MOSCOW EXCHANGE

MOEX 4Q and FY 2023 IFRS results conference call

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Speakers:

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

Participants asking questions:

- Elena Tsareva, BCS
- Olga Naydenova, Sinara Bank
- Vladislav Azarov – Enhanced Investments

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Anton Terentiev – Head of Investor Relations

Good afternoon everyone, and welcome to Moscow Exchange's 4Q and FY 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 these 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, over to you.

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.

The Exchange continues to add new products. Six companies in six different sectors of the economy had their IPOs on MOEX since our previous quarterly results webcast, raising a total of RUB 40 billion. This makes the market more diversified and appealing to end clients. 13 new non-listed equities have been added to CCP-based OTC trading, which is essentially a pre-IPO platform that now features a total of 28 such equities. We will keep expanding the list of tradeable equities going forward. The Derivatives Market also continues to introduce new instruments. Two deliverable futures on Russian equities and three cash-settled futures on FX pairs and IMOEX perpetual became available during the quarter, accompanied by premium options on IMOEX. Floating interest rate rouble and FX swaps with maturities of up to five years have been launched, allowing for more flexibility in hedging interest and FX risks. Trade Radar, our information and trading terminal, is now available to all clients, so please feel free to try it out.

Second, we continue to work on new services. MOEX has presented an updated version of the IPO guide for issuers, covering all the stages and procedures that the IPO process entails. Hopefully, it will help sustain the elevated ECM activity we are all enjoying these days. The Money Market now features a request for quote (RFQ) service that expands the range of order customisation options. The first secondary market transaction with a digital financial asset (DFA) has taken place on MOEX. A mechanism to confine aggressive limit orders, which is a measure to counter price destabilisation, has been developed on the Equities Market. A group of indices reflecting gemstone prices has been introduced.

Third, we are developing our client base and partnerships. The number of retail clients reached 30.2 million as of the end of January 2024. Nearly 7 million new clients onboarded in 2023. The total number of individual investment accounts amounted to 5.8 million. On the primary Bond Market, 118 corporates including 20 newcomers placed 232 bond issues, raising RUB 2.3 trillion in 4Q 2023. Overall, 2023 was a record year for corporate bond placements, which totalled RUB 5.5 trillion. Mikhail, over to you.

Mikhail Panfilov – CFO

Thank you, Anton. Let us talk about the key financials.

Operating income grew 25% YoY in 2023, supported by the strong growth of fee and commission income (F&C), which increased by 39% YoY. Net interest income (NII) grew 14% YoY. The share of F&C improved YoY and amounted to 50% compared to the last year's 45%. This income growth was achieved in a cost-efficient way. OPEX for the year increased by 20% and the cost-to-income ratio was 27.4%, which is the lowest figure in eight years. The cost-to-F&C income ratio also improved to 45.6% from the previous year's 52%. This 45.6% figure matches the average of the six preceding years. Looking at five-year compound growth ratios across different lines, positive operating jaws sustained in the medium term can clearly be seen. Our margins and ROE stand at or around local highs. This means we now have enough resources to put back into business development and spur another multi-year phase of growth in line with the 2028 strategy. We intend to use the additional NII cushion generated in recent years to fund business development costs and therefore accelerate F&C growth. We strive to avoid a transitional period like the one we had after 2015.

Quarterly fee and commission income increased by 62% YoY, reaching another record high of RUB 16 billion despite the absence of foreign investors. OPEX grew by 64% YoY due to the increased spending on marketing and personnel expenses, which we will decompose and explain shortly. EBITDA gained 71% YoY and 28% QoQ on the back of the expansion of both fees and interest income. Net income improved 79% YoY to hit an all-time high of RUB 20 billion.

A few words on our investment portfolio. You may have noticed a new line on the balance sheet called 'Investment financial assets at amortised cost'. We classified part of our bond portfolio as held-to-maturity (HTM) to lock in current bond yields for the next few years and eliminate possible effects on equity. You can expect the HTM part of our investment portfolio to expand further.

