23 February 2024

NZX demonstrates strength & resilience in challenging time for global markets

- Group operating earnings[1] of $40.1 million (excluding acquisition and integration costs), up 9.6% year on year
- Net profit after tax (NPAT) of $13.6 million, down 4.3%
- Final dividend of 3.1 cents per share, fully imputed. FY2023 dividend total 6.1 cents per share, fully imputed
- FY2024 operating earnings guidance range is $40 million to $44.5 million

NZX today announced operating earnings (EBITDA) of $40.1 million (excluding acquisition and integration costs) for the financial year ended 31 December 2023 – up 9.6%. Including acquisition and integration costs, Group operating earnings (EBITDA) for the same period were $38.9 million – up 10.9%.

"Despite challenging economic conditions globally, the New Zealand market continued to deliver capital raising capacity to meet our issuers' debt and equity objectives," NZX Board Chair John McMahon says.

"Alongside this, the diversity of NZX's product offering and earnings base meant the Company continued to make steady progress on our long-term strategy of expanding our product range in capital markets and driving scale and operating leverage across Smartshares, our funds manager, and NZX Wealth Technologies, our custodial investment administration platform."

Operating revenue increased $12.7 million to $108.4 million, primarily driven by incremental revenue from Smartshares' acquisition of QuayStreet Asset Management, Smartshares' organic fund growth, and the continued growth of our Information Services (data) and Dairy market businesses. This growth occurred despite headwinds from reduced market activity, with trading and clearing volumes at their lowest levels in nine years.

Operating expenses, excluding acquisition, integration and restructure costs, increased $9.2 million to $68.3 million. This was driven by incremental costs as a result of integrating the Smartshares acquisitions, inflationary pressures (employee and technology costs), and increases in costs relating to compliance and statutory obligations.

NZX produced an audited net profit after tax (NPAT) of $13.6 million for the 2023 year (2022 $14.2 million), a year-on-year decrease of 4.3%. The decline largely resulted from additional amortisation (relating to NZX Wealth Technologies' software development and migrations, and Smartshares' acquisitions) along with higher funding costs.

The higher amortisation charge largely represents the cost of several years of growth capital investment in NZX Wealth Technologies, an investment from which NZX is now seeing gains through significant new client wins that will be progressively onboarded to the platform in 2024. NZX Wealth Technologies is targeting cash flow breakeven by the end of 2024 - adding significant value to the Company.

[1] Operating earnings (EBITDA) are before net finance expenses, income tax, depreciation, amortisation, gain on lease modification, gain on disposal of assets and share of profit of associate. Operating earnings is not a defined performance measure in NZ IFRS. NZX Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities. Refer to note 2 of NZX Group's financial statements for a reconciliation of EBITDA to NZ IFRS profit for the period.

NZX Chief Executive Mark Peterson says NZX is extremely conscious of its cost base and the cost pressures it is facing.

“It has been necessary to invest in new staff and technology as we assumed the support functions for the new clients we received through those acquisitions. However, we have dedicated effort to reviewing headcount, managing project priorities and rationalising supplier contracts across the NZX Group. We have prioritised key projects that will deliver to our strategy, put on hold other projects, and negotiated supplier contract savings opportunities. Cost control remains a priority,” Mr Peterson says.

The NZX/S&P 50 index (gross) produced a return of 2.6% for 2023. However, the effects of high inflation and interest rates saw equity market trading activity remain soft resulting in a 9.7% reduction in total value traded – the lowest volume in nine years – which reflects the current economic cycle. Value traded is a key earnings driver for NZX.

“Despite economic uncertainty, being NZX-listed enabled issuers to access both debt and equity funding, with $14.2 billion of capital listed and raised on market for the year,” Mr Peterson says. “This has been equally split across primary and secondary capital raises, with more than 24 significant equity capital raising events, ranging in size from $1.5 million to $902 million. The diverse range of capital raisings in 2023 reflects NZX’s ability to deliver to issuers’ capital needs and highlights the value of being NZX-listed in a more economically difficult and capital constrained environment.”

