MOSCOW EXCHANGE

MOEX 2Q 2024 IFRS results conference call

26 August 2024

Speakers:

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

Participants asking questions:

- Mikhail Ganelin, ATON
- Olga Naydenova, Sinara Bank
- Andrey Akhatov, Sberbank CIB
- Dmitry Bagrov, PFL Advisors

Investor Relations contacts – Anton Terentiev, Director of Investor Relations

Tel: +7 495 363 3232 – Email: ir@moex.com

Anton Terentiev – Head of Investor Relations

Good afternoon, everyone, and welcome to the Moscow Exchange's conference call on 2Q 2024 IFRS results. 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. The 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 be available during the Q&A session.

Anton Terentiev – Head of Investor Relations

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

The Exchange continues to add new products. Seven new listed equities representing non-resource sectors of the economy became available on the Equities Market. This makes the market more diversified and appealing to end clients. 40 new non-listed equities were added to CCP-based OTC trading, which now features a total of 97 such equities. We will keep expanding the list of tradable equities going forward. Six companies placed ten issues of digital financial assets of credit nature on the MOEX platform, raising a total of RUB 6.4 billion. We also introduced the Datashop platform, a gateway to financial data, information and analytical products. The Derivatives Market continues to get new instruments. Five deliverable futures on Russian equities and four cash-settled futures on global equities as well as local and global indices became available. Also, eight cash-settled premium options on Russian equities were launched.

Second, we continue to work on new services. The mechanism for automatic carry-over of active limit orders from the main trading session to the evening session was introduced on the Equities Market. This innovation already has a positive effect on trading volumes. The maximum term for CCP-repo transactions is now one year across all modes, making liquidity management more flexible. We also launched MOEX IR Workshop, an entry-level educational programme that helps to raise IR professionals and supports the IPO pipeline.

Third, we are developing our client base and partnerships. RAEX and ACRA assigned MOEX their highest credit ratings with a stable outlook, opening up new opportunities for the offering of fintech products. The number of retail clients on the Securities Market reached 32.8 million as at the end of July 2024. More than 3 million new clients have onboarded since the beginning of this year. The total number of individual investment accounts amounted to 5.8 million. On the primary Bond Market, 102 corporates, including 15 newcomers, placed 189 bond issues, raising over RUB 1.6 trillion in 2Q'24. On the Equities Market, nine issuers, including six newcomers, held ECM deals, i.e. six IPOs and three SPOs, accounting for a total of nearly RUB 60 billion. Mikhail, over to you.

Mikhail Panfilov – CFO

Summary of 2Q 2024 financials (slide 3). Operating income increased by 76% YoY. Fee income was up by 30%, while net interest income (NII) gained 137% YoY on the back of the RUB key rate change. During 2Q, average client balances increased QoQ above our expectations, driving NII. So far in 3Q, client balances have retreated from the highs of 2Q 2024 and now broadly match the level of 1Q 2024. Besides, our own cash position decreased after the dividend distribution. On the other hand, the RUB key rate increased meaningfully in 3Q 2024 QoQ. This means that in 3Q 2024, you might expect NII to be above the level of 1Q 2024 and close to the level of 2Q 2024, provided that inputs stay unchanged. Further on, we see risks of further volatility of client balances and of their possible decline due to a combination of different factors. At our previous earnings calls, we explained the nature of the held-to-maturity (HTM) part of our investment portfolio seen under the balance sheet line "Investment financial assets at amortised cost". We said that this part of the portfolio would grow further, so its increase should not come as a surprise. Today, we are almost done building the HTM part and expect it to be up immaterially going forward. Operating expenses more than doubled YoY against the low base of 2Q 2023, and gained 27% QoQ. The YoY growth is mainly explained by the increase in personnel expenses and marketing spending. We will dissect OPEX growth later in the presentation. Cost-to-income ratio (CIR) amounted to 33.9%. Adjusted EBITDA was up by 58% YoY for a margin of 70%. Adjusted net income (NI) increased by 63% YoY and 1.4% QoQ despite the increase in OPEX. Adjusted return on equity (ROE) amounted to 33.9%.

