



# ASX Limited

2018 Macquarie Australia Conference, Sydney

*Strengthening the foundations for  
continued resilience and future growth*

Dominic Stevens, Managing Director & CEO  
1 May 2018



# Agenda

- Financial results for the 9 months ending 31 March 2018
- Strengthening the foundations for continued resilience and future growth
  - CHES replacement journey
  - Other licence to operate initiatives
  - Listings framework enhancements
- Conclusions
- Questions and discussion

# Highlights – financial results: 9 months to 31 March 2018

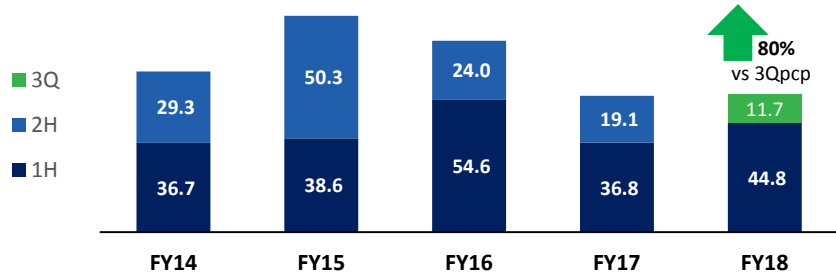
## Unseasonably strong 3Q

	Mar 18 3Q	Mar 18 YTD	Variance % 3Q	Variance % YTD	
<b>Revenue</b>	\$204.6m	\$613.6m	+11.6%	+7.6%	<ul style="list-style-type: none"> <li>• Strong quarter for Listings, Derivatives and OTC, Trading Services</li> <li>• Equity Post-Trade on par with pcp</li> </ul>
<b>Expenses</b>	\$46.9m	\$143.1m	(4.4%)	(5.9%)	<ul style="list-style-type: none"> <li>• Full-year guidance unchanged at approx. 8% growth</li> <li>• 4Q will incur increased staff costs and digital consulting spend</li> </ul>
<b>EBITDA</b>	\$157.7m	\$470.5m	+13.9%	+8.2%	<ul style="list-style-type: none"> <li>• 1H18 up 5.5%, a strong third quarter (13.9% up) drove 9 month EBITDA growth of 8.2%</li> </ul>
<b>Net interest and dividend income</b>	\$25.6m	\$63.8m	+2.9%	+2.3%	<ul style="list-style-type: none"> <li>• Higher average margin balances</li> <li>• Elevated cash investment spreads</li> </ul>
<b>Net profit after tax</b>	\$121.4m	\$351.9m	+12.3%	+7.5%	<ul style="list-style-type: none"> <li>• Continued solid performance from diversified business with multiple growth drivers</li> </ul>

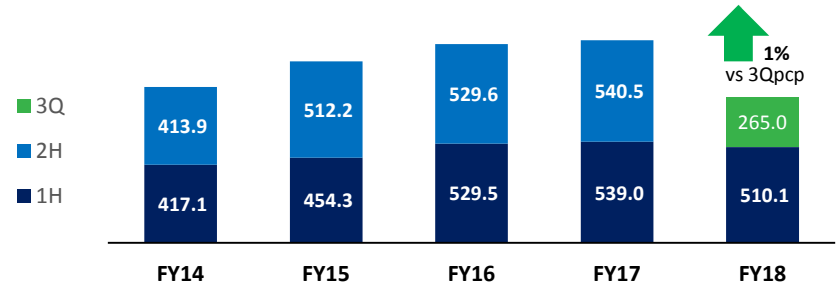
# Highlights – 3Q18 activity levels

Strong growth in secondary capital raisings and futures, subdued equity trading

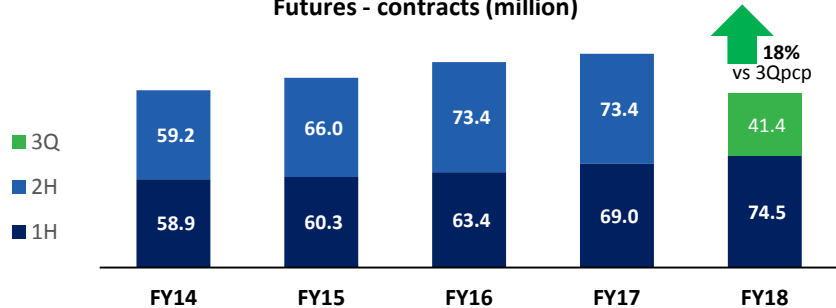
Total capital raised (\$billion)



