

## **MOSCOW EXCHANGE**

### **MOEX 2Q 2023 IFRS results conference call**

**23 August 2023**

#### **Speakers:**

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

#### **Participants asking questions:**

- Evgeny Kipnis, Alfa Bank
- Olga Naidenova, Sinara Bank
- Dmitry Bagrov, PFL Advisors
- Elena Tsareva, BCS
- Anatoly Poluboyarinov, Smartlab

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## **Anton Terentiev – Director of IR**

Good afternoon everyone, and welcome to Moscow Exchange's 2Q 2023 IFRS results conference call. CFO Mikhail Panfilov has joined the call today. As usual, we will start with the prepared remarks and then have a Q&A session. Please ask every question in both Russian and English. For the convenience of our audience, in the next few days we will make transcripts available in both languages.

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.

Over to Mikhail now, please go ahead.

## **Mikhail Panfilov – CFO**

Thank you, Anton, and good afternoon, everyone. Thank you all for joining us on the call today. Anton will proceed with the prepared remarks, and I will talk about financials and be available during the Q&A session.

## **Anton Terentiev – Director of IR**

Thanks, Mikhail. Let us start with the delivery on our strategic initiatives.

First, the Exchange continues to add new products. CarMoney, a fintech microfinance company, had its IPO on MOEX and raised a total of RUB 600 million. The Derivatives Market continues to expand its product range. Since the previous earnings call, two new

futures contracts on commodities, four futures contracts on Russian equities and cash-settled European-type premium options on three FX pairs were introduced. FX interest rate swap contracts in CNY with maturities of up to five years are now available on MOEX, expanding FX hedging opportunities for our end-clients.

Second, we continue to work on new services. MOEX presented Trade Radar – an information and trading terminal featuring a news feed, real-time and historical prices for MOEX-traded assets and data on securities issues. It allows users to give indicative prices, negotiate OTC transactions in secure chats and access transactions' history. The terminal is in the active testing phase. In early August, the Moscow Exchange obtained two licenses to do business with digital financial assets (DFAs). These are Russia's first license of an exchange operator and a license of information system operator. The latter allows the issuance of DFAs, while the former allows transactions with DFAs issued by different systems. A discrete auction mechanism now applies to all equities and DRs traded on MOEX, smoothing out rapid price fluctuations. Previously, discrete auctions were in place only for the constituents of IMOEX. Russia's first warehouse real estate index was introduced, enabling further development of associated instruments. The Equities and Bond markets switched to T+1 mode, coming in sync with other MOEX markets in terms of the settlement cycle to bring more comfort and optimize liquidity management for our clients.

Third, we are developing our client base and partnerships. MOEX became a partner of the Zorko investment platform, which provides access to the shares of high-growth and technology companies in the pre-IPO stage. It might become an effective mechanism to facilitate companies' transitions to IPO. The number of retail clients approached 26.4 million as of the end of July. Nearly 3.5 million new clients have onboarded since

the beginning of the year. The total number of individual investment accounts amounted to 5.6 million. On the primary Bond Market, 84 corporates, including eight newcomers, placed 152 bond issues, raising RUB 880 billion in 2Q 2023. Mikhail, over to you.

### **Mikhail Panfilov – CFO**

Thank you. Slide 3. Fee and commission income in the quarter increased by 48% YoY. Let me remind you that in the past, foreign clients brought about 15% of our fees and commissions. They have not been able to trade since late February 2022, and so this base effect is already gone in 2Q 2023. That said, reported fee income has already recovered to the level of 4Q 2021 despite the absence of foreign investors. Operating expenses in 2Q 2023 added 1.7% YoY. EBITDA gained 44% YoY. On a QoQ basis, EBITDA declined by 14%, mainly due to the reduction in net interest income. Let me reiterate that we no longer receive interest income from type S accounts since the corresponding funds were transferred to the Deposit Insurance Agency in 1Q 2023. Net income improved 46% YoY and amounted to RUB 12.1 billion.