Fee income grew by 62% YoY and 11% QoQ to a record high of nearly RUB 16 billion. The structure of fee income remains well-diversified. The single largest constituent was the Money Market, which accounted for 24% of the total. Let me now go line by line.

On the Money Market, fee income grew by 56% YoY, while trading volumes grew by 50%. The change in effective fee is explained by three factors. First, there was an increase in the share of GCC repo in the total volume mix. Second, there was an increase in average GCC repo terms. Third, there was a tariff update for terms of more than 30 days, including longer-term repos. The average on-exchange repo term declined by 15% YoY to 4.9 days. The GCC repo term rose by 25% YoY to 3.7 days. Let me remind you that at the beginning of 2023 we introduced a repo with a floating interest rate. The average daily open interest of floating interest rate repo deals approached RUB 800 billion by the end of 2023, showcasing the demand for such instruments in a volatile interest rate environment. The average daily open interest of corporate clients increased by 38% YoY in 4Q 2023. The competitiveness of MOEX services and a convenient access via the MOEX Treasury terminal both stand behind these positive dynamics.

On the FX Market, fees were up 48%, while trading volumes more than doubled YoY. The effective fee dynamics are explained by a shift in the trading volumes mix towards the less profitable swap segment. Specifically, spot volumes gained 43%, while swap volumes increased by 166% YoY. In the spot segment, FX pairs from friendly jurisdictions account for some 54% of the total. At the beginning of 2022, these currencies accounted for less than 1% of volumes. The number of active retail clients on FX spot market hovered around 400 thousand a month during the quarter.

Fees and commissions from Depository and Settlement increased by 39% YoY. Assets on deposits were up 26% YoY as of the end of the quarter. The discrepancy between the growth rates of fees and assets is the result of business lines beyond safekeeping, primarily clearing and collateral management services, including money market operations at the NSD.

On the Derivatives Market, fees surged by 2.4 times YoY while volumes were up 2.2 times. The dynamics of the effective fee is influenced by two opposing factors. The first is a shift in the volumes mix from FX and Indices towards more profitable Commodity, Interest Rate derivatives. The second factor is a five-fold decrease in the options trading fee last April, which effectively made options trading less profitable than futures for us. The share of options in the volumes mix increased YoY to reach 3.4%. The number of active retail clients on the Derivatives Market amounted to nearly 150 thousand per month during the quarter.

The ITSLOFI line includes IT Services, Listing and Finuslugi revenue as well as other fees. Sales of software and technical services increased by 24% YoY, largely due to the revision of tariffs and high demand for SIMBA ASTS and FIFO TWIME ASTS low-latency protocols of market data distribution 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 41% YoY, thanks to the rouble depreciation. Listing and other services improved by 10% YoY as the activity on the primary bond and equities markets was strong during the quarter. Financial marketplace fees more than tripled YoY. All key segments – deposit, credit and insurance – performed well during the quarter. Other fee and commission income contracted by 41% YoY as the base period revenues included a substantial amount of fees originating from grain market interventions.

Fees from the Equities Market surged by 2.8 times, while volumes rose 2.4 times YoY. This discrepancy is the result of the asymmetric tariff structure implemented in November 2022. The evening trading session accounted for 12% of the Equities Market volumes in 4Q 2023. Over 3.5 million clients were active every month during the quarter. Trading velocity amounted to 44% in 4Q compared with 56% in 3Q.

Fixed Income Market fees were up 13% YoY while trading volumes excluding overnight bonds increased by 19% YoY. The dynamics of the effective fee is explained by the elevated fraction of short-maturity bonds issued on the primary market, which dilutes the effective fee. We interpret this decline in the effective fee as a one-off rather than a structural change in the market. On the other hand, the quarterly volume of corporate bond placements was at an all-time high. We continue to observe increased demand for replacement bonds. The end-client demand for such bonds is high, which translates into elevated primary and secondary market trading volumes.

