



Edited Transcript of ASX HY 2014
Analyst Briefing
13 February 2014

Elmer Funke Kupper, ASX Managing Director and CEO:

Ladies and Gentlemen, it is the appointed time, 10am, and I think we might open the presentation. Welcome to the ASX presentation of the first half of the 2014 financial year. My name is Elmer Funke Kupper, I am the Chief Executive of ASX Limited. We are joined here by a number of people in our auditorium in Sydney as well as by people who are joining us by phone and webcast. For those in the auditorium could I please ask you to put your phones on silent. Thank you. The complete results materials have been released to the market and are available on the ASX website and as usual I am joined for the presentation by Peter Hiom, our Deputy CEO, and Ramy Aziz our CFO. We will follow the usual format, I will present for around 25 minutes after which we will open it up for questions.

Let me start by giving you an overview of the results. ASX delivered a positive result in the first half of the financial year, driven by revenue growth. Profit after tax was \$189.6 million, up 10.8%. Our EBITDA was \$252 million, up 8%. Revenue growth was positive 8% up to \$329 million and pleasingly for the first time since 2008 we have a half where we saw revenue growth in each of our major lines of business. Expenses were up 8.3% to \$77 million, that's driven by our significant investments in new initiatives and infrastructure but we are not changing our guidance for full year expense growth so we are still expecting full year expense growth in the order of 5%. Our initiative program is currently on track. The focus continues to be very strongly on the development of a world-class financial market infrastructure for Australian investors.

The program to deliver OTC Clearing, Client Clearing and Collateral Management Solutions is on track. It is now backed by a strong capital position since our capital raising of last year and that was confirmed early this week by the issue of a double AA- credit rating for both ASX Limited and the clearing house that carries the risk of the derivatives businesses.

Capital expenditure was \$18.6 million, that's in line with our expectations. We have marginally changed our guidance for the full year to \$40-45 million and our balance sheet position continues to be very strong to support that level of investment.

The next page shows the result in an income statement and as you can see in the third column an 8% revenue growth created 8% EBITDA growth and almost 11% earnings growth. That comparison is to the first half of the previous financial year which was a somewhat weaker half, so we thought it was useful to also share with you what the numbers looked like compared to the second half of 2013 and that is on the right of the page. I can see compared to that most recent half that revenues were up 5.4%, EBITDA up 6 and earnings up 7.1%. But these are the raw earnings numbers. Of course last year we did conclude our capital raising which impacts on the earnings per share and the dividend per share numbers and we thought it was useful to give you a reconciliation of the EPS numbers on page 5 of the presentation. EPS is up 2.2%, 96.2¢ per share to 98.3¢ per share driven by two factors, the first is

about 10¢ per share uplift from the positive earnings performance of the company and then of course that offset by 8¢ per share which is the dilutive effect that comes from the capital raising.

We will now look in more depth at the revenue performance of the company and each of our businesses. Page 6 gives you the traditional waterfall chart between the two halves, revenues up 8% to \$329.3 million and as you can see positive revenue growth in each of our main business lines and the revenue growth percentages ranged from close to 6% to almost 11%. In absolute terms the largest contributors with listings and issuer services business up \$7.9 million or 10.7%, that is predominantly driven by the very strong IPO activity in the first half and the derivatives business \$5.4 million which is of course our largest business in the company but positive performance across the board.

Now again as I explained before, this is a comparison year on year so first half to first half. Again we thought it was useful to share with you what the growth looked like in the second half of last year, not just the first half of last year. That is set out on the next page 7. If you look at the bottom line growth year on year first half to first half of 8% and growth half on half, first half to the previous second half of 5.4% and compared to the second half last year, there is a greater variation between the different lines. When compared to the immediate prior half there is very strong growth in listings again on the back of IPOs at 23% but no growth in our trading businesses and that of course is an indication of the strength of the half we had in the second half of 2013. We need to do more work to make sure that we match that strong performance in our trading businesses. At the bottom line there is a positive growth 5.4% in immediate prior half and 8% year on year. A pleasing result.