Diversified fee and commission income (slide 4). Fee income grew by 30% YoY. The structure of fee income remains well diversified. The single largest constituent was the Money Market, which accounted for 25% of the total. Let me now go line by line.

On the Money Market, fees grew by 38% YoY, while volumes increased by 35%. The discrepancy between fees and volumes is mainly attributed 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 continues to benefit from the demand for Russian-law money market ETFs. Net asset value (NAV) of Russian-law money market ETFs now exceeds RUB 400 billion. Net inflow into these instruments amounted to RUB 130 billion YTD. The average on-exchange repo term declined by 32% YoY to 4.5 days. The GCC repo term rose by 21% YoY to 4.3 days. The rising demand for floating rate repo – a solution that has been available since early 2023 – positively contributed to the growth of average repo terms.

Fees and commissions from Depository and Settlement increased by 11% YoY. Average assets on deposits were up 16% YoY. The discrepancy between growth rates 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.

Fee income on the Equities Market grew 48% YoY on the back of a nearly identical increase in trading volumes, which added 45% YoY. The effective fee was supported by rising volumes of CCP-based OTC trading, which is a value-added mode. This brought the effective fee above 3 bps. The evening trading session accounted for 13% of the volumes in 2Q'24. Over 3.6 million clients were active every month during the quarter, versus 3.7 million in the previous quarter. Trading velocity amounted to 51% in 2Q'24 compared to 43% in the previous quarter. Once the monetary policy changes direction, we might see the funds accumulated in Russian-law Money Market ETFs flow into other on-exchange instruments, primarily equities.

On the Derivatives Market, fees improved by 53% YoY, while volumes were up by 31%. The discrepancy of fees and volumes is exclusively explained by the change in the trading volumes mix. Specifically, the share of commodity contracts increased from 23% in 2Q 2023 to 37% in 2Q 2024, while shares of FX and index contracts decreased by 13 p.p. and 3 p.p. respectively. The share of options in the volumes mix slightly deteriorated YoY and amounted to 3.1%.

The ITSLOFI line includes IT Services, Listing and other fee income. Sales of software and technical services increased by 14% YoY thanks to growing demand for value-added technological products that facilitate HFT and algo trading. Sales of information services decreased by 1.2% YoY. Listing and other services improved by 9% YoY as the activity on the primary bond and equity markets was strong during the quarter. Other fee income grew by 35% YoY.

On the Fixed Income market, fees were up 26% YoY with a corresponding increase in trading volumes of 27%. Primary market volumes, excluding overnight bonds, increased by 38% YoY. Secondary trading volumes increased by 18% YoY. The prevalent share of primary market in the volumes mix is explained by the rise of floating-rate issues, which have a lower trading velocity compared to fixed-rate bonds.

Finuslugi revenue improved by 83% YoY, yet declined QoQ by 15%. On a QoQ basis, revenue of the deposit segment performed well, while revenues of the credit and insurance segments came under pressure. It happened because revenues of the insurance and credit segments reached a scale where tax preferences became no longer applicable, hence the negative effect. As a result, the credit segment's revenue was flat QoQ while the insurance segment's revenue declined QoQ. Revenues of both affected segments will continue growing from this new base. Thus far in 3Q 2024, we see that all Finuslugi segments perform better QoQ.

Fee income from other markets added 8.7%, while trading volumes were up 16.6%.

Operating expenses in 2Q 2024 (slide 5). Operating expenses in 2Q'24 increased by 111% YoY against a very low base of 2Q 2023, largely driven by the growth in personnel and marketing costs. On a quarterly basis, OPEX added 27%. Personnel expenses growth of 164% YoY decomposes as follows: 109 p.p. attributable to LTIP 2028 provisions driven by strong fundamentals and the stock price performance – therefore, the value of the call option went up and so did provisions for future payments; another 28.6 p.p. stem from bonus provisions; 17.7 p.p. come from new hires and selective wage revisions, while the remaining 8.4 p.p. are due to other factors. LTIP 2028 accruals are set to peak this year and will most likely decline substantially in future years. The employee headcount was up 18% YoY. New hires are primarily related to strategic business directions of market data and information services as well as the overall strengthening of our IT function.

