



# 2017 YEAR-END RESULTS

21 February 2018

JSE Limited

# Operating environment for 2017



## GLOBAL



US has provided a welcome fiscal lead – still some labour market slack



Conditions improved in Europe – rising business and consumer confidence



China's economy still growing



Negative impact of the Brexit decision starting to be felt



## IN SA



Further downgrades



Declining business confidence for most of the year, improving slightly since December



Strong demonstrations of independence from key South African institutions

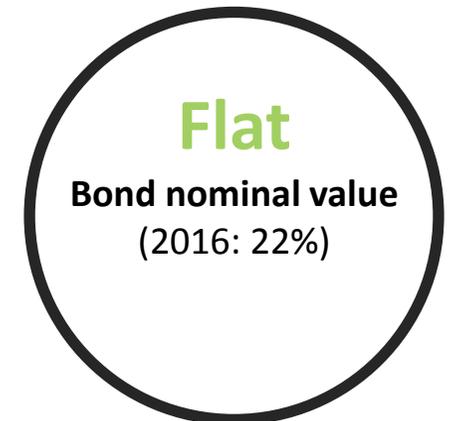
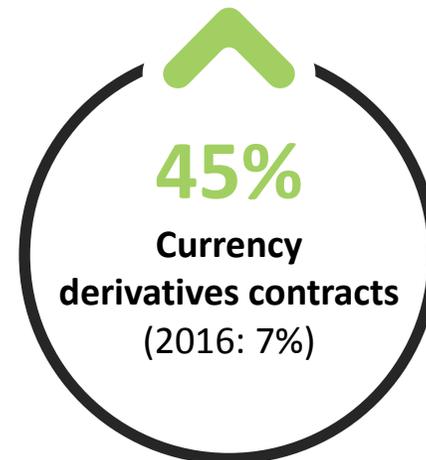
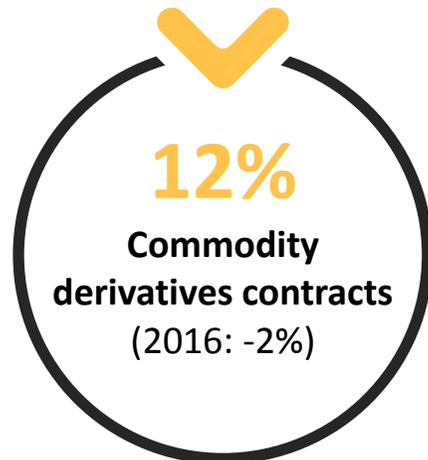
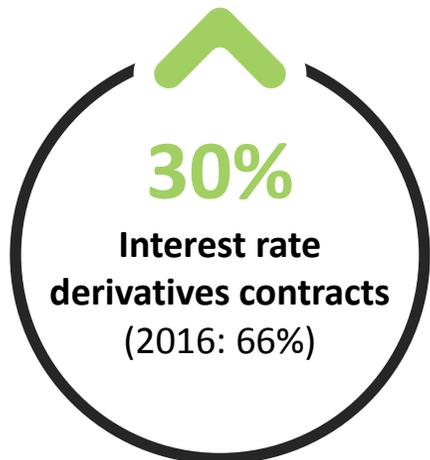
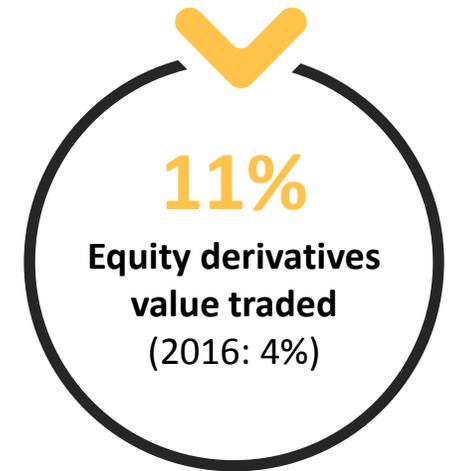
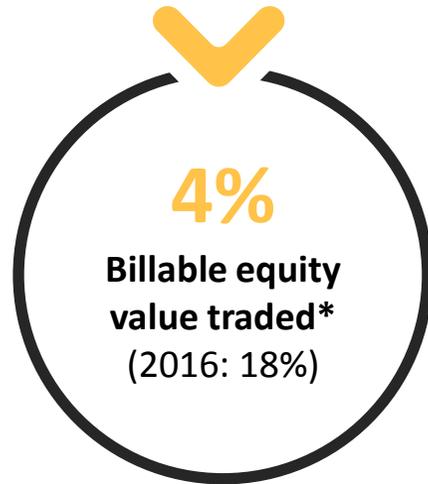
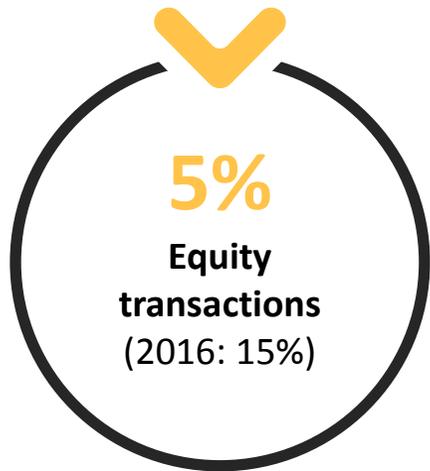


Continued low growth with increasing impatience from the economically marginalised

# What 2017 meant for our stakeholders

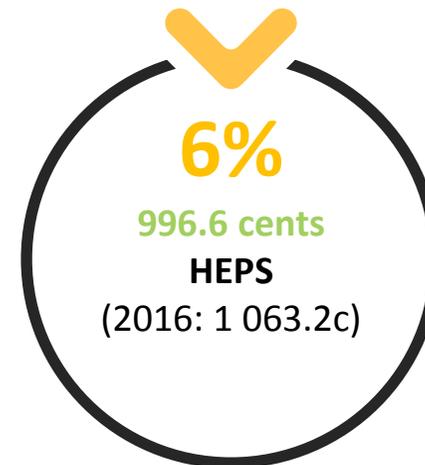
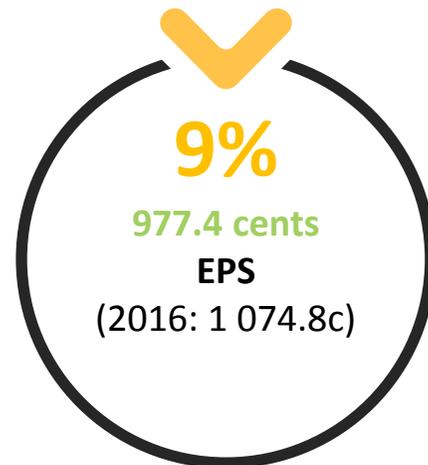
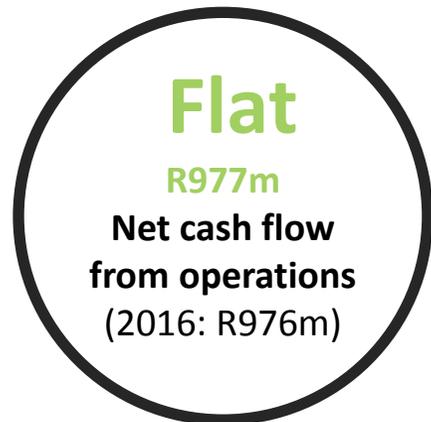
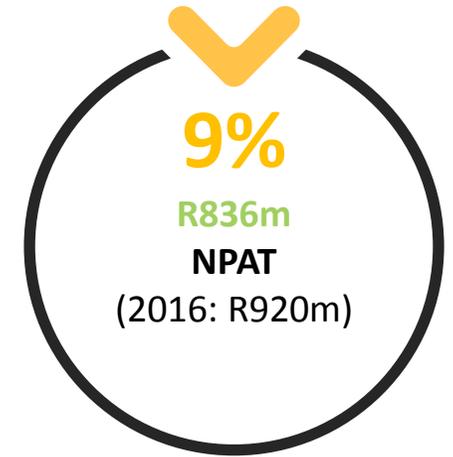
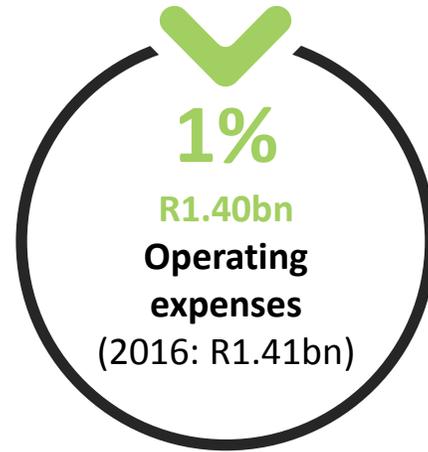
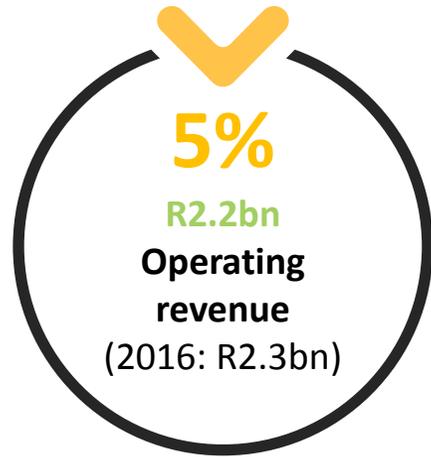
-  Particularly noisy local socio-economic environment
-  Declining value and volume traded in key markets for most of 2017, with uptick in Q4
-  Reduced planned headcount by 17%
-  In closing stages of ITaC and government bond ETP
-  Focused on restoring stability following operational incidents
-  Launched green bond segment with the City of Cape Town green bond (5x oversubscribed)
-  New Listing Requirement: Listed companies must have a policy on the promotion of gender and racial diversity at board level
-  Local competitor exchanges were launched

