MOSCOW EXCHANGE

MOEX 3Q 2023 IFRS results conference call

13 November 2023

Speakers:

- Anton Terentiev, Head of Investor Relations
- Mikhail Panfilov, CFO

Participants asking questions:

- Elena Tsareva, BCS
- Olga Naydenova, Sinara Bank
- Anatoly Poluboyarinov, Smartlab
- Dmitry Bagrov, PFL Advisors

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Anton Terentiev – Head of Investor Relations

Good afternoon everyone, and welcome to Moscow Exchange's 3Q 2023 IFRS results conference call. Our 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, we will make transcripts available in both languages in the next few days.

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.

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 the financials and will be available during the Q&A session.

Anton Terentiev – Head of Investor Relations

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

As you already know, at the end of 3Q the Supervisory Board approved the 2028 strategy and the updated dividend policy that back our ambitious growth goals for both fundamentals and the market cap. A soft copy of this presentation as well as the call's recording and transcript are available in the IR section of our website.

The Exchange continues to add new products. Astra, a Russian software developer, held its IPO on MOEX and raised a total of RUB 3.5 billion. The book featured a 20-fold oversubscription, showcasing a healthy demand from local retail and institutional clients. Henderson, a Russian manufacturer and retail seller of menswear, also completed its IPO on MOEX raising a total of nearly RUB 4 billion. Softline, an IT solutions and services provider, listed its local shares on MOEX following the exchange of Noventiq GDRs for these local shares. Five new deliverable futures contracts on Russian equities were introduced on the Derivatives Market, providing new trading and hedging opportunities. Repo deals with no set maturity date are now available for Money Market participants, giving clients additional flexibility and the convenience of liquidity management. The range of soft commodity instruments expanded with the launch of cash-settled futures and options on sugar index and trading auctions for milk and milk products. MTS became the first corporation to issue bonds exclusively at Finuslugi. Inaugural DFA issues took place on MOEX and were short-term fixed income instruments by nature.

Second, we continue to work on new services. MOEX introduced a group of indices reflecting sugar prices of OTC deals in different Russian regions. We also launched a soy index, the calculation of which is based on National Mercantile Exchange auctions on soybeans. We launched an information and analytical centre (IAC), which will provide pricing data and statistics on non-exchange traded commodities in Russia and the CIS. This data will also be accessible via Trade Radar, the information and trading terminal. The discrete auctions mechanism was updated along with the introduction of other measures that counter price destabilisation.

Third, we are developing our client base and partnerships. MOEX created a Sustainability Sector Council to promote and develop exchange-traded instruments for financing of ESG projects. The number of retail clients reached 28.5 million as of the end of October. Over 3 million clients were active every month during the quarter. Nearly 5 million new clients have onboarded since the beginning of the year. The total number of individual investment accounts amounted to 5.7 million. On the primary Bond Market, 80 corporates, including 12 newcomers, placed 168 bond issues, raising RUB 1.4 trillion in 3Q 2023.

Mikhail Panfilov – CFO

Thank you, Anton. Fee and commission income in 3Q'23 increased by 61% YoY to reach a record high of RUB 14.4 billion despite the absence of foreign investors. Operating expenses in 3Q 2023 added 38% YoY mainly due to an increase in personnel expenses, which we will decompose and explain later. EBITDA gained 73% YoY. On a QoQ basis, EBITDA improved by 26% on the back of the expansion of both fee income and net interest income (NII). Let me reiterate once again 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 64% YoY and amounted to RUB 14.3 billion.

Next slide, please. Fee income grew by 61% YoY and 20% QoQ. The fee income structure remains well-diversified. The single largest constituent was the Money Market, which accounted for 22% of the total. Let me now go line by line.

On the Money Market, fee income added 54% YoY, while trading volumes grew by 46%. The change in the effective fee was mostly linked to an increase in the share of GCC repo in the total volumes mix. The average on-exchange repo term stood virtually unchanged, losing just 3% YoY and amounting to 4.8 days. The GCC repo term rose by 6% YoY to 3.1 days. Quarterly dynamics in repo terms was negative amid a volatile interest rate environment. Clients lean towards shorter-term repo deals when interest rates are on the rise. The average daily open interest of corporate clients increased by 43% YoY in 3Q 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 31% YoY. Assets on deposits were up 40% YoY as of the end of 3Q 2023. 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.