Advertising and marketing costs increased nearly five-fold YoY on the back of Finuslugi-related spending. At previous earnings calls, we mentioned significant acceleration of the Finuslugi marketing spending as the platform's value proposition is particularly appealing in the current interest rate environment. We reiterate this logic today. The increase in taxes other than income tax is related to VAT. The 2x increase in information services attributes to the Derivatives Market and gets reimbursed with its revenues.

D&A and IT maintenance grew by 10% YoY, while D&A alone added 5% YoY. IT maintenance costs increased by 25% YoY. The rise in IT maintenance costs is due to the gradual implementation of the software and hardware renewal programme.

CAPEX amounted to RUB 2.1 billion for 2Q'24 and was spent on purchases of software and equipment as well as software development. CAPEX for the past six months amounted to RUB 3.1 billion.

We update our OPEX guidance from the initial 35–48% range to 65–75% based on the following considerations. First, as I have already mentioned, we plan to accrue the largest portion of LTIP 2028 provisions this year. Therefore, the line will demonstrate a substantial growth YoY. In other words, LTIP 2028 accruals are set to peak this year and will most likely decline substantially in future years. Second, we expect the remainder of personnel expenses to be a significant contributor to the full-year OPEX growth as net income dynamics triggers bonus accruals. Moreover, we continue to strengthen our teams that help to implement the 2028 strategy. This is why you see an increase in headcount. Third, we continue to spend on Finuslugi marketing to make it a household name at a time when the platform's value proposition is most compelling. Thus, the breakdown of our new OPEX guidance is as follows: provisions for LTIP 2028 account for 18–21 p.p., the remainder of personnel expenses accounts for 15–17 p.p., marketing costs account for 14–17 p.p., and 18–21 p.p. are attributable to other expenses. From 2025 onwards, our goal is to bring OPEX growth down to the levels of high single digits or low teens observed in recent history. We think it is doable. The end game here is to achieve the cost-to-fee-income ratio set for the strategic horizon.

We also narrow our CAPEX guidance from the initial RUB 7–12 billion down to RUB 8–11 billion based on the actual pace of procurements. We continue to gradually implement the software and hardware renewal programme.

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

Operator

Our first question comes from Mikhail Ganelin, ATON. Please go ahead.

Mikhail Ganelin – ATON

We see a significant increase in operating expenses this year. You mentioned that next year they may increase by 10% or so, if I heard correctly. My question is: is there a chance that they may go down in absolute terms, taking into account that this year is a record one in terms of income mainly due to a high interest rate environment? Because if expenses continue to increase going forward, there is a risk that the bottom line will be under pressure when the CBR starts to cut the interest rate again.

My second question is about Finuslugi. We see a spike in marketing costs. At the same time, its revenue performance slowed down compared to the previous quarters and is significantly lower than marketing expenses. Could you provide a bit more colour regarding its financial performance: when do you expect it will break even or dramatically increase in terms of top line? Thank you very much.

Mikhail Panfilov – CFO

As I said before, our goal is to bring OPEX growth down to the level of high single digits or low teens observed in recent history. This growth rate is due to, first of all, the very low base effect of the previous year. And second, we need to achieve our strategy.

Anton Terentiev – Head of Investor Relations

I will just add a very quick word on this. Basically, you are asking if it is possible that OPEX might go down next year. Is it possible? I think it is theoretically possible. We cannot rule out such a possibility. As you see in our first quarter and second quarter, a very fat portion of this growth and overall OPEX is coming from LTIP provisions. As we mentioned at least twice during our presentation, we will see LTIP provisions peak this year and possibly come down dramatically in subsequent years. We do not have a very precise calculation. It is basically the value of call options that depends on a very long list of inputs, including the stock price and different macro assumptions that we do not really control. But theoretically, it could happen that next year the growth in OPEX is flat or down. It is possible, we are not ruling it out today. We are just saying that we will try to keep them at bay. We will try to keep OPEX growth down next year at historically observed levels or maybe even lower if it is doable. We are not giving any guidance at the moment – we are just sending you a message that we understand your concerns about OPEX growth and will do our best to keep it at bay and possibly even make it decline.