OPEX. Operating expenses for FY 2023 increased by 20% YoY. Let me now outline the three main components of this growth, which mostly arrived in 4Q. First, we said on the previous call that we had reviewed the compensation system to stimulate an entrepreneurial approach and motivate employees. Additional bonus accruals initially occurred in 3Q'23 and increased further in 4Q'23. Second, at the end of the year we had substantial LTIP accruals as more employees joined in and the share price performance also produced a knock-on effect. You can find the details in the Personnel Expenses footnote in our financial statements, the line is labelled 'share-based payment expense on cash-settled instruments'. Third, we significantly boosted our marketing spending on Finuslugi. The value proposition of Finuslugi is very appealing in the current interest rate environment, so it made perfect sense to speed up client acquisition. The gap between the OPEX guidance and fact solely rests on the second and third reasons, i.e. LTIP accruals and Finuslugi-related marketing spending.

OPEX in 4Q'23 increased by 64% YoY on the back of personnel and marketing expenses. Specifically, personnel expenses grew 71% YoY and 26% QoQ. The yearly dynamics decompose into 29.5 p.p. stemming from the extra bonus provisions following the review of the compensation system, 23.9 p.p. attributable to the LTIP 2028 provisions given the stock price performance and employees joining the programme, 16.5 p.p. on new hires and selective wage revisions, and 0.9 p.p. coming from other factors. The employee headcount was up 11% YoY. Again, during the previous results call we mentioned that there might be further bonus provisions in 4Q'23 as the backdrop remained supportive for our business and financials.

The next line is advertising and marketing costs, which increased nearly sevenfold YoY on spending related to Finuslugi. Agent fees almost tripled YoY, reflecting the performance of insurance sales on the Finuslugi platform. Taxes, other than income tax, grew 2.4 times YoY. This growth is mainly attributable to VAT on marketing expenses, which grew substantially during the quarter.

D&A and IT maintenance grew 14% YoY, and D&A alone was up 6.4% YoY. IT maintenance costs increased by 39% YoY. The rise in IT maintenance costs is due to the gradual implementation of the software and hardware renewal programme. CAPEX for 4Q amounted to RUB 1.9 billion and was spent on purchases of software and equipment as well as software development. CAPEX for FY 2023 amounted to RUB 4 billion, which is in line with the previously guided range of RUB 3–5 billion.

On to OPEX and CAPEX guidance. We expect OPEX growth in the range of 35–48% in the current year. One third of the growth rate is related to D&A and IT maintenance because of the substantial capital expenditures in 2024 and the implementation of the software and hardware renewal programme. One fourth is attributable to personnel expenses, which include provisions for bonuses and LTIP as well as selective wage revisions. One fifth of the growth is Finuslugi-driven. It consists of marketing, the related VAT and agent fees, which reflect insurance sales at Finuslugi. Everything else, about a quarter of growth rate, is related to G&A. The 2024 CAPEX expectation lies in the range of RUB 7–12 billion. The actual spending depends on the implementation of the software and hardware renewal programme, which we already mentioned in previous quarters.

Now let us talk about the OPEX acceleration. Our income and profit were very strong last year, but they partially rest on the elevated net interest income (NII) that arrived in 2H 2023. This environment of high interest rates might not last for very long. Therefore, we must decide what to do. Either we take a conservative stance, post some extraordinary results early on and then muddle through a transitional period as NII retraces and is gradually offset by F&C income. It might take time to get back to peak financials, much as we saw after 2015, when interest rates also peaked. Or we can take a more proactive stance, invest more aggressively in business development, and build F&C faster to avoid that transitional period. We mentioned earlier in this presentation that our margins, cost-to-income, and profitability ratios stand at or around the best levels observed historically. The beauty of high margins is that, for instance, it only takes 11% of operating income growth to fully offset 40% OPEX growth. We do have the resources and prerequisites to build F&C income faster. Given the conversation and Q&A we had during the strategy 2028 presentation, we clearly realise that our analysts and investors want a steadier and more rapid development. Therefore, that is our priority.