Slide 4. Fee income grew by 48% YoY and 20% QoQ. 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 added 23% YoY, while trading volumes grew by 12%. The change in effective fees was mostly linked to an increase in overall on-exchange repo terms, which were up 44% YoY and amounted to 6.6 days. GCC repo terms also rose by 44% YoY to 3.6 days. The average daily open interest of corporate clients increased by 23% YoY in 2Q 2023. The competitiveness of MOEX services and the convenience of access via the

MOEX Treasury terminal both stand behind these positive dynamics.

Fees and commissions from Depository and Settlement increased by 32% YoY. Assets on deposit were up 22% YoY as of the end of the quarter. The discrepancy between the growth rates of F&C income and of assets on deposits is the result of business lines beyond safekeeping, primarily clearing and collateral management services, i.e. money market operations at NSD.

On the FX Market, fees were up 40%, while trading volumes increased by 19% YoY. The effective fee improvement was driven by the tariff structure on the spot market that came into effect on 1 August 2022. This tariff factor was somewhat mitigated by a shift in the volumes' mix towards a less profitable swap segment. Specifically, spot volumes gained 8%, while swap volumes increased by 27% YoY. Swap volumes dynamics was especially pronounced in friendly currencies. In the spot segment, FX pairs from friendly jurisdictions account for some 45% of the total. At the beginning of 2022, these currencies accounted for less than 1% of volumes.

Fees from the Equities Market more than tripled, while volumes doubled YoY. This discrepancy is the result of the asymmetric tariff structure implemented in November of last year. The evening trading session accounted for 13% of the Equities Market volumes in the second quarter. The late hours are especially popular among retail clients, who remain the main client category on the Equities Market. More than 2.6 million clients per month were active during the quarter.

On the Derivatives Market, fees surged 2.6 times YoY while volumes were up 18% YoY. The effective fee dynamics is explained by three factors, two positive and one negative. The first is the tariff structure introduced in June 2022. The second is the

shift in volumes mix from FX and Indices towards the more profitable Interest Rate, Equities and Commodities derivatives. The third is the five-fold decrease in the options trading fee at the beginning of April, which effectively made options trading less profitable than futures. Combined with the expansion of the product range, this move incentivized clients to increase their trading activity in options.

The ITSLOFI line includes revenue from IT Services, Listing, the Finuslugi marketplace and other fees. Sales of software and technical services increased by 43% YoY, largely due to the revision of tariffs and high demand for low-latency protocols for market data distribution – SIMBA ASTS and FIFO TWIME ASTS on the Equities and FX Markets. Sales of software and technical services are also supported by the continuing onboarding of local HFTs. Sales of information services were up 29% YoY as the ruble depreciated during the quarter. Listing and other services improved by 65% YoY as primary bond market activity recovered during the quarter. Financial marketplace fees nearly doubled YoY. The insurance segment performed particularly well during the quarter, and we expect Finuslugi revenue to build on that in the coming quarters, among other factors. Other fee and commission income contracted by 77% YoY since the base period revenues included additional fees on EUR balances of 0.2 p.p. above a non-positive ECB rate. The ECB rate was positive in the reporting period, and therefore there was no such income.

Fixed Income fees nearly tripled YoY and trading volumes excluding overnight bonds increased 2.7 times YoY. The growth in fees and volumes is explained by the recovery of the primary market as it surged 7 times YoY, mostly because of the low base effect. The effective fee dynamics YoY were supported by updated tariffs that went live at the beginning of this year as well as by migration of trading

volumes to CCP-based trading modes. We also observe increased demand for so-called replacement bonds.

Now let us move on to slide 5. Operating expenses in 2Q 2023 increased by 1.7% YoY and declined by 9% YoY in 1H 2023. Personnel expenses were up 1% YoY and 7% QoQ. The latter is due to the low base effect as in the previous quarter we did some unwinding of the extra bonus provisions accumulated in 2022 to reflect the delivery on financial KPIs. The employee headcount was up 1.2% YoY.

