MOSCOW EXCHANGE

MOEX 1Q 2023 IFRS results conference call

22 May 2023

Speakers:

- Anton Terentiev, Director of IR
- Mikhail Panfilov, CFO

Participants asking questions:

- Elena Tsareva, BCS
- Olga Naidenova, Sinara FC
- Evgeny Kipnis, Alfa Bank
- Mikhail Ganelin, ATON
- Dmitry Bagrov, PFL Advisors
- Svetlana Aslanova, Arowana Capital

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Anton Terentiev – Director of IR

Good afternoon, everyone, and welcome to Moscow Exchange's 1Q 2023 IFRS results conference call. As usual, after the prepared remarks, we will have a Q&A session. For the convenience of our audience, in the next few days we will make transcripts available in both Russian and English. Therefore, please ask questions in both languages during the Q&A session.

Before we start, I would like to remind you that certain statements in this presentation and during the Q&A session may relate to future events and expectations and, as such, constitute forward-looking statements. Actual results may differ materially from those projections. The Company does not intend to update these statements prior to the next conference call. By now, you should have received the press release outlining our results. Our management presentation is available on the Company's website in the Investor Relations section.

Let me briefly introduce our newly appointed CFO Mikhail Panfilov. Mikhail joined the Exchange two months ago and is now actively onboarding. Mikhail has over 12 years of managerial experience at Russian financial institutions. Prior to MOEX, Mikhail worked at BCS. Mikhail's expertise is complementary to MOEX's profile and aligns very well with our strategic goals. I hope you all give Mikhail a warm welcome as I am passing the word onto him. Mikhail, please go ahead.

Mikhail Panfilov – CFO

Thank you, Anton, and good afternoon, everyone. Thank you all for joining us on the call today. I am proud to join the Moscow Exchange team. Anton will proceed with the prepared remarks, and I will be available during the Q&A session.

Anton Terentiev – Director of IR

Thanks, Mikhail. Let's start with the delivery on strategic initiatives.

First, the Exchange continues to add new products. Genetico, a medical services provider, completed its IPO on MOEX, raising RUB 179 million. The Derivatives Market introduced a number of instruments during the quarter, such as deliverable futures and cash-settled options on shares of the Human Stem Cell Institute (ISKJ); cash-settled futures on a global equity ETF; cash-settled FX futures on a number of currency pairs from friendly jurisdictions, such as: Turkish lira – ruble, Hong Kong dollar – ruble, UAE dirham – ruble, Indian rupee – ruble, Kazakhstani tenge – ruble and Armenian dram – ruble. As always, our colleagues from the Derivatives Market are following clients' demand when deciding on new product launches.

Second, we continue to work on new services. MOEX introduced a new CCP-based segment for OTC trading in non-listed equities. 10 non-listed Russian names are available at the initial stage. We plan to expand the list of available instruments in the future. On the Derivatives Market, the options trading fee was decreased five times. This will improve the convenience of trading in options for all client categories and eventually support trading activity. Group chats operating via secure communication channels at the MOEX Trade SE terminal are now available for market participants. This functionality will also be used in the information and trading terminal, which is at the active stage of development.

Third, we are developing our client base and partnerships. At the end of April, the number of retail clients reached 25 million. More than 2.1 million new clients have onboarded since the beginning of the year. The total number of individual investment accounts amounted to 5.4 million. The Primary Bond Market started to recover, as 74 corporates, including 15 newcomers, placed 133 bond issues, raising RUB 924 billion in the first quarter. At the beginning of April, we acquired a 50.1% stake in ProCompliance, a leading developer of software for automation of compliance services on the financial market. With the help of existing and new services to identify risks, market participants will be able to optimise and strengthen their own compliance and internal control systems. Within three years, the ownership share can be increased to 100%.

Slide 3, 1Q 2023 summary of financials. F&C income during the quarter declined by 6% YoY. Let me remind you that foreign clients used to bring some 15% of our F&C income. They have not been able to trade since late February 2022, hence the effect on financials. On the flipside, this base effect will already be gone in the next quarter. Operating expenses in 1Q decreased 18% YoY mainly due to the reduction in advertising and marketing costs. EBITDA gained 73% YoY. On a quarterly basis, EBITDA added 24%. Net income improved 77% and amounted to RUB 14.3 billion.

