



30 June 2017

NZX Annual Meeting Full Script

[Slide: 2017 NZX Annual Meeting of Shareholders]

Welcome. My name is James Miller; I am the Chairman of NZX.

On behalf of your directors, our Chief Executive, and all of our team here today – a very warm welcome.

Before I open the meeting, I would like to cover off a few housekeeping points.

In the event of an emergency, please follow the direction of our staff. The fire exit is down the stairs to my right. The assembly point is in Odlins Plaza directly behind me.

Bathrooms are located on this floor, halfway down the corridor to my right.

If you need voting forms, please see the team from Link Market Services.

To cover off today's order of events ... I will first address you as Chair, followed by our new CEO Mark Peterson. After this there will be an opportunity to answer any questions about NZX and its performance.

We'll then move to the formal business of the meeting. There are five resolutions to consider and vote on. I will outline the process for the discussion and voting on the resolutions at that point in the meeting.

Following the meeting, the board and senior leadership team – along with our other staff here today – look forward to hosting you for refreshments.

There will be an opportunity to tour the stock exchange. If you are interested in coming on a tour please wait in front of this lectern at approximately 12 noon.

We also have some of our SuperLife and Smartshares teams here with us today, who can talk with you about any questions you may have about KiwiSaver and exchange traded funds.

We welcome your feedback on today's meeting. We are always looking to improve on how we do things, so please fill out the feedback form on your seat and return it to Link Market Services on your way out – we would very much like to hear your thoughts.

Now, with those formalities out the way ...

Address from Chairman James Miller

[Slide: Address from Chairman James Miller]

I am pleased to confirm that we have a quorum and therefore I declare the 2017 Annual Shareholders Meeting of NZX open.



[Slide: Your Board]

I would first like to introduce my fellow directors:

- Frank Aldridge
- Dame Therese Walsh
- Dr Patrick Strange
- Richard Bodman
- Neil Paviour-Smith
- Jon Macdonald
- And our future director Anna Molloy

Also present today is our Chief Executive Mark Peterson, who you will hear from soon, members of our executive team, representatives of our external auditors KPMG, and the Financial Markets Authority. Welcome.

Let me open my speech with some observations about what NZX is and the importance of what it does.

NZX – a markets company

[Slide: Capital Markets Ecosystem]

NZX is a markets company. We operate in global markets for agricultural commodities, the New Zealand electricity market, private markets such as the Fonterra Shareholders' Market, and at our core, New Zealand's equity and debt markets.

Markets matter. In our view they are the most effective mechanism to allocate resources and ensure that society's needs are met in the most efficient way possible. Markets need a number of things to be effective – trust, fair access, efficient infrastructure, and high quality information to support trading and investment decisions.

NZX has a critical role to play in ensuring each of these factors are present in our markets and in doing so, we have a key role to play in New Zealand's prosperity.

A strong and successful NZX will deliver not just for our shareholders, but for our economy as a whole. However, we cannot deliver this alone.

While we sit at the centre of New Zealand's capital markets, only by working alongside our stakeholders that make up our market can we be successful in our mission.

New Zealand needs an effective exchange between the providers and users of capital so entrepreneurs can easily access capital that will enable them to compete on a meaningful scale both domestically and on a global stage. As a market operator, the role NZX plays is central to the success of this.

[Slide: New Zealand Market Health]

The current health of our local market means we are well placed to achieve this – just last week the S&P/NZX 50 index broke through a record high of 7,592 points.



Market activity in New Zealand remained healthy in 2016 with the S&P/NZX 50 index up 8.8% over the year, and growth has carried over to 2017, with the index up a further 7.8% to 31 May. We also saw significant growth in liquidity in 2016, with the number of trades up nearly 20% and total value traded up 5.5%.

This continued a long trend of strong performance for the New Zealand markets.

2016 in review

While 2016 was a positive year for the markets, we would be the first to recognise that it was a challenging year for NZX itself.

Earnings Before Interest, Tax, Depreciation and Amortisation (EDITDA) was \$22.5 million in 2016, at the bottom end of our guidance range.

Operating expenses increased 13.3% and reflected significant non-continuing costs which included professional fees for the Ralec litigation, the Financial Markets Conduct Act transition in our funds business, CEO transition costs, and the restructuring of our Agri business.

NZX's three operating segments – Markets, Funds Services and Agri – reflected contrasting positions.