Economic conditions have provided a tailwind for debt market activity. In 2023 there were 25 primary debt deals with $6.7 billion raised, and 34 secondary retail debt deals completed, totalling $2.1 billion – a combined total of $8.8 billion. This includes green and ESG bonds, which accounted for 29.4% of all debt issuance on the NZDX in 2023.

Other business units in NZX’s business performed well. This was particularly notable in:

- **Dairy derivatives** partnership with SGX Group hit a new record with 578,795 lots – up 35% on 2022, a new record;

- **Information Services** (data) business generated revenue of $19.7 million, up 1.9% on 2022;

- **Smartshares** funds under management (FUM) reached $11 billion, up 32.9% on 2022. Smartshares is a key component of NZX’s growth story, with FUM having grown $8 billion in the last five years due to a combination of acquisitions, cash flows and positive market returns. In June 2023, Smartshares continued to expand its product offering with the launch of five new ETFs. Our market analysis indicates $15-$20 billion of FUM is the point when cost bases become efficient for New Zealand fund managers. Smartshares is on a pathway that aims for around $18 - $20 billion of FUM by the end of 2027.

- **NZX Wealth Technologies** won 12 new clients in 2023. These are expected to be transitioned on to its platform by the end of 2024. All of these are for the higher-margin full-service custody and operations markets – as opposed to Software as a Service (SaaS). This includes Fisher Funds, which serves more than half a million clients and has $23 billion in funds under management. We remain confident the growth from the existing contracted transition activity and the new business prospect pipeline should ensure NZX Wealth Technologies meets its objective of being cashflow breakeven by the end of 2024 and will deliver on its longer-term target of funds under administration between $35 and $50 billion. FUA in 2023 was $11.5 billion – up 15.8% on 2022.

In market development, work is progressing to deliver an additional trading venue, the midpoint orderbook (NZX Dark), for launch in H1 2024. NZX is working towards a relaunch of the S&P/NZX20 Index Futures later in 2024. In addition, NZX supports opportunities by the New Zealand government to develop the secondary and futures carbon markets. It is important New Zealand moves quickly to uphold – and secure – the integrity of emissions trading in our country.

Mr Peterson says a critical role for NZX is to operate the markets efficiently and effectively, which requires ongoing investment in technology. “It was pleasing that in 2023 NZX maintained 100% uptime with no market outages to our operating platform. With a focus on continuous improvement, NZX continues to engage and work with our suppliers and customers in the market technology ecosystem to ensure appropriate infrastructure is in place to operate the markets effectively and securely.”

The performance of NZX’s technology and relationships with the market was positively noted in the Financial Market Authority’s annual market obligations review published in June 2023.

The NZX Board has declared a fully imputed final dividend of 3.1 cents per share (2022 3.1 cents) to be paid on 28 March 2024 to shareholders registered as at the record date of 15 March 2024.

NZX expects full year 2024 operating earnings (excluding integration and restructuring costs) to be in the range of $40 million to $44.5 million. The guidance is subject to the usual market risks and outcomes.

ENDS

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About NZX

For more than 150 years we have been committed to connecting people, businesses and capital. Our vision is to be a trusted New Zealand business delivering sustainable wealth, value and opportunities for all.
NZX operates New Zealand's equity, debt, funds, derivatives and energy markets. To support the growth of our markets, we provide trading, clearing, settlement, depository and data services for our customers. We also own Smartshares, New Zealand's only issuer of listed Exchange Traded Funds (ETFs), and KiwiSaver provider SuperLife. NZX Wealth Technologies is a 100%-owned subsidiary delivering rich online platform functionality to enable New Zealand investment advisors and providers to efficiently manage, trade and administer their client's assets. Learn more about us at: www.nzx.com