# 2017 financial drivers



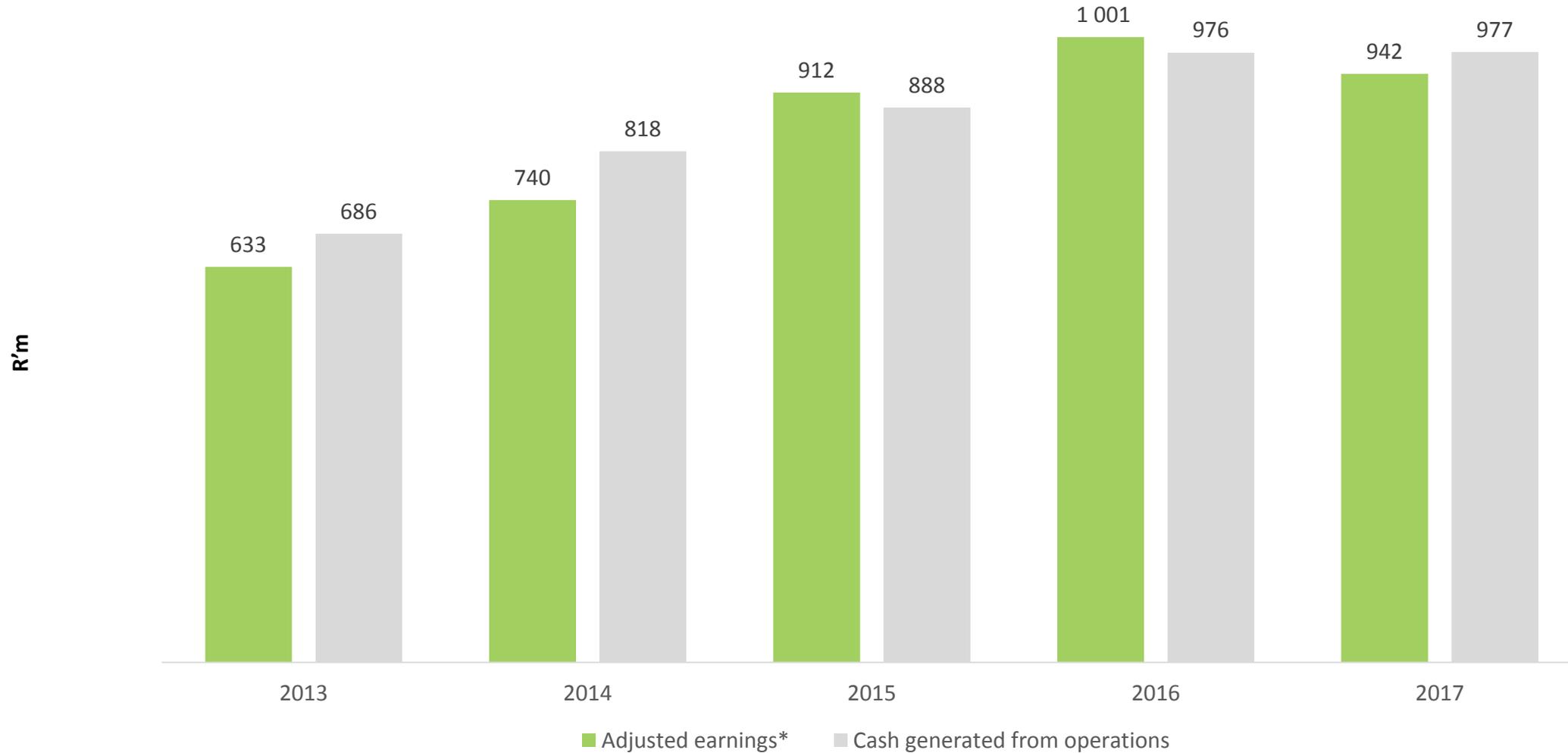
\*Central order book published statistics ↓ 8%

# How this translated in our business



- Ordinary dividend: 605 cents per share (2016: 560 cents per share)

# Quality of earnings



\*Earnings adjusted for non-cash items: depreciation, amortisation, forex profit/loss, impairments, goodwill write-down

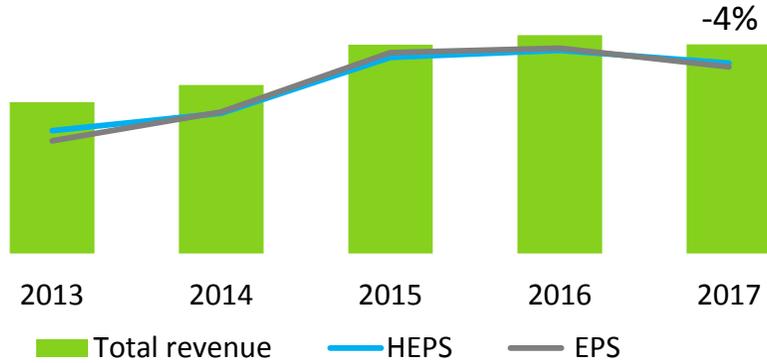
# Financial performance



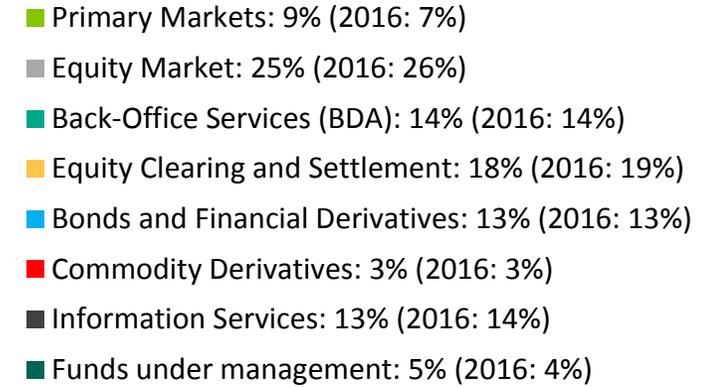
(Rm)	2017	2016
Revenue	2 229	2 339
Other income	52	46
Total revenue	2 281	2 385
Personnel expenses	(549)	(565)
Other expenses	(848)	(845)
Total expenses	(1 397)	(1 410)
EBIT	884	975
EBIT %	39%	41%
Net finance income	233	214
Share of profit of equity-accounted investee	35	59
Profit before income tax	1 152	1 248
Income tax expense	(316)	(328)
NPAT	836	920
NPAT %	37%	39%
EPS (cents)	977.4	1 074.8
HEPS (cents)	996.6	1 063.2

