EXECUTIVE SUMMARY

- NZX operates a monopoly-like business that retains the ability to at least grow in line with GDP; however,
- The business has suffered from ill discipline over the past five years, with operating margin declining by over 50%, and total return to shareholders of +22.5% significantly underperforming the NZX50's +105.1%.
- While the Agri data and publishing businesses have in the past been strong contributors to profit, the publishing landscape has changed, and NZX was slow to react;
- The significant acquisition of SuperLife has also suffered from a lack of focus on costs and opex investments subsequent to acquisition;
- The Board has pulled one of the two levers available to them and replaced the CEO. The new CEO now has the opportunity to clearly articulate a strategy for improving returns and profitably growing the business over the long term;
- It is our view that NZX is worth ~NZ$1.44 a share assuming the following steps are undertaken:
    - Immediate remediation of the cost base to return the business to its prior mid-30's operating margins;
    - Review strategic alternatives for the funds management businesses including the potential sale of the business to a specialist global player;
    - Handover regulatory functions of the markets business to the FMA;
    - Develop a credible plan with growth options for the business or become a "utility";
    - Return NZ$20M to NZ$30M in capital to shareholders via a tax-efficient buyback at present prices; and,
    - Further broaden board member skill-sets with international investing/exchange experience as well as business development skills.

OVERVIEW

NZX Limited (NZX:NZ, Market Capitalisation NZ$278M) operates various capital markets within New Zealand providing trading, post-trade and data services, as well as a central securities depository. As New Zealand's only registered Securities Exchange, the Group operates multiple 'markets' including the NZX Main Board (NZX), NZX Alternative Market (NZAX) and the NXT. NZX also operates several other markets on behalf of third parties such as the New Zealand electricity market under long-term contracts from the Electricity Authority and the Fonterra Shareholders' Market on behalf of Fonterra. As of 30 April 2017, total debt and equity listing across NZX's exchanges held respective market capitalisations of NZ$26.6B and NZ$119.9B.

ATTRACTIVE BUSINESS MODEL

NZX has a near monopoly in the New Zealand primary listed equity and debt markets. Core market operations represent 68% (NZ$52.9M) of Group revenues and include initial/annual listing fees, data fees, and trading & settlement fees. One of the most attractive qualities of NZX's core markets business is the consistent nature of its recurring revenues. Notably, the Group's annual listing fees, which provide a robust platform for NZX to leverage future growth. To this extent, attracting new businesses to list on their platform is a key imperative to driving sustainable long-term growth.

DESPITE MONOPOLISTIC CHARACTERISTICS THERE EXISTS A COMPETITIVE ENVIRONMENT

The advent of new technologies has contributed to the globalisation of business and capital flows, vastly changing the competitive landscape for stock exchanges. In response, leading stock exchanges have restructured their businesses, pursued foreign company listings and explored M&A opportunities/strategic alliances. This has resulted in renewed focus on improving product offerings (IPOs), listing standards, fee structures, and regulation. In contrast, NZX has remained relatively insulated from such pressures, providing little impetus for increasing efficiency or promoting its business. Left unaddressed; such factors may support an exodus of larger New Zealand companies to ASX. As it stands, NZX/ASX dual-listed stocks account for 9 out of the 10 S&P/NZX10 constituents, and approximately 60% of the S&P/NZX50 constituents.

ASX'S COMPETITIVE ADVANTAGE

Economies of scale and network effects significantly contribute to liquidity and market depth; where studies have revealed size and liquidity to be the top considerations for new businesses seeking to list on an exchange. As at December 2016, listed entities on NZX had a total market capitalisation of ~NZ$115.5B, versus ~NZ$1.8T of total market capitalisation on the ASX; while trading volumes were similarly low at 37% of market capitalisation versus 72% of ASX. The comparatively small market/trading volumes of NZX place it at a substantial disadvantage when competing for new listings, leading to a vicious cycle. Offsetting this, and highlighting in our opinion a failure to "communicate and sell" effectively, are the higher multiples NZX listed companies currently fetch versus global peers across the broad industry spectrum and the higher than average forward multiples the market continues to trade at which should make listing in New Zealand attractive. *(Forsyth Barr in a report dated 12 June 2017, currently estimates the 12 month forward-weighted PE multiple for the New Zealand market to be 19.5x, or +10% above the five-year average).*

