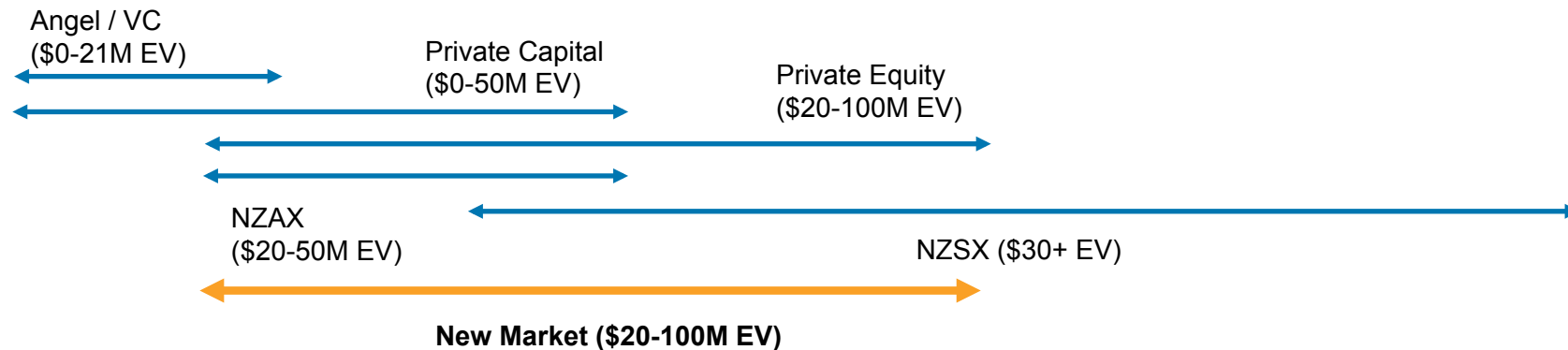


Value of an IPO

Listing Size (\$M)	1,500	400	60
<b>Revenues (~\$000's)</b>			
Initial Listing Fee	440	180	60
Month 1 Trading & Clearing fees	30	10	5
<b>TOTAL One-time</b>	<b>470</b>	<b>190</b>	<b>65</b>
Annual Listing Fee	55	45	30
Annual Trading and Clearing Fees (est)	120	40	15
<b>Total Recuring</b>	<b>175</b>	<b>85</b>	<b>45</b>

## Growth market

A stepping stone market between private funding and the Main Board



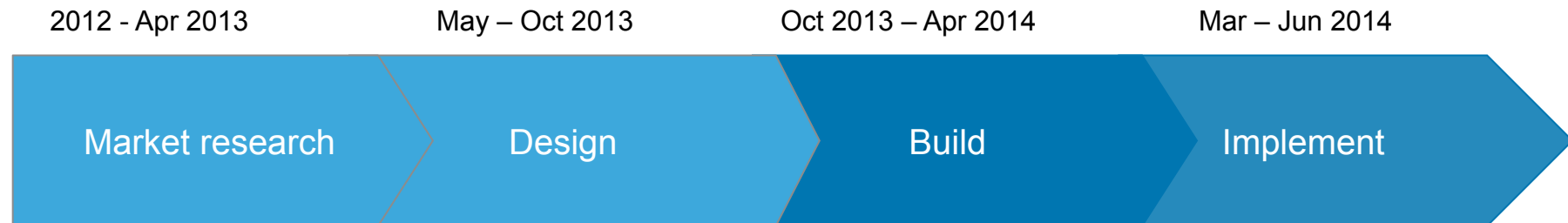
### Attributes of Angel/VC/PE

- Target “ideas” and early stage firms
- High cost of capital and minimal liquidity
- Potential loss of control
- Focused on exit

### Differences between New Market and SX/AX

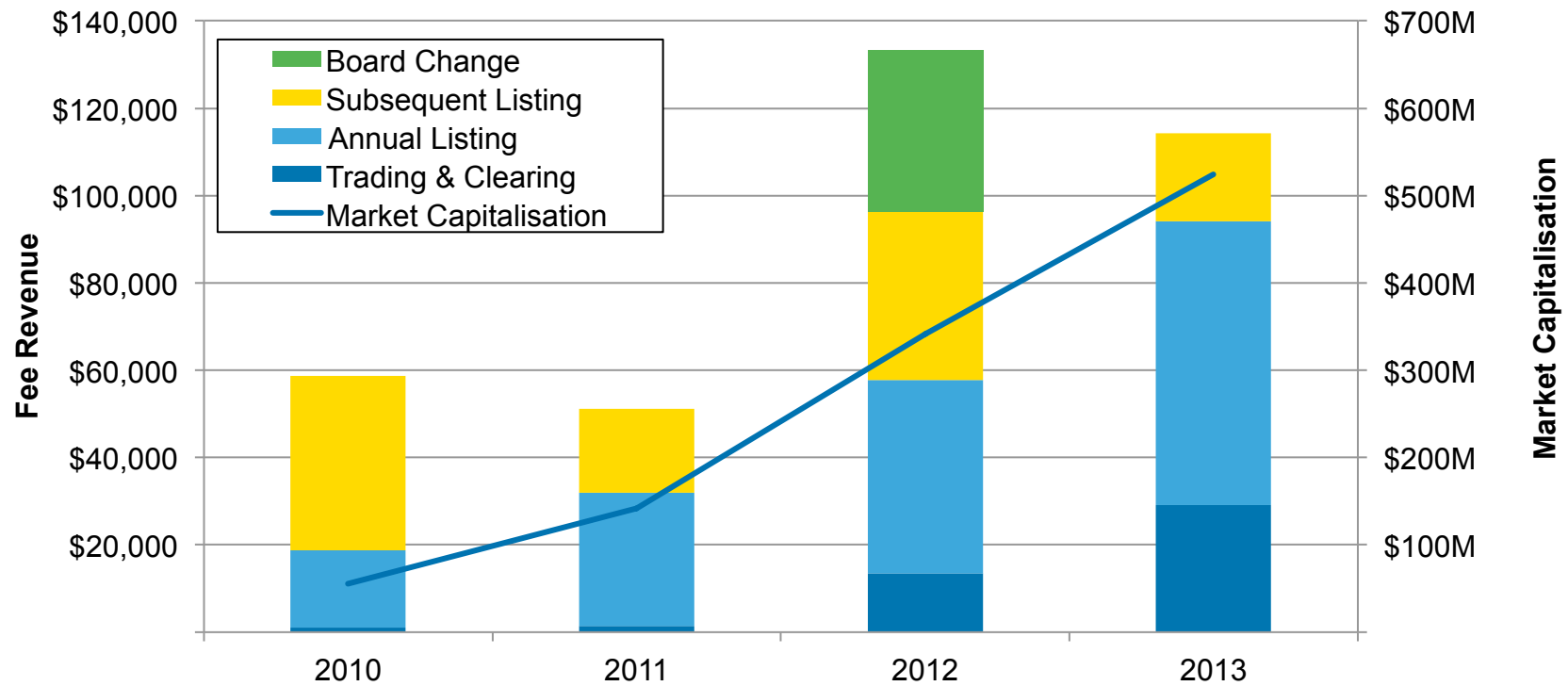
- |  |                                |
|--|--------------------------------|
| • Size requirements                    | • Operating metrics (vs. PFIs) |
| • Free float                           | • Research                     |
| • Periodic disclosure (vs. continuous) | • Market making                |
| • Listing and disclosure templates     | • Trading hours                |