Slide 4, diversified fee and commission income. Despite a 6% YoY decline, F&C income change QoQ was slightly positive. The fee income structure remains well-diversified. The single largest constituent was the Money Market, which accounted for 23% of the total. Let me now go line by line.

On the Money Market, fee income decreased 19%, while trading volumes were down 3%. The effective fee dynamics was mostly linked to a decrease in GCC repo terms and a higher share of non-CCP repo in the total volumes mix. Overall, average on-exchange repo terms were up 70% YoY and amounted to 6.4 days. GCC repo terms contracted by a quarter YoY to 2.9 days. Corporate clients now play a bigger role in the market: their average daily open interest rose by 63% YoY. Competitiveness of MOEX services and convenience of access via MOEX Treasury terminal both stand behind this positive development.

Fees and commissions from Depository and Settlement were flat YoY. Assets on deposits were up within 1% YoY as of the quarter end.

On the FX Market, fees were virtually unchanged, while trading volumes contracted by 41% YoY. The effective fee improvement was driven by two major factors. First, the new tariff structure favouring liquidity makers that came into effect on 1 August 2022. Second, a shift in the trading volumes mix towards the spot segment. Specifically, spot volumes decreased by 32%, while swap volumes shrank by 45% YoY. Friendly jurisdictions' FX pairs accounted for more than 37% in total spot trading. At the beginning of 2022, the share of these currencies in trading volumes was below 1%.

A line called ITSLOFI includes revenue from IT Services, Listing, Finuslugi marketplace and other fees. Sales of software and technical services improved 39% YoY, largely due to tariffs revision and a high demand for low-latency protocols for market data distribution SIMBA ASTS and FIFO TWIME ASTS on Equities and FX Markets. Sales of information services were down 19% YoY as foreign providers discontinued contracts for market data sales and the ruble strengthened. Listing and other services improved by 36% YoY as bond placements intensified during the quarter. Financial marketplace fees gained 26% YoY. Other fee and commission income contracted by 55% YoY since the base period revenues included additional fees on EUR balances of 0.2 p.p. above the non-positive ECB rate. In the reporting period, the ECB rate was positive.

On the Derivatives Market, fee income declined 2% YoY, while trading volumes dropped by 61% YoY as foreign investors discontinued operations. The discrepancy between fees and volumes was due to a shift in volumes mix towards more profitable single-stock and commodities derivatives as well as the new asymmetric tariff structure implemented in June 2022.

Fee and commission income from the Equities Market decreased by 35%, while trading volumes declined 64% YoY. The practical absence of foreign investors remains a major setback for the market. The discrepancy between fee income and volume dynamics was the result of the new asymmetric tariff structure implemented in November last year. The evening trading session accounted for 10% of the Equities Market total trading volumes in 1Q 2023. Late hours are especially popular among retail clients, which remain the main client category on the Equities Market.

Fixed Income fees increased nearly 2.4 times YoY. Trading volumes excluding overnight bonds doubled YoY. The positive dynamics in fees and volumes is explained by the elevated primary market activity, which improved nearly six times YoY, mostly because of the low base effect. The YoY effective fee dynamics were supported by updated tariffs, which went live at the beginning of this year. On a quarterly basis, the effective fee was affected by corporate placements.

Slide 5, operating expenses in 1Q 2023 (excluding provisions). Operating expenses in 1Q 2023 decreased by 18% YoY, mainly due to the reduction in advertising, marketing and personnel costs.

Personnel expenses decline of 12% YoY is largely explained by the unwinding of extra bonus provisions accumulated in 2022 to reflect the delivery on financial KPIs. After separating controlled and non-controlled factors of outperformance, we partially rolled back these extra provisions. We do not expect this pattern to repeat in 2023.