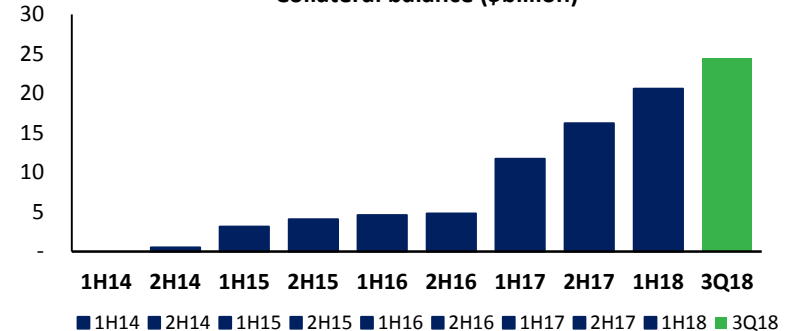
Cash market trading  
ASX value on-market (\$billion)



Futures - contracts (million)



Collateral balance (\$billion)



# Highlights – revenue: 9 months ended 31 March 2018

Strong quarter vs pcp, driven by futures volumes and secondary capital raisings

YTD revenue up 7.6%

## Listings and Issuer Services

- YTD revenue \$164.4m, up 13.6%
- Typically seasonally quiet quarter due to Jan holidays and Feb reporting season
- Subdued initial listings (26 in 3Q18 vs 49 in 2Q18) consistent with seasonal impact
- Secondary capital raisings up 86% vs unusually softer pcp

## Derivatives and OTC Markets

- YTD revenue \$212.0m, up 5.9%
- Strong 3Q reflecting market volatility, up 18.3% vs 3Q17
- Continuing positive impact from new international customers
- OTC notional value cleared up 23.9% vs 3Q17

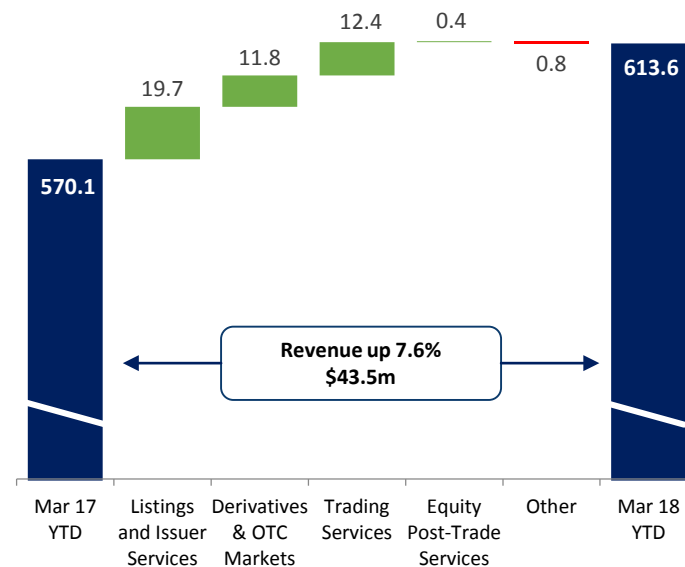
## Trading Services

- YTD revenue \$157.4m, up 8.6%
- Auctions trading up 13.0% vs pcp and up 6.2% on Dec17 quarter
- Achieved meaningful revenue from new data strategy
- Continued to progress data platform and ecosystem strategy

## Equity Post-Trade Services

- YTD revenue \$78.6m, up 0.6%
- Average daily value for 3Q18 slightly ahead of 3Q17 and 1H18
- 3Q18 absent 3Q17's 'Trump bump'
- Released proposed Day 1 CHES replacement consultation paper

Revenue movement (\$million)