## Launch targeted middle of this year



- |  |   |   |   |
|--|---|---|---|
| <ul style="list-style-type: none"> <li>• Input received from broad range of market participants</li> <li>• Survey of 65 stakeholders in the market, 34 responses</li> <li>• Reviewed a range of other markets</li> </ul> | <ul style="list-style-type: none"> <li>• 100 page internal design document created</li> <li>• Initial market design “straw man” created by internal experts working group</li> <li>• Obtained feedback on “straw man” from external stakeholders: initial 1x1 meetings, submissions from wider group, focus groups</li> <li>• Initial engagement with FMA and MBIE</li> </ul> | <ul style="list-style-type: none"> <li>• New website</li> <li>• Consultation process</li> <li>• Broadly positive feedback received</li> <li>• New listing rules and templates</li> <li>• Systems changes build and testing</li> <li>• Investor registration process</li> <li>• Sign-up foundation market maker and research provider</li> </ul> | <ul style="list-style-type: none"> <li>• Refine and complete the rules</li> <li>• FMA approval process</li> <li>• Bring on issuers, sponsors, alternative market makers, investors</li> <li>• Marketing and promotion</li> <li>• Market launch</li> </ul> |
|--|---|---|---|

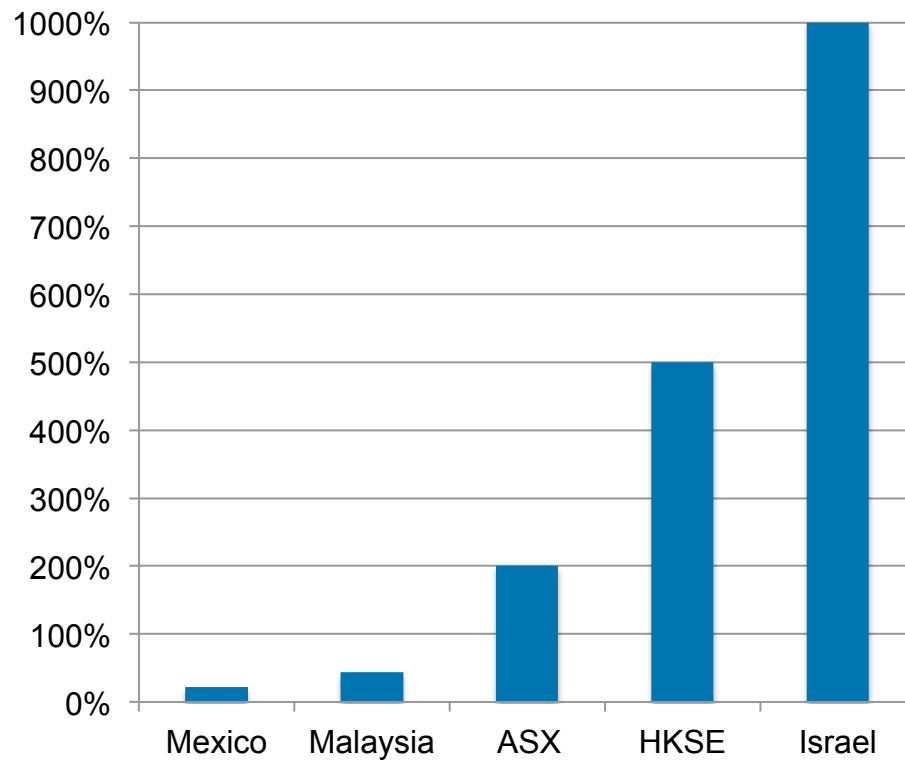
## Case Study: Transition to the Main Board The a2 story



Source: NZX

## Equity derivatives rounding out the exchange infrastructure

### Ratio of derivatives:cash trading



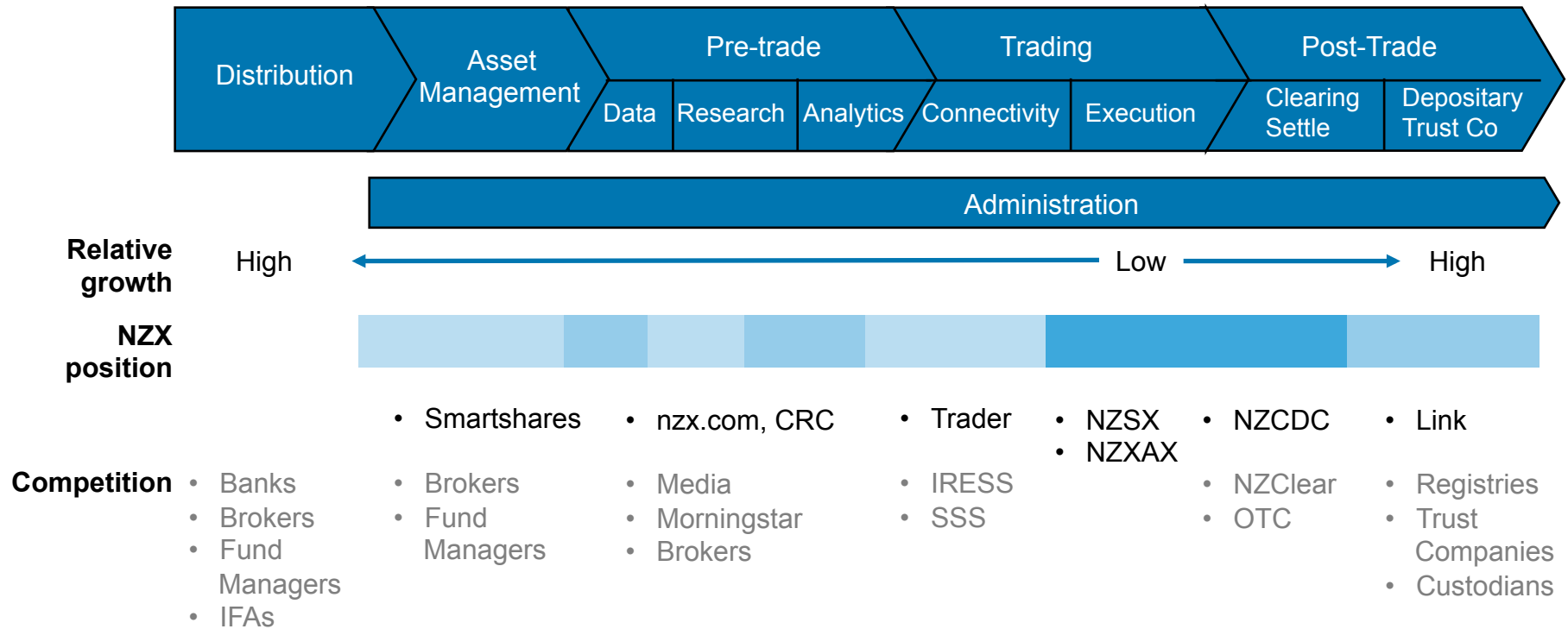
### Comments

- Process and status
  - BNP Paribas onboard as clearer, regulatory approval granted, testing completed
  - Awaiting final participant readiness prior to confirming launch date
  
- Outlook
  - NZX equity derivative value to grow from 2.5% to 20% of cash market over 5-yrs
  - Well below comparable markets
  
- Offshore experience shown strong secondary benefit of increased liquidity in the underlying cash market as a result of equity derivatives





Opportunities also exist in higher growth adjacencies  
 Current focus on fund management and clearing