Mikhail Panfilov – CFO

As we mentioned on our previous call, we will eventually reach the breakeven point with Finuslugi platform. But let us imagine that it has already been reached. According to the segment note, this would yield a pre-tax profit increase of around 4%. This difference fits the scale of forecasting uncertainty. Therefore, from a financial perspective, it is not a material increase. We would effectively have the same investment case. But in terms of our 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 clients, both exchange traded and non-exchange products, i.e. the one-stop shop concept. We will become much closer to the end client. We can be the client's go-to tool for daily use. Secondly, we have built a bridge from simple non-exchange products to 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. Fourth, Finuslugi acts as a kind of counter balance, or our hedge, against financial ecosystems that are actively developing in the market today and seek to completely envelope and lock in the end customer.

Anton Terentiev – Head of Investor Relations

Just a couple of words on Finuslugi as well. You are asking about the horizon for the breakeven. I think the best we can say about this is that we expect it to break even on the strategic horizon. This is what we said several times already, and I think that is the best estimate we can give you on this. And the second point is, it is not really feasible to link immediate marketing spending with immediate growth in revenues, because there is a delayed effect that marketing has on revenues. If we spend on marketing today in this sort of business, I do not think there is anyone in the world who can achieve an immediate growth in revenue. People have to get used to the name and get acquainted with it. And then over time, as it builds its audience, it starts building revenue as well. Give it some time to develop.

Operator

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

Olga Naydenova – Sinara Bank

Where do you see the end point of growth in Finuslugi marketing spend? How do you target that volume?

My second question relates to client balances, which have suddenly decreased quite dramatically on your balance sheet. The accounts of clearing participants have gone down. How do you see that developing in next few quarters? I understand that it is volatile. But still, if you can say anything about your expectations on interest earnings in upcoming quarters, that would be very much appreciated.

And my last question: why did you receive a rating from credit rating agencies? Thank you.

Anton Terentiev – Head of Investor Relations

Thanks for your questions. I will be answering them one by one. Regarding the marketing spend and how we monitor the pace and what we measure ourselves against. I cannot say that we provide you with a complete disclosure on Finuslugi, and we do not intend to at this stage, but obviously the team that runs Finuslugi sees much more. They actually see the pace of onboarding of clients, so they understand how their audience is growing in terms of millions of clients or hundreds of thousands of clients. They see this trend and they look at a lot of different operational metrics on a day-to-day basis. Answering your question: as long as they see some reasonable feedback and response from clients to these marketing campaigns, they will keep doing this. If it starts flatlining at some point or declining, then they might revisit spending – that is how it should normally work.

On your second question, client balances: first and foremost, what you see on the balance sheet is very aggregated figures. You do not see net figures for the investment portfolio. Obviously, if it were otherwise, our NII would be three times higher. It is a mix of everything. So first, you are looking at this item that is not telling you too much. And second, it is a snapshot on a particular date. In reality, client balances can swing back and forth; what matters is the average. You do not want to be paying too much attention to this, especially considering that we actually gave you a very detailed insight into what is going on with client balances and NII expectations during the intro speech. As we said during our presentation, in the 3Q thus far, client balances have retreated from the highs of the 2Q and now broadly match the level of the 1Q. Besides, our own cash position decreased after the dividend distribution. But on the other hand, the rouble key rate increased meaningfully QoQ in the 3Q. So, this means that in the current quarter, you might expect NII to be off the level of 1Q and close to the level of 2Q, provided that inputs stay unchanged. But further on, we see risks for the volatility of client balances and of their possible decline due to a combination of different factors.

Now moving on to your third question: why do we need these credit ratings? The answer is simple: it is to have more opportunities to develop fintech products. I do not think we can just go into too much detail here, so we will just stick to the comments we provided in our presentation: this is to open up new opportunities for the offering of fintech products.

Operator

Thank you. Our next question comes from Andrey Akhatov, Sberbank CIB. Please go ahead.

Andrey Akhatov – Sberbank CIB

My first question is related to customer account balances. You have mentioned some factors that could lead to a decline in client balances. Could you please give us more insights on that?