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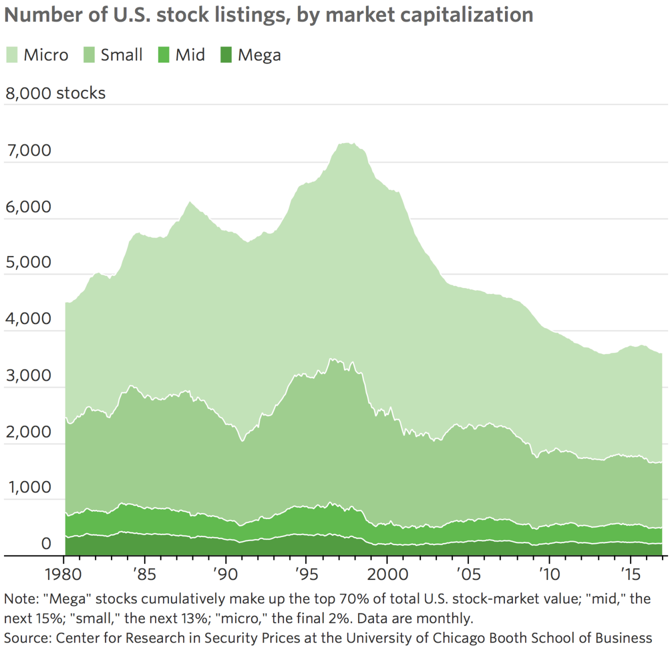
CONSOLIDATION OF MARKETS

It has been well publicised that despite strong equity market performance, NZX currently lacks a meaningful IPO pipeline. In 2015, NZX achieved a total of three IPOs while 2016 was similarly underwhelming with the IPOs of Tegel Group, Investore Property and New Zealand King Salmon. However, one has to acknowledge that this is the experience globally, predominantly as a result of regulatory creep and the growth in private equity funding which allows companies to stay private longer. Jason Zweig in the Wall Street Journal on 23 June 2017 – using the chart (below), highlighted the declining number of listings in the US capital markets since 1980.



Source: The Wall Street Journal[1]

The new SEC Chairman according this Reuters article [http://www.reuters.com/article/us-usa-sec-ipo-idUSKBN19D1S2] is also investigating why IPO volumes in the US have declined by as much as one third since 2015.

NZX management has also made attempts to try and create an attractive environment for smaller companies to list. Launched in 2016, NXT was developed as a marketplace for fast-growing, small and mid-sized businesses. NXT is intended to provide SMEs with the necessary capital required to expand their business in addition to creating a viable runway for SMEs to graduate to NZX's Main Board. Its reception thus far has been underwhelming and as at December 2016, NXT had a total of four listings with no apparent pipeline for growth and one of the four recently announcing a proposal to delist. While alternate exchanges have proved successful overseas (such as the FTSE AIM in London), it is our view that the small size of New Zealand's capital markets makes it hard to justify the existence of three separate equity markets (the Main Board, NZAX and NXT). It is worth considering that ASX, which is approximately 16x the size of NZX, continues to run a single equity market. We assert that companies listed on NZAX and NXT may be better served under the umbrella of NZX's Main Board with a simplified rule set for small-cap listed companies – e.g. for companies with a market capitalisation below NZ$ 25.00 million.