Fees from the Equities Market rose about 4-fold, while volumes surged 2.5 times YoY. This discrepancy is the result of the asymmetric tariff structure implemented in November last year. The evening trading session accounted for 11% of the Equities Market volumes in 3Q 2023. Over 3 million clients were active every month during the quarter. The elevated trading activity of retail investors translated into an increase of velocity up to 56%, which is a record level since 1Q 2022.

On the FX Market, fees were up 35%, while trading volumes increased by 62% YoY. There are two opposing factors behind the discrepancy in fees and volumes. The first is the new tariff structure on the spot market favouring liquidity makers, which came into effect on 1 August 2022. The second is a shift in the trading volumes mix towards a less profitable swap segment. Specifically, spot volumes gained 24%, while swap volumes increased by 91% YoY. In the spot segment, FX pairs from friendly jurisdictions account for some 52% of the total. At the beginning of

2022, these currencies accounted for less than 1% of volumes.

On the Derivatives Market, fees grew 74% YoY while volumes were up 51% YoY. The effective fee dynamics is explained by two opposing factors. The first is a shift in the volumes mix from FX and Indices towards more profitable Interest Rate, Equities and Commodity derivatives. The second factor is a five-fold decrease in the options trading fee in April this year, which effectively made options trading less profitable than futures for us. Combined with the expansion of the product range, this move supported client activity in options. As a result, the share of options in the volumes mix increased both YoY and QoQ to reach 3.8%.

The ITSLOFI line includes IT Services, Listing and Finuslugi revenue as well as other fees. Sales of software and technical services increased by 33% YoY, largely due to the revision of tariffs and high demand for low-latency protocols of market data distribution called SIMBA ASTS and FIFO TWIME ASTS on the Equities and FX markets. Sales of software and technical services were also supported by elevated demand for colocation and advanced network access solutions. Sales of information services were up 47% YoY, thanks to the rouble depreciation during the quarter. Listing and other services improved by 14% YoY as the primary bond market activity was strong during the quarter. Financial marketplace fees nearly tripled YoY. The deposit and credit segments performed particularly well on the back of rising rouble interest rates. Other fee and commission income contracted by 72% YoY as the base period revenues included fees on FX client balances.

Fixed Income Market fees were up 74% YoY, trading volumes excluding overnight bonds increased 71% YoY. The growth in fees and volumes is mostly explained by the low base effect. During the quarter, we observed elevated demand for floaters as clients seeked to hedge duration. We also observed increased demand for the so-called replacement bonds.

Next slide, please. Operating expenses in 3Q 2023 increased by 38% YoY. For the first nine months of 2023, OPEX was up 5.4% YoY. Personnel expenses grew 48% YoY and 47% QoQ. The yearly dynamics decompose into 31.5 p.p. stemming from additional bonus provisions that follow a review of the compensation system, 15.7 p.p. attributable to general wage reviews together with new hires, and 0.5 p.p. coming from other factors. We have updated the compensation system to stimulate an entrepreneurial approach, and therefore create more upside for employees. This resulted in additional bonus accruals for the expected outperformance on corporate KPIs. Further bonus provisions might follow in 4Q 2023 as the backdrop remains supportive for our business and financials. The employee headcount was up 5.3% YoY.

Advertising and marketing costs doubled YoY on Finuslugi-related spending. Agent fees also doubled YoY, reflecting the performance of insurance sales on the Finuslugi platform. The 3.3-times increase in information services costs is reimbursed via corresponding F&C revenues of the Derivatives Market.

D&A and IT maintenance grew 6.6% YoY, and the D&A alone was up 7.1% YoY. IT maintenance costs increased by 5.1% YoY. The 9.6% QoQ rise in IT maintenance costs is due to the gradual implementation of the software and hardware renewal programme.

In 3Q 2023, CAPEX amounted to RUB 0.7 billion and was spent on ordinary purchases of software and equipment as well as software development. For the first nine months, CAPEX amounted to RUB 2.2 billion. Let us now focus on OPEX and CAPEX guidance. Based on the trends we observe now and the outlook for the fourth quarter, which encompasses a more supportive business environment, we move up the OPEX growth guidance range to 9–13% this year. We also update our 2023 CAPEX guidance range to RUB 3–5 billion. The actual spending depends on the implementation of the software and hardware renewal programme.