We will now run through each of our individual businesses as we traditionally do, starting with Listings and Issuer Services business. This is about 25% of the total revenue. Listings and Issuer Services revenue consists of two revenue components; firstly, the listings business which was up 11.3% to \$66.8M. That increase is driven by the strong IPO activity in the first half. As you can also see that secondary capital raisings were down in the first so IPOs carried that with 69 IPOs compared to 41 at the previous year. The second part of listings and issuer services is the issuer services component but it mainly consists of revenues from CHESS holding statements. That was \$14.7 million, up 7.8% and that is a function of increased trading activity in the equity markets leading to more statements being issued. Our focus in this business continues to be on three things. Firstly, making sure that the listings environment in Australia continues to be the best it can be. In the second half of this financial year we will be implementing a reduction in the rights issue timetable, cutting a week off that timetable to bring it down to 19 days. So that is coming this half. We have also launched some product expansion in the last 12 months, ASX Bookbuild and trading on market of government securities and we look to grow those over time.

And finally at long last we received the necessary regulatory approvals to launch our managed funds service called mFund. That is very pleasing, I think it is a very good result and we have 60 foundation members signed up to that program. We believe this is in the long run a game changer for the way Australians will apply for and redeem managed funds products on electronic platform. We think that is a real positive in the long run and we are delighted to work with 60 foundation members to build up that business.

And in the chart on the left hand side you can see the kick up in capital raised over the period. The kick up really came from the light blue bar which is the IPO activity in the first half.

The second business to focus on is our cash market business which consists of equity trading, clearing and settlement. Together it accounts for about 18% of our revenues. Revenues were up 7.8% to \$59.2 million driven by higher trading activity. Activity in the total market across all exchanges grew by slightly over 15% and the ASX value traded on our market grew by 8.8%, so all exchanges 15, ASX around about 9. The difference between those two numbers is market share so over the first half we saw the growth of the alternative platform grow from about 4% to about at 9%. Today, ASX's market share of the on-market trading value is about 91%.

In this is a highlight to two developments; first is we continue to introduce new innovations in our trading products and a strong focus continues to be on Centre Point. Some further product improvements are about to be launched in the next couple of days and Centre Point accounted in the first half for 50.7% of our revenue from equities trading. The second thing perhaps to highlight is that in the first half we implemented the new stakeholder forum that we committed to hold. The stakeholder forum brings together a wide group of stakeholders that have an interest in Australia's equity markets, from alternative trading platforms and exchanges to brokers, investment banks, end investors as well as technology providers. The first forum meeting was held as well as a number of business committee meetings that support that. With some very positive outcomes from the meeting, we hope next month to launch a consultation paper where we test or confirm the appetite for the market to move from a settlement cycle of T+3 to T+2. It is a very positive development.

The next businesses to focus on are Information Services business and our Technical Services business and as you know these businesses provide services to both equities and derivatives in the Australian marketplace. Together they are about 18% of our total revenues. Information Services revenue was up 10.9% to \$33.9 million. We made quite a number of changes on 1 July to this business, recognising that the way customers consumed data between retail users and professional users is now quite different from the way it was a number of years ago. In total those activities have generated good revenue growth of close to 11%.

Technical Services, another pleasing growth number of 6.6% to \$26.2 million for the half and that is on the back of the ongoing investments we are making in our technical services platform as well as our data networks where we are starting to reach critical mass for the Australian financial marketplace. In the first half we hosted a total of 133 cabinets in our data centre, that is up from 111 and 82 clients are now located in our data centre, that is up from 66 last year. So again pleasing growth in the financial markets community that operated in our data centre and consumed our services. But the focus in these businesses has not changed. In Information Services we will in the second half, launch some improvements to the way information gets distributed between corporate Australia and investors. Corporate Australia issues some 110,000 different announcements through the market announcements platform a year. We will be creating some straight through processing and process improvements for the corporate actions information that gets distributed. This will create efficiencies and make it easier and better for clients and investors, information will get to them faster and more efficiently.

And in the Technical Services business we intend to invest in our platforms, the global connections to other markets and of course the sales efforts to make sure that we maximise the opportunity that we have with those services.