REVIEW REGULATORY FUNCTIONS

We recognise that self-regulation has its benefits, including an overall increase in regulatory resources and an ability to leverage inside knowledge/expertise of industry professionals. However, we suggest there exists significant benefits toward adopting a government/statutory model similar to that of the ASX. Such a centralised approach promotes efficiency and reduces the duplication/layering of regulation, including supporting infrastructure and oversight activities. We further suggest that the FMA would be better positioned to deliver more effective regulation as a single agency, as it would have broad jurisdiction over all market participants; avoiding conflicts of interest between NZX's commercial functions as a "for-profit" entity, and their position as a regulator - we point to the significant costs associated with regulatory functions while disciplining your own customers counteracts relationship building activities essential to all businesses. We suggest that transferring regulatory responsibilities to the FMA would rebalance NZX's competitive position relative to the ASX, which currently has a cost advantage due to their adoption of a government/statutory model in 2010. Finally, it is our belief, that New Zealand is well suited to this model due to the small size of its

[1] https://www.wsj.com/articles/stock-picking-is-dying-because-there-are-no-more-stocks-to-pick-1498240513

market – traditionally, one of the major headwinds for large complex markets wanting to adopt centralised regulatory models has been the overwhelming resource required to do so; this is simply not the case for NZX.

COSTS UNDERMINE RETURNS

The biggest failure in our opinion for NZX over the past five years has simply been that increases in expenditure have consistently outpaced revenue growth and weakened NZX's bottom-line performance. Over the past five years, the Group's operating margin has more than halved, declining from 38% (FY2011) to 18% (FY2016). As a result, NZX ranks as the worst performing exchange when observing Revenue, EBITDA and NIAT generated per employee across a broad peer group (on an unadjusted basis). To put this in perspective, in 2016, NZX generated NZ$0.10M in EBITDA (unadjusted) per employee whereas ASX generated NZ$1.41M - some 14 times greater. In addition to labour costs, several loss-making ventures and cyclical IT expenditures have compounded NZX's profitability problems. Going forward, reducing costs, driving operating leverage and increasing efficiencies must be a primary focus for Management. We are aware that 2016 marked a transitional year for the Company with substantial one-off costs being incurred. While the removal of these costs is expected to be a key driver for improved performance in 2017 (refer Appendix #1 for a breakdown of these costs), we maintain that there remains significant scope to reduce expenses further through a range of productivity and efficiency initiatives in relation to their net worth.

EMPLOYEE EFFICIENCY

Company	Market Cap (NZ$/m)	Revenue (NZ$/m)	EBITDA (NZ$/m)	NIAT (NZ$/m)	FTE	Revenue/ FTE (NZ$/m)	EBITDA/ FTE (NZ$/m)	NIAT/ FTE (NZ$/m)
Intercontinental Exchange	51,986	6,482	4,116	2,170	5,631	1.15	0.73	0.39
Hong Kong Exchanges & Clearing	43,725	1,932	1,314	1,083	1,610	1.20	0.82	0.67
Deutsche Boerse	23,672	3,680	1,964	1,251	5,116	0.72	0.38	0.24
London Stock Exchange	18,839	2,945	1,364	580	5,551	0.53	0.25	0.10
Nasdaq	17,063	5,338	1,622	951	4,325	1.23	0.38	0.22
Japan Exchange Group	11,380	1,505	1,079	575	1,088	1.38	0.99	0.53
ASX	10,752	948	767	445	546	1.74	1.41	0.82
CBOE Holdings	9,431	946	494	268	553	1.71	0.89	0.48
Singapore Exchange	8,319	852	489	369	762	1.12	0.64	0.48
Euronext NV	4,411	752	430	310	635	1.18	0.68	0.49
TMX Group	4,046	862	408	234	1,075	0.80	0.38	0.22
Bolsas y Mercados Espanoles	3,829	485	328	240	762	0.64	0.43	0.32
NZX Limited	**287**	**78**	**23**	**10**	**237**	**0.33**	**0.10**	**0.04**

Date Source: Thomson Reuters
FTE: Full-Time Employee
EBITDA: Earnings Before Interest, Tax, Depreciation & Amortisation
NIAT: Net Income After Tax
Figures reported in Millions/NZD using FY16 data, where FY16 data is yet to be reported, consensus estimates have been used.

