MOSCOW EXCHANGE

MOEX 1Q 2024 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

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Anton Terentiev – Head of Investor Relations

Good afternoon everyone, and welcome to Moscow Exchange's 1Q 2024 IFRS results conference call. Our CFO Mikhail Panfilov has joined the call today. As usual, we will start with 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 must 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 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 in 1Q 2024 and beyond (slide 2).

The Exchange continues to add new products. Six new listed equities representing non-resource sectors of the economy became available on the Equities Market via IPOs. This makes the market more diversified and appealing to end clients. 30 new non-listed equities were added to CCP-based OTC trading, which is essentially a pre-IPO platform that now features 58 such equities in total. We will keep expanding the list of tradeable equities going forward. Trading of yellow peas and brown flax commenced on the National Mercantile Exchange, a MOEX subsidiary operating the commodities market. The Derivatives Market continues to get new instruments. Two deliverable futures on Russian equities and two cash-settled futures on global indices became available during the quarter. In addition, two cash-settled premium options on Russian equities were launched.

Second, we continue to work on new services. Replacement bonds and 14 more equities are now traded after-hours, bringing the total number of instruments available for after-hours trading to more than 230. Replacement bonds are popular among retail investors, which account for 56% of such instruments' trading volumes. An electronic order book trading mode was launched for CCP-based OTC bond trading. This new feature aims to increase liquidity and make customer service even more flexible and efficient. MOEX launched IPO Index – MIPO – tracking equities that recently completed their primary offering. The index may serve as a benchmark for asset management companies launching Russian-law ETFs.

Third, we are developing our client base and partnerships. The number of retail clients reached 31.5 million as of the end of April 2024. Nearly 1.9 million new clients have onboarded since the beginning of the year.

The total number of individual investment accounts amounted to 5.8 million. On the primary Bond Market, 95 corporates, including 11 newcomers, placed 155 bond issues, raising RUB 1.4 trillion in 1Q 2024. On the Equities Market, seven issuers, including six newcomers, held ECM deals, i.e. six IPOs and one SPO, accounting for a total of RUB 49 billion. Mikhail, over to you.

Mikhail Panfilov – CFO

Thank you, Anton. Let us start with financials.

Operating income increased by 47% YoY. Fee income was up by 46%, while the net interest income (NII) gained 47% YoY amid the elevated interest rate environment. Let me remind you that during the previous earnings call we talked about our held-to-maturity (HTM) part of the investment portfolio, which you can see under the balance sheet line 'Investment financial assets at amortised cost'. We said that we expected that part of the portfolio to grow further. Therefore, its increase comes as no surprise. Operating expenses grew 80.3% YoY, but declined 1.3% QoQ. The YoY growth is mainly explained by an increase in personnel expenses and marketing spending. We will discuss OPEX growth later in the presentation. Cost-to-income ratio remained under control and amounted to 28.7%, which is in line with recent quarters. Adjusted EBITDA was up by 34% YoY for a margin of 74.9%. Adjusted net income increased by 35% YoY. Adjusted return on equity (ROE) amounted to 33.3%.

Fee income grew by 46% YoY. The structure of fee income 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, fees grew by 46% YoY, while volumes increased by 17%. The discrepancy between fees and volumes was mainly attributable to the increase in shares of value-added CCP and GCC repo in the volumes' mix. The effective fee was also supported by the increase of average GCC repo terms. The GCC repo segment benefits from the rising demand for Russian-law money market ETFs. At the beginning of 2023, we introduced a repo with a floating interest rate. The daily open interest of the floating interest rate repo in 1Q 2024 exceeded RUB 1 trillion, showing that market participants appreciate the convenience of the new feature. The average on-exchange repo term declined by 29% YoY to 4.6 days, which is due to a high-base effect. The GCC repo term rose by 31% YoY to 3.8 days.

Fees and commissions from Depository and Settlement increased by 21% YoY. Assets on deposits were up 24% YoY as at the end of the quarter. The discrepancy between the growth of fees and assets is the result of business lines beyond safekeeping, primarily clearing and collateral management services, i.e. money market operations at the NSD. Money market volumes decreased QoQ both on-exchange and at the NSD. Hence, the adverse effect on NSD's fee income.