# Trends

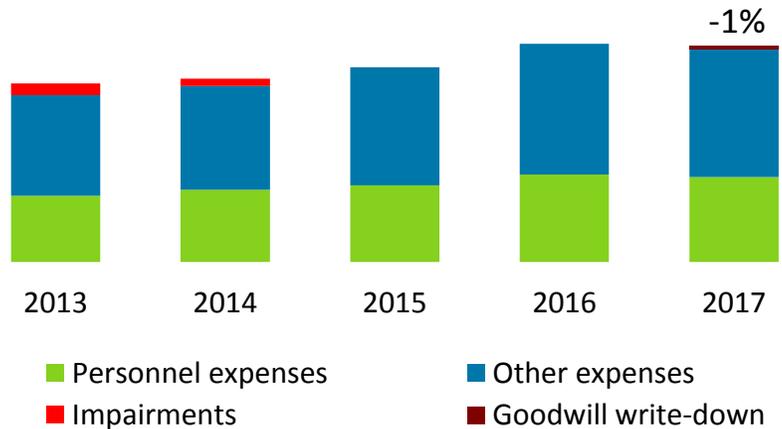
## Total revenue



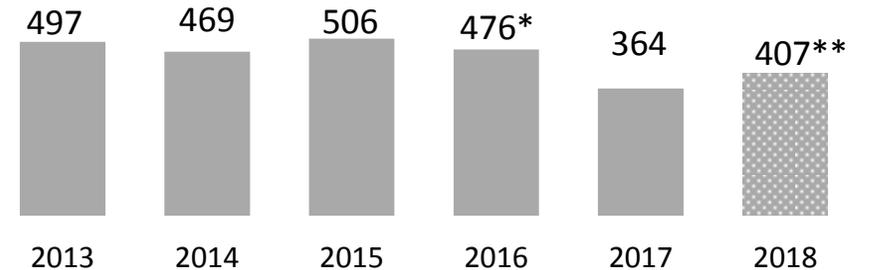
## 2017 revenue as a % total



## Expenses



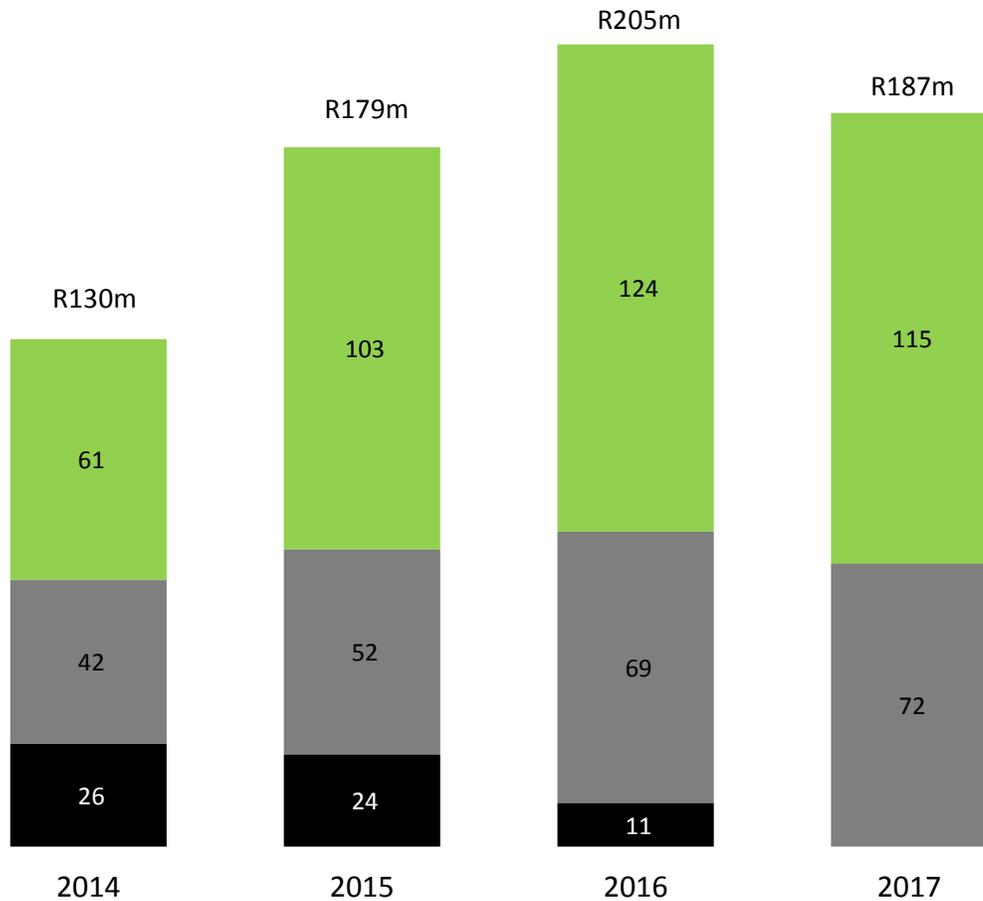
## December closing headcount



CAGR to 2016: -1%

CAGR to 2017: -7%

# External and internal capital expenditure



## Grow the business

- Integrated Trading and Clearing project 1 – 2014, 2015, 2016, 2017
- ETP for government bonds – 2016, 2017



## Maintain the business

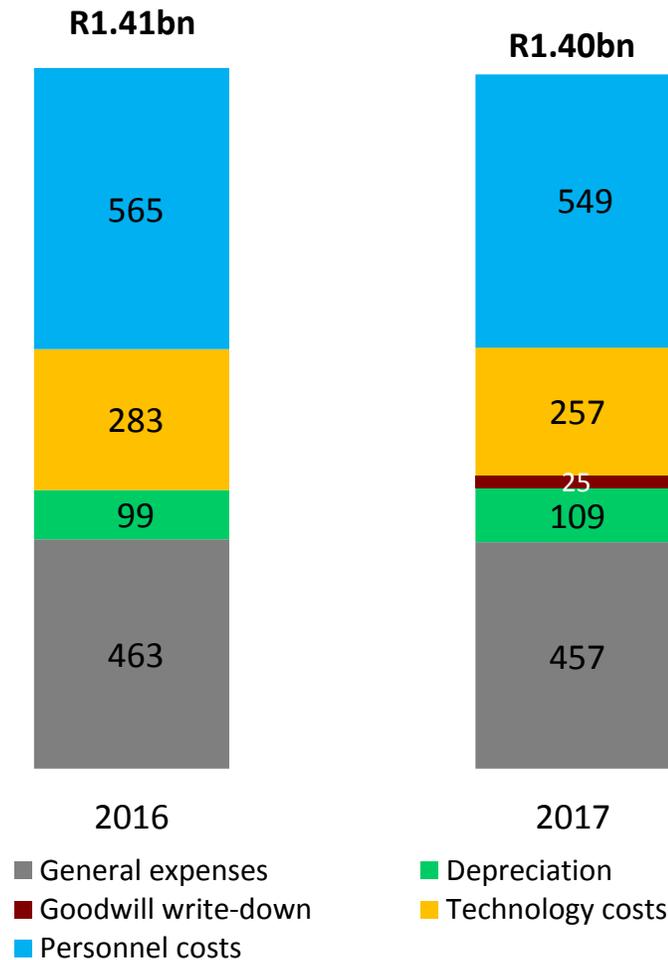
- Business as usual – 2014, 2015, 2016, 2017
- HR system – 2017
- Customer relationship management system – 2015, 2016



## Regulatory

- T+3 Phase 3 – 2014, 2015, 2016

# Operating expenditure



Total operating expenses down 1% to R1.40bn (2016: R1.41bn)



Personnel costs ↓ 3% or R16m to R549m (2016: R565m)

- Headcount at year-end ↓ 24% to 364 (2016: 476\*). Average headcount ↓ 10%. Gross remuneration per employee ↑ 7%. Contributed -3 percentage points to growth
- Discretionary bonus pool ↓ 33% to R60m (2016: R88.9m). This reflects the Group's financial and operational performance. Contributed -5 percentage points to growth
- One-off severance packages of R23m and LTIS acceleration of R4m attributable to retrenchments contributed 5 percentage points to growth



Technology costs ↓ 9% or R26m to R257m (2016: R283m), mostly owing to cost optimisation initiatives

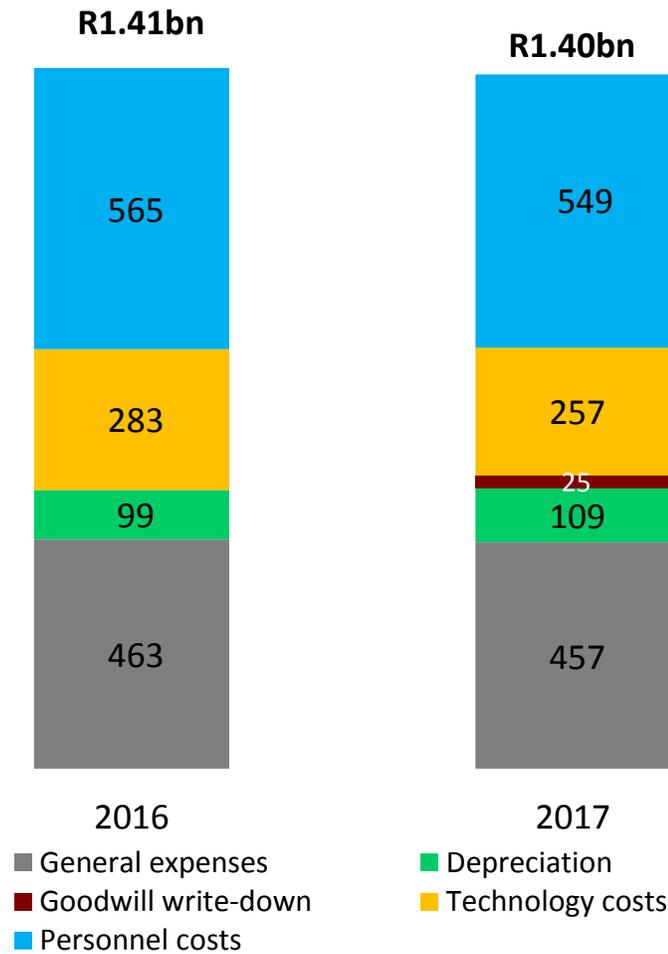
- Contractor spend ↓ R29m to R34m (2016: R63m)
- Includes R4m positive forex impact on foreign denominated spend from a stronger rand
- Remainder is owing to inflationary increases on fixed spend