MARGIN ANALYSIS

Company	EBITDA Margin	Operating Margin	Net Profit Margin
ASX	80.9%	76.2%	47.0%
Hong Kong Exchanges and Clearing	68.0%	66.3%	55.5%
Bolsas y Mercados Espanoles Sociedad	67.5%	65.8%	50.0%
Japan Exchange Group	64.4%	55.0%	39.0%
Intercontinental Exchange	63.5%	48.2%	31.6%
Singapore Exchange	57.3%	49.3%	42.7%
Euronext	57.2%	52.1%	39.7%
TMX Group	47.3%	36.0%	24.4%
London Stock Exchange	46.3%	25.8%	13.4%
Nasdaq	30.4%	7.0%	2.9%
NZX (Unadjusted)	***30.0%***	***17.6%***	***11.8%***
NZX (Adjusted)*	***37.9%***	***25.5%***	***19.7%***
Mean	***58.3%***	***48.2%***	***34.6%***
Median	***60.4%***	***50.7%***	***39.3%***

Data Source: Thomson Reuters reported FY16 data
** NZX Adjusted figures assume removal of NZ$6.1M in hard cost however we estimate total cost-out potential in FY17 could be up to ~NZ$9.0M.*
*** No other adjustments have been made to other exchanges data sourced from Thomson Reuters.*

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NEW FUND-RAISING MODELS EMERGING

Alternative models for sourcing growth capital such as crowd funding and peer-to-peer lending have emerged from the fringes of the financial sector and are now considered viable growth capital sources for mainstream businesses. Between 2012 and 2015, the global crowd funding market grew more than +1000% (albeit from a small base) with total sums raised in 2015 totalling US$34.4B (Massolution Crowd Funding Industry 2015 Report). Peer-to-peer lending made up the majority of funds raised with equity accounting for only c.7% (US$2.5B) of the market in 2015. However, the rapid pace at which the industry is expanding both in terms of funds raised and increases in the average amount of capital invested, suggests crowd funding is a potential challenger to traditional exchanges, especially within the SME sector. Many exchanges around the world are already exploring ways of integrating crowd funding platforms into their current business models. In 2016, the Syndicate Room (a leading equity crowd funding platform in the UK) became a member of the London Stock Exchange. The partnership allowed retail investors to participate in the IPO 'market placings' traditionally reserved for institutions and professionals. In theory, this is intended to enable retail investors to benefit from the same discounts as professionals for new equity issues. Other adaptations include; the Deutsche Borse Venture Network, a pre-IPO platform, the Korea Exchange KRX Start-up Market, a secondary market for crowd funded shares, and the Taipei Exchange Gofunding Zone, an aggregation platform for crowd funding initiatives.

DEBT MARKET OPPORTUNITY

Underwriting and distributing debt and hybrid products is a pillar of the financial markets and is an important component in NZX's business offering counter-cyclical protection to the Group's listing business. NZX has experienced vigorous growth within their debt markets over the past 10 years, with total debt market capitalisation expanding from NZ$7B in 2006 to more than NZ$25B in 2016. This represents an impressive compound annual growth rate of 13%. Underpinned by domestic investors err for conservatism and appetite for government bonds and property, we see the potential for further development of this market. However, whether this growth in listed debt has translated into profit growth is unclear, and we suggest that Management provides further insight into this.

DIRECTORS & MANAGEMENT ON NOTICE TO IMPROVE PERFORMANCE

As stated earlier, it is our view that ill discipline has been the largest destroyer of value for NZX shareholders. Over the past five years (ending Q1-2017), NZX has significantly underperformed the market (NZX50) in addition to delivering the worst return for its shareholders when measured against a broad peer group. Total return (including dividends) over the five-year period was just +22.5% (or +4.2% on an annualised basis). In contrast, the S&P/NZX50 Index delivered a total return of +105.1% or +15.6% annualised over the same period.