Let me now say a few words regarding the unwinding of provisions for expected credit losses that you see in the P&L. This is a non-cash item resulting from the reclassification of certain rouble-denominated bonds to stage 2 from stage 3 on the impairment model scale. This reflects a lower credit risk for part of the portfolio compared to the previous assessment. We encourage you to treat it as a one-off.

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

Operator

Our first question comes from Elena Tsareva, BCS. Please go ahead.

Elena Tsareva – BCS

Good afternoon. Thank you very much for the call. Congratulations on your strong results. I would like to clarify about the increased spending on Finuslugi. Is it related to the addition of new services or rather to the annual marketing plan? Do you have targets that you would like to achieve with regards to the Finuslugi platform in the near term?

The second question is about the lowered CAPEX expectations and moderate spending this year. Could you please share your views on potential dividend payouts given the current levels of NCC capital? Thank you.

Anton Terentiev – Head of Investor Relations

The increase in Finuslugi expenses is mostly linked to marketing because the fixed part of Finuslugi's OPEX is personnel expenses. All the new services development sits in OPEX and relies on the team. The team has been in place for some time now, so new services development is driven by the existing team. The variable part of the Finuslugi-related expenses is driven by marketing. As you can see, in the current interest rate environment, marketing really makes sense because people are looking for opportunities to place their deposits at a higher rate and possibly borrow at a lower cost. The convenience of Finuslugi and the relevance of its services have become higher given higher rates. As the team keeps developing and introducing new products and services, Finuslugi is becoming more and more convenient and we see continuous client onboarding. Therefore, it makes sense to support it with some marketing efforts. You can see in our financials that we have a certain increase of marketing expenses on Finuslugi both in 3Q and 2Q 2023. We might see a further increase in marketing expenses. As for KPIs on Finuslugi, we have been reiterating it since January 2021 that our main goal is to bring Finuslugi to operational breakeven. It depends on the scale. The faster we grow revenue, the better. You can see the proof of this concept in our segment reporting (Note 24 in our financials) where you can compare 9M 2023 and 9M 2022 results for Finuslugi. It shows that costs are pretty much flat YoY while revenues went up two-fold this year.

On your second question about CAPEX and the reason for CAPEX guidance downgrade. It really depends on the schedule of our procurement procedures. They take some time. It comes down to a point where, say, a six-month-long procedure ends on 31 December or 1 January. So, the corresponding CAPEX is allocated to either a previous or next year. We only put hardware and software on the balance sheet upon its delivery. The delivery date therefore sets the CAPEX figure. We studied all our procurement schedules and concluded that a more realistic range for FY'23 CAPEX is RUB 3–5 billion.

As for the dividend, it is premature to tell anything about this. It is not down to us. The Supervisory Board elected by shareholders is the decision-making body here. Once the Board has all the figures in front of them, it will make a decision. Until recently, the Board has been preoccupied with the strategy. Now, it is dealing with financial planning and the budgetary process. When the time comes, they will discuss the dividends.

Operator

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

Olga Naidenova – Sinara Bank

I congratulate you on great results, especially regarding the fee and commission revenue. I understand that achieving these results calls for an increase in personnel remuneration. Still, could you please explain in more detail your new remuneration system? Will MOEX remain a positive operating jaws company with fee generation growing faster than the expenses or will it not be the case in the upcoming year?

My second question is about your tax rate in 3Q. It is a bit higher than normal and I do not recall the reason for that. Could you comment on the increase? Thank you.

Anton Terentiev – Head of Investor Relations

Regarding your first question on cost to income ratio and operating jaws, let me take you back to the 2028 strategy presentation. We had a slide there and a statement that on the strategic horizon, our cost to fee income will be at about the same level as in the base year. We expect to make a full circle from this point and finish there with perhaps a slight improvement. What happens in-between is not specified. In general, it can be better or worse. There might be a certain deterioration of the cost to fee income ratio in the years between now and 2028. However, if you take the aggregate revenue, i.e. operating income, it includes interest income. With interest income on top, you have a much bigger degree of comfort with regards to the operating jaws.