Now a few words on dividends. The agenda of the Supervisory Board meeting to be held on 5 March 2024 has been published on our website. Item 7.1 covers the dividend recommendation. As we said earlier, the process is going according to plan. 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 for the presentation. Congratulations on great results. My first question is on dividends. How can we measure cash flow attributed to dividends while accounting for capital needs and CAPEX guidance? The seconds question is on OPEX guidance. Could you provide details on potential projects? In which areas do you plan to invest this year? The third question is about NII, which was very high in 4Q 2023. What can we expect in the next quarter? Will it stay on this level given a high interest rate environment? Finally, could you provide guidance on how the technical suspension of trading in February will influence your 1Q 2024 financial results? Thank you.

Anton Terentiev – Head of Investor Relations

Regarding your first question about dividends, there are no extra details. Our dividend policy is applicable. We will find out more on 5 March 2024.

On to your second question regarding the OPEX growth. We do not think of our OPEX growth as attributable to a set of projects. If you look into our business growth, it is mostly organic and cannot be allocated to projects. For example, if we increase the number of available instruments, say, of tradeable equities or bonds, we do not view this as a project. Yet, it boosts our performance. For instance, Finuslugi has been delivering some financial results since 2020. Is it a project or is it just another business line? We view it as a business line. We recommend you to stick to the approach that Mikhail outlined in his speech and think of a business development-style allocation of OPEX growth broken down into personnel remuneration and motivation, IT, and marketing. I believe it works the same way for other companies.

Your third question is about NII sustainability. We think it is sustainable. We have reiterated that our NII rests on two drivers: interest rate and client balances and the portfolio structure. The structure of the investment portfolio remains as it was. Three quarters of the portfolio are invested in overnight instruments, which soak in the new interest rate instantly, and the other quarter is a longer-term portfolio, which gets a new rate upon on rebalancing only. We currently see a growing fraction of HTM instruments, which lock in the interest rates throughout investment horizon. If we decompose the 4Q NII into interest rate and portfolio, we see that it is not driven by the interest rate alone. It had to be supported by the rising rouble client balances. If the rate remains high for another month and client balances remain high, we will observe high NII in 1Q 2024.

As for the trading disruptions that happened in February, we keep reiterating in both our Annual and Sustainability Reports that one of the key KPIs for our management is the availability of our trading systems. The scale to measure this availability is something like 99.98–99.99% of hours when our trading systems are accessible. Impacts of these disruptions only account for something like 0.01%, which mathematically should be immaterial.

Operator

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

Olga Naydenova – Sinara Bank

Thank you very much for your presentation and the call. My first question relates to dividends. Could you please comment on the capital adequacy of your two regulated entities and their sustainability? How much capital do you need to retain for them? The second question is about your OPEX growth guidance. Would it be correct to interpret your statement on replacing the potentially outgoing interest incomes with faster growth in fees as the fact that you are certain about their growth in 2024? Thank you.

Anton Terentiev – Head of Investor Relations

Foreign investors would usually ask "What keeps you up at night?" For me, it is your question on target capital for our subsidiaries. I wish we could provide a tangible answer to this question with numbers and specific details like we used to. Unfortunately, we are not ready to do so just yet. I hope we get to a point where we can resume this disclosure. I understand its importance and crucial role in modelling but we cannot give you the figures at the moment.

The short answer to your second question on F&C growth and the logic behind it is yes, you are right, but with one caveat. We cannot guarantee it or say it with certainty in the current environment. We strive to build our F&C faster as long as NII is still with us. Once and if NII starts to moderate, we will already be on the next level through F&C. That is what we hope to achieve. Mikhail spoke about it in details in his speech. Specifically, he provided an example with numbers: given our profitability ratios and margins, it only takes 11% of growth in revenues and operating income to offset 40% growth in OPEX (the numbers are purely an example). It is a very realistic scenario for us to achieve sustainable growth.

Operator

Thank you. Our next question comes from Vladislav Azarov, Enhanced Investments. Please, go ahead.