**NZX position**     Strong     Weak     None

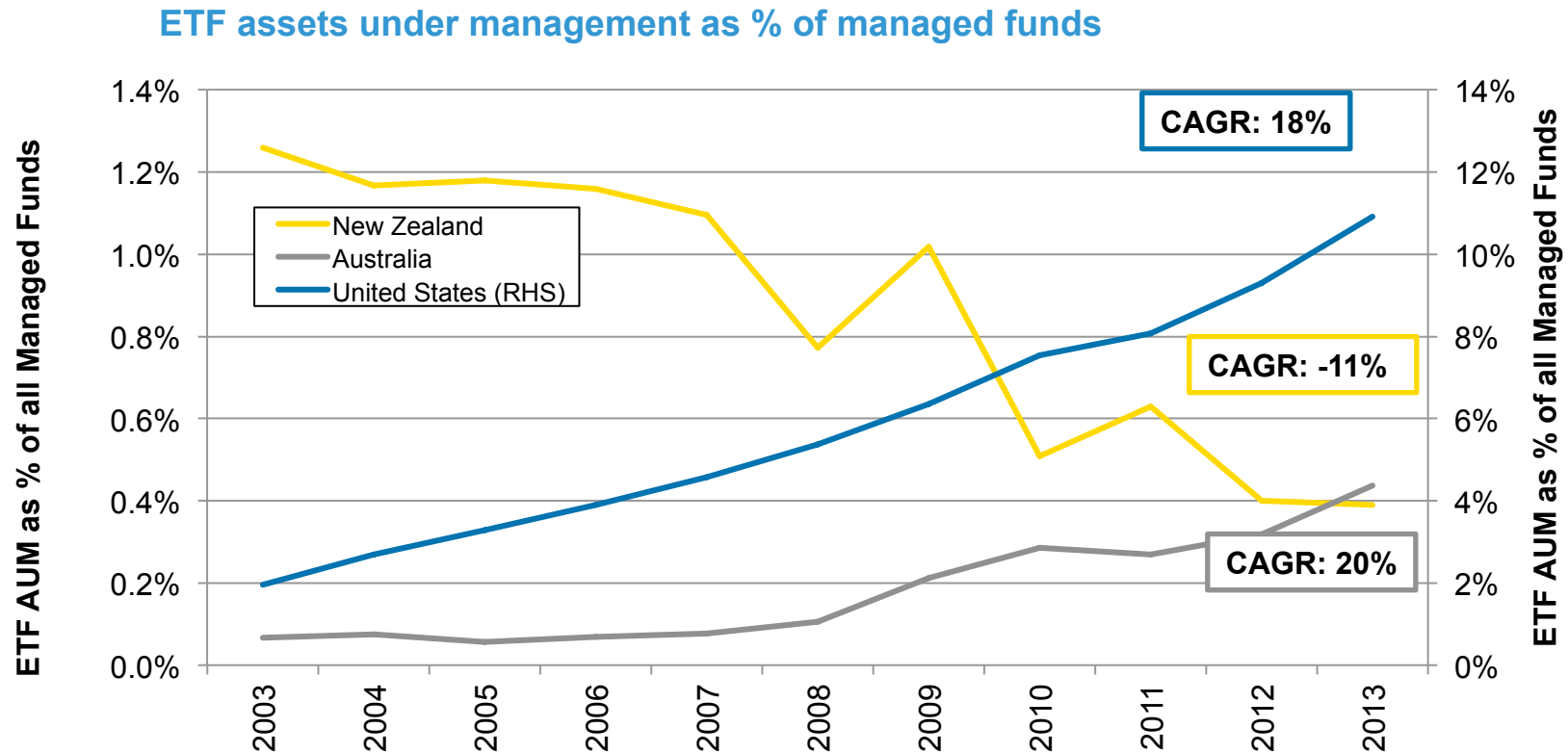


## Funds management



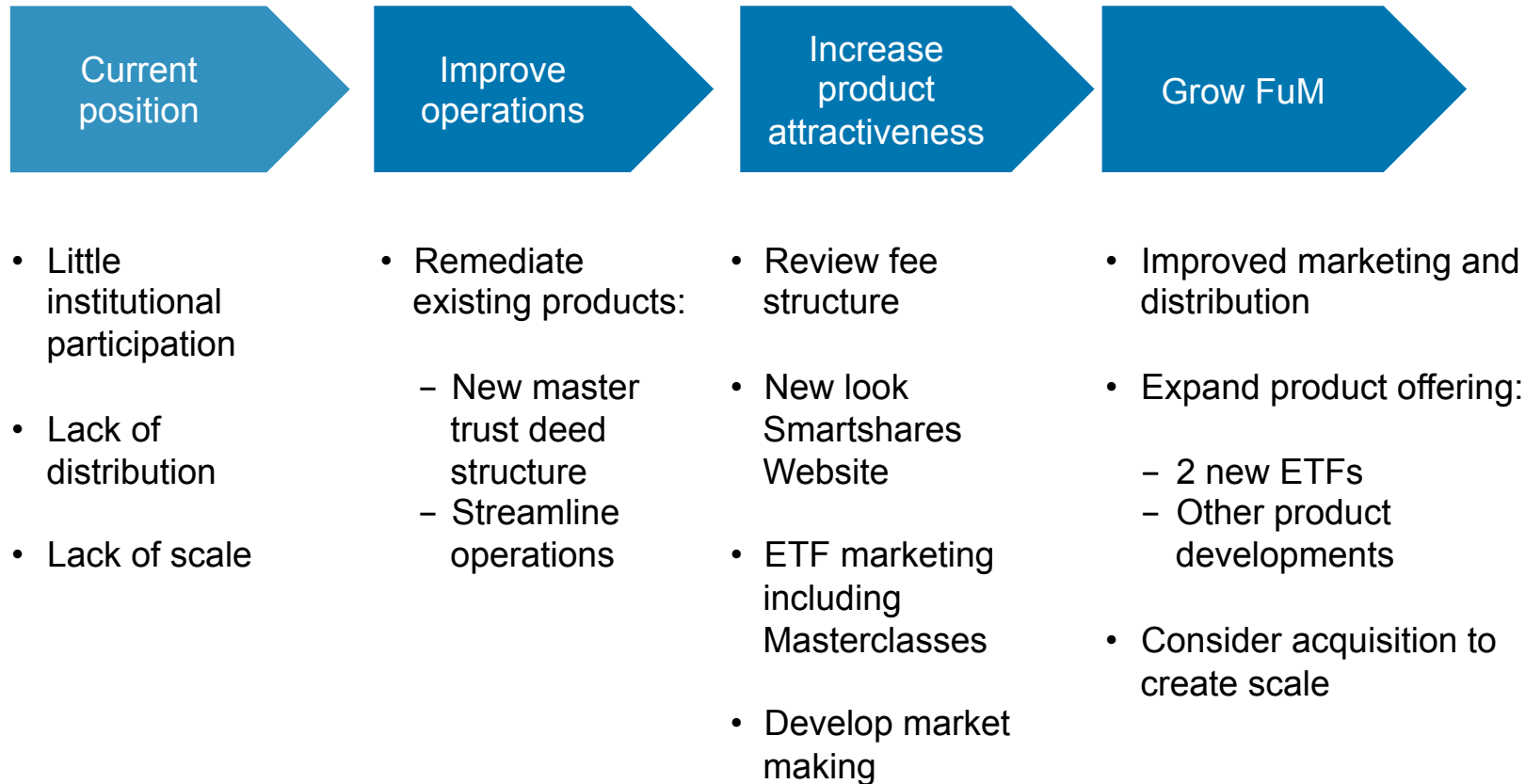


## Passive management growing in importance offshore NZ market has lagged





## Plan in place to revitalise Smartshares Little traction in recent years





**Soft commodities**  
Dairy derivatives

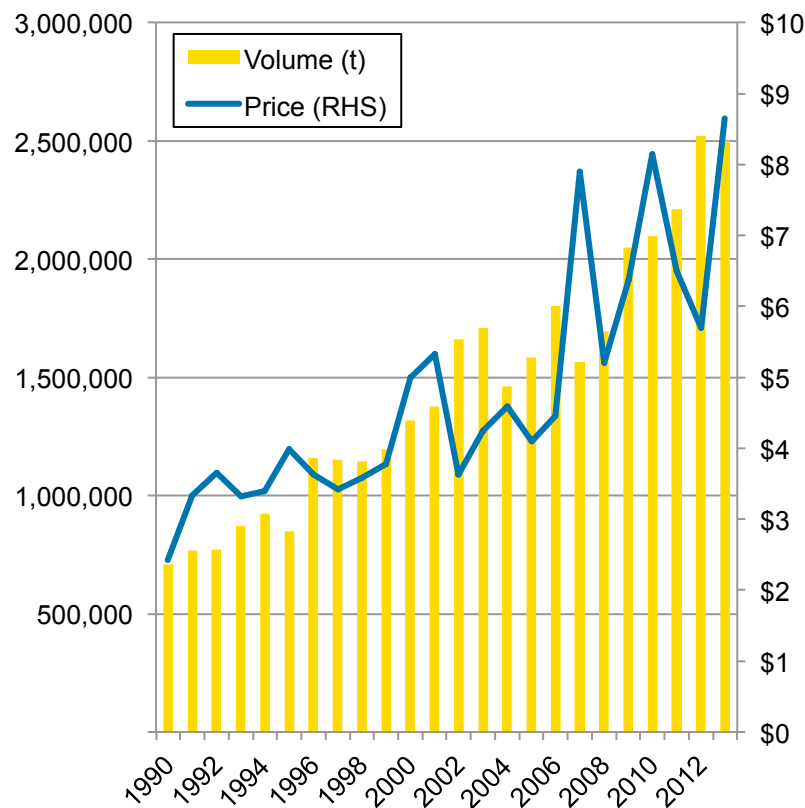




## NZ dairy exports

### Growth in volumes, increasing price volatility

#### Example: NZ Dairy exports



Source: Agrifax

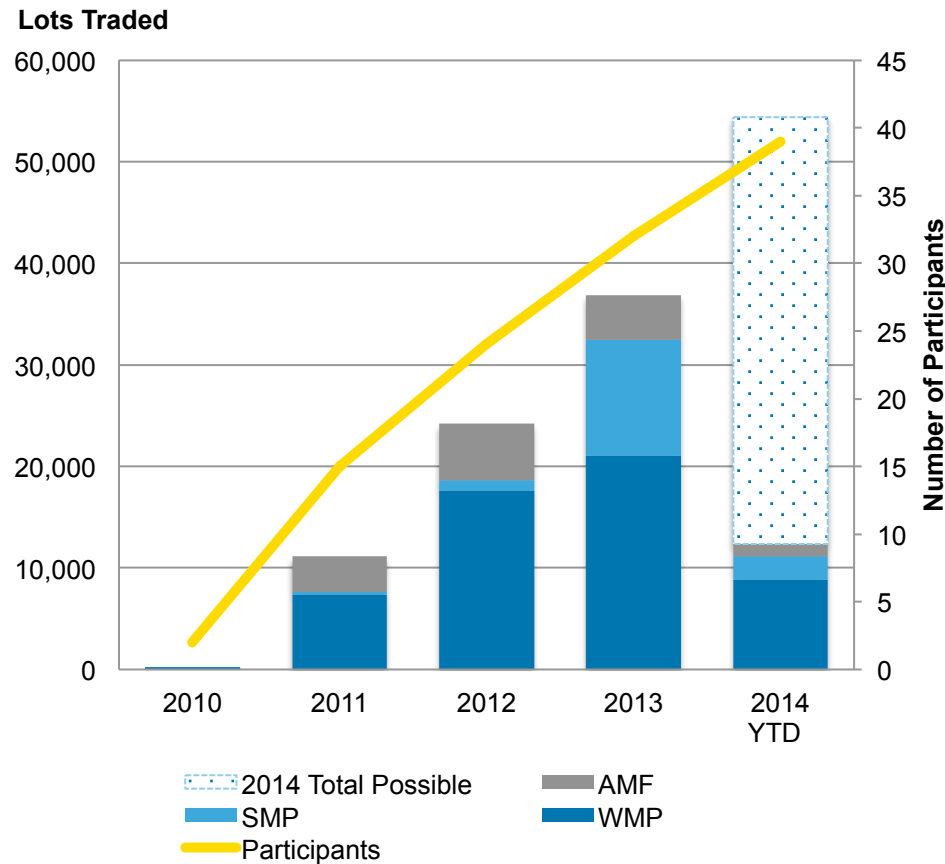
#### Comments

- Significant growth in agricultural exports projected from both Australia and NZ
- Increased volatility due to weather, supply-demand imbalance
- Increased capital requirements driving 'corporate' decision making
- Limited analytic and risk management tools in the sector
- Home markets have a product development advantage



## Initiatives undertaken or underway to grow the market

### Dairy Derivatives Annual Volume



Source : NZX

### Initiatives

- Extended trading hours (complete)
- CFTC approval (complete)
- New clearers (in progress)