Anton Terentiev – Head of Investor Relations

Hi, Andrey. Unfortunately, we cannot do that at the moment because all these things have a probabilistic nature. Therefore, we are not comfortable diving into too much detail here. And I think we will stand where we are given that we have already provided quite an extensive overview.

Mikhail Panfilov – CFO

I will add that indeed, we emphasized that we see volatility and we do not rule out a decline in these balances from the current levels. Before, we also saw volatility going in the opposite direction, that is, client balances exceeding our expectations. So, I would not say that we are forecasting a decline - it may or may not happen. Rather, we see multidirectional volatility - the change may not necessarily be downward, it may be upward as well.

Andrey Akhatov – Sberbank CIB

Thank you. My second question is about your LTI programme, under which you create reserves for payments on options. In case of a decrease in the MOEX capitalization, could you potentially have some gains on this reserve?

Mikhail Panfilov – CFO

Our LTI programme has a goal of achieving strategic capitalization. And if we see that the price goes in the opposite direction, our provisions will naturally change their sign. You can use the Black–Scholes formula as a proxy, you know all the parameters of this formula. We use the same parameters in our LTIP model. So, if we see the opposite direction, the LTIP reserves will change their sign.

Operator

Thank you. We have no raised hands at the moment. Over to written questions.

Anton Terentiev – Head of Investor Relations

I see written questions from Dmitry Bagrov, PFL Advisors. "As you mentioned in your press release, the growth in personnel costs is linked to hiring for different strategically important business lines, including the IT business line. And how can we assess the potential of the ITSLOFI revenue segment? What share of fees and commissions will this business yield going forward? Let's say in the year 2028, which is the strategic horizon."

Let me dissect this question in two pieces. First, you associate the hiring of IT personnel with a particular business line. It is not necessarily true because we aim to strengthen the entire IT function. It does not mean that we only strengthen the IT services line because, for instance, we need to hire people to develop our trading systems and different internal systems that service all markets or a variety of markets. This is not really linked just to IT services. The strengthening of our IT function relates to the entire firm or different markets. That is point number one.

Point number two: how do we forecast ITSLOFI? In the ITSLOFI segment, we basically have three main businesses. One business is listing, which is quite conservative: you can open up our financials in Excel on our website, the data book, and see that it is not really dynamic in terms of business growth. Then you have two other business lines. One is performing and one is set to perform. The one that is performing is software and technical services, where we actually see elevated demand for advanced services that support HFT and also trading, which is good. And the other line is related to information services, which hosts market data. We have been increasing our market data personnel, and this line is set to perform in the future. What can we say about the mix in general? The mix should probably evolve in line or maybe a little bit ahead of the overall fees and commissions. We do not really provide any vision on this – have never done this. But simply by looking at the balance of these different business lines, you can say that it is going to evolve either in line or maybe just a bit ahead of the mix.

Operator

And our next question, a follow-up question, comes from Mikhail Ganelin.

Mikhail Ganelin – ATON

Could you comment on news in the media that the Moscow Exchange is looking into potentially extending trading hours to weekends, and that it is considering potential acquisition of a broker in Russia? Thank you.

Anton Terentiev – Head of Investor Relations

Thank you. Actually, we have provided answers to both these questions. Let me reiterate. First, regarding trading on weekends. What actually happened is that we received a series of inquiries from market participants. The response is that we will be looking into this together with a broader group of market participants and the regulator in order to come up with a balanced solution. Regarding your second question: are we buying a broker? Our response was no, that was not true.

OK, I see no further raised hands and I see no further questions in our text interface. Operator, can we just quickly run through the instruction and then maybe wrap it up?

Mikhail Ganelin – ATON

Thank you. Regarding the first question, do you provide any timeline on when it could be realized?

Anton Terentiev – Head of Investor Relations

No, we don't.

OK, thank you everyone. We have no further questions in either form. Thank you for your insightful questions on our investment case. Let us stay in touch and reconnect later on with our 3Q results.

Mikhail Panfilov – CFO

Thank you, everyone. Thanks for your time and see you next time. Goodbye.