FIVE-YEAR STOCK PRICE RETURN: APRIL 2012 - MARCH 2017

Name	Price Return	Annualized Price Return	Total Return	Annualized Total Return	CCY
Japan Exchange Group	308.0%	33.5%	351.3%	36.3%	JPY
London Stock Exchange	232.9%	27.1%	263.4%	29.3%	GBp
CBOE Holdings	188.0%	23.6%	221.9%	26.3%	USD
Nasdaq	168.1%	21.8%	192.4%	23.9%	USD
Bolsas y Mercados Espanoles Sociedad	63.8%	10.2%	137.6%	18.6%	EUR
Euronext	108.7%	15.6%	120.0%	16.8%	EUR
ASX	55.8%	9.3%	117.1%	16.8%	AUD
Deutsche Boerse	70.7%	11.1%	112.5%	16.0%	EUR
TMX Group	50.5%	8.6%	75.9%	12.1%	CAD
Singapore Exchange	11.0%	2.1%	34.8%	6.2%	SGD
NZX	***-10.1%***	***-2.1%***	***22.5%***	***4.2%***	***NZD***

Data Source: Thomson Reuters, extracted 14/03/17
Ranked by Total Return, which includes price return and dividends

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SUGGESTIONS TO THE NEW CEO & BOARD FOR UNLOCKING VALUE

1. **IMMEDIATELY REMEDIATE COSTS**
   The business has been poorly managed over the past five years with operating margin declining by over 50%, and total return to shareholders of +22.5% significantly underperforming the NZX50's +105.1%. Immediate remediation of costs must occur to return the business to its prior mid 30's to low 40's operating margins.

2. **REVIEW STRATEGIC ALTERNATIVES**
   While both SuperLife and Smartshares are highly scalable businesses, it is unclear that NZX is the highest value owner of these businesses. Therefore, NZX should consider strategic alternatives including the potential sale of these businesses to a specialist global player. There exist other smaller businesses within the NZX that should also be reviewed for divestment – e.g. FundSource and NZ Farmers Weekly. NZX should also undertake a review as to whether retaining regulatory oversight is in the long-term best interests of both itself and shareholders.

3. **DEVELOP GROWTH OPTIONS OR BECOME A "UTILITY"**
   We believe NZX should assess how it can position itself to capitalise on new and emerging models for sourcing growth capital such as crowd-funding and peer-to-peer lending which would leverage NZX's expertise as a 'platform manager' and be more suitable to the SME marketplace than NZX's current NXT marketplace. This could provide NZX with a valuable source of future Main Board listings and aid in the overall development of the capital markets. If the Board and Management do not consider this an option, then we suggest NZX should be run as a utility – focus should be placed on right-sizing costs, achieving world-class operating margins (after capex), and returning all excess capital to shareholders in a tax-efficient manner.

4. **ACCRETIVE CAPITAL RETURN TO SHAREHOLDERS**
   With NZX's strong balance sheet, predictable cash flow generating capabilities, and the present low interest rate environment, Management can create value for shareholders by conducting a highly accretive NZ$20-NZ$30M stock buyback. For example, if NZX source term debt at 5%, buying back shares trading at a gross yield of ~8% is compelling.

5. **FURTHER BROADENING OF BOARD MEMBER SKILL-SETS**
   International investing experience (including knowledge of and participation in/on other international exchanges) as well as business development skills are lacking from the current Board and this needs to be addressed. We also believe some level of ownership or responsibility for an ownership stake in NZX should be a function in selecting new directors to ensure an alignment of interests with Board members and Shareholders.