- New participants (in progress)

### Opportunity

- Other soft commodities have deep futures markets
  - BM Palm Oil 4x
  - NYSE Cocoa 5x
  - NYSE Coffee 6x
- A range of other commodities lack risk management tools, e.g.
  - Red meat
  - Carbon
  - Water



## Agri information

Tony Leggett, Head of NZX Agri







## Overview of NZX's agri information business

### Print and online information (NZ), Trans-Tasman data analysis

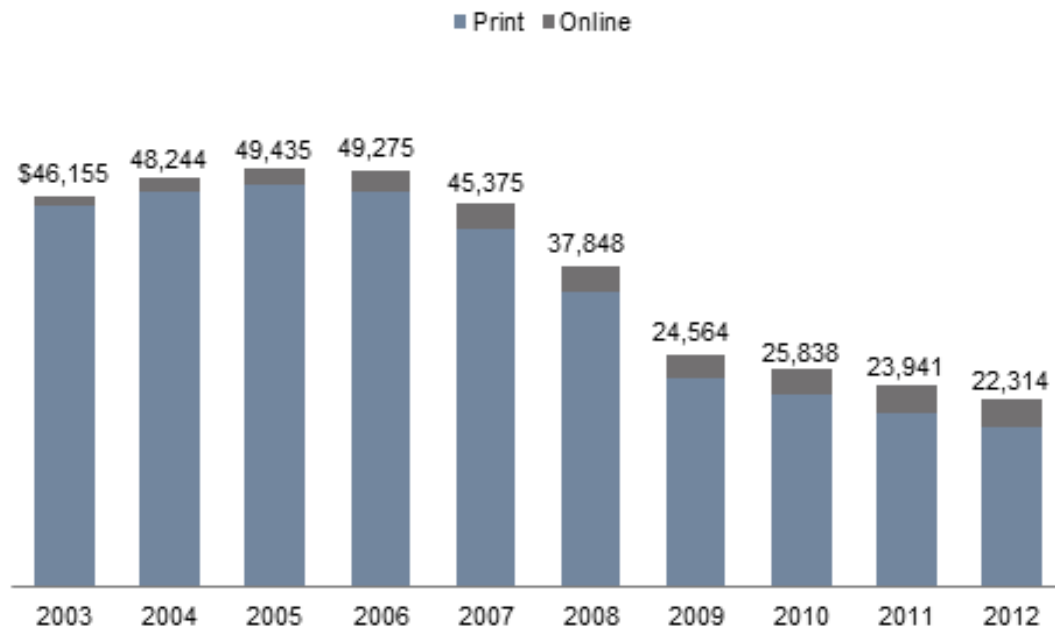
	2011 Revenues	2012 Revenues	2013 Revenues	2013 Subscribers	2013 Readership
Newspaper (Farmers Weekly)	4,639	4,937	5,003	601	116,000
Magazines	3,789	3,605	3,251	13,138	65,000
Online	24	42	133		
Agri data (NZ)	854	780	779	2,764	
Other NZ	313	289	218		
Agri data (Australia)	2,264	2,656	2,547	2,003	
<b>TOTAL</b>	<b>11,884</b>	<b>12,309</b>	<b>11,933</b>		
Agri data (Australia) A\$	1,734	2,077	2,162		



## US newspaper advertising has dropped dramatically Replacement online revenues around 15% of print advertising

### Print Advertising Revenues Fall, Online Grows

In Millions of Dollars



Source: Newspaper Association of America  
Note: Number is total print plus online revenue