Write-down of goodwill associated with Nautilus of R25m, which, while profitable, is not growing at a commensurate rate

\*Headcount of 483 disclosed in 2016 included 7 learners, with 28 in 2017

# Operating expenditure (continued)



Total operating expenses down 1% to R1.40bn (2016: R1.41bn)



Depreciation ↑ 10% or R10m to R109m (2016: R99m), largely owing to the annualised impact of projects implemented (T+3 phase 3, ITaC project 1a) and hardware refreshes. This is offset by fully depreciated assets



General expenses ↓ 1% or R6m to R457m (2016: R463m)

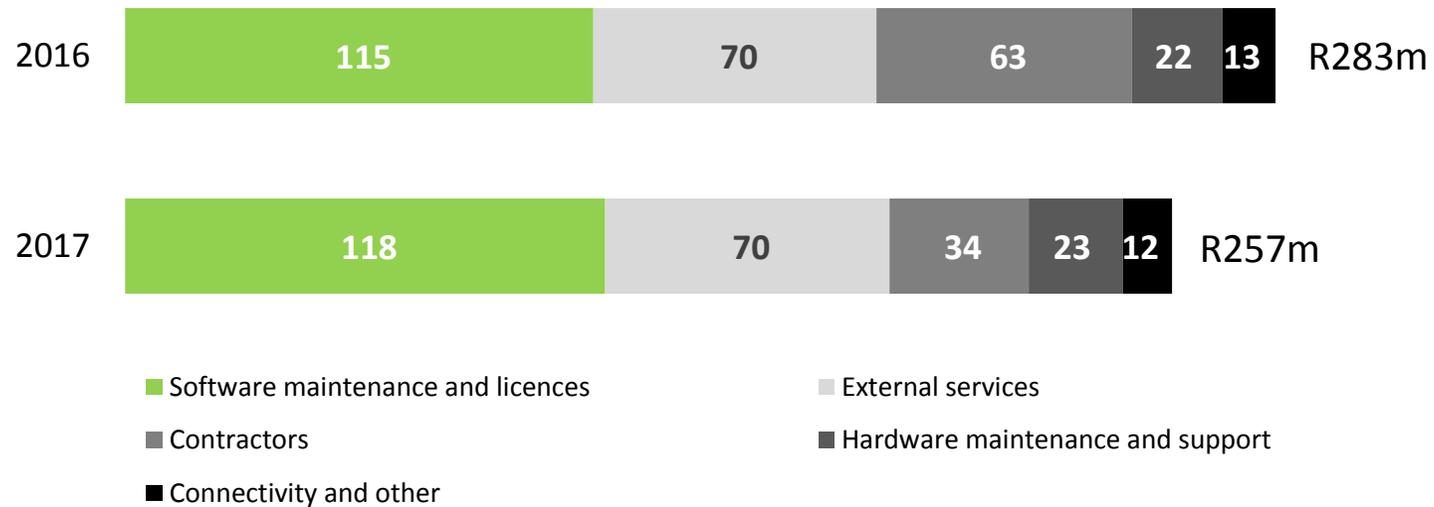
- Discretionary spend ↓ 14% through active cost management
- One-off costs: IT cost optimisation (R14m) and external reviews of the operational incidents in H2 (R11m)
- Higher costs of R14m (2016: R6m) following the implementation of the revised Financial Sector Charter (RFSC)

# Technology cost composition and growth



Technology costs ↓ 9%

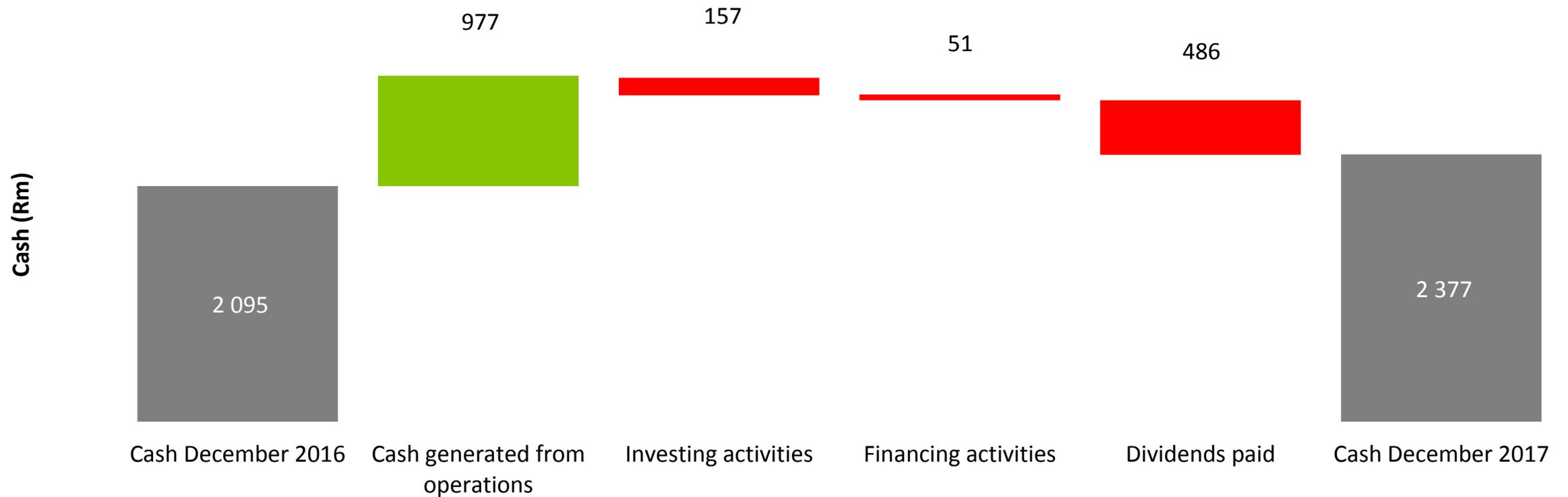
Cost saving resulted from significant reduction in contractor spend and the benefit of a stronger rand on foreign denominated spend



