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NZX reports strong earnings, focus on future growth and $44m capital raising

- Group operating earnings[1] of $34.4m; excluding acquisition costs $35.8m - up 4% year-on-year, for period ending 31 December 2021
- Continued growth across all major business areas – Capital Markets, Smartshares, NZX Wealth Technologies
- Operating margin (excluding acquisition costs) of 40.7%, with increased investment across growth businesses, including people and technology
- Net profit was $15.0m, down 14.6% year-on-year, reflecting lower interest rates and higher depreciation and amortisation
- Proposal to invest in a 33% stake in Global Dairy Trade, the leading global physical trading platform for dairy commodities, alongside EEX and Fonterra, for $12.5m (plus $3.2m as NZX's proportion of planned additional growth investment into the platform). Raising approximately $44m to fund continued growth and to keep the balance sheet conservatively positioned
- FY2022 operating earnings guidance range $33.5m to $38.0m

17 February 2022 – NZX today announced operating earnings (EBITDA) of $34.4 million for the financial year ended 31 December 2021, which has seen substantial progress against our strategy to re-engineer the NZX Group for future growth. Excluding acquisition costs, Group operating earnings were up 4.0% year-on-year to $35.8 million.

NZX Chair, James Miller, said operating earnings reflected sustained momentum from the extraordinary COVID-fuelled activity levels of 2020, with growth across all major business areas.

Mr Miller said the company had been true to its growth strategy aimed at “building a more robust, integrated financial services business”.

“In addition to strengthening New Zealand’s exchange, our strategy is to grow an NZX Group that is stronger and better positioned to deliver long-term sustainable value to our shareholders,” he said.

Alongside growth in 2021, there has been a step-change in investment to support additional capacity, capability, and to enhance the security of operating platforms.

The NZX Board has declared a final dividend of 3.1 cents per share to be paid on 10 March 2022, contributing to a FY2021 dividend of 6.1 cents per share fully imputed.

Strong operating performance

NZX Chief Executive, Mark Peterson, said the COVID pandemic materially stimulated and accelerated activity through 2020, and this had flowed through positively into FY2021 operating performance and financial results – with operating earnings holding up well.

“We have continued to deliver growth in 2021 across all major business areas and we have made a step change in our investment to support additional capacity, capability, and to enhance the security of our operating platform. This will continue in 2022.

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[1] Operating earnings (EBITDA) are before net finance expense, income tax, depreciation, amortisation, loss on disposal of assets, and gain on lease modification. Operating earnings is not a defined performance measure in NZ IFRS. The Group's definition of operating earnings may not be comparable with similarly titled performance measures and disclosures by other entities.

Group revenues were up 12% year-on-year to nearly $88 million for the full year. Operating margin excluding acquisition costs at 40.7% was lower, due to the investment in growth, including bringing forward increased spend in people and technology costs to ensure the resilience of our infrastructure and support expansion.

Net profit after tax for the year (NPAT) was $15.0 million, compared with $17.6 million the previous year. Lower interest rates have impacted the level of interest income on operational cash balances, NZX Clearing risk capital and regulatory working capital. Depreciation was higher due to the investment into additional IT infrastructure and the fit-out of NZX's new Auckland office. Amortisation was also higher due to capitalised costs in late 2020, relating to the spend associated with the migration of new clients onto NZX Wealth Technologies' platform, and the implementation of a new trading system.

Capital expenditure continues to be focused on investing in IT capacity, resilience and security, alongside the growth opportunities within Smartshares and NZX Wealth Technologies, and creating our new Auckland offices - the *New Zealand Capital Markets Centre,* as a home for the capital markets in New Zealand, where we were able to host the Winton Land listing in December.

"We are also pursuing a number of opportunities to grow the business that will require investment in the coming year, under our strategy to develop our markets further and deliver greater value to NZX shareholders over the longer term," he said.

A year of opportunity

Mr Peterson said it was another year of strong activity across equity, debt and fund markets with the total value of new capital listed and secondary capital raised up more than 12% to $19.8 billion. Nine new companies joined NZX's equity market, one new issuer listed securities on our debt market and 28 businesses took the opportunity to raise additional equity in the market.