Both fees and trading volumes on the Equities Market doubled YoY. The evening trading session accounted for 12% of the Equities Market volumes in 1Q 2024. Over 3.7 million clients were active every month during the quarter vs 3.5 million clients in the previous quarter. Trading velocity amounted to 43% in 1Q 2024 compared with 44% in 4Q 2023.

On the FX Market, fees were up 31%, while trading volumes increased by 41% YoY. The effective fee dynamics is influenced by the two opposing factors: [1] a lower share of a more profitable small-lot trading, [2] a slight shift in the volumes mix towards a more profitable spot segment. The former factor outweighed the latter, and the effective fee declined. Spot volumes gained 43%, while swap volumes increased by 39% YoY. In the spot segment, FX pairs from friendly jurisdictions accounted for 58% of the total. At the beginning of 2022, these currencies accounted for less than 1% of volumes. The number of active retail clients on the FX spot market hovered around 300 thousand a month during the quarter vs 400 thousand in the previous quarter.

On the Derivatives Market, fees improved by 57% YoY, while volumes were up by 53%. The slight discrepancy in the dynamics of fees and volumes is explained by a change in the trading volumes mix. Specifically, the share of commodity contracts increased from 26% in 1Q 2023 to 33% in 1Q 2024, while shares of FX and index contracts decreased by 4 p.p. and 3 p.p., correspondingly. The share of options in the volumes mix remained virtually intact YoY at 3.4%. The number of active retail clients on the Derivatives Market amounted to nearly 150 thousand per month during the quarter – approximately the same in comparison with the previous quarter.

The ITSLOFI line includes IT Services, Listing and other fee income. Sales of software and technical services increased by 7% YoY. Sales of information services were up 29% YoY, thanks to the rouble depreciation. Listing and other services improved by 17% YoY as the activity on the primary bond and equity markets was strong during the quarter. Other fee income grew by 105% YoY.

At the beginning of 2021, we outlined that one day, the Finuslugi financial marketplace would become a fully-fledged business line, comparable in size to the well-known lines we have just discussed. Looking at Finuslugi revenue dynamics, we believe that this moment has come and, therefore, single out Finuslugi as a separate line. Respective fees more than tripled YoY. Credit segment performed particularly well during the quarter.

On the Fixed Income market both fees and trading volumes were up 18% YoY. The QoQ dynamics of the effective fee is explained by the elevated fraction of short-maturity bonds issued on the primary market in the previous quarter, which diluted the effective fee. We mentioned this on the previous earnings call and advised to interpret it as a one-off rather than a structural change. Primary market volumes increased by 22% YoY. In the environment of elevated interest rates, issuers continue to explore fundraising opportunities with floaters and FX bonds.

In 1Q 2024, OPEX increased by 80% YoY, largely due to the growth in marketing and personnel expenses against the low base of 1Q 2023, which featured the unwinding of bonus provisions. On a quarterly basis, OPEX decreased by 1.3%. Personnel expenses grew 108% YoY, but only 5% QoQ. The YoY growth decomposes as follows: 40.3 p.p. attributable to LTIP provisions driven by the stock price performance, 33.3 p.p. stemming from bonus provisions, 32.5 p.p. coming from new hires and selective wage revisions, and 2.4 p.p. due to other factors. Let me remind you that last year we reviewed the compensation system to stimulate an entrepreneurial approach and motivate employees. The overall size of the bonus pool is now linked to net income, hence bonus provisions will keep accruing during the year. The employee headcount was up 13% YoY.

Advertising and marketing costs increased nearly eight-fold YoY on the back of Finuslugi-related spending. At the previous earnings call, we mentioned the significant acceleration of

Finuslugi marketing spending as the platform's value proposition is especially attractive in the current interest rate environment. An increase in taxes, other than income tax, is related to VAT. A two times increase in information services expenses is attributed to the Derivatives Market and gets reimbursed with its revenues.