Derivatives and OTC Markets is the largest business of ASX and it accounts for about 30% of our total revenues. Total revenues were up 5.9% to \$99.8 million. Now there are really two businesses that sit within Derivatives and OTC Markets. The first is the ASX 24 business, which is the platform that trades futures and interest rates, electricity, soft commodities. A strong revenue growth in that business, 12.4% to \$89.8 million on the back of activity levels going up. The second business is ASX derivatives which is a much smaller business. This is the exchange traded options business; having a disappointing performance with the revenues down 30% to \$10 million. This is a business that has been in the doldrums for quite some time now and we will be launching a number of initiatives in the next couple of months to see if we can stabilise that business and then start to see some growth again. We will start those initiatives in the second half of this year. In the bigger business which is ASX 24, our focus continues to be on building liquidity slowly in the products that we have launched which is a slow grind. However, we have launched a number of new derivatives contracts in the first half and a very significant investment of focus on the development of the risk management and over the counter infrastructure for the Australian marketplace. In risk management of course we will build a very strong solution for Australian investors and that is now backed by a strong capital position and a AA- credit rating. In OTC markets our investments are again on track. The dealer to dealer service is live, client clearing will be live by April and then over time we will take those investments to our entire futures business as well.

Very pleasingly we are receiving the necessary approvals domestically to launch client clearing and of course internationally from both EU regulators and US regulators and that allows us to very importantly service US and European banks who play such an important part in Australia's financial markets. It is so well on track that it takes all the excuses away to the marketplace not to make this business work.

The final business is Austraclear, Austraclear accounts for about 6% of our total revenues and as you know Austraclear is the fixed income depository platform for the Australian marketplace. Another solid performance from this business and you can see at the bottom transaction holdings volumes continuing to rise; total revenues up 7.4% to \$20.5 million driven by rises in transaction revenues as well as registry revenues. Our focus on this business is on the launch of our collateral management service and just to remind you what that is, the collateral management service that ASX is building allows financial market participants to use the collateral that sits in Austraclear to collateralise financial markets transactions either with us or with each other rather than using cash. It can give very material collateral core savings to our clients. We have now launched that service and a number of clients have put their first pilot trade through. As the calendar year progresses we look to onboard all our clients and then progressively build up that business.

In our Derivatives and OTC business we talked about the infrastructure that we are building for risk management and over the counter clearing solutions, here we are talking about a collateral service. We thought it was important to once more emphasise what it is that ASX is building for the Australian financial market place because we believe it is absolutely critical that Australia has a world-class financial market infrastructure available in Australia, both for intermediaries and for the end clients. And as we move from left to right across this chart you can see Australia has a very attractive derivatives market and interest rates products, both futures and swaps. We are the largest market in Asia and the top five market globally. The

Australian dollar is a very important market and we are building a world-class solution of full service using best in class technology and highly efficient both for the end client and the intermediaries. And so far we have received very good support and we are very grateful to our foundation customers, both in OTC clearing, many of the banks, and in our collateral management service. They have been a great support to us in development and implementation of the service and we look forward to working with them to build liquidity.

We are delivering the services at a relatively high speed between July last year and July this year. By mid-2014 we will have for the Australian Dollar a full OTC clearing service available. The dealer to dealer service is already live, client clearing will go live later this half. We are also building margin simulation and optimisation tools for our clients so that they can get the absolute lowest, the most optimum margin outcome for their businesses from what we can offer them. We will then take some of those innovations and put them in the bigger futures businesses. So we start with OTC, translate it into the much bigger futures business and of course as part of it we are also launching collateral management which gives our client is real efficiency. This is a world class solution. For investors this matters because it gives them world class investor protection. Not only because we allow them to clear down to the client level, if they so choose, it gives them greater protections on how their collateral gets managed. But also importantly it is a domestic solution which means the capital of the collateral sits here, the capital of the clearing house sits here and the collateral of our clients and the end investors gets managed locally under Australian regulators and under Australian law. That is the lowest risk solution for investors and the lowest systemic risk for the Australian marketplace and we think it is essential for the size of the market that we have in the Australian dollar, the debt service is available and gets activated. We are backing it with investments in the infrastructure. We are backing it with capital and early this week we announced that we have a AA- credit rating, both at the holding company level and at the clearing house level where this risk resides.