Advertising and marketing costs decreased by 33% YoY, but more than doubled QoQ. The quarterly change is explained by Finuslugi-related spending. Market makers' fees expanded 2.4 times YoY as trading activity across markets recovered. Taxes, other than income tax, declined by 40% YoY following a reduction in taxable marketing and IT maintenance costs. The QoQ dynamics of this line does not follow advertising and marketing costs as the latter has a different mix of services subject to VAT than it did last year.

D&A and IT maintenance grew 3.2% YoY, the D&A line alone was up 14% YoY on the back of higher CAPEX in 4Q 2022. IT maintenance costs decreased 21% YoY as foreign vendors discontinued their services. The 13% QoQ increase in IT maintenance costs is due to the gradual implementation of the software and hardware renewal programme. Remaining admin expenses were up by 1.6% YoY.

CAPEX for the second quarter amounted to RUB 0.9 billion and was spent on purchases of software and equipment as well as software development, as usual. CAPEX for 1H amounted to RUB 1.5 billion.

Let us now talk about OPEX and CAPEX guidance. At the beginning of the year, we guided for a range of 12–16% in 2023 OPEX growth. Based on the first quarter's dynamics

and outlook, we updated that range to 10–14% and mentioned on the call that it still included a non-organic component. Accounting for the year-to-date OPEX trend, we are updating the growth guidance range to 6–10% YoY. We do not rule out that some deals might still happen in the future. We are also keeping our 2023 CAPEX guidance range unchanged – at RUB 4–6 billion. The actual spending depends on the implementation of the software and hardware renewal programme.

Now let me say a few words about the updated strategy. We said that the Supervisory Board was planning to approve it by the end of the third quarter. This outlook remains intact. When we are ready to do the announcement and set the communication date, we'll inform you accordingly.

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

### **Operator**

Our first question comes from Evgeny Kipnis, Alfa Bank. Please go ahead.

### **Evgeny Kipnis – Alfa Bank**

Anton, Mikhail, good afternoon and thank you for the presentation. My first question is about your interest income. What is the average duration of instruments in which you invest your client balances and your own funds, and how long will it take for us to see the effect of increased interest rates in your P&L? Thank you.

### **Mikhail Panfilov – CFO**

Thank you. In our IFRS statements, you can see that our fixed income portfolio, namely the line *Financial assets measured at fair value through other comprehensive income*, has declined from historically observed levels. At the same time, the amount of interest income and respective balance sheet lines suggest that

client balances have gone up. This means that overnight instruments now constitute a larger part of our ruble investment portfolio. This will help you understand how quickly key rate changes feed into NII.

### **Evgeny Kipnis – Alfa Bank**

Mikhail, thank you. My second question is on your OPEX guidance for 2023. On my calculations, the lower end of the range implies that in the second half of 2023 we will see a growth of at least 22% YoY. Is that related to the relaunch of investments into advertising and marketing of the Finuslugi marketplace? Or do you see some other factors, maybe related to the IT renovation programme or something else?

### **Mikhail Panfilov – CFO**

Thank you. Usually, our second half of the year is seasonally more active in terms of OPEX and CAPEX, particularly the fourth quarter. This year, we are also waiting for the adoption of the updated strategy to start implementing it. Therefore, we might speed up in terms of OPEX and CAPEX going forward.

### **Evgeny Kipnis – Alfa Bank**

Thank you, I don't have any further questions.

### **Operator**

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

### **Olga Naidenova – Sinara Bank**

Good afternoon and thank you for the presentation. I have 2 questions. Could you please give some guidance with regards to the client balances on which you can earn interest income? As far as I understand, they turned out to be higher than expected, given the transfer of type S accounts to the DIA.

**Anton Terentiev – Director of IR**

Thank you, Olga. The QoQ client balance changes are basically negligible, therefore it's not a factor for NII change. We cannot tie it to any driver because the change is not material.

**Olga Naidenova – Sinara Bank**

Thank you. My other question is about your digital financial assets license. Could you please shed some light on this project and what to expect from this market?

**Anton Terentiev – Director of IR**

Thank you for the question. Digital financial assets are basically a different packaging of financial assets that we all know, and some people believe that it is a more efficient form in terms of costs or timing of issuance. However, we should wait and talk about it in more detail when we discuss the updated strategy.