Vladislav Azarov – Enhanced Investments

Huge congratulations on the results achieved this year. My first question is about EBITDA margin. The Company states that the 2023 profits are to be invested in growth. Do I hear that right? Is it correct to expect lower margins in the following years compared to the 2023 record levels? The second question is on large investments made and planned by the Company. Do you measure the effectiveness of such investments? For example, RUB 1 billion invested quarterly in the marketing of Finuslugi? Does it pay back? What are you planning to achieve with these investments? My final question is on the expectations for 2024. Could you indicate whether you plan to sustain a 20+% or 50+% operating income growth? Could you share margin targets?

Anton Terentiev – Head of Investor Relations

You were talking about margins and profitability. Let us focus specifically on EBITDA margin, which was short of 80% last year. If we focus on the margin, what is our next goal? Is it like 100%? That's theoretically unachievable. We should rather focus on strategic goals we outlined in the 2028 strategy, specifically the net income goal. We target net income at RUB 65 billion and beyond (meaning we will not stop once we achieve the targeted amount). It is a primary goal and in order to achieve it we need to build F&C income and maintain efficiency ratios – not every year but towards the end of the strategy. This is relevant for every typical issuer, not just us, to have a steady or improving bottom line. We know how to do this. We understand that our level of margins currently provides us with resources to invest in the next stage of business development as Mikhail outlined in his speech. Our priority is to achieve the strategic targets, and the bottom line that translates into the market capitalisation is the main one.

I think the second question about large-scale investment in marketing is mostly about Finuslugi platform, because our marketing is mostly focused on Finuslugi and its break-even. Therefore, we can rephrase your question as "what do we think about break-even for Finuslugi?". To answer this question, I will pass the floor to Mikhail.

Mikhail Panfilov – CFO

I will touch a little bit on the previous question. Vladislav, thank you for highlighting our strong results. What Anton was talking about can be summarized in a short answer to your question: indeed, we have record profitability and we plan to channel it into further growth to achieve our strategic goals.

Finuslugi will eventually reach its break-even. Let us imagine it has already happened. According to the segment note, this would yield a pre-tax profit increase of less than 3%. This difference fits the scale of forecasting uncertainty. From a financial perspective, it is not material as we would effectively have the same investment case. But in terms of the business model, having the Finuslugi platform opens up completely different opportunities. First of all, we provide access to the full range of financial instruments used by the client, both exchange-traded and non–exchange-traded (serving as a one-stop shop). We have become much closer to the end client. We can be the client's go-to tool for daily use. Secondly, we have built a MOEX-guided bridge between simple non–exchange-traded products and more complex exchange-traded products. We will continue to expand our product offering, including with DFAs. Thirdly, Finuslugi will continue to grow as a standalone business line. In a high interest rate environment, the value proposition of the platform is very attractive to clients in terms of flexible management of their finances and getting the best rates available, sometimes with a significant margin compared to their own base bank. Fourthly, Finuslugi acts as a kind of counterbalance or insurance against financial ecosystems that are actively developing in the market today. To sum up, investment is all about the strategy. Anton will answer the third question.

Anton Terentiev – Head of Investor Relations

As regards your final question on providing guidance on financial metrics on top of what we already said, we wish we could provide extensive guidance. But let us face it, we already provide guidance on quite a lot of indicators. This includes OPEX and CAPEX, which are metrics we have the most influence on. As part of the strategy, we have five different financial metrics including the bottom line, market capitalisation that we strive to achieve, F&C CAGR, ROE, cost to income ratio. This guidance is not for 2024, but rather for the mid-term horizon. On top of this, I personally hope that the very healthy and strong trend for F&C growth we have built in the recent quarters stays with us for as long as possible.

Anton Terentiev – Head of Investor Relations

Thank you everyone for following our investment case and staying with us. We will do everything in our capacity to continue delivering strong financial results. As a reminder, dividends are on the agenda for the Supervisory Board meeting on 5 March. We will see what happens there. Our next call will be on 1Q 2024 financial results. Let us stay in touch and reconnect in the next couple of months.

Mikhail Panfilov – CFO

Thank you all for your questions. Let us stay in touch. We will try to achieve new high financial goals. Thank you.