Secondary market liquidity was at near-record levels with $52.4 billion in total traded value. NZX's funds management business, Smartshares, organically grew its Funds Under Management (FUM) by $1.46 billion, up nearly 29%, and NZX Wealth Technologies successfully transitioned new clients onto the platform ending the year with Funds Under Administration (FUA) at more than $11 billion, up more than 53%.

Unlocking future growth

"Our partnership with Singapore Exchange - that has enabled the listing of our dairy derivatives contracts on the SGX, and the cornerstone stake we propose to invest in Global Dairy Trade (GDT), alongside the European Energy Exchange (EEX) and Fonterra (further detail below), highlight the tremendous potential for NZX to build and drive growth from the strategic partnerships we have in place, and this is also true for carbon," he said.

"Our NZX 2.0 strategy is at the heart of how we operate. We are growing a more integrated financial markets infrastructure and services business, building on the NZX's core strengths and continuing to explore growth opportunities across our businesses to create further value for our shareholders over time. Successful execution will benefit consumers of capital, investors, our shareholders – and ultimately our economy and the standard of living of all New Zealanders."

Mr Peterson said creating scale in each of the business areas across the NZX Group is key to unlocking the embedded value.

"The acquisition of the management rights for the ASB Superannuation Master Trust (SMT) by Smartshares, and being proactive and competitive in our pitch to win KiwiSaver default status, are examples of the importance we are placing on scale in the Smartshares business, which allows us to unlock these further opportunities."

The acquisition was completed early in 2022, adding about $1.8 billion in retirement savings from more than 17,500 members across more than 100 employer groups – taking passively managed FUM of workplace savings in Smartshares' care to more than $3.2 billion at year-end.

With the KiwiSaver default transition occurring through December 2021, this has resulted in an additional $385 million of FUM being transferred and a doubling of the number of New Zealanders who are supported by SuperLife KiwiSaver solutions. Holding default KiwiSaver provider status is expected to continue to add around 10,000 new members each year.

Mr Peterson said NZX had completed a review of the Senior Leadership Team and made several changes to better position the business to deliver on its strategic ambitions: “During 2021, we have bolstered our management capability and added specialist skills to the technology teams.”

International alliance programme

Mr Miller said NZX also had a significant focus during 2021 on executing its international strategic alliances with other exchanges for the benefit of NZX shareholders and two of these are now translating to valuable commercial partnerships.

The launch of the NZX-SGX Dairy Derivatives Strategic Partnership on 29 November 2021 was several years in the making – with the objective of unlocking and accelerating the growth potential of the dairy derivatives market that NZX has been developing, and nurturing over the past decade.

The joint stewardship of these important derivatives contracts brings together NZX’s core dairy expertise in industry engagement, market insight, research capability, and product development know-how with SGX’s Asian presence and global distribution capability, under a working strategic partnership. Both exchanges were excited about the growth prospects, he said

Continuing the dairy theme, after balance date NZX has entered into a non-binding agreement with Fonterra to take a 33.33% ownership stake in the world’s pre-eminent dairy trading platform, Global Dairy Trade (GDT), alongside Fonterra and EEX.

NZX’s GDT investment remains subject to clearance from any relevant competition law authorities and the agreement of binding transaction documentation. NZX, Fonterra and EEX have announced that they expect to sign binding documentation in the first half of 2022.

NZX sees a clear opportunity ahead to evolve GDT to be a truly global auction facility, with the potential to grow financial products to many multiples of the physical dairy market. These tools are crucial and in huge demand in an international dairy market dealing with volatility and its associated risks – with clear benefits for New Zealand producers and dairy customers around the world.

“Bringing together an ownership stake in the physical trading platform alongside some of the biggest players in the world and overlaying our partnership with SGX to accelerate the growth of the NZX-SGX Dairy Derivatives markets, is a truly exciting opportunity," Mr Miller said.