**Olga Naidenova – Sinara Bank**

Thank you.

**Dmitry Bagrov – PFL Advisors (question submitted in writing)**

What possible effect of changes in the treatment of foreign investors might have on the Company's financials? Namely, the possible asset swap of RUB 100 billion, and dividends to foreign investors in Russian assets.

**Anton Terentiev – Director of IR**

This is a very fresh piece of news, and the final architecture and setup of this solution have not been announced or made public, so we cannot comment on that. I can just give you an idea of what a RUB 100 billion is in comparison with the overall value of retail ownership in foreign equities, that is RUB 1.0 to 1.5 trillion – figures I've seen in the press. Then, there are also

several trillion rubles worth of tradable free float in the Russian market. Also, we have a monthly equities trading volume of around RUB 2 trillion. So, we are talking about magnitude of trillions, and relative to this background, RUB 100 billion does not look like a big amount.

**Elena Tsareva – BCS (question submitted in writing)**

Could you comment on the substantial guidance change for OPEX this year? And what is your outlook for the OPEX dynamics going forward?

**Anton Terentiev – Director of IR**

Basically, the CFO has just announced the answer in his speech – that based on 1Q 2023 dynamics and outlook, on our previous call we updated the guidance range to 10–14% and mentioned that it still included a non-organic component. Given the year-to-date OPEX trend, we have now updated the growth guidance to 6–10%. The CFO also mentioned that the outlook was linked to the strategy adoption and its further implementation, and the seasonality of our spending.

**Elena Tsareva – BCS (question submitted in writing)**

The next question is on the non-organic growth, M&As. Could you possibly comment on the status on the plans, what are directions and what are sizes of any possible deals?

**Anton Terentiev – Director of IR**

I can't remember a company that was really providing much details on possible M&As before they really happened, so we stick to this classical approach. We will just reiterate what was said during the presentation – that we do not rule out that some deals might still happen in the future. And that is where we should stop.

**Elena Tsareva – BCS (question submitted in writing)**

For 3Q 2023, we are waiting for an updated strategy and dividend policy announcement. Could you please provide some insights into possible payout ratios given the strong results of 1H 2023?

**Anton Terentiev – Director of IR**

We do not practice such an approach as pre-communicating a piece of strategy or a piece of dividend policy before their official announcement. We cannot do that. But we should just reiterate what was said during the presentation – that the Supervisory Board was planning to approve the updated strategy by the end of 3Q 2023. This outlook remains intact. When we are ready to make the announcement and set a communication date, we'll inform you accordingly.

**Anatoly Poluboyarinov – Smartlab (question submitted in writing)**

Could you comment on the particular balance sheet line "Payables to holders of securities and counterparties" – what is the nature of these liabilities and why have they grown by RUB 200 billion since the beginning of the year?

**Anton Terentiev – Director of IR**

As you can see in our summary financial statements, we do not provide too many details and comments on the structure of our balance sheet. There are reasons for that. So, we won't be going into much details here.

**Anatoly Poluboyarinov – Smartlab (question submitted in writing)**

Are you considering any potential buyback for non-residents?

**Anton Terentiev – Director of IR**

It is tough to pre-communicate such decisions – it is either announced or not announced. We cannot give any sneak previews into that. In terms of mechanics or comparison to other names in the market – I know two companies that are making such offers. Both companies had to present their case in front of the government commission to get the permission. The first company said they were experiencing challenges with their corporate governance procedures and they had to accumulate a bigger stake locally, with the local shareholders. This is not our case. The second company said they had a substantial amount of FX revenue held outside the country and they were ready to swap it for some shares. This is not our case either. We are not similar to case 1 or case 2.

**Operator**

We have no further questions. Over to the company.

**Anton Terentiev – Director of IR**

Thank you very much for your interest and for following our investment case. It is not too long before our 3Q 2023 results are announced. I also think between the two conference calls, we will sit down and have a conversation about our strategy. Thank you very much.

**Mikhail Panfilov – CFO**

Thank you all. We are ending our session now.