# YTD operating expenses

Increased \$8.0m, up 5.9% vs pcp

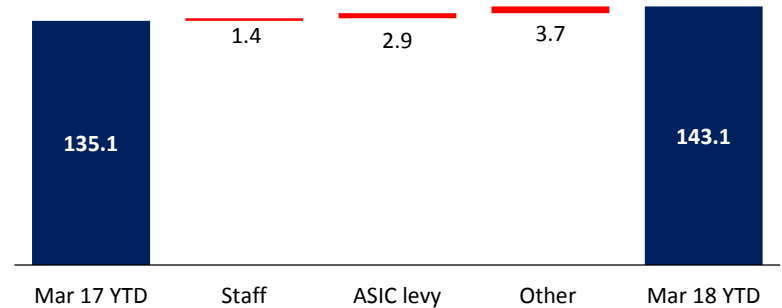
## Operating expenses

- Staff costs up 1.6%
  - Average headcount in line with 3Q17 YTD
- ASIC supervision levy increased by \$2.9 million from \$2.2 million, up 132%
- Other up 7.5%
  - Postage increased \$0.9 million, up 18%
  - Electricity increased \$0.9 million, up 81%
  - Rent increased \$0.4 million, up 5%

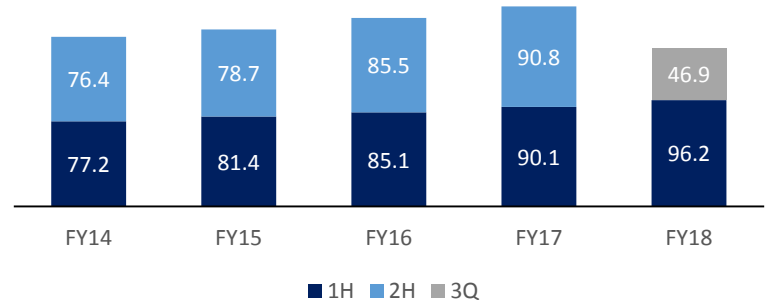
## FY18 guidance unchanged

- Approximately 8% operating expense growth

Expense movement (\$million)







Expenses (\$million)



Strengthening the  
foundations for  
continued resilience  
and future growth

# Strong core value proposition

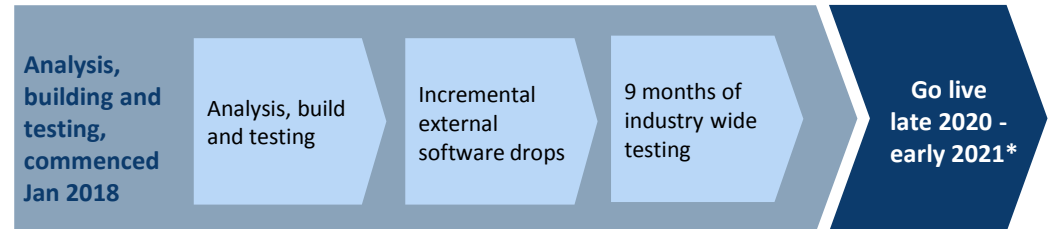
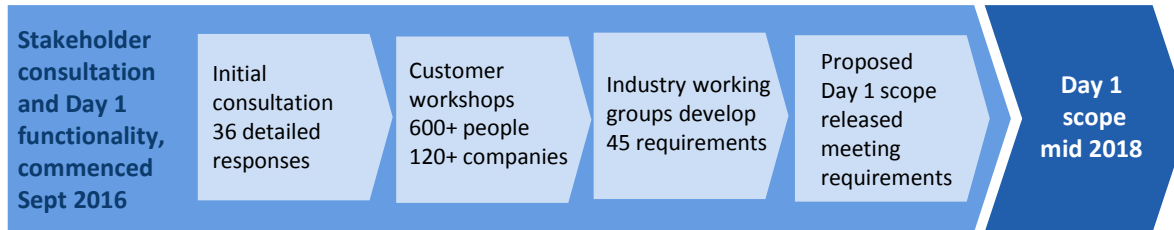
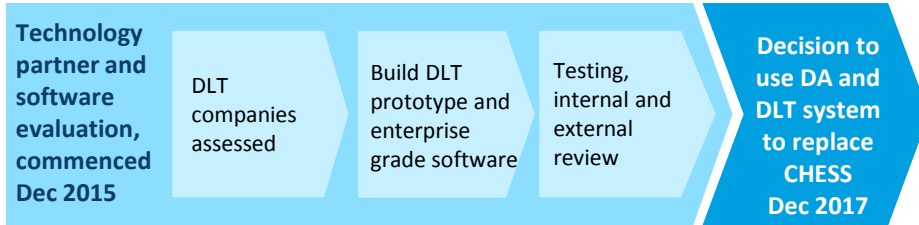
## Importance of reliability and resilience drives 'licence to operate' initiatives