PEW RESEARCH CENTER  
2013 STATE OF THE NEWS MEDIA

### Comments

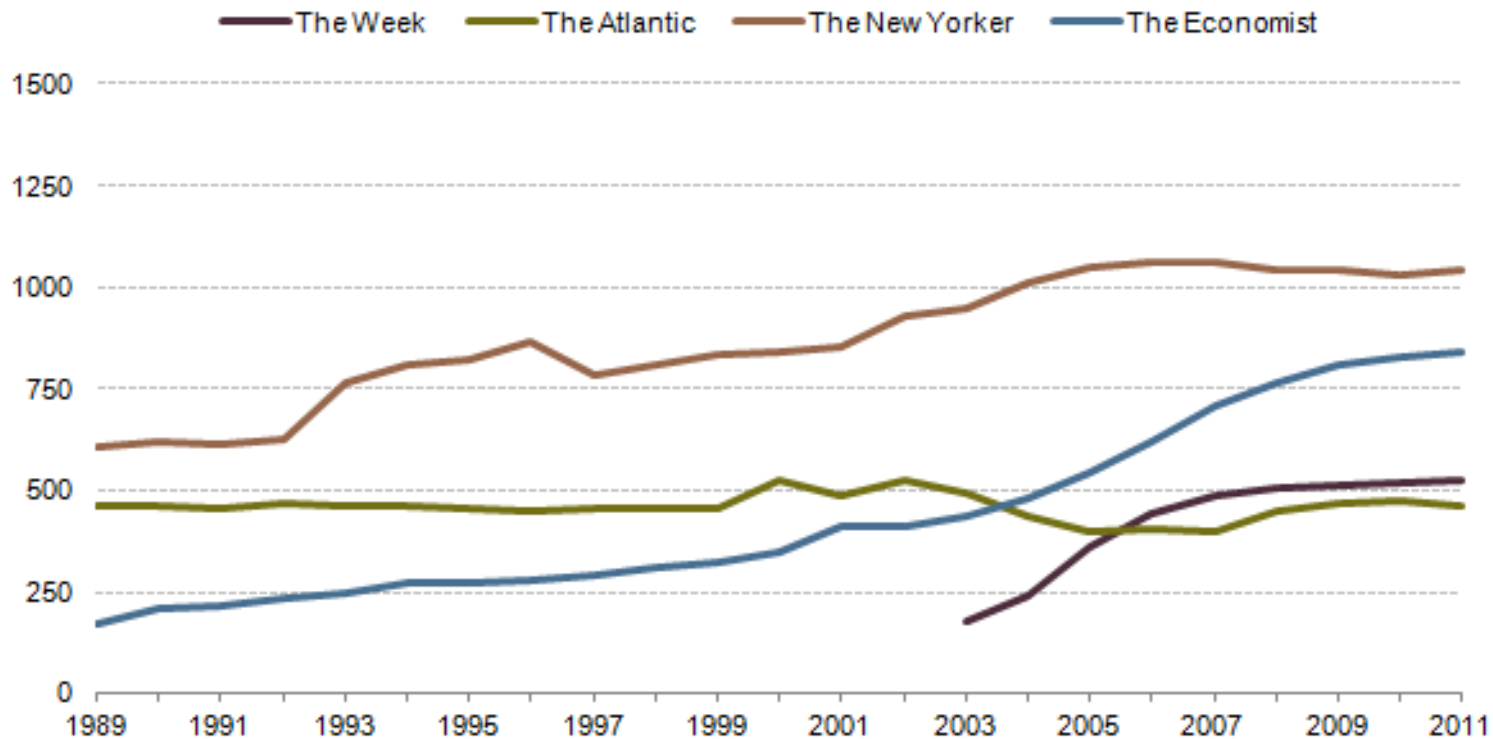
- 58% decline since 2003
- Online revenues increased by 170%
- \$1 of print revenues replaced by approximately 15 cents of online



## Specialist publications increasing in circulation (US) Most adopting a bundled print/online offering

Niche magazines fare better

*Average Overall Circulation in Thousands*



Source: Audit Bureau of Circulations, FAS-FAX report for consumer magazines

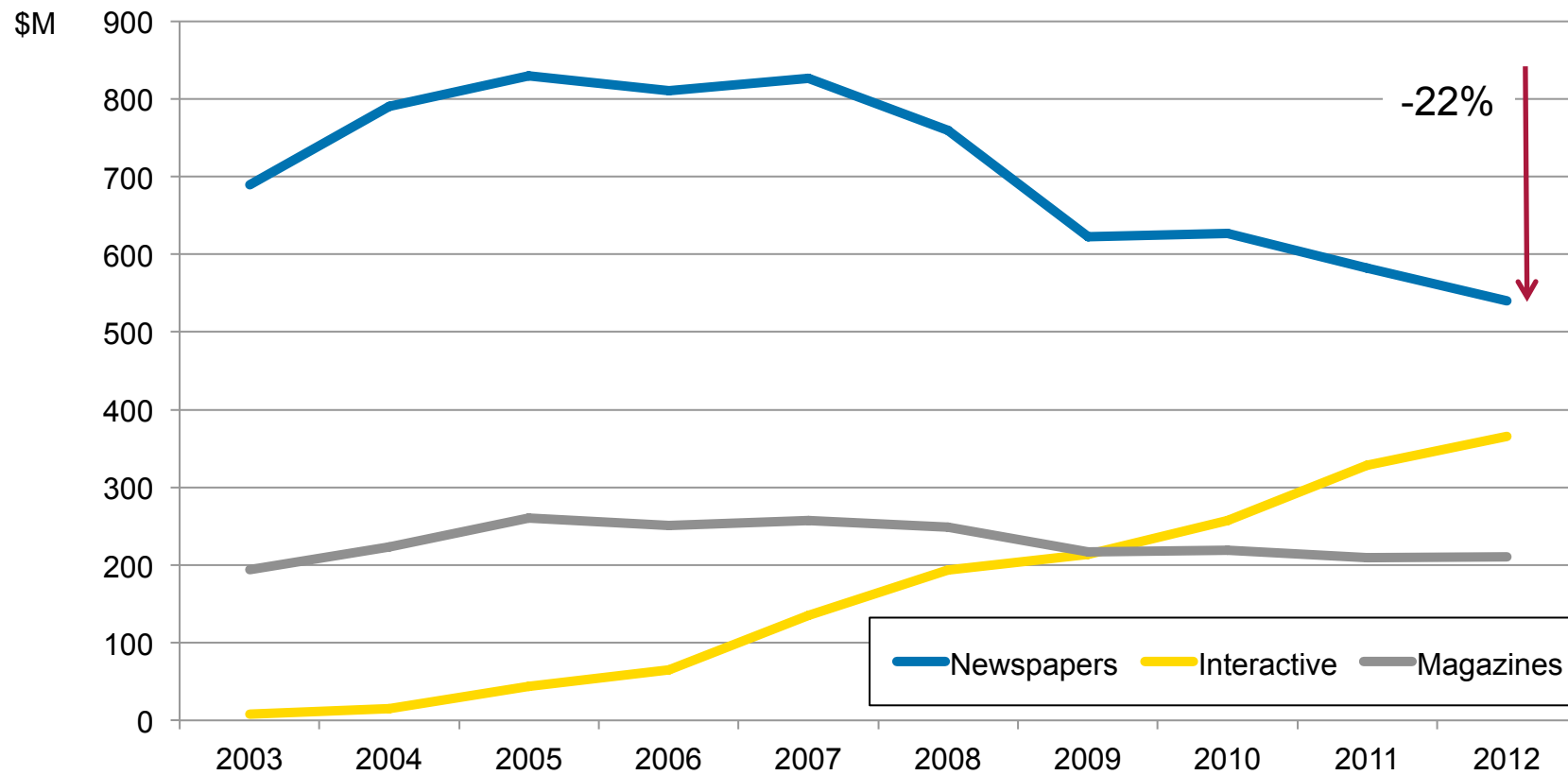
PEW RESEARCH CENTER'S PROJECT FOR EXCELLENCE IN JOURNALISM

2012 STATE OF THE NEWS MEDIA



## NZ newspaper advertising revenue drop less dramatic Magazines relatively flat

Advertising spend by media type



Source: Advertising Standards Authority



## Unique content has maintained value proposition of NZX publications Award winning team, limited competition

- Rural publication market dominated by ‘free’ titles, mass circulation but moderate readership
- NZX moved to subscriber model in 2011, now publishes three subscriber titles, sector specific for dairy, drystock and lifestyle, high quality formats
- Only free NZX title is *The New Zealand Farmers Weekly*, the country’s most read rural publication
  - Provides advertisers with reach and frequency
  - Strong editorial focus
- Exclusive and unique content generated by award-winning team of regionally based journalists
  - Reporters and editors have won numerous Guild of Agricultural Journalists and Communicator annual awards
  - Titles also category winners in Canon Media Awards
  - No recycling of content across multiple online sites and titles
- Content fed to hub in Feilding Global HQ for processing and publishing to web and print titles