D&A costs were up 19% YoY thanks to accelerated CAPEX spend in 4Q 2022. IT maintenance costs decreased 40% as foreign providers discontinued their service. Remaining admin expenses were down 41% YoY. As the Finuslugi promo campaign concluded, advertising and marketing spend decreased by 84% YoY. Taxes other than income tax were down by 42% YoY following a reduction in taxable marketing and IT maintenance costs. Net of marketing costs and taxes other than income tax, G&A expenses in 1Q 2023 were virtually unchanged, decreasing by 0.8% YoY.

CAPEX for the first quarter amounted to RUB 0.6 billion and was spent on purchases of software and equipment as well as software development, as usual.

Let us now talk about OPEX and CAPEX guidance. Earlier this year, we guided for a range of 12–16% as the 2023 OPEX growth. Based on the first quarter dynamics and the outlook, we now update that range to 10–14%. For the 2023 CAPEX guidance, we decrease the upper end of the range from RUB 7 billion to RUB 6 billion. The updated CAPEX guidance is between RUB 4–6 billion. Actual spend depends on the implementation of the software and hardware renewal programme.

This concludes the overview of our results. We are now ready to take your questions.

Operator

Thank you. The first question comes from the line of Elena Tsareva, BCS.

Elena Tsareva – BCS

Good afternoon, Anton, Mikhail, thank you very much for the presentation. I have a few questions. The first question is about your change in the OPEX guidance for 2023. You revised the guidance downwards. What were the main reasons for this? Has anything been done from an efficiency standpoint? Have any projects been postponed or cancelled? My second question is about net interest income and the income associated with that line item. We observe strong dynamics in NII. There was an understanding that there would be some normalization after 2022. How do you see this P&L line changing going forward? One last question. The press release indicated a new M&A deal – ProCompliance. Could you give us some details and in general your plans for M&A deals going forward? What are you looking at now? What's the pipeline? What's the general direction in terms of M&A deals? Thank you.

Anton Terentiev – Director of IR

Hi, Elena, thank you for your questions. The updated OPEX guidance mostly includes the actual YTD spend, so it was updated accordingly. We do not feel comfortable going too much into details, but I can add that we have a high base of last year as 1Q 2022 was very ambitious in terms of expenses. In 2023, we are much more conservative towards spending. Inflation is not accelerating, it is under control and quite contained. Therefore, we are able to contain our OPEX, so we updated the guidance based on the actual YTD expenses.

Your next question on NII. I think the biggest difference between what we had in 1Q'23 and what we have today is income generated from type S accounts. During our previous conference call, we said that corresponding balances had been transferred to the Deposit Insurance Agency (DIA) as per the Bank of Russia's Board of Directors' decision dated 29 December 2022. Therefore, we no longer receive income on type S accounts. In terms of other factors, we still have client balances, which remain quite strong, and we also have ruble rates, which are pretty much unchanged. So, beyond type S accounts, I would say that things are quite steady.

Answering your question on ProCompliance, I will basically reiterate the message that we have been communicating for several years now: we target deals that strengthen our existing business units and provide some immediate synergies to them, so these are basically bolt-on acquisitions. ProCompliance is no exclusion here. It fits into the M&A pipeline that we have had, and our track record is very much like the ProCompliance deal. However, this is not the only M&A deal we are looking at because we are all reading the press and we see that there are multiple deals happening in the market today, and lots of assets are for sale. We should not disregard that and therefore, as you remember, we had to put aside some cash cushion when it came to dividend distribution. We are still examining our opportunities.

Elena Tsareva – BCS

Thank you, Anton.

Operator

Thank you. Our next question comes from Olga Naidenova, Sinara Bank. Olga, please go ahead.

Olga Naidenova – Sinara FC

Hello Anton and Mikhail. Congratulations on the good results and thanks for the presentation. My questions are basically about the same two lines that Elena asked about. The first question is about costs. Your OPEX guidance still seems pretty conservative to me, given the negative growth rate you showed in the first quarter. Over the remaining three quarters, operating expenses should grow at more than a 20-percent rate [to reach the projected values]. I'd like to know if there's some non-organic component to that figure. Or what is the reason for expecting such an acceleration in spending? I understand that there were negative components in personnel expenses, but maybe you can elaborate on that. My second question is about the NII. Maybe you could tell us a little bit more about what balance sheet items we should be relying on to model NII further on? What balance sheet lines and what client balances you are earning interest income on? What balance sheet lines might tell us something about further changes in interest margin and interest income? Thank you.