<b>Core customer value proposition</b> 	<b>Listings</b> Initial and ongoing access to capital Lower cost of capital Listings integrity Branding	<b>Trade execution</b> Deep and diverse liquidity Hedging and risk transfer Market integrity Efficient and timely access Technical and data services	<b>Post-trade</b> Capital efficiency Risk reduction/netting Operational efficiency Settlement certainty
<b>Macro growth drivers</b> 	Demand for financial assets Large and growing savings system Growing capital needs Product diversification	Globalisation of markets Automation of OTC markets 24 hour trading	Regulatory developments Operational efficiency needs Capital efficiency needs
<b>ASX initiatives</b>  <b>Business development</b>  <b>Licence to operate</b>	Expansion of listings franchise ETF/ETP listings mFund expansion	Offshore customer acquisition ASX Benchmarks (BBSW) Centre Point innovation ALC/ASX Net solutions	CHES replacement/DLT OTC Clearing, client clearing Futures/OTC cross margining ASX Collateral
MAP upgrade Secondary data centre Operational infrastructure		Business monitoring tools and processes Listings compliance enhancements CHES replacement	ASX Net upgrade Digital refresh Customer service improvements



# CHES replacement journey

Stage 1 complete, stage 2 completing soon, final stage 3 begun



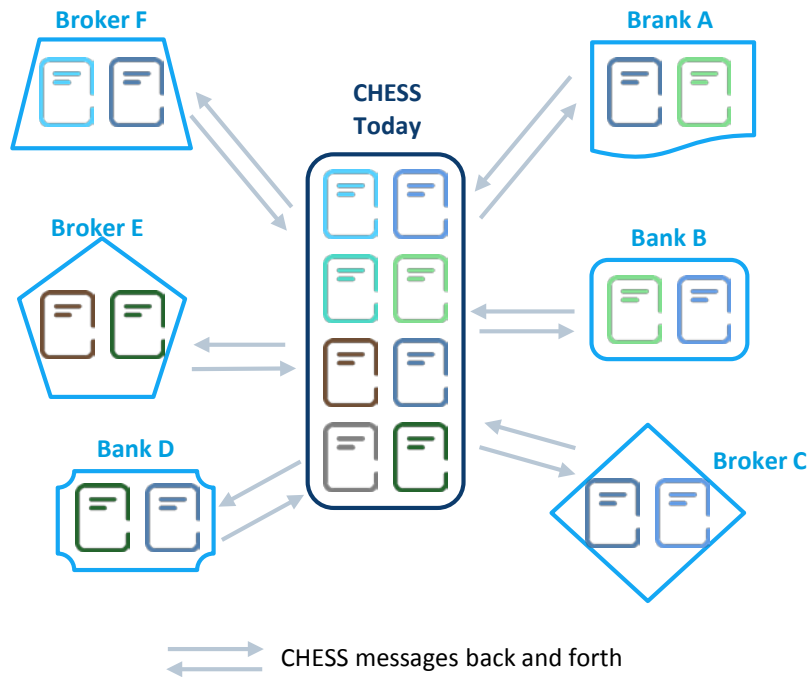
# DLT will deliver benefits to customers

CHES currently sends messages to reconcile many disparate and varied systems



## CHES today

- Highly reliable infrastructure for over 20 years
- All counterparties have their own bespoke operational databases
  - different to ASX
  - different to each other
- Counterparties
  - constantly sending messages back and forth to reconcile their data with ASX
  - also reconciling with registries, custodians, fund managers, super funds, wealth managers, retail