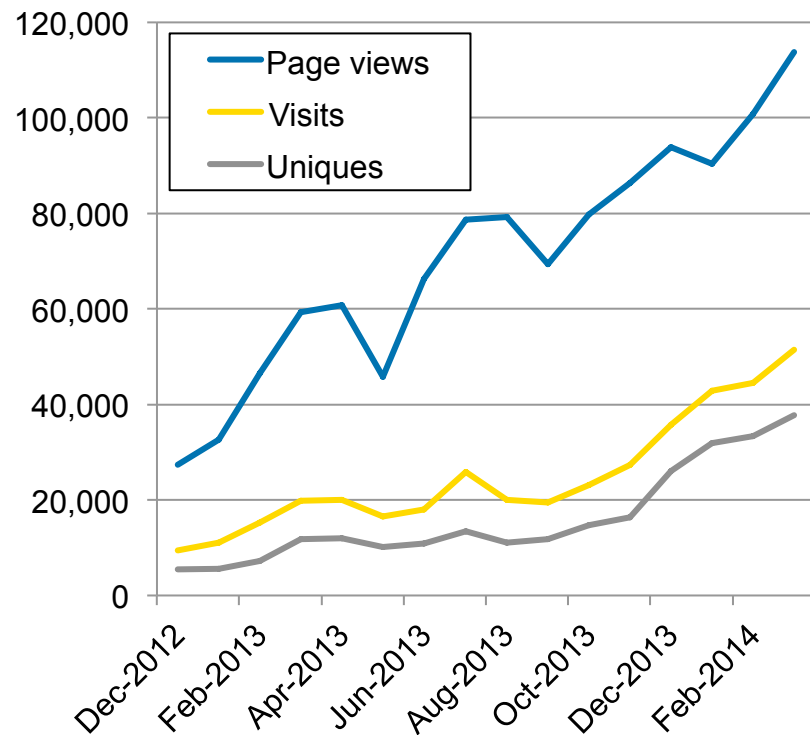




## NZX Agri online

Steady growth for online visitor numbers, rural audience appealing to advertisers

### Monthly statistics

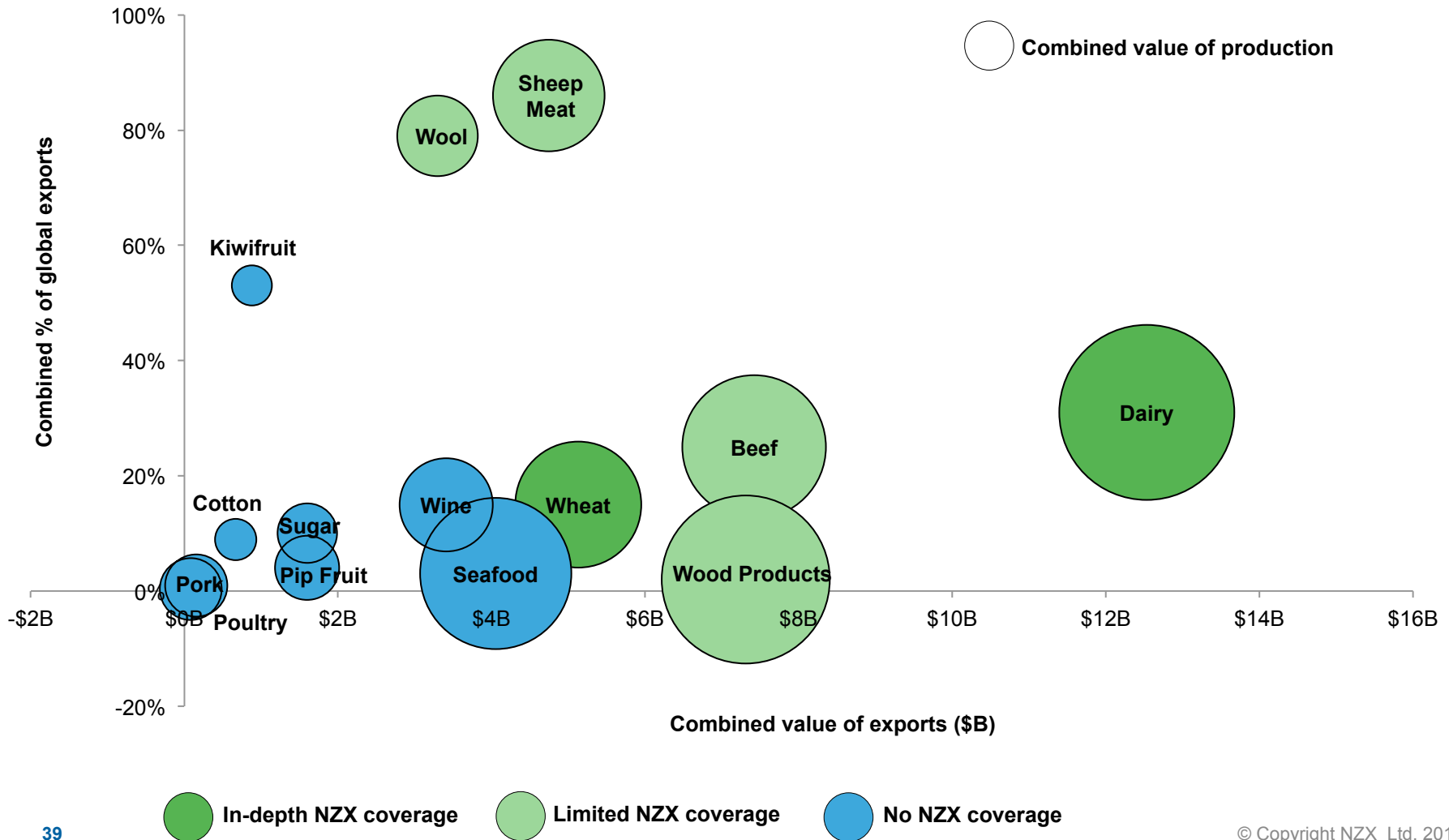


### AgriHQ.co.nz “home of farming intelligence”

- Combination of editorial content, images and data analysis available
- Broadening content; AgriHQ academy, Sharing Shed, weather
- Web-first publishing model, especially for news site FWplus.co.nz
- ‘Freemium’ model operating, building visitor numbers and advertising dollars
- Supported by specialist sites
  - Dairy Trader site launched mid 2013 to support Dairy Derivatives market, already >1,000 registered users and 150 subscribers globally