D&A and IT maintenance grew by 4% YoY, while D&A alone barely changed, adding just 0.8% YoY. IT maintenance costs increased by 16% YoY. The rise in IT maintenance costs is due to the gradual implementation of the software and hardware renewal programme.

CAPEX for 1Q 2024 amounted to RUB 1.1 billion and was spent on purchases of software and equipment as well as software development.

Both our OPEX and CAPEX guidance remain intact. As we said before, we expect operating expenses growth for FY 2024 to be in the range of 35–48% and CAPEX to be in the range of RUB 7–12 billion.

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

I have several questions on OPEX. What exactly changed in LTIP accruals: coefficients or mechanism of accruals? Second question. Growth in D&A and IT maintenance expenses account for one third of the 2024 OPEX guidance. However, for now the growth seems to be below the guidance. Does that mean that going forward we can expect a lower guidance range or lower OPEX growth for 2024? Third question. How do you refer to cost-to-fee-income ratio, which is higher than mentioned in the 2028 strategy presentation (50–55%)? (Cost-to-fee income ratio amounted to 67% in 1Q'24).

The second group of questions is on dividends. The decision on dividends for 2023 was announced in March 2024 and sets payout ratio at 65% of net profit. It is quite great, but seems to be below the historical average. Could you explain the rationale behind this decision? What payouts can we expect for future periods?

Mikhail Panfilov – CFO

In the new strategy, we identified the transformation of our corporate culture and processes as one of the catalysts for 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 net profit target. Now, the bonuses are proportional to the net profit, and LTIP reserves are proportional to the company's market capitalisation. In addition, our new hires are linked to areas of business development. Specifically, we started building AI expertise.

Anton Terentiev – Head of Investor Relations

I would like to reiterate what Mikhail has just said to make it crystal clear. We made bonus provisions both in the previous years and in 1Q 2024, nothing changed here. Yet, back in the days, bonus was linked to the KPI achievement. Meeting the KPIs resulted in the payment of a certain proportion of the employee's compensation regardless of the company's net income. Now, the bonus pool is linked to company's net income, which is then allocated across departments and certain employees. Thus, the bonus structure is more directly linked to the corporate performance. This is what has changed. The LTIP provisions are a function of the market capitalisation as well, which was not the case before.

On to your second question regarding the guidance split. On the bottom of the slide we say that D&A and IT maintenance should contribute one third of the entire OPEX growth, but you do not see it in 1Q 2024. First, we referred to the full-year results. 1Q does not necessarily match the FY financials. Second, as you can see in the bullet point above this line, 1Q CAPEX was quite contained: RUB 1.1 billion. D&A and IT maintenance are largely driven by CAPEX. We still expect CAPEX to accelerate going forward, with important and large procurements scheduled for the middle of the year. Therefore, this line will naturally accelerate. It isn't spread evenly across the quarters and is linked to the delivery on our software and hardware renewal programme.

Your third question was about the cost-to-fee-income ratio of 50–55%. I will reiterate that the 50–55% figure refers to the end of the strategic period. We enter and exit the strategic period at about the same cost-to-fee-income ratio of 50–55%. Meanwhile, we mentioned several times that although we can deviate from this range, the ultimate goal is to come back to it.

Your next question was about dividends and the foundation for the decision on a 65% payout. The dividend recommendation came in early March. We discussed it thoroughly during the FY 2024 financial results call. Nothing has changed since then. I will repeat what we have been saying quite often starting from 3Q 2022: just like in the previous version of our dividend policy, we have to consider capital requirements, regulatory requirements, the fulfilment of our software and hardware renewal programme, certain limitations on raising funds from our subsidiaries, and that we want to explore non-organic opportunities. Putting all these factors together creates a certain amount of spare cash available for distribution. That is how our Supervisory Board came to this decision and put it into the context of future projected financials. They rely on the outlook and do not want this decision to be a one-off and non-achievable in the future. Quite the opposite, it should be a ratio that might be achievable in the future.