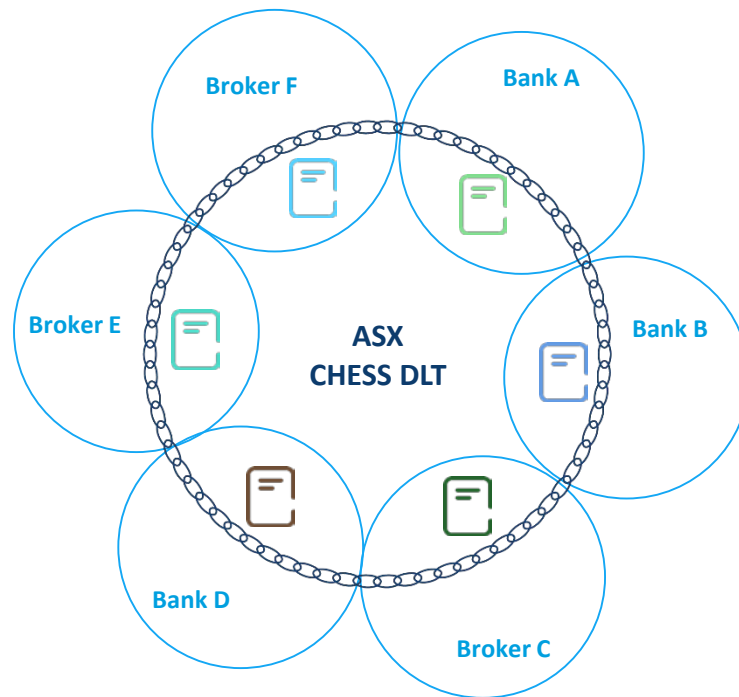
# DLT will deliver benefits to customers

DLT-based CHES sees common customer databases with built-in real time source of truth



## DLT-based CHES provides choice

- Common database structure
- Connection to ASX's single 'source of truth' DLT database via a node
- Databases to be kept in sync real-time without having to reconcile with ASX
- Common architecture enabling subsequently developed software to be used by any participant
- Opportunity for Austraclear to be upgraded onto DLT in the future



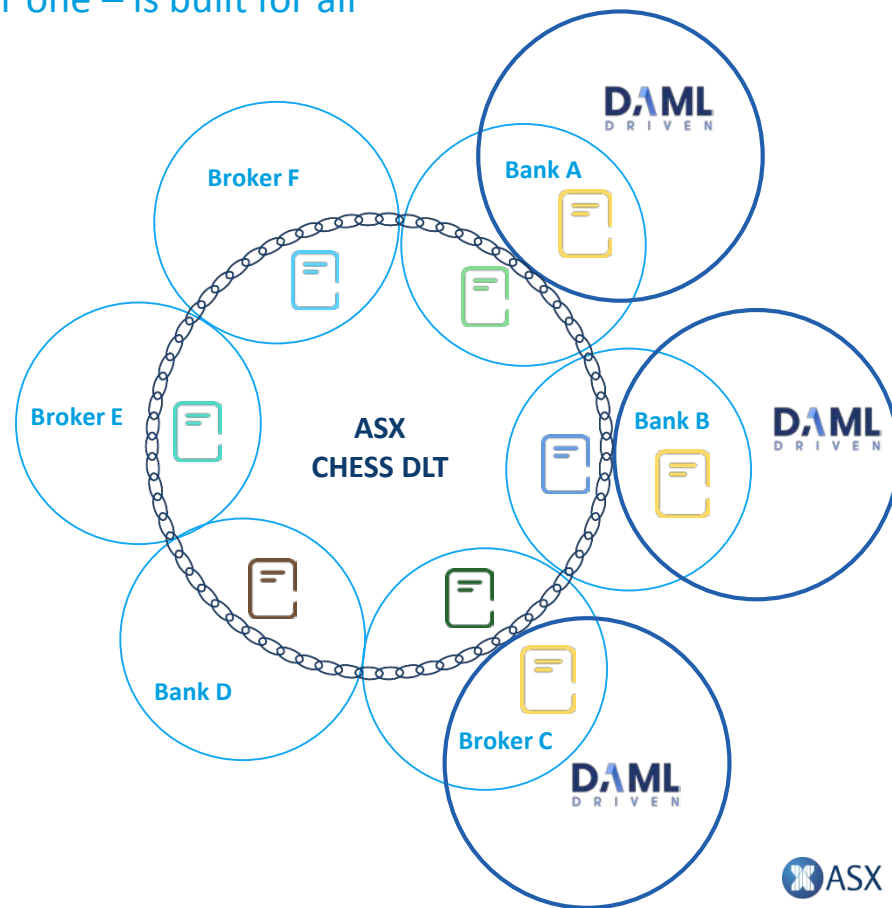
# DLT will deliver benefits to customers