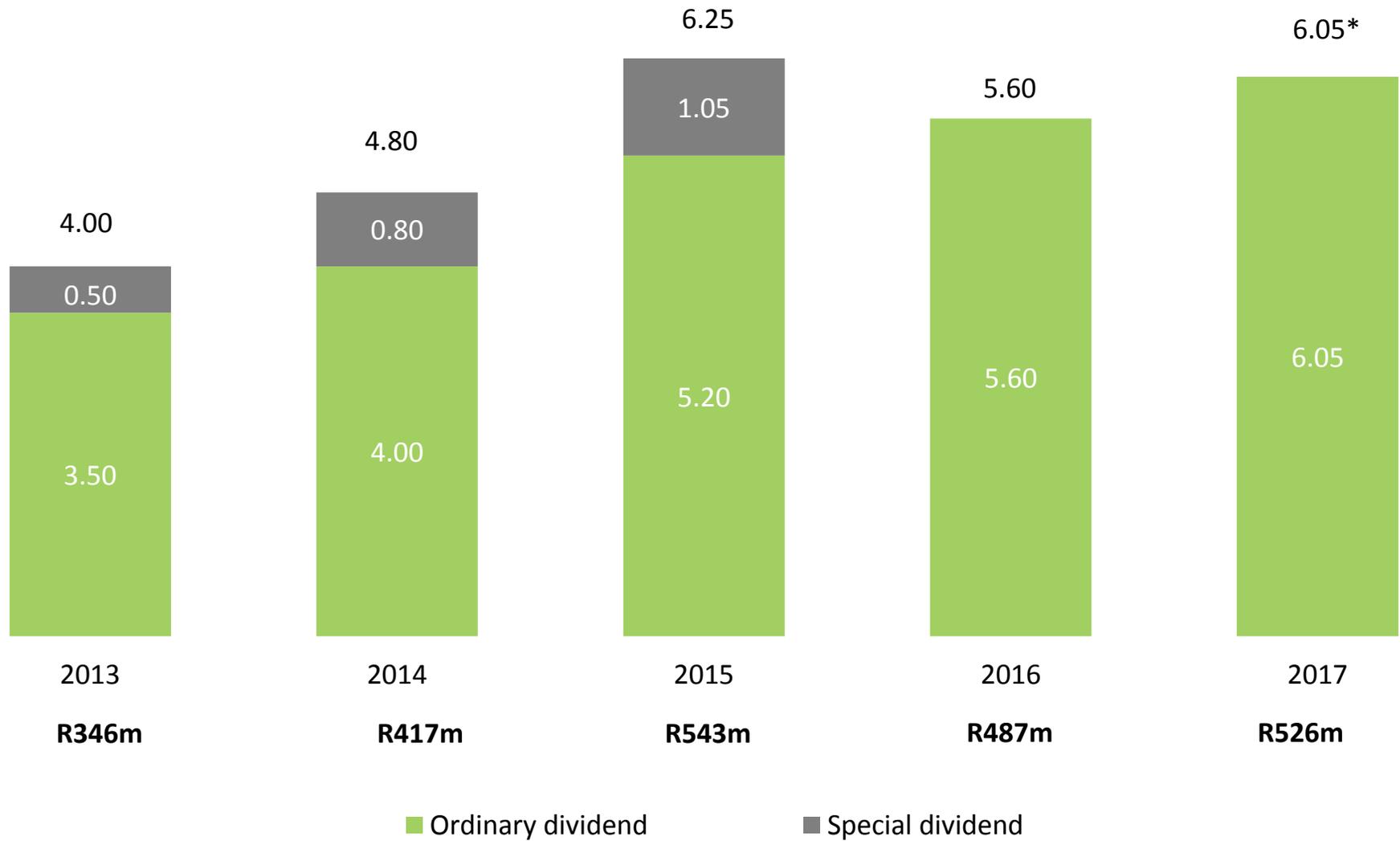
# Cashflow view



Good cash flow and no debt



# Return to shareholders



\* Ordinary dividend – growth of 8% (2016: 8%). Dividend cover 1.56 times (2016: 1.9 times)

# Capex external spend

Capital intensity policy applied from 2018



	2016	2017	2018
Integrated Trading and Clearing project 1	105	100	30
ETP for government bonds	2	1	1
T+3 phase 3	10	-	-
Customer relationship management system	9	-	-
HR system	-	4	1
<b>Project capex</b>	<b>126</b>	<b>105</b>	<b>33</b>
Business as usual	59	67	49
New initiatives*	-	-	38
<b>Total external capex spend</b>	<b>185</b>	<b>172</b>	<b>120</b>

\*Allocated for initiatives yet to be quantified

Total external capex spend on the Integrated Trading and Clearing project 1 is expected to be in the order of R400m by H1 2018

# BUSINESS REVIEW



# Capital Markets: Primary Market

## Revenue



## 9% of total revenue



Revenue ↑ 10 % to R181m (2016: R164m)

**21** new company listings, **15** new ETFs, **2** ETNs, **253** warrants and structured products (2016: 18 listings; 2 ETFs; 1 ETN; 215 warrants and structured products). There were **32** delistings (2016: 25)

New: **2** REITs , **2** SPACs and **2** fast-track listings

**8** new listings on AltX in 2017

**629** new bonds listed (2016: 858). Total nominal value of listed bonds was R2.9tr (2016: R2.7tr)

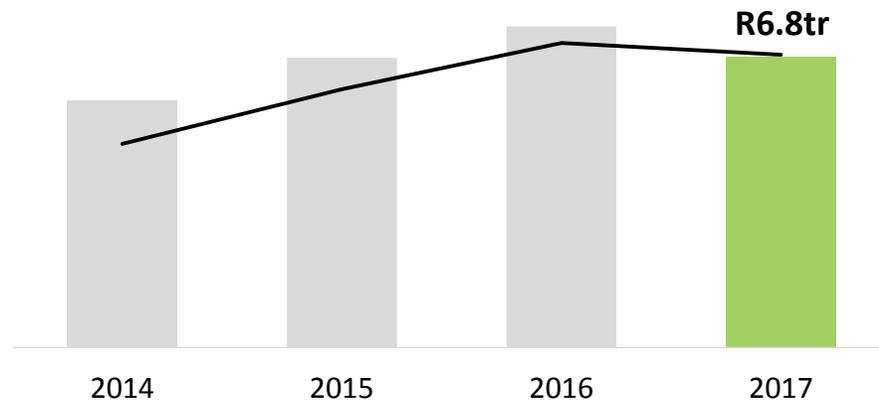
Launched green bond segment

## Capital raised

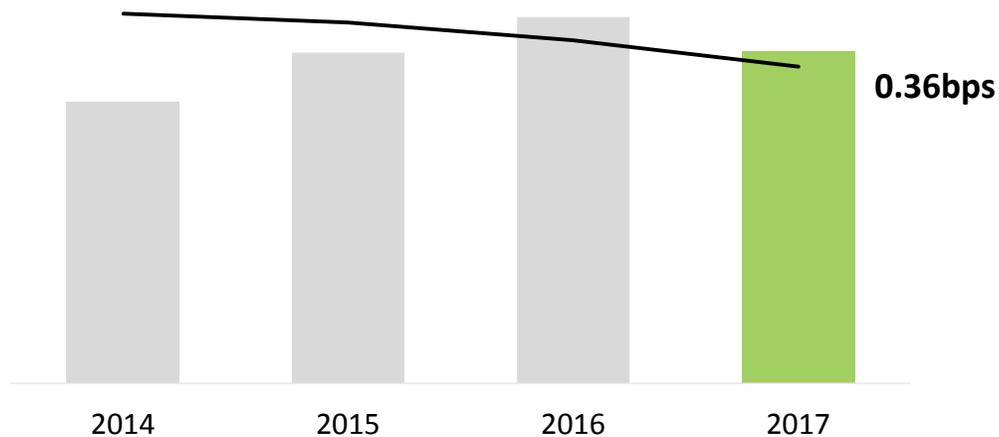


# Capital Markets: Equity Market

## Billable value traded



## Trading effective rate



## 25% of total revenue



Revenue ↓ 11% to R507m (2016: R569m\*)

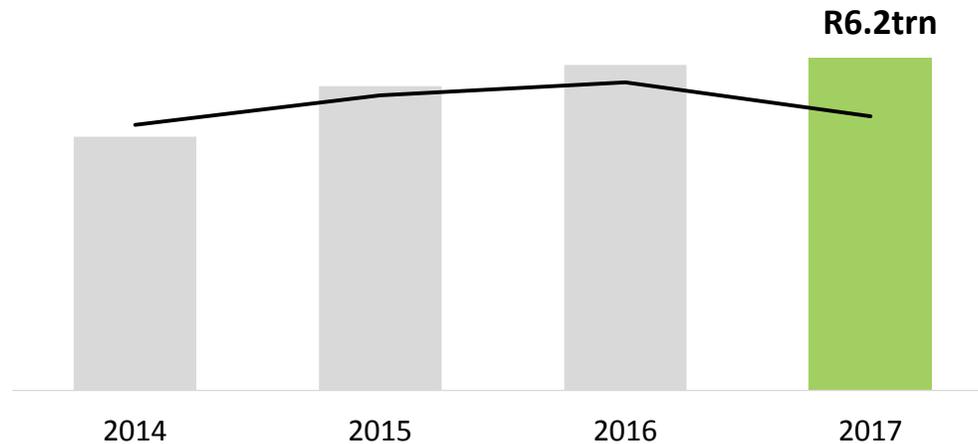
Billable value traded ↓ 4%

Trades ↓ 5% to 68m (2016: 71m)

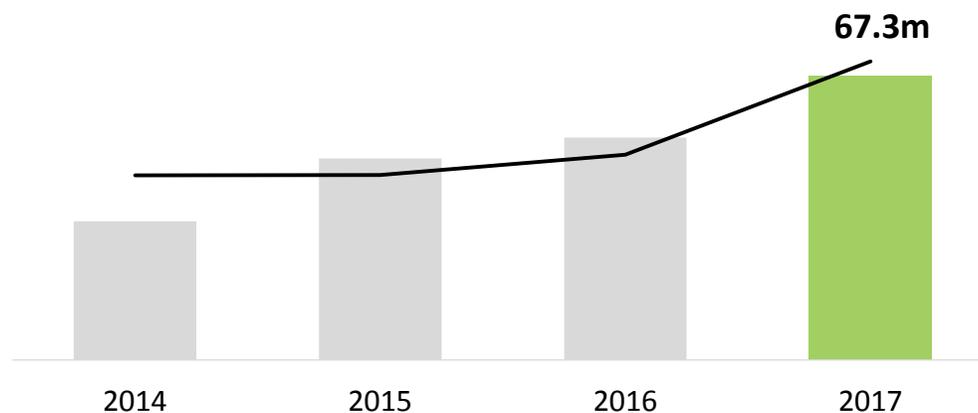
Colocation **31%** of overall value traded (2016: 31%)

# Capital Markets: Bonds and Financial Derivatives

## Equity derivatives value traded



## Currency derivatives contracts traded



## 13% of total revenue



Revenue ↑ 2% to R281m (2016: R275m)

Equity derivatives revenue ↓ 4% to R170m (2016: R177m)

- Contracts traded ↓ 27% to 312m (2016: 427m)
- Value traded ↓ 11% to R6.2tr (2016: R6.9 tr)

Currency derivatives revenue ↑ 28% to R48m (2016: R38m)