Anton Terentiev – Director of IR

Hi Olga, thank you for the questions. Regarding your question on OPEX guidance and its conservative nature: yes, I do agree that it is quite conservative, and we make no secret of that. Let me just reiterate that it looks that way against the very aggressive base of 1Q 2022 – it really makes dynamics look so much negative, but other quarters could be more normal. Back to your point of whether there is a non-organic component to that guidance – yes, we did think in that direction and we did assess that, but I would not dive too much into details here.

Moving on to your second question on the NII and the balance sheet lines that you should use to model the NII going forward: let me start by saying that we no longer receive any income from type S accounts and we have transferred all these funds to the DIA (Deposit Insurance Agency). However, technically, not every client can open an account with the DIA, so for some of the clients that are not banks, the NSD has to act as an agent and transfer their funds to the DIA. As a result, the funds of these clients remain on our balance sheet, although we make no interest income from them. For more details, you can look at the NSD's Russian accounts for 1Q 2023 and specifically line 13 and note 3.3. There you will see the amount that the NSD has on its balance sheet and that it has transferred to the DIA. This will help you understand how things work.

Olga Naidenova – Sinara FC

Thank you very much, Anton. If I may, one more quick question. Have the factors that you described as limiting regarding your ability to pay dividends changed in any way? What is the current status of this issue? Can you say something in addition to what you said a quarter ago?

Anton Terentiev – Director of IR

We still have the same recommendation from the Supervisory Board in place, it has not changed. It is to be considered at the next AGM, which is coming up and which will be our second attempt to hold it. The first one did not have the quorum, and we hope the next one will. The agenda and the dates are available on the website. In terms of dividends, figures are the same. The only thing that has changed is that the cut-off date and therefore the dividend distribution schedule was slightly postponed but remains in place.

Olga Naidenova – Sinara FC

Thank you. I was referring to future periods rather than the 2022 dividend.

Anton Terentiev – Director of IR

I think we should stick to the message that we delivered during the FY 2022 call: we will update our dividend policy along with our strategy. So, I suggest we wait for an updated strategy. We basically have 1.5 quarters left to go. We intend to present the new strategy until the end of 3Q'23, so let us wait and see.

Olga Naidenova – Sinara FC

Thank you.

Operator

The next question comes from Evgeny Kipnis, Alfa Bank. Evgeny, please go ahead.

Evgeny Kipnis – Alfa Bank

Hi Anton and Mikhail. Thank you very much for the presentation. My first question is on your NII. Could you please tell us the run-rate of your NII in 2Q 2023, if possible?

Anton Terentiev – Director of IR

Hi Evgeny, thanks for the question. If we look back into the times when we were able to actually provide the run rate range for NII, those were steady days and our range was quite narrow. But in the current circumstances, where we have some uncertainty over rates and more so over client balances, they still stand elevated, but we cannot commit to the fact that they will stay elevated in the next quarters. So, at this point, given the circumstances, we are not ready to provide the NII run-rate. Sorry.

Evgeny Kipnis – Alfa Bank

Ok, thank you. My next question is about the mid-to-long term outlook for ruble client balances that supposedly generate the largest share of NII. Can we draw parallels with the 2015-2017 scenario? How do you model these client balances internally?

Anton Terentiev – Director of IR

Previously, we had a better understanding of the ratio between the cash amount that clients hold with the NCC and the amount that they trade and the amount they hold in securities. In the current circumstances, this link has become much vaguer and more unstable and we cannot provide you with any tangible outlook here but we are glad that we are able to generate NII at this stage.