That concludes the overall view of the performance of our main business lines and investments we are making there. ASX of course also derives revenue from interest and dividend income and on page 14 we summarise the growth in those lines. Strong growth in that income of 41.5% to \$30.9 million but of course a large part of that was driven by the capital raising, which gives us more cash, and higher net interest income. You can see that in the top line where the interest income on ASX's own cash, which went up by 94%. That is the consequence of the capital raising. The interest we earned on the collateral balances we hold from our clients as part of their trading activities with us also went up by 14% and that is simply a function of trading activity and higher collateral balances they hold with us. The margin itself didn't move very much. Dividend income from our investment in IRESS is unchanged but you may recall that back in August we participated in a capital raising that IRESS conducted which is pro rata. We took up our full entitlement. It was an investment of somewhere between \$39-\$40 million and today we continue to hold a little over 19% of IRESS, 19.3% as we stand here today.

We then move to expense performance and capital expenditure. Expenses were up 8.3% to \$77.2 million and that is largely driven by the investments we are making in our initiatives and you can that in the top three lines of the chart. You know growth in staff expenses as we add staff and growth in equipment expenses of course as we build the infrastructure for the Australian marketplace. Average staff numbers were up 4.1% to 532 FTE's for the half. That makes us still one of the most efficient exchanges in the world. With 8.3% growth in the first half, we have not changed. Our

guidance for the full year so our guidance for the full year continues to be expense growth in the order of 5%.

Capital expenditure is also on track. In the first half capital expenditure was \$18.6 million, about \$13 million of that went to the new infrastructure in post trade services that we are building. We have marginally updated our guidance for the full year from what I thought before was around \$40 million to \$40-\$45 million and that is the range of guidance that we can give you today. We are comfortable with those numbers. We also always in these presentations give you a summary of current trading conditions recognising of course that they are highly dependent on the state of the economy and recognising that the first few weeks of the calendar year tend to be seasonally low weeks of the year. Nevertheless when we look at the environment we are seeing stabilisation and modest improvements in global economic conditions, particularly in the west, although of course the structural challenges in Europe will remain for some time. Domestically we see more mixed indicators in improving business sentiment. We have got some more mixed signals from consumers while corporate balance sheets continue to be in very good shape, partially reflected in lower secondary capital market activity. We do expect continued corporate activity in IPO's although not perhaps at the pace we have seen in the first half which is very, very strong. Of course we have to recognise this is not something we can influence, this is where corporates and owners of businesses make their own decisions.

Trading for the first six weeks is summarised at the bottom of this page, recognising it is a seasonally low period. When it comes to the equities business we thought we would give you two numbers; the first is the entire Australian marketplace, so this is all exchanges and all off-market venues and dark pools so this is the total Australian marketplace. Value traded per day was \$4.2 billion in the first six weeks, up a little bit by less than 1%. The second number we give you is what has been traded on the ASX market and that was \$3 billion per day, also up just below 1%. The difference between 4.2 and 3 of course is due to two things; it is what the alternative exchange does and what goes through off-market venues and dark pools. That is how that works and we thought we would give you both. So that is up about 0.9%. ASX 24, that is the largest derivatives business in the country, up 21% on what was quite a weak start to the half last year capital raised was a little bit below \$1 billion, down 51%. It is always a weak period but of course people are taking a bit of a breather perhaps after the rush we saw in the most recent quarter in the IPO market.

Now before I open it up for questions, let's summarise the results one more time. First half 2014 produced positive results for ASX with profits up 10.8% on the back of 8% revenue growth. In the half we recorded growth in all major revenue categories. Our initiatives, expenses and CAPEX continue to be on track with a strong focus on making sure Australia has a world class financial market infrastructure available locally for investors. And it is backed by a very strong capital position and a AA-credit rating from S&P. This is where I will open it up for questions, starting here in Sydney and then over the phone.