- Contracts traded ↑ 45% to 67.3m (2016: 48.3m)
- Value traded ↑ 29% to R947bn (2016: R734bn)

Interest Rate Market revenue ↑ 5% to R63m (2016: R60m)

- Bond Market volumes largely flat at a nominal value of R28tr (2016: R27trn)
- Interest rate derivatives contracts traded ↑ 30% to 12.3m (2016: 9.4m)

# Capital Markets: Commodity Derivatives

**3% of total revenue**



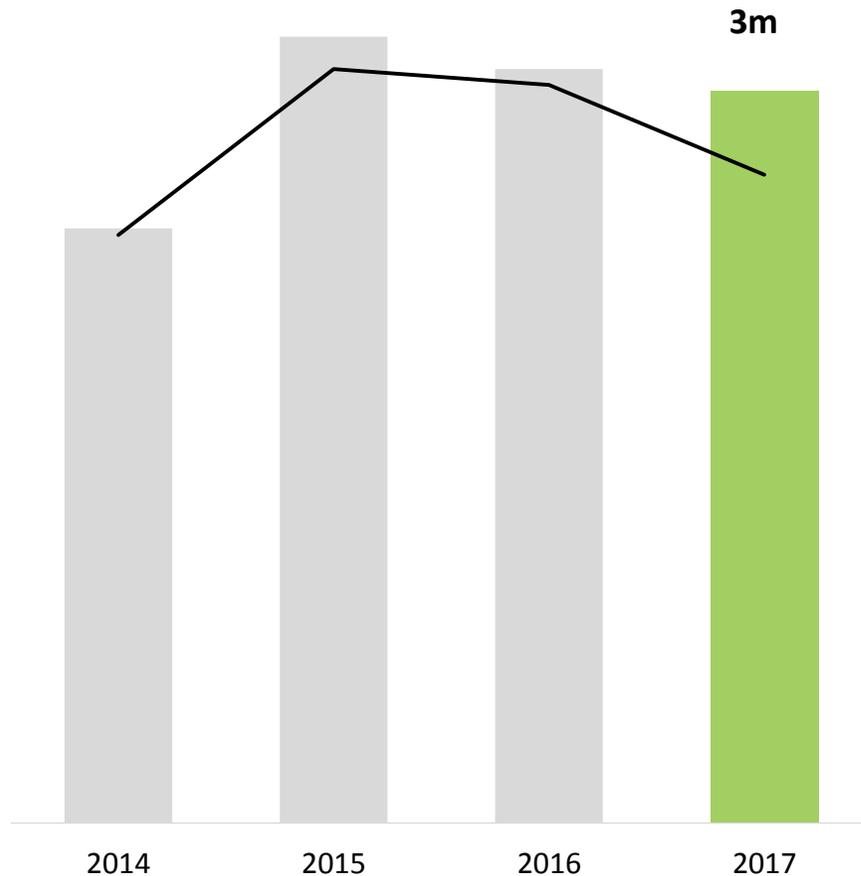
Revenue ↓ 2% to R68m (2016: R70m)

Value traded ↓ 41% to R569bn (2016: R958bn)

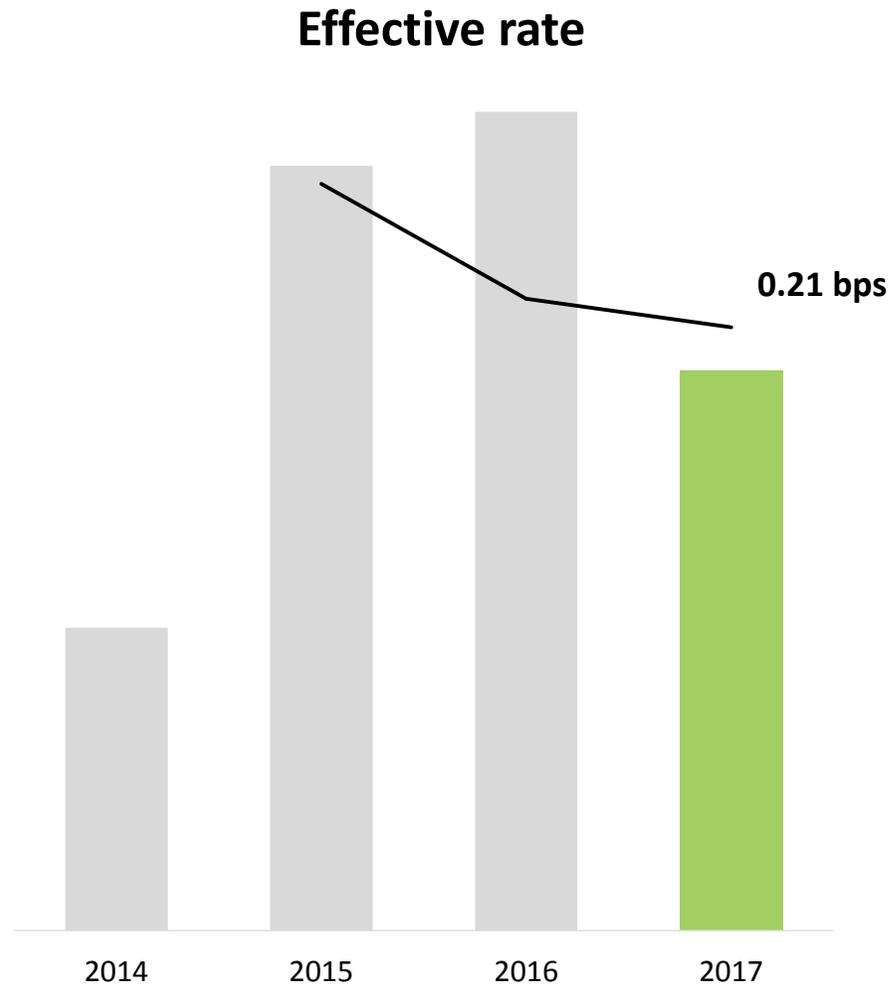
Contracts traded ↓ 12% to 3.0m (2016: 3.4m)

Q1 of the year saw one of the tightest stock levels on record in the country

**Contracts traded**



# Post-Trade Services: Back-Office Services (BDA)



**14% of total revenue**



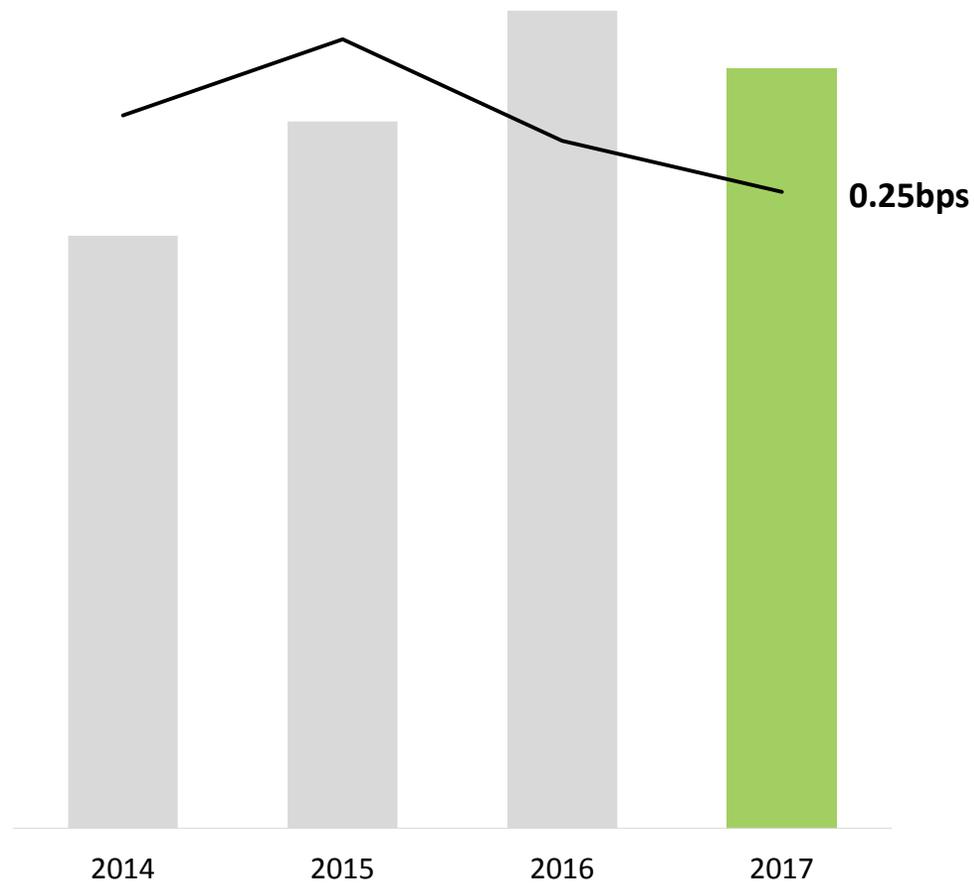
Revenue ↓ 7% to R293m (2016: R316m)