Evgeny Kipnis – Alfa Bank

All clear, thank you. One last question. On Friday you published the NCC and NSD financial statements for the first quarter. In particular, the NCC report shows the level of capital adequacy ratio, N1CCP, at 223%. As I recall, that's higher than it used to be. Historically, you've shown a ratio in about the 150-170% range. I wanted to clarify whether this includes any indulgences from the Bank of Russia, whether you take advantage of them, and what is a comfortable level for you in the current environment of the N1CCP capital ratio? Thank you.

Anton Terentiev – Director of IR

Brilliant question, thank you. Basically, the N1CCP value that was disclosed is convincing, but I can tell you that I have seen it fluctuate in a very wide range in recent months. Also, if you look one year back, you will see that it was three times lower. When we talk about N1CCP and its forecasting, previously the circumstances were much milder and predictability was higher, so we could tell what cushion we needed for the minimum level, the comfortable level, the stress test, etc. There was much more clarity. But now this figure is fluctuating in a very wide range over quite a short time span. All these forecasting tools that we had at our disposal back then are unfortunately not that much applicable any more.

Evgeny Kipnis – Alfa Bank

Thank you.

Operator

The next question comes from Mikhail Ganelin, ATON. Mikhail, please go ahead.

Mikhail Ganelin – ATON

Hi everyone, thanks for the presentation. My question is about the Finuslugi marketplace. What are you going to do with this platform? Are you going to develop it? You have cut marketing expenses on it. So, what is the plan?

Mikhail Panfilov – CFO

Compulsory motor insurance sales (OSAGO) and deposit segment revenues stood flat, while the comprehensive car insurance (KASKO), loan and mortgage segments performed well. So, we assume that the current trends will continue.

Mikhail Ganelin – ATON

Thank you.

Anton Terentiev – Director of IR

I will now read several text questions coming through the Q&A interface. The first question is from Dmitry Bagrov. During the PHDays 12 conference, Boris Blokhin, a representative of the Moscow Exchange, indirectly confirmed the intentions of 5-10 companies to conduct an IPO this year. How serious are these intentions? Will the first placement this year take place in the first half of the year? How do you estimate the contribution of primary placements to the revenues of the Moscow Exchange at year-end?

The immediate financial contribution of these IPOs, if they happen, will be totally negligible, but this is not the point. The point is that the more issuers we have, the more secondary trading and more equity instruments we have, and the more it drives the performance of adjacent markets. If you have one more equity issuer, next comes secondary trading in the equity market, the money market activity with the repos for these instruments, and then we safekeep those assets and can issue derivatives on these assets. So, this is how these IPOs feed into the market development, affecting broader financial performance. And then, the question goes, how serious are we and how serious are these intentions? In terms of what depends on us, we are totally serious, but what really makes an IPO happen is when the demand and supply come together. So, we have investors' demand and supply from issuers. The market is performing quite well this year. There is some decent interest in the market and we still see some inflows. So, I would say that the preconditions for some successful IPOs are in place.

Svetlana Aslanova asks a few text questions over the Q&A interface. The first question goes: if you continue M&A activity, how will it impact the number of employees and the personnel costs in 2023?

M&As will inevitably affect the number of employees and increase the personnel costs. But if M&A deals actually happen, then the actual costs will differ immaterially from our guidance.

The next question is about velocity on the equity market.

We have disclosed the formula for this in our investor presentations. All the variables for the formula are also publicly available, and the methodology remains unchanged. If you need a figure, it is 32% and is based on the overall market cap, not the available free float. It basically compares to the pre-COVID velocity, which was in the high 20s, if I remember correctly. We should also bear in mind that we have just a fraction of the available free float traded today. The available free float has decreased manifold because of the absence of international investors. The 32% velocity basically means that retail investors have been supporting the market at the level seen before the COVID. Actually, it is a very good result.

And the third question from Svetlana. Can you provide an outlook for you Core NII?

We have already discussed all the moving parts around it. I wish we could [provide the outlook], but not at this point, unfortunately. Thank you for your questions.

I see no further questions, therefore I think we can conclude our call. Thank you everybody for your participation and I hope to see you all with us at the 2Q’23 call.

Mikhail Panfilov – CFO

Thank you for your questions. I hope you have received all the answers to them.