NZX Limited

FY2023 Results

Strength and resilience

NZX Limited – Full Year 2023 Results and Annual Report

Dear Shareholder,

On behalf of the NZX Board, I am pleased to share with you our 2023 Annual Report and Financial Results, which were released today and are available to read online here.

Highlights for the year ended 31 December 2023 were:

- Group operating earnings[1] of $40.1 million (excluding acquisition and integration costs), up 9.6% year on year. Including acquisition and integration costs, Group operating earnings (EBITDA) for the same period were $38.9 million – up 10.9%
- Net profit after tax (NPAT) of $13.6 million, down 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
- Final dividend of 3.1 cents per share, fully imputed. FY2023 dividend of 6.1 cents per share, fully imputed
- FY2024 operating earnings guidance range is $40 million to $44.5 million.

Despite challenging economic conditions globally, the New Zealand market continued to deliver capital raising capacity to meet our issuers' debt and equity objectives.

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 the 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.

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.

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[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 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 the Smartshares' acquisitions. However, through the year 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.

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. 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 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 high, with 578,795 lots traded – up 35% on 2022;

- **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 and Smartshares is aiming to achieve that 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 launch 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.

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.

The Dividend Reinvestment Plan is available and the document can be viewed here. Shares issued under the dividend reinvestment plan will be issued at a 1% discount. As a current Dividend Reinvestment Plan participant your dividend will be reinvested, whether partially or in full, in accordance with your election.

With the growth activities NZX has underway across the business, NZX expects full year 2024 operating earnings (excluding integration and restructuring costs) to be in the range of $40.0 million to $44.5 million. The guidance is subject to the usual market risks and outcomes.

Thank you for your continued support as a shareholder of NZX. I also want to acknowledge the capability of our CEO Mark Peterson in leading our team, and the commitment our people show every day in connecting people, businesses and capital.

John McMahon

CHAIR