DLT-based CHES means application software built for one – is built for all



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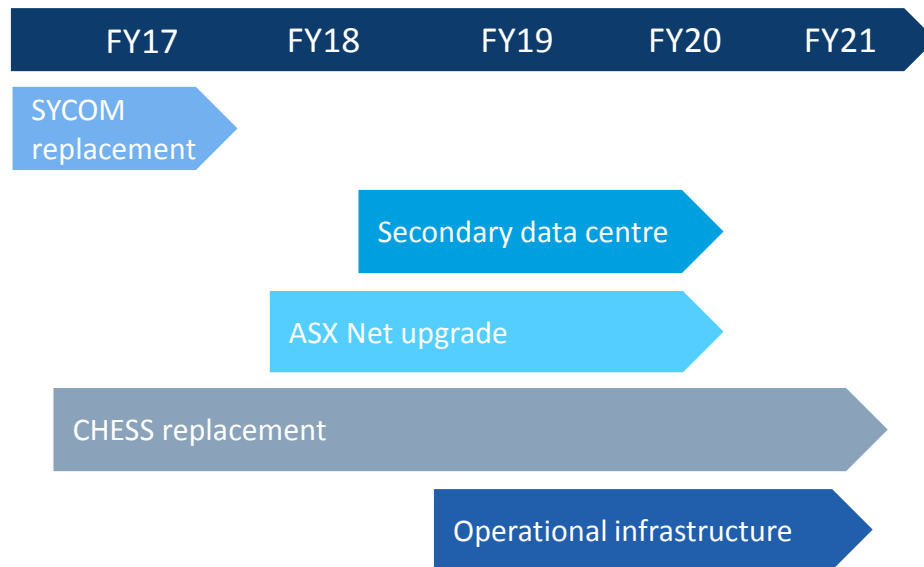
# Accelerating projects to contemporise technology platforms

Will enable ASX to take advantage of the opportunities in the next 5 years



- Accelerating work to contemporise technology platforms will enable ASX to provide customers
  - richer, more timely data sets
  - better operational functionality
  - improved analytics
- FY18 capital expenditure guidance remains circa \$50 million
- As set out at 1H18 results, increase in capital expenditure due to secondary data centre upgrade forecast to be \$20-\$25 million over 2 years
- Delivering accelerated program expected to further increase capital expenditure by \$10 million per annum for the next 2 to 3 years
- Capital expenditure expected to be circa \$70 million in FY19

## FY18 – FY21 capital expenditure projects\*



# Listings franchise expansion

Since 2012, new listings have provided attractive returns to investors



## Strategy

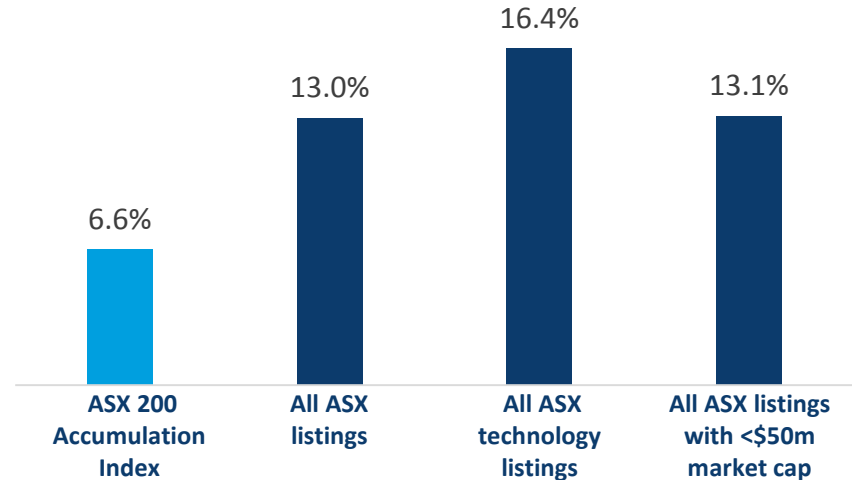
- List quality, investment-grade companies for the long-term that grow, trade, clear and settle on ASX
- Provide investors with greater choice through sectoral and geographic investment diversity

## Results to date

- 784 listings occurred between January 2012 and February 2018
- If an investment of \$1 was made in each listing, the internal rate of return is approximately twice the return for the overall market