Mikhail Panfilov – CFO

As we mentioned before, we have a dividend policy, which states minimal requirements for about 50%. This year we stated 65%. This was our decision in accordance with previous statistics, and we are working to be in line with this trend.

Operator

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

Olga Naydenova – Sinara Bank

My first question is on the cost side – how long do you expect such a huge marketing campaign to last? What targets should we look at for this marketing campaign? The second question is about your HTM portfolio. Please guide us if you expect it to increase further, if you have some targets regarding this portfolio and what its duration is. Thank you.

Mikhail Panfilov – CFO

As we have already mentioned, the deposit and loan segments of the platform are performing really well on the back of the key rate rise and marketing activities. We believe that the platform's revenue will continue to grow, both due to the expansion of the product offering and the influx of customers. We look at marketing events and promotions as a catalyst for platform development. That is why we are allocating more resources to it.

The approach for HTM is the same as for the rest of the bond portfolio. These are liquid high-quality securities, the vast majority of which are OFZs that can be easily converted into cash via repo if necessary. The philosophy of the HTM portfolio is to lock in high rates with no effect on capital. We will make our decisions on its growth according to the market conditions that we observe.

Anton Terentiev – Head of Investor Relations

I will add a few words on both items, if you do not mind. First, on marketing expenses and how long we think they should continue. We have said several times during today's and the previous call that we view current macro conditions as very supportive for Finuslugi development. Looking from a customer perspective today, amid current interest rates the value proposition of the platform is probably at its best since launch. So, it makes perfect sense to spur the development of this business and allocate more resources and then spend more on marketing to accelerate and sustain growth.

On the other hand, when we monitor if we see any translation of our expenses into revenues these days at current rates, there seems to be good correlation between the marketing spend and the growth of Finuslugi. As long as it persists, we should spend on marketing. What I am trying to say is that there is no goal that we achieve and then we stop marketing. These retail units do not work like this. They always live with meaningful marketing attached. As Finuslugi continues to build success, marketing will keep being an inherent part of Finuslugi development for a long time. Again, we do not intend to stop marketing at some point. As long as marketing continues, it is actually a good sign. It means that Finuslugi is successful.

On your second question about the HTM portfolio, let us put it into perspective. We are really talking about roubles here because, as we said during previous calls, roubles make up more than 90% of our NII. Basically, nearly the entire NII comes from roubles. Back in the days, when you look into our overall rouble investable part of the portfolio, our own funds were over some 50% of the entire rouble position. Now, client funds substantially exceed our own funds. If you look at our press release, you will see our own cash today is around RUB 146 billion. Let us put it this way – if you do the reverse math with our NII, you will get the rouble investment portfolio of roughly RUB 500 billion.

You have RUB 150 billion on a scale of RUB 500 billion. This is almost exactly 30%. Our own funds make up 30% of our entire rouble investment portfolio, which means that we cannot go much beyond the 30% of securities in our overall today's investment portfolio, because it comes down to liquidity requirements. All client funds are withdrawable. On average, they stay flat, but on a given day, clients may take their money, and then the next day they can bring their money back. We have to be ready for that. We can only go into a very small part of the overall client rouble pile to invest into securities. Today we have this 30% portion of securities in our investment portfolio, and we are building the HTM portfolio within this securities portion. It may evolve going forward, but it should not go very much beyond this 30%. This is theoretically impossible.

As for duration, we continue thinking in terms of the duration of the entire investment portfolio. 70% of our today's portfolio has a duration of a few days, i.e. zero-duration. The rest 30% of the portfolio is non-zero duration. But we are not playing duration games. The fact that this portfolio is HTM proves and communicates the point that we do not want to have any sort of revaluation through P&L, or capital, or other comprehensive income. We just want to accrue nice NII, which is the point of the HTM portfolio. It is not about making duration bets.

Anton Terentiev – Head of Investor Relations

I see no further questions, which means we are approaching the end of our today's call. Thank you everyone for your great, insightful questions and for following our investment case. Let us stay in touch and hear each other during our next, 2Q 2024 conference call.

Mikhail Panfilov – CFO

Thank you all for your questions, see you next time, and let us stay in touch.