Our Markets business demonstrated good growth in 2016 with revenue up 6.0% to \$52.9 million, while operating costs fell 4.5%. This operating leverage resulted in 9.5% growth in segment earnings.

This was led by impressive growth of our debt market and sound growth in the number of equity trades.

Our Fund Services business remained in investment mode, reflecting the deliberate strategic investments made to grow our SuperLife, Smartshares and NZX Wealth Technologies businesses.

The reported segment loss of \$300,000 included start-up losses of just under \$1.5 million in the Wealth Technologies business and one-off costs associated with transitioning to the Financial Markets Conduct Act of approximately \$1 million.

These offset the earnings of the Smartshares and SuperLife business, despite the latter increasing on the back of strong growth in funds under management.

And it was a difficult year for our Agri business where segment earnings fell by 17.8% as we repositioned our New Zealand and Australia businesses, and market conditions adversely impacted advertising revenues.

[Slide: Total Shareholder Returns]

We recognise that our 2016 results did not achieve the growth that shareholders were looking for, albeit due to non-recurring factors.



Shareholder returns remain front of mind for the board. I personally remain highly conscious of the need to lift our performance for you, our shareholders.

Despite lower operating earnings, we maintained a fully imputed 6 cents per share dividend in respect of the 2016 year.

It is also important to recognise a great deal was achieved in 2016 to address costly issues that were holding back our performance and these have helped set the business on course for meaningful future earnings growth.

In November we finally concluded the unfortunate Ralec litigation. This had been a significant drain on corporate earnings and management attention for the past six years, with cost impact greatest in 2015 and 2016, as the case worked its way through the trial process. We are pleased to have this conclusively behind us, with all matters resolved, and no further costs have been incurred.

Alongside the rest of the industry, our funds management business completed a complex, costly and time consuming exercise to transition to the Financial Markets Conduct Act. This was achieved while still maintaining strong growth in funds under management, which were up 15% in 2016.

We restructured our Agri business, disposing of loss-making businesses, creating a simpler business with a greater focus on data and analytics.

Our fledgling NZX Wealth Technologies business, which simplifies the back office systems of the financial sector, won two substantial new clients, underlining the potential of this business.

We commenced the new electricity market operator contracts that the Electricity Authority awarded to NZX for a further eight years in 2015. As part of this, we began a major system refresh project that will underpin the delivery of services for the current contract period and beyond.

Guidance

Recent media commentary may have lead you to believe it's all doom and gloom for NZX. But let me reassure you, the extensive work done in 2016 to resolve legacy issues and reshape the business has put us in an excellent position to deliver substantial earnings growth in 2017.

This was reflected in the earnings guidance we provided when releasing our 2016 financial results that we expected 2017 EBITDA would be between \$27 million and \$30 million. This represents an increase of between 20% and 33% on our 2016 EBITDA.

In spite of capital raising activity going through a cyclical lull, 2017 financial results have so far been encouraging.

For the five months ended 31 May 2017, EBITDA is up 38% on the previous corresponding period, reflecting the sound performance of Mark and the senior team, delivering a disciplined cost performance in the face of revenue headwinds.

Conservatively, assuming a continuation of the relatively subdued capital raising and securities trading environment, this would result in a full year result around the middle of the guidance



range. We note that if market conditions returned to average historical levels in the second half of 2017, we would expect to deliver an earnings result towards the upper end of the guidance range.

A changing environment

Change has been a significant theme for NZX over the past 12 months.

Ensuring that we found the right leader to take NZX forward was the primary focus of the board, and a key component of delivering healthy shareholder returns in the future.

The board initiated a global search process, incorporating the feedback of a broad range of stakeholders into the recruitment brief. Ultimately, the best candidate came from within the organisation and we were delighted to appoint Mark Peterson as our new CEO.

Mark previously held the Head of Markets role. During his time at NZX he has shown himself to be a highly capable and experienced leader.

He has more than 25 years' experience in the financial services sector covering capital markets, share broking, private wealth, and institutional and retail banking.

He is well connected to our capital markets and understands the needs of our customers.

Mark will bring to the CEO role an increased focus on strengthening NZX's relationships with our customers, while strategically growing the business to ensure it is best placed to compete domestically and internationally.

The board has initially tasked Mark with focusing on:

- Protecting our core Markets business by growing our equity and debt markets;
- Keeping a tight rein on costs and increasing the efficiency of our operations; and
- Delivering on the immediate opportunities in our derivatives, funds management, and Wealth Technologies businesses.