## Internal rate of return investing:

- **\$1 in ASX 200 on every day of every ASX listing Jan 2012 – Feb 2018**
- **\$1 in every ASX listing since Jan 2012 – Feb 2018\***



# Listings compliance environment

Quality is key: we continue to evolve and strengthen our listings framework



2012	2013	2014	2015	2016	2017	2018
<ul style="list-style-type: none"><li>• Good fame and character requirements</li><li>• Major rewrite of Guidance Note (GN) 12 to regulate back door listings</li></ul>	<ul style="list-style-type: none"><li>• Major rewrite of mining, oil and gas Joint Ore Reserves Committee (JORC) Code</li><li>• Major rewrite of GN 8 to improve continuous disclosure</li></ul>	<ul style="list-style-type: none"><li>• Amended GN 1 and GN 4 to tighten<ul style="list-style-type: none"><li>– acceptable structure</li><li>– minimum free float</li><li>– minimum spread for emerging market issuers</li></ul></li><li>• Released 3<sup>rd</sup> edition Corporate Governance Principles and Recommendations</li></ul>	<ul style="list-style-type: none"><li>• 10% minimum free float applied via GN 1</li><li>• More control over standards by removing the right to appeal listings decisions</li><li>• New (foreign exempt) category for NZ entities</li></ul>	<ul style="list-style-type: none"><li>• New pre-vetting process for listings</li><li>• 20% minimum free float and new suspension policy for back doors introduced as ASX policy pending rule changes</li><li>• Major strengthening of admission rules</li><li>• Introduced automatic removal of long-term suspended entities after 3 years</li></ul>	<ul style="list-style-type: none"><li>• Tightened rules on reverse takeovers</li><li>• Tightened guidance on minimal working capital</li><li>• Introduced 'show cause' process to terminate delinquent listed entities</li><li>• Removed trading halts for block sales</li></ul>	<ul style="list-style-type: none"><li>• Tightened guidance on good fame and character requirements</li><li>• Consulting on 4<sup>th</sup> edition Corporate Governance Principles and Recommendations</li><li>• Consulting on extensive package of listing rule amendments inc.<ul style="list-style-type: none"><li>– issue and quotation of securities</li><li>– placement rules</li><li>– related party transactions</li></ul></li></ul>

# Overall regulatory environment for companies

## Keeping standards high: combined responsibility of many parties



### Pre-listing responsibilities

#### DIRECTORS

- Due diligence on prospectus
- Good fame and character checks

#### LEAD MANAGERS

- Due diligence on financial aspects of prospectus

#### LAWYERS

- Due diligence on legal aspects of prospectus

#### INVESTIGATING ACCOUNTANTS

- Due diligence on accounting aspects and pro forma financials in prospectus

#### AUDITORS

- Provide assurance on 2 years (asset test) or 3 years (profit test) of financial statements

#### POTENTIAL INVESTORS

- Read prospectus and understand risks involved or seek advice

#### ASIC

- Reviews prospectus for Corporations Act compliance
- May issue stop order if prospectus false/misleading

#### ASX

- Reviews listing application and prospectus (including good fame/character checks) for compliance with conditions of admission
- May reject application if entity considered unsuitable for listing

### Post-listing responsibilities

#### DIRECTORS

- Oversee running of the business
- Statutory duty to exercise due care and skill, and discharge responsibilities in good faith and in best interests of the company
- Ensure financial statements comply with accounting standards and give a true and fair view

#### AUDITORS

- Provide assurance financial statements comply with accountings standards and give a true and fair view

#### SHARE-HOLDERS

- Elect/remove directors
- Approve range of actions including remuneration report, significant change to nature of scale of activities

#### ASX

- Monitors and enforces compliance with Listing Rules
- Enforcement via power to suspend or terminate listing
- Refers potential breaches of Corporations Act to ASIC to consider formal enforcement action

#### ASIC

- Monitors and enforces compliance with the Corporations Act
- Has power to seize documents, interrogate under oath, ban directors and initiate prosecutions with fines and prison terms