Mikhail Panfilov – CFO

In the new strategy we identified the transformation of our corporate culture and processes as one of the catalysts for the strategic achievements. Therefore, we revised our employee compensation system, making it more growth-oriented and focused on business development. Previously, financial KPIs implied a flat level of bonus after reaching a profit target. Now, the bonus is proportional to the profit. It stimulates entrepreneurial culture. Taking 9M’23 profit and forecast for FY 2023, we saw the need for additional bonus provisions. We believe an additional charge will follow in 4Q.

All the tax details and figures are outlined in Note 14 to the published IFRS statements, including one-off mandatory payments in accordance with the federal law.

Anatoly Poluboyarinov, Smartlab (question submitted in writing)

Please comment on the schedule of your guidance revision for 2023. You started out in 1Q’23 presenting the FY 2022 results accompanied by OPEX guidance set at 10–14%. In 2Q’23, it was downgraded to 6–10%. Now, in 3Q’23 it is upgraded to 9–13%, which is basically back to the level of 1Q’23.

Given the outlook for 4Q’23 OPEX, will it be at the 3Q level or a bit higher? Is it a new reality or does it include a part of expenses delayed from 2022?

Anton Terentiev – Head of Investor Relations

Indeed, we are changing the OPEX guidance back and forth. One of the factors behind the volatility of OPEX guidance stems from the recent adoption of the new strategy. It is the acceleration of hiring for new projects as well as the review of our compensation system that Mikhail has just described. Another factor is a significant change of the CBR's key rate in the last two months. This had an impact not only on the core exchange business but also on client activity on the Finuslugi platform. So, it has become more feasible to allocate additional funds for marketing. But interest rates in the economy are moving. Let me remind you that when we gave you the initial OPEX guidance of 10–14% and then the update of 6–10%, we did it based on the key rate of 7.5% or 8.5% present at that moment. Now, it is 15%. It is a really big change in the assumptions and economic backdrop. If we put it together with the strong performance of trading volumes, it is obvious that we have to adjust the forecast given such significant changes in the assumptions. Let us get back to the main drivers of our OPEX. We have personnel expenses and the new remuneration system, which Mikhail has just talked you through. There are two factors behind it: the extra bonus provisions and wage revisions together new hires. The bonus provisions are linked to a higher profit estimate that we see now. Had it not been for the key rate, we would have kept the original guidance. Another factor is hiring and an overall wage revision. Maybe we can talk about a little bit of cost coming from 2022 regarding the wage revision. But we cannot decouple the hiring from the wage revision, they stick together. Then, there are agent fees, which are part of Finuslugi revenue. We have revenues and costs coming together. Marketing, yet again, is about developing Finuslugi and the more we develop it, the smaller the gap between its revenue and costs. Ultimately, we want to bring it up to operational breakeven.

Anatoly Poluboyarinov, Smartlab (question submitted in writing)

Can you give more detail on your 2028 net income outlook (RUB 65+ billion)? What is the split between fees and NII?

Anton Terentiev – Head of Investor Relations

The answer is simple: this figure is not intended to be broken down. It is about our ambition and growth outlook. Given the five-year time horizon, it makes no sense to split it into NII and fees. It's just a manifest of our growth ambitions. That's it. So, no details here.

Dmitry Bagrov – PFL Advisors (question submitted in writing)

Congratulations on the strong financial results. Is there any impact of SPB Exchange being added to the SDN list on MOEX? Should we expect any meaningful acceleration of client activity on MOEX markets? Will we see a more aggressive tariff policy?

Mikhail Panfilov – CFO

We have no financial exposure to SPB Exchange. At the same time, we offer a complete range of traded instruments. Therefore, some migration of activity to our platform is possible.

Anatoly Poluboyarinov, Smartlab (question submitted in writing)

Do you plan to disclose historical data on the reporting segments (treasury, etc.) on a quarterly basis? It would be convenient.

Anton Terentiev – Head of Investor Relations

Every quarter, we sit down with our auditors and put in front of us all the applicable laws and regulations that mandate disclosure and put limits on it. We decide together what we should and should not do. Going forward, as we progress through the quarters, there will be new data and we will be adding the base period information. I do not think we will be providing data retrospectively, but you will see base period figures in our quarterly reporting.

As there are no new questions, we will conclude the call. Thank you for following our investment case and analysing our stock. Thank you for your close attention and quality questions. See you soon at the 2023 results disclosure.

Mikhail Panfilov – CFO

Thank you everybody.