Another strategically important milestone was the launch of the managed auction service for the New Zealand Emissions Trading Scheme (NZ ETS), following a successful bid to the Ministry for the Environment. This was a partnership achieved again by combining the skills and experience of NZX and the EEX to deliver a world-class solution tailored for New Zealand and is a key tool for the Government in addressing domestic and international climate policy targets.

“We take pride in this as a tangible example of sustainability influence and action that will contribute to a healthier planet,” he said. Mr Miller said NZX’s business growth would be underpinned by investment to create an efficient, reliable, and secure operations and technology platform.

Alongside dairy and carbon, the company is well-advanced with a cornerstone group of investors, market-makers and participants in planning the relaunch of the S&P/NZX20 Index Futures contract, which could have wide-ranging benefits for New Zealand capital markets and NZX.

Equity offer

NZX is today announcing an offer of NZX shares to raise approximately $44m to support NZX’s growth and strategy towards a stronger and more integrated financial markets infrastructure and services business.

This pro-rata accelerated renounceable entitlement offer (Offer), announced today alongside our 2021 annual result, gives all eligible shareholders the opportunity to purchase 1 new share (New Shares) for every 9 NZX shares held at 5.00pm NZ time on the Record Date of Friday, 18 February 2022, at an Offer Price of NZ$1.42 per New Share.

The Offer Price reflects a 15.0% discount to the dividend adjusted theoretical ex-rights price of NZ$1.67, and a 16.4% discount to NZ $1.70, being the last close price of NZX shares on 16 February 2022 of $1.73 adjusted for the 2021 final dividend of 3.1cps.

“The proceeds of the Offer will be used to fund our investment into GDT (including NZX's proportion of planned additional growth investment into the platform), replenish our balance sheet following the settlement of the ASB SMT Acquisition on 11 February 2022 and provide capacity to support the potential investment across our market platform as we continue to scale our growth businesses," Mr Miller said.

The institutional component of the Offer has been accelerated and occurs on 17 February 2022, with confirmations due by 10.00am (NZ time) / 8.00am (Sydney time) on Friday, 18 February 2022.

Eligible Retail Shareholders will have until 7.00pm (NZ time) / 5.00pm (Sydney time) on Friday, 11 March 2022 to subscribe for New Shares under the Retail Offer.

New Shares will be issued after the record date for the 2021 final dividend and will therefore not be entitled to that dividend. The dividend reinvestment plan will also be temporarily suspended in respect of the 2021 final dividend, given this equity raising. It is expected to be reinstated and operate for the 2022 interim dividend.

Further details regarding the Offer can be found in the Offer Booklet released today and at www.nzx.capitalraise.co.nz.

Outlook for 2022

In line with NZX’s strategy, Mr Miller said: “We have continued to grow both the scale of our businesses and the synergies available between them.

“The NZX Board believes this will create a strong platform for future earnings growth.”

Building these growth opportunities required investment, notably elevating technology costs to ensure our core capital markets’ infrastructure meets investor and regulator expectations, and Smartshares and Wealth Technologies can efficiently scale revenue growth into earnings, he said. The cost of this investment in supporting growth escalated during 2021 and the full effect would be felt in 2022, with earnings benefits progressively delivered from 2023.

The Board notes the increased market volatility from the start of the year, and a general tightening in financial conditions. Accordingly, the NZX Board has conservatively positioned expectations for full year 2022 operating earnings to be in the range of $33.5 million to $38.0 million.

This guidance is subject to market outcomes, particularly with respect to market capitalisation, total capital listed and raised, secondary market value and derivatives volumes traded, funds under management and administration growth, acquisition-related integration costs and technology costs. Additionally, your Board notes the ongoing risks related to the COVID pandemic, and this guidance assumes no material adverse events, significant one-off expenses, major accounting adjustments, other unforeseeable circumstances, or future acquisitions or divestments.

ENDS.

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About NZX

For more than 150 years we have been creating opportunities for Kiwis to grow their personal wealth and helping businesses prosper. As New Zealand’s Exchange, we are proud of our record in supporting the growth and global ambitions of local companies. 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. Learn more about us at: www.nzx.com