## Current offering covers small part of Au/NZ exports

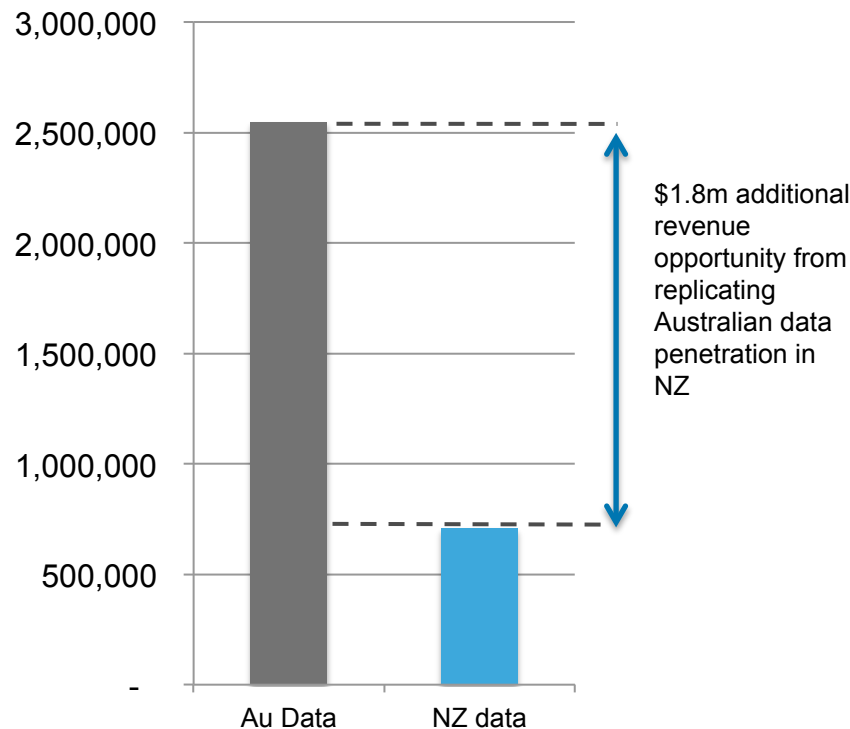




## Agri data offers significant opportunities

Dairy penetration low versus grain, opportunities in other commodities

### 2013 data revenue



### Current business

- Grain focus in Australia (~\$2m revenues, \$5.1b export market)
- Principally dairy focus in NZ (<\$1m in revenues, \$17.3b export market), with some coverage of other commodities (red meat, forestry, wool)

### Current focus

- Further expansion of the grain and dairy offerings
  - Unbundling and iPad apps
  - Dairy Farmgate, price and volume forecasts

### Future opportunities

- Broader range of data offerings
- Aggregation of on-farm data
- Potential for acquisitions





## Market operations

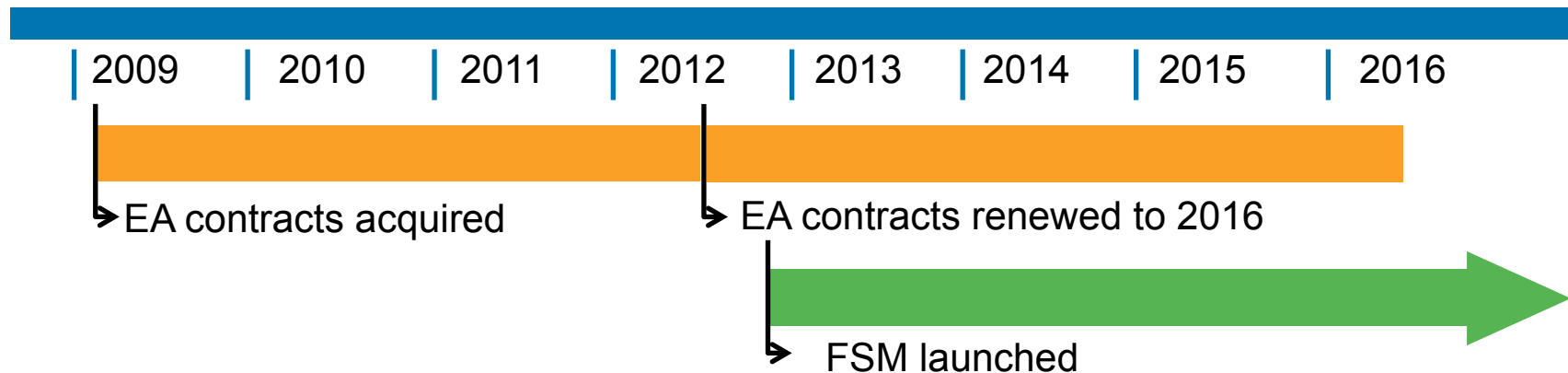
Bevan Miller, CFO





## Market operations

### Electricity Authority contracts, Fonterra Shareholders' Market



#### Comments

- 4 EA contracts performed by NZX, plus associated consulting/project activity
- Contracted through to 2016. EA has further right of renewal or may retender
- FSM operated as private market on X-stream platform
- Processes and infrastructure transferrable to other markets
- Long lead time to securing these opportunities



## Costs





## Expenses

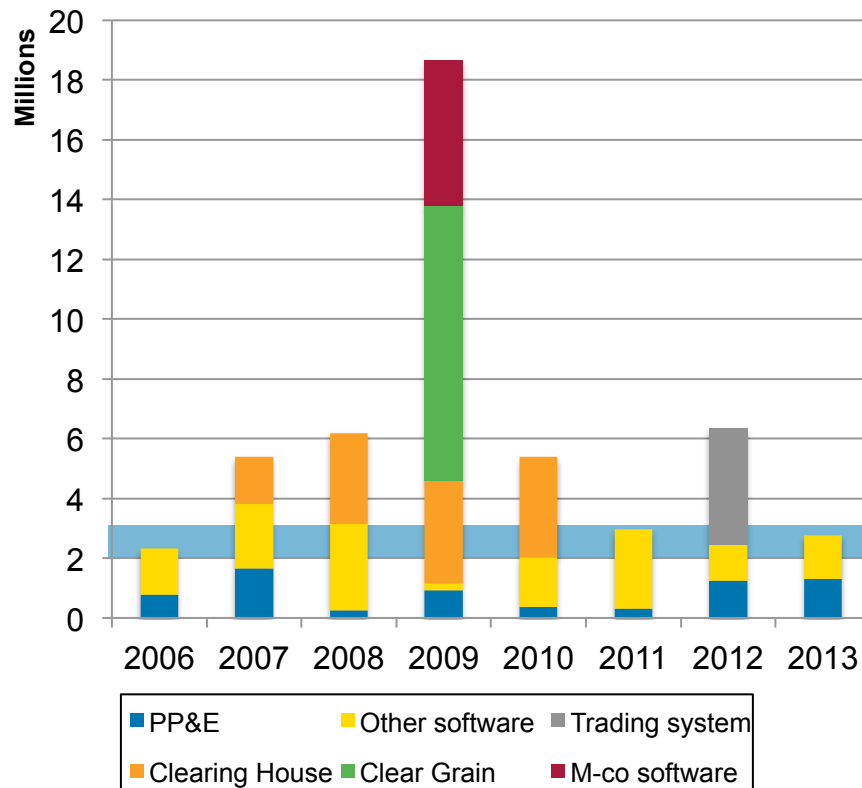
### Cost growth to slow as investment cycle ends

	2010	2011	2012	2013	
Gross personnel costs	18.0	17.1	18.6	20.4	Increased headcount. Little further growth in staff numbers required for current business
Less capitalised labour	(2.6)	(2.0)	(0.9)	(0.4)	Reduced capital activity
Net personnel costs	15.4	15.1	17.7	20	
Marketing print and distribution	4.0	3.8	3.8	3.6	Variable with advertising
IT costs	3.4	4.2	5.0	5.8	Increase related to software investment, expected to plateau in 2014
General and administration	3.3	3.2	3.5	3.7	Costs associated with increased Auckland presence, travel and increased corporate costs. Expected to be stable in 2014
Professional fees	2.1	2.4	3.1	2.8	\$0.8m Ralec costs in 2013, continues in 2014 and 2015
Fund expenses	1.0	0.8	0.8	1.1	\$0.3m remediation costs
	29.2	29.5	33.9	37.0	



## Capex

### Investment requirements driven by system life cycles



- Software with total cost of \$37.0m on balance sheet at 31.12.13
  - Clearing house \$12.1m (2007-2010)
  - Clear Grain \$9.9m (2009)
  - M-co software \$4.9m (2009)
  - Trading system \$3.9m (2012)
  - Other \$6.2m
- “BAU” capital expenditure \$2-3m p.a.
- Peaks driven by system implementations/renewals
- Clearing system upgrade potentially 2015-16
- Trading system upgrade/refresh 2019
- No other multi-million dollar projects currently contemplated