Follows Equity Market transaction volumes

R14m in price reductions (2015: R18m; 2016: R56m) accounts for the majority of the revenue decline

# Post-Trade Services: Equity Clearing and Settlement

Effective rate



**18% of total revenue**



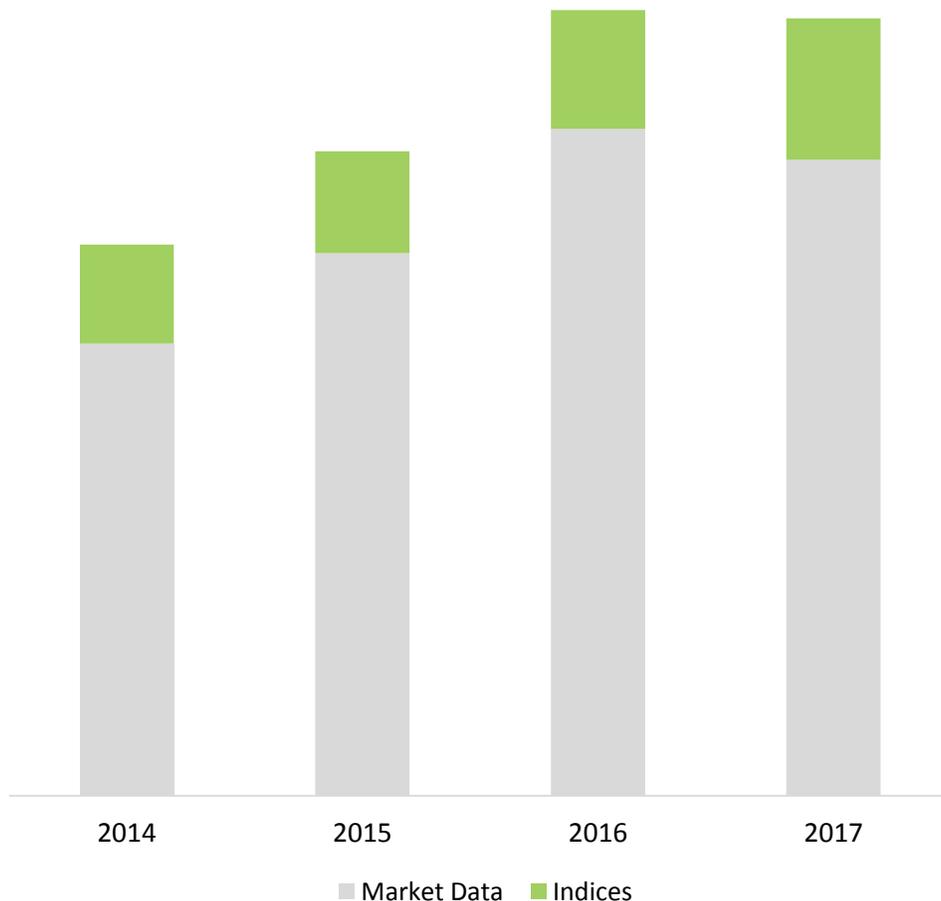
Revenue ↓ 7% to R384m (2016: R413m)

Follows Equity Market value traded

Reflects only Equity Market clearing and settlement fees

# Information Services: **Includes Market Data**

## Revenue breakdown



## 13% of total revenue



Revenue ↓ 6% to R272m (2016: R288m\*)

- **27** new clients have signed up for Market Data products (11 local clients and 16 international clients)
- Passive tracking products ↑ **15**
- Continued growth in products tracking JSE indices, with growth in assets under management increasing by **18%** to R604bn (2016: R513bn)

# LOOKING AHEAD



# 2018 strategic priorities

To be the best global platform in emerging markets

Complete our large technology investments to deliver growth

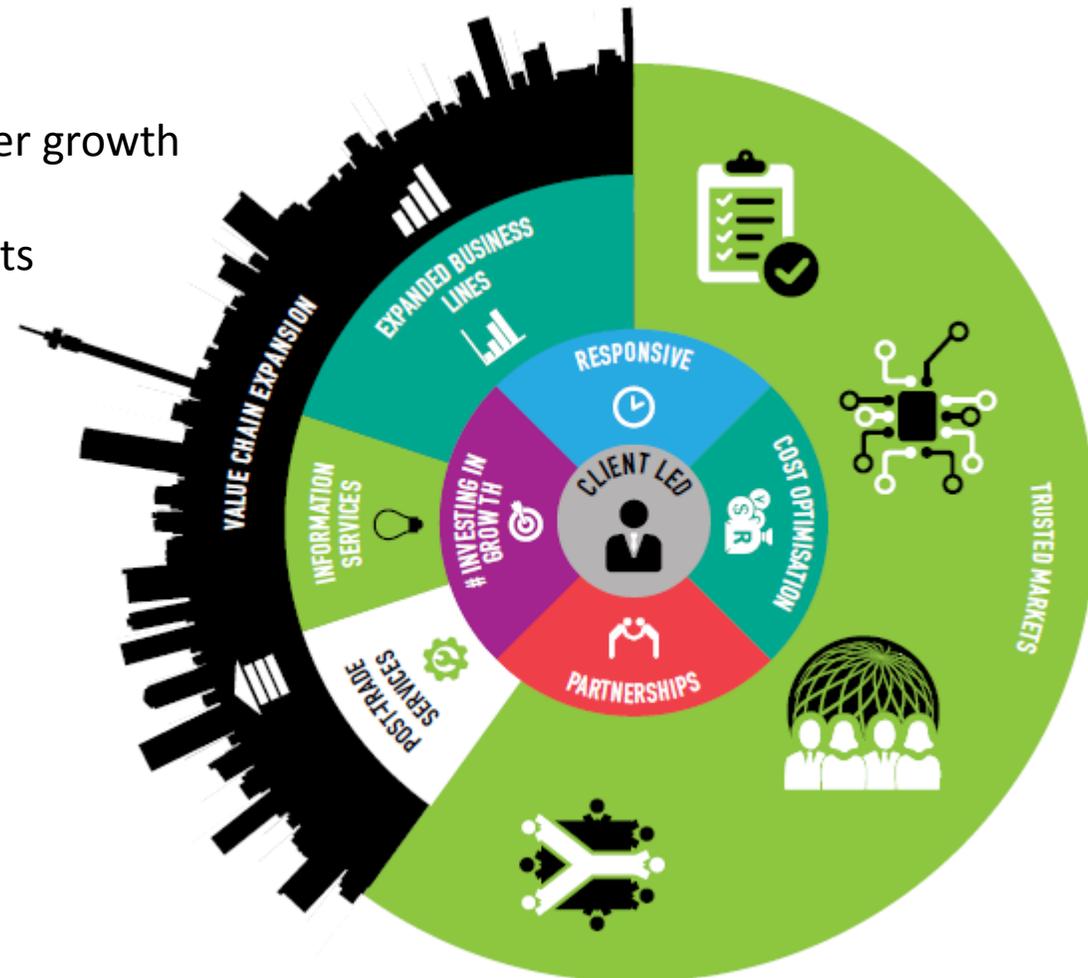
Drive operational resilience to better serve our clients

