20 May 2016

Chairman's Speech
NZX Annual Meeting 2016

I'm pleased now to address you – our shareholders – for my first time as Chairman.

I'll start my speech with an analysis of how our markets are performing.

I'll then turn to NZX's own progress in 2015, and how we're tracking so far this year against our targets.

Market activity in New Zealand remained strong in 2015 with the S&P/NZX 50 index up 13.6% in the year.

Growth was also demonstrated by the increase in the ratio of equity market capitalisation to gross domestic product, from 42% to 45%.

NZX's debt market experienced a resurgence in 2015, with market capitalisation up by 51% to $19.8 billion.

This was driven by the New Zealand Local Government Funding Agency listing $5.6 billion of their existing bonds on the NZX debt market.

That listing came about following the Capital Market Development Taskforce in 2009, which had the objective to grow New Zealand's capital markets. So it's fantastic that yet another milestone from that programme has been ticked off.

Growth has carried over into 2016. NZX's first quarter revenue and operating metrics show a strong start to the year for our markets business, with a 12.5% increase in listing revenues, driven by new debt issuances, along with a 20% increase in trading revenue, as a result of strong growth in trade volumes and values.

We had a positive year in our dairy derivatives business with lots traded up 115% on the prior year. Admittedly this growth is from a small base, but we are pleased with progress. Our goal is to build a world leading agricultural derivatives market that allows participants to manage price risk in the global export market.

In 2015 NZX retained all the market operator agreements that we currently perform for the Electricity Authority. This was a significant achievement for our energy team.

And we made great strides in the execution of our funds services strategy with the acquisitions of SuperLife and Apteryx, now renamed NZX Wealth Technologies – along with the launch of a broad range of exchange traded funds.

It has not all been plain sailing, however.

We put a lot of effort into our proposal to the Reserve Bank regarding the Reserve Bank's proposed divestment of its clearing and settlements system, NZClear.

We were notified in March that our proposal for NZX to operate a single clearing and settlement system for the New Zealand market was ultimately unsuccessful, as the Reserve Bank decided to retain ownership of the business.
We believe this was a disappointing outcome both for NZX and the market as a whole.

But we respect the Reserve Bank's decision and NZX will continue to work in other ways with the Reserve Bank, with industry participants, and other stakeholders, to continue to improve the efficiency of our capital markets.

On a more positive note, we received 45 quality submissions from a cross section of the market in response to our proposed changes to the corporate governance guidelines for Main Board issuers. This included a well considered submission from the New Zealand Shareholders' Association who we continue to engage positively with.

The board recognises corporate governance standards are vital for listed issuers, to help promote investor confidence and provide mechanisms to hold those in control to account.

The outcome of this review is important from an NZ Inc perspective, because we believe strong corporate governance ultimately leads to a lower cost of capital for issuers, and higher stock valuations.

NZX has a leadership role to play here, and the market is looking to us to address the fragmentation of existing corporate governance reporting, which was highlighted as a concern.

NZX's own financial performance in 2015 was stable at an operational level.

Earnings before interest, tax, depreciation and amortisation were unchanged from 2014 at $24.6 million.

Reported net profit after tax was up 82% to $23.9 million, reflecting the significant value gained from the sale in June of our stake in the share registry that NZX co-founded, Link Market Services.

Excluding the sale of Link, net profit after tax was down 8% to $12.1 million.

We delivered fully imputed dividend returns of 6 cents per share in respect of the 2015 year, maintaining a stable dividend return for shareholders.

Shareholder returns is front of mind of the board and management team. In talking to shareholders, I am conscious that a decline in the share price of 8.5% in the year ended 31 March 2015 has resulted in a negative 1.2% total shareholder return, despite the attractive gross dividend yield which is currently 8.3%. To provide some context for the longer term shareholders, the TSR CAGR over five year period is a more respectable 7.7%.

The overhang of the Ralec litigation that NZX is involved in has weighed on the stock. As potentially has a downturn in dairy prices, making conditions challenging for our rural publications business. We are also aware that the market is watching closely our ability to contain costs in order to deliver operating leverage, and to successfully execute our funds management strategy. Therefore the most important thing for us to do in the near term is to continue to focus hard on delivery, so that the financial results and share price appreciation follows. We are confident that the building blocks that we have put in place will deliver results.

On the matter of Ralec litigation, Tim will talk about this in his speech, but I'd just like to reiterate now that we are unable to discuss the details of the case while it is before the court.

NZX gave guidance to the market at our full year results in February that we expect full year EBITDA to be between $22.5 million and $26.5 million – noting that this is subject to market conditions, particularly with respect to IPOs, secondary capital raisings, and trading and clearing volumes, and the final outcome of the Ralec litigation.

So - I'm pleased to report that we are on track to deliver the stated guidance.

Now to some acknowledgements. I was honoured to take the reins as NZX's chair from Andrew Harmos at our annual meeting last year.

Andrew spent 13 years on the board leading NZX and our capital markets through a period of change and development.

I'd also like to acknowledge the Honourable Simon Power, who also stepped off the board at our last annual meeting.

Both Andrew and Simon join a group of enthusiastic NZX alumni who are keen champions for NZX and NZ Inc.

Your directors continue to work well together and my thanks go to the board for their continued hard work and dedication.

On behalf of the board I'd like to acknowledge the FMA, who we continue to maintain a positive and robust working relationship with.

The FMA's fourth annual General Obligations Review endorsed NZX's Regulation work and the investment in capability that we have made. The report outlined the proactive approach we are taking as a frontline regulator of the New Zealand capital markets.

I'd also like to thank the New Zealand Markets Disciplinary Tribunal and the Special Division for their work.

I'd like to thank Tim and all the NZX staff on behalf of the board for your valuable contribution to our business.

And finally, I'd like to thank you, our shareholders, for your continued loyalty to NZX. The board and management hugely value your support and we are committed to delivering value on your behalf.