## Dividend

### New policy based on free cash flow, 6.0 cent planned distribution for 2014

- New dividend policy applies from 1 January 2014
  - Planned total dividend of 6.0 cents per share to be paid in respect of the 2014 financial year (subject to no material adverse changes in circumstances) as NZX transitions to new policy
  - Distributions from 2015 onwards to be based on target payout ration of 80% of free cash flow (operating cash flow less purchase of property plant and equipment and intangible assets)
  - NZX expects distributions to continue to be fully imputed
  - The company will revert to paying six monthly dividends in 2014
- The application of the future distribution policy will be subject to the future commitments of NZX
- The new policy aligns shareholder distributions with available cash flows and is expected to maintain an appropriately sound capital structure in line with NZX's position as a systemically important institution in the New Zealand financial markets





## Conclusion

Tim Bennett, CEO



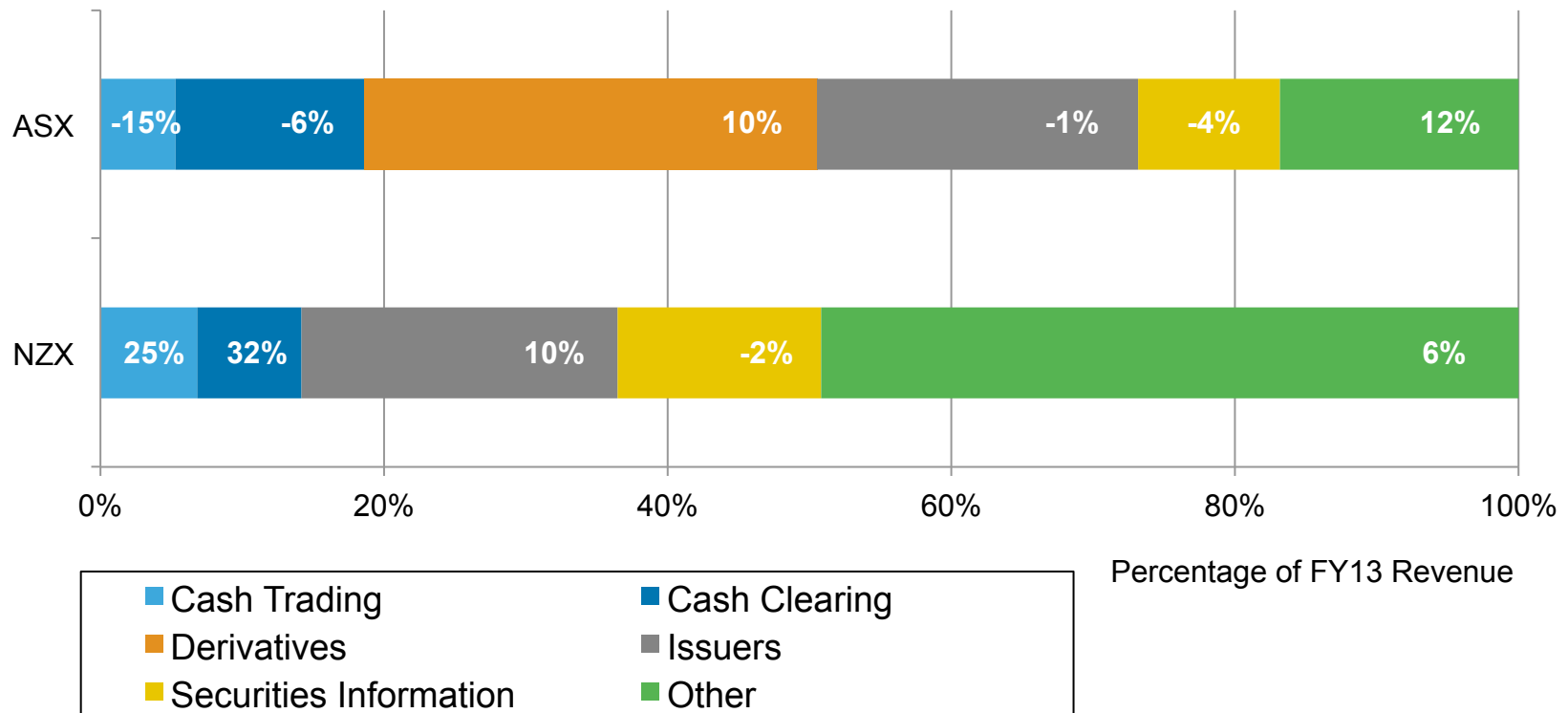


## NZX and ASX revenue profile and outlook markedly different

### Different competitive environment

Relative revenue composition NZX v ASX

(% 3 year CAGR)







## Summary

We operate in high growth markets

Business	Growth Drivers	Market Growth <sup>1</sup>	Current Share	Investment Required	Potential 5 Year CAGR
Capital Markets	• Market Capitalisation	5-10%	High	Trading and clearing Listings Data	None Required
	• Funds Under Management	10-15%	Moderate Low	Registry Adjacencies	Limited Acquisition
Soft Commodities	• Volume growth • Price volatility	4-5% N/A	Low	Derivatives	Limited
Agri Information	• Volume growth	4-5%	Moderate	Information	Limited
		4-5%	Low	Data	Acquisitions
Fund Management	• Funds Under Management • Passive FuM Penetration	10-15%	Low		Moderate Acquisitions
Market Operations	• Contract retention <sup>2</sup>	0-5%	High	EA/Fonterra	None Required

1. Through the cycle

2. Development work





## Appendix 1

### Outlook





## Outlook for 2014 Revenues

Business Area	Outlook
<b>Capital markets</b>	<ul style="list-style-type: none"><li>• IPO activity expected to be focused on smaller to medium size listings compared to 2013</li><li>• New growth market, while not having an immediate impact on revenues, will provide a pipeline for future listings</li><li>• Securities trading/clearing volumes expected to remain robust and will benefit from the flow on effect of listings and sell-downs of strategic holdings in 2013</li><li>• Conversion of securities data contracts into NZD billing expected to drive mid single digit growth in this revenue line</li></ul>
<b>Soft commodities</b>	<ul style="list-style-type: none"><li>• Profile of 2013/14 grain harvest has followed similar pattern to 2012/13, with large volume of sales early in season and limited grain now remaining in silo, suppressing the potential trading volumes in Q1 to Q3 2014</li><li>• Dairy derivative volumes expected to continue their strong growth but off very low base.</li></ul>
<b>Agricultural information</b>	<ul style="list-style-type: none"><li>• Improvement in forward advertising booking for rural publications evident as impact of 2013 drought now well behind the sector</li><li>• Online starting to gain momentum</li><li>• New data products to be launched in Q2/Q3 to broaden the offering</li></ul>
<b>Funds Management</b>	<ul style="list-style-type: none"><li>• Launch of two new funds management products in 2014 is anticipated to drive growth in funds management beyond 2013 levels</li></ul>
<b>Market Operations</b>	<ul style="list-style-type: none"><li>• In market operations, gas contract (\$670k of revenue) ceased at the end of 2013. Energy consulting revenues expected to be at similar levels to 2013 if major settlement project goes ahead</li></ul>





## Outlook for 2014 Costs

Cost category	FY13 (\$M)	Outlook
Employee, Contractor & Related	\$20.0	<ul style="list-style-type: none"><li>• Low to mid single digit growth from market alignment of remuneration and filling of vacant roles</li></ul>
Marketing, Printing & Distribution	\$3.6	<ul style="list-style-type: none"><li>• Increase in line with growth in publications revenue</li></ul>
Information Technology	\$5.8	<ul style="list-style-type: none"><li>• Stable compared to 2013</li></ul>
General & Administration	\$3.7	<ul style="list-style-type: none"><li>• Stable compared to 2013</li></ul>
Professional Fees	\$2.8	<ul style="list-style-type: none"><li>• Dependent on progress of Ralec litigation (FY13 \$0.8M). Underlying costs stable</li></ul>
Fund Expenditure	\$1.1	<ul style="list-style-type: none"><li>• Slight decrease on 2013</li></ul>





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