Maintain our strong cost controls

Embed an agile, client-led culture

Drive transformation

Drive new product opportunities

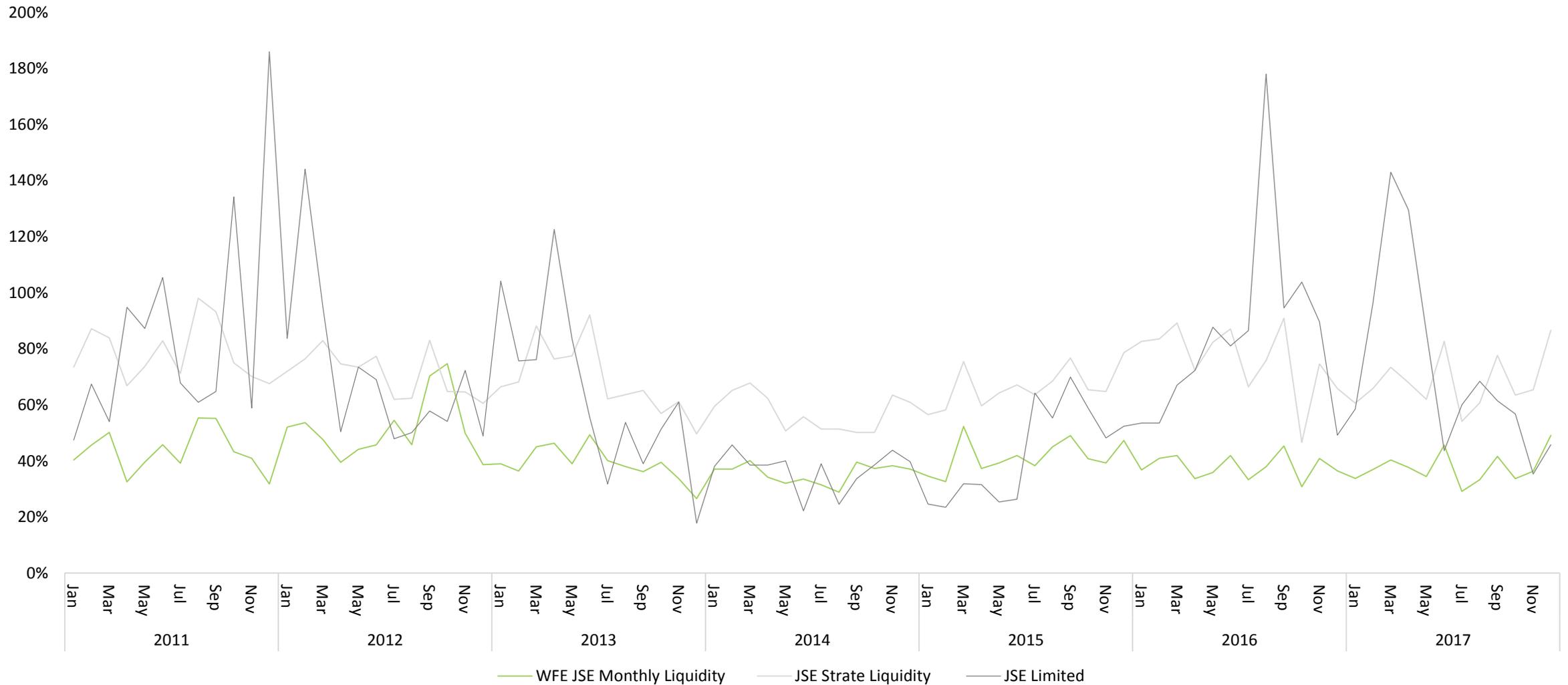


# QUESTIONS



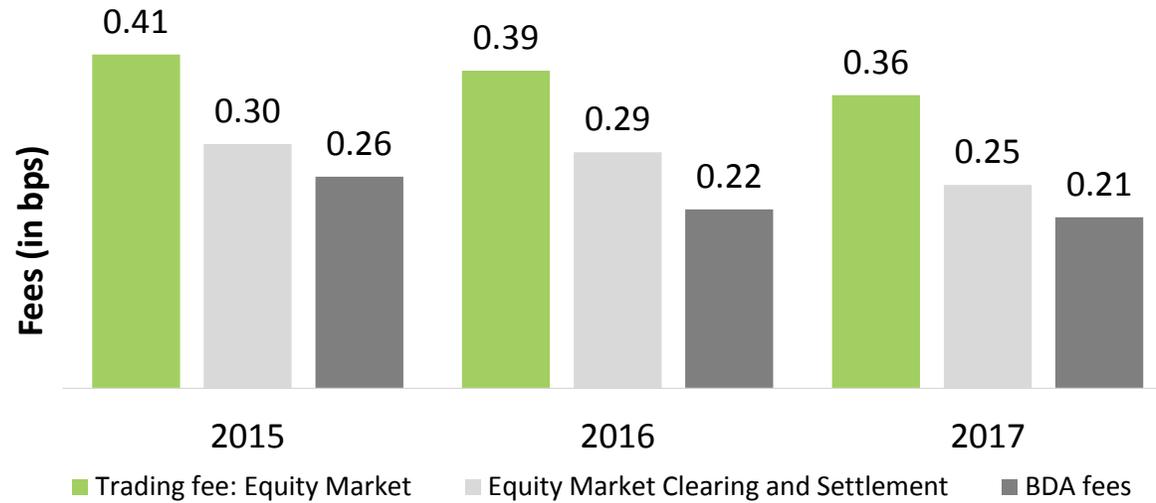
# JSE liquidity

## Monthly liquidity: 2011 to 2017



# Equity Market: JSE effective pricing trend

## 3-year price trend



2015: BDA fee reduced by 20%

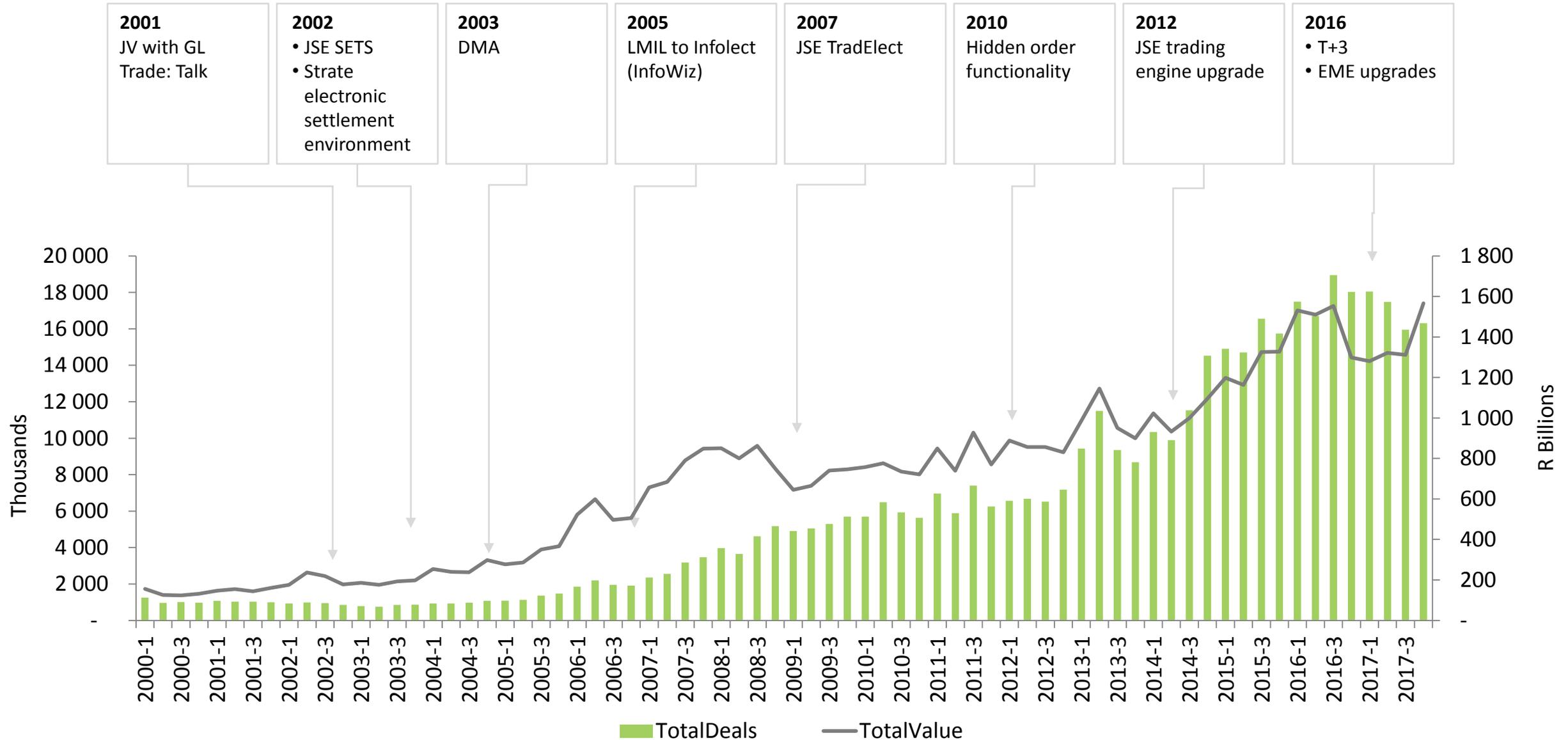


2016: Option delta (OD) fee reduced to zero



2017: BDA fee reduced by 8%

# Technology development drives trade



# Financial metrics



Ratios	2017	2016	2015	2014	2013
Operating margin	<b>39%</b>	41%	45%	38%	35%
EPS	<b>977.4</b>	1 074.8	1 051.0	742.4	592.1
HEPS	<b>996.6</b>	1 063.2	1 026.3	735.0	644.6
PE	<b>15.8</b>	15.3	12.2	16.3	15.2
Dividend yield (ordinary)	<b>4.0%</b>	3.4%	4.1%	3.3%	3.9%
Dividend yield (total)	<b>4.0%</b>	3.4%	4.9%	4.0%	4.5%
EBITDA	<b>993</b>	1 074	1 123	803	669
ROE	<b>23%</b>	28%	30%	26%	23%

A nighttime photograph of a city skyline with several illuminated skyscrapers. In the foreground, a multi-lane highway shows long-exposure light trails from cars, with yellow and white streaks for headlights and red and green streaks for taillights. A green light trail is visible on the left side of the road. The sky is dark, and the overall scene is lit by the city lights.

Thank You

21 February 2018