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ELEVATION CAPITAL PROPRIETARY VALUATION SCENARIOS

OPTIMISTIC VALUATION SCENARIO

Our Optimistic Valuation Scenario assumes NZX successfully pursues real growth opportunities and is efficacious in driving operating leverage through the business. This scenario assesses NZX on a sum-of-the-parts basis reflective of our view that the Funds Services business should be divested. (1) We fully remove one-off costs relating to NZX’s markets business, positively impacting segment EBITDA by NZ$5.2M. We apply an international (markets based) peer group multiple of 11.47x against adjusted EBITDA of NZ$29.96M. (2) We value the Funds Services at 2% of total FUM of NZ$2.15B. (3) We write off NZX's Agri business, as its contribution toward our SOTP calculation is negligible. This results in an intrinsic value estimate of NZ$1.44 per share representing upside potential of +39%.

NEUTRAL VALUATION SCENARIO

Our Neutral Valuation Scenario, like our Pessimistic Scenario, assumes NZX is a mature business growing approximately in line with average New Zealand GDP growth. We adjust for one-off costs in 2016, modelling an amelioration of cost over the next five years with NZX’s EBITDA margin returning toward its 10-year historic median of 41%. We continue to place NZX on a discounted peer group multiple given the potential for low growth across its core markets business. Utilising an EV/EBITDA multiple of 10.32x (a 10% discount to average international peer multiples), against forecast FY19 EBITDA of NZ$32.09M generates an intrinsic value estimate of NZ$1.24 per share, representing upside potential of +19%.

PESSIMISTIC VALUATION SCENARIO

Our Pessimistic Valuation Scenario assumes NZX has reached maturity with no real growth options and revenues expanding at 2% per annum - approximately in line with average NZ GDP growth forecast over the next 10 years. We conservatively adjust for one-off costs in 2016, and model a further deterioration of margins going forward by 10% over the next five years. In this circumstance, we see NZX experiencing multiple compression relative to higher growth global peers. As this is representative of what we believe to be a worst-case scenario, we use the lowest modelled price over the five years. Using a 30% discounted EV/EBITDA multiple of 8.03x, against forecast FY19 EBITDA of NZ$27.98M generates an intrinsic value estimate of NZ$0.84 cents per share, representing downside potential of -19%.

This summary report was written in March 2017 and subsequently updated in June 2017.

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APPENDIX #1

POTENTIAL COST-OUTS FOR 2017

- RALEC litigation costs (NZ$3.0M),
- Transitioning Smartshares and SuperLife funds to new FMCA regulations (NZ$1.0M),
- CEO transitioning (NZ$1.6M),
- Restructure of Agribusinesses (NZ$0.4M)
- Improvement of rent arrangements (NZ$0.4M)
- Operating loss of divested Clear Grain Exchange (~NZ$0.5M)
- Higher doubtful debts than usual (~NZ$0.2M)
- Operating loss relating to NZX Wealth - projected to break even in 2017 due to on boarding of new clients (~NZ$1.4M)
- Losses related to early stage ETFs expected to reach necessary scale for profitability in 2017 (~NZ$0.5M)

DISCLOSURES & DISCLAIMER

Elevation Capital Management Limited currently holds ~2.8M NZX Shares (as at 25 June 2017) on behalf of clients in the Elevation Capital Value Fund and Separately Managed Accounts.

Christopher Swasbrook, Managing Director of Elevation Capital Management Limited, has been a member of the NZX Listing Sub-Committee since 2008, he is a member of the NZ Markets Disciplinary Tribunal and is Chairman of NZX listed – Bethunes Investments Limited (BIL.NZX).

Andrew Harmos, Non-Executive Director of Elevation Capital Management Limited, has not contributed to, or been involved in the preparation of this report. He was a Director of NZX from 2001 to 2007 and Chairman from 2008 to 2015. He is currently a Director of SCentre Group Limited (SCG.ASX), AMP Life Limited & National Mutual Life Association of Australasia and Pascaro Investments Limited.

Craig Stobo, Chairman of Elevation Capital Management Limited, is currently an independent director and chair of the Local Government Funding Agency, AIG Insurance New Zealand Ltd, and the NZX–listed companies Precinct Properties New Zealand Limited (PCT.NZX), and Fliway Group Limited (FLI.NZX).

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