### MEDIA, COMMENTATORS, WHISTLEBLOWERS and OTHER STAKEHOLDERS

Watching, reporting investigating and drawing attention to suspicious activity



# Conclusion

We are making good progress strengthening our foundations

## Strong 3<sup>rd</sup> quarter

- Record futures volumes due to increased volatility and new customers
- Secondary capital raisings were strong in February and March
- FY18 operating expense growth and capital expenditure guidance remain unchanged
- FY19 capital expenditure expected to be approximately \$70 million

## Positioning ASX for continued resilience and future growth

- DLT-based CHES provides benefits to customers through efficiency and innovation
- With opportunities on the horizon, we are accelerating the upgrade of our technology platforms to enable pursuit of growth initiatives
- Listings compliance enhancements supporting strategy to seek quality listings for the long-term

# Questions and discussion

# Appendix

# Income statement – 9 months to 31 March 2018

	Dec 17 1H18 \$m	Mar 18 3Q \$m	Mar 18 YTD \$m	Variance % 3Q	Variance % YTD
Operating revenues	409.0	204.6	613.6	11.6%	7.6%
Operating expenses	96.2	46.9	143.1	(4.4%)	(5.9%)
<b>EBITDA</b>	<b>312.8</b>	<b>157.7</b>	<b>470.5</b>	<b>13.9%</b>	<b>8.2%</b>
Depreciation and amortisation	22.4	12.2	34.6	(9.4%)	(4.1%)
<b>EBIT</b>	<b>290.4</b>	<b>145.5</b>	<b>435.9</b>	<b>14.3%</b>	<b>8.5%</b>
Interest and dividend income	38.2	25.6	63.8	2.9%	2.3%
<b>Profit before tax</b>	<b>328.6</b>	<b>171.1</b>	<b>499.7</b>	<b>12.4%</b>	<b>7.7%</b>
Income tax expense	(98.1)	(49.7)	(147.8)	(12.7%)	(8.2%)
<b>Profit after tax</b>	<b>230.5</b>	<b>121.4</b>	<b>351.9</b>	<b>12.3%</b>	<b>7.5%</b>

# Diversified business with multiple growth drivers

**Diversification supports revenues across different market cycles**

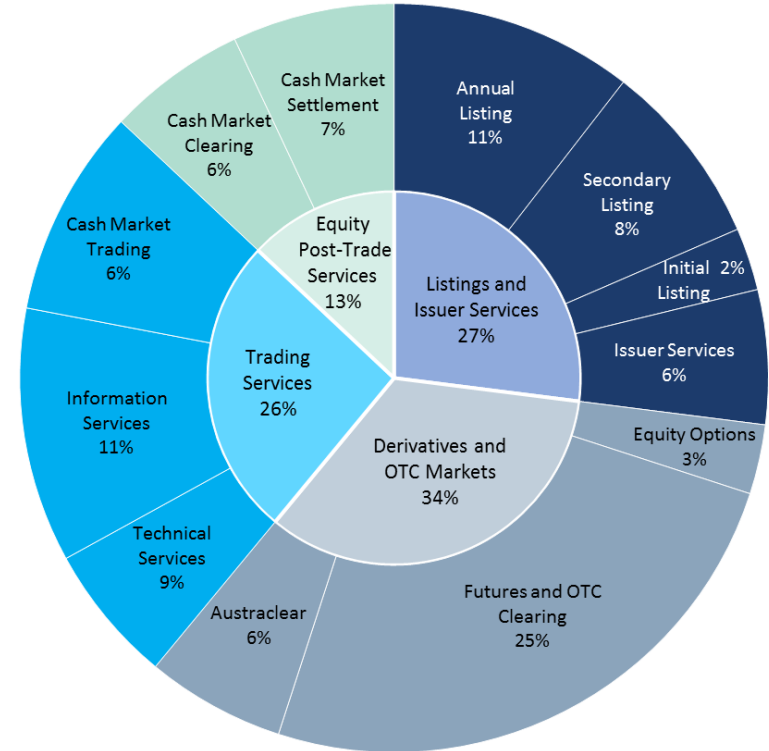
- **Product and service diversification**

- Primary market facilitation via listings
- Cash market trading, clearing and settlement
- Exchange-traded futures and options
- OTC clearing
- Depository, registry and collateral services
- Information and technical services

- **Asset class diversification**

- Equities
- Fixed income
- Energy
- Commodities

**Revenue contribution by business - 9 months to 31 March 2018**



Thank you.

# Disclaimer

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