The board has also tasked Mark with leading the development of a refreshed five year strategic plan for NZX. This will be a blueprint for the growth of our organisation and outline NZX's broader role in helping our capital markets to flourish in years to come.

Mark will provide further colour in his address. We will update shareholders on the final strategy in November.

Board renewal

[Slide: Board Renewal]

Turning to the board itself, we farewelled Alison Gerry who retired from the board earlier this year as well as Neil Paviour-Smith, who retires at the end of this meeting.



Neil will briefly address shareholders towards the end of the meeting, but I would also like to reflect on Neil's contribution for a moment. Neil has been a member of the board throughout NZX's 14 years as a listed company. During that time the company has grown from a small demutualised exchange with a market capitalisation of under \$30 million to a diversified markets business with a market capitalisation of nearly \$300 million.

There have been a great many achievements along the way and Neil has been a wise counsel throughout. Neil, we will greatly miss your vision, your passion and your insight. On behalf of everyone, I offer our sincerest thanks for your huge contribution to NZX and New Zealand's broader capital markets.

Alison also contributed enormously in the areas of clearing and risk management during her five years on the board. Her skills are now recognised by New Zealand's largest companies and we wish her well with these additional director responsibilities.

Board composition goes to the heart of a board's effectiveness. It's key to a sustainable high-performing business.

The board are committed to regularly reassessing the skills and experience needed to run your business and following our review were extremely pleased to identify and appoint Richard Bodman and Frank Aldridge to fill vacancies left by Alison and Neil.

Following Neil's resignation from NZX at the conclusion of this meeting, Therese will take over as Chair of NZX's Audit and Risk Committee. I would also like to take this opportunity to confirm Frank's appointment to the Audit and Risk and Human Resources committees.

These changes have certainly re-energised and refreshed the board by reducing the average length of service for an NZX director to 3 years, compared to 5.1 years at our last Annual Meeting.

I will speak to the attributes that Richard and Frank bring to the board table when we come to the matter of their election later in the meeting and will also go over the structured process that resulted in their appointment.

Future Directors Programme

[Slide: Futures Directors Programme]

As a board we are also committed to growing the next generation of New Zealand directors.

NZX was pleased to announce its participation in the Future Directors Programme last month.

Administered by the Institute of Directors, the Future Directors Programme recognises talented executives who are interested in developing governance skills.

Participants attend board meetings where they are able to observe and contribute to discussions, but are not involved in any decision making and have no voting rights.

The programme has the active support of the New Zealand Shareholders' Association, and NZX is pleased to participate in the programme alongside other leading listed companies.



As such, I am delighted to introduce to Anna Molloy, NZX's first future director.

Anna is a former fund manager and sell-side equity analyst and will sit around the board table for an 18 month term.

Regulation & policy

Before I close, I want to touch briefly on the regulation role that NZX fulfils within the capital markets. While some in the media see regulation as at best an overhead, we see it as a fundamental part of our core business.

I said in my opening remarks that one of the key things that must be present for the successful operation of a market is trust and our regulation and policy teams are at the front line of protecting investors', issuers' and participants' trust in our markets.

My vision is an NZX that engages, seeks feedback, and delivers in a timely manner. I think a good example of this was the way we undertook our recent review of NZX's corporate governance code.

Our policy team undertook an extensive consultation process which was extremely well supported by a broad range of stakeholders in the market, with whom we had some very productive and constructive engagement.

We received more than 80 submissions – a record for NZX – from major governance groups, issuers, corporate firms and investors in New Zealand and overseas. This resulted in a very high quality set of guidelines that will continue to support trust and confidence in our markets.

We will soon deliver the outcome of our Participant Rules review. This review seeks to strike an appropriate balance between enhancing NZX's supervision and surveillance capabilities, while managing the compliance burdens for participants.

Our next undertaking will be a full review of the listing rules, to ensure that they are aligned to the way the market has evolved since the rules were last updated and, more importantly, that they provide the right settings to allow the markets to flourish over the next ten years.

Done well, high quality regulation can lead to a lower cost of capital for corporates, fairer markets for investors, and is a source of competitive advantage for NZX.

Closing remarks

In closing, I would reiterate that while 2016 was a year of challenge and upheaval for the organisation, it was also one of significant hard work and considerable achievement.

We are in a strong position, with considerable earnings momentum and a clear set of opportunities to deliver against in the short term. This also provides us with a great platform to define our five year future and deliver meaningful shareholder returns over this period.

I will now hand over to Mark to talk more about the current state of the organisation.