WARSAW STOCK EXCHANGE

Q2 2025 EARNINGS CALL TRANSCRIPT

Michał Kuzawiński, Director of Strategy and IR of Warsaw Stock Exchange:
Good afternoon and good morning, everyone. Welcome to Warsaw Stock Exchange Q2 2025 results call today. Let me introduce today's speakers. We have with us our CEO, Tomasz Bardziłowski, the CFO, Marcin Rulnicki, and for the first time with us, the Chief Operating Officer of our Commodity Exchange, Mr. Mariusz Buraczyński. We will have approximately a 25-minute presentation followed by Q&A. We encourage you to ask questions. If you'd like to ask a question, you can either press the „Ask a Voice Question" button if you've joined us online, or if you've joined us through the phone, you can press star 2 on the telephone keypad and you will join the queue. You can, of course, also ask a typed question if you type your question in the box provided on the screen. And now, without further ado, I would like to pass the voice to our CEO, Tomasz Bardziłowski.

Tomasz Bardziłowski, CEO of Warsaw Stock Exchange:
Thank you very much, Michał and welcome again on our earnings call. We are starting our presentation with our key achievements in the second quarter of this year. And it was a record quarter in many aspects for Warsaw Stock Exchange: in terms of record high equity turnover that surged by almost 50%, in terms of the performance of the market, and also in terms of our results.
We are also proud to say that we have many records in terms of performance. Our broad market index, WIG, for the first time in its history, surpassed a symbolic milestone of 100,000 points, and then recorded several all-time highs until yesterday. This helped the main engine of our revenues, which are cash equity business and the financial market revenue to go up by 24%. Combined with the very strong performance from the commodity market, with revenues up by over 12%, this led to a 19% increase in consolidated revenue to a record high of 141 million zlotys.
In terms of costs, we recorded 8% growth in operating costs, slightly higher than in the first quarter. However, on the back of the positive effect of operating leverage, our cost-to-income ratio fell by more than 6 percentage points to fewer than 63%. With such strong revenue growth and lower cost-to-income ratio, our EBITDA and net profit increased by around 40% on an adjusted basis, again, our net profit was a record high, excluding last year's one-off events. We paid out a dividend of 3.15 zlotys per share a few weeks ago - it was a 5% growth year-on-year, almost 90% of consolidated net profit. We are also very happy to see a strong performance of our share price, which reached an all-time high two days ago, even after deducting the dividend.
Just to illustrate what I said about the surging equity turnover, you see on the slide that we had a record-high turnover in Q2 2025, the previous quarter was also a record high. The previous record was recorded in 2020 during the so-called COVID-19 rally. According to statistics from the Federation of European Exchanges, this increase has been one of the best in Europe, and we are especially happy to see the high liquidity of the market compared to other European exchanges measured by the so-called velocity ratio - we are the number two in Europe after Deutsche Börse, with a ratio at above 50% in the second quarter.

Regarding the performance of our indices, in local currency terms there has been almost a 40% increase since the beginning of the year, and looking at MSCI Poland measured in US dollars, the performance is now significantly above the 50% mark, which makes Warsaw and our market one of the best performing markets in the world. And we believe that the market is still undervalued compared to MSCI World or MSCI Emerging Markets. What you see here is still quite significant discounts.

In the second quarter, we noticed significant improvement in equity market transactions. The value of total ABB, secondary offerings and IPOs went up four times compared to the second quarter of last year. And we are especially happy to see a couple of IPOs, including the IPO of the company ARLEN, manufacturing clothing for the Polish army, with an offer value of 271 million. Combined with the IPO that we had in January of this year, DIAGNOSTYKA SA, we are especially happy to see a strong aftermarket performance of those companies.

Looking at the bond market - specifically the non-treasury bond market, we recorded a decline in the issuance, mainly due to a high base effect in the second quarter of last year. There were a couple of large issues within the banking sector. However, we expect a recovery in the third quarter. Two large consumer sector company bond offerings are expected to be floated: the 1 billion zloty issue of Żabka and 1 billion zloty issue of Allegro. Let me now turn to our CFO Marcin, who will guide you through our numbers.

Marcin Rulnicki, CFO of Warsaw Stock Exchange:

Hello and welcome everyone. In the following few slides, we would like to present more details on our financial performance in Q2 and the first half of 2025. As you can see, our revenues in Q2 stood at 144 million zlotys, after growth of almost 20% year-on-year. This growth came from both financial markets, where revenue growth was even more dynamic, mainly due to very good cash equity trading and related revenue, and from very solid growth in the commodity market with 12.5% up year-on-year. This was mainly due to high turnover on gas, especially in forward transactions. We will present details of the revenues in the following slides.

For operating expenses, we reached 91 million zlotys in the second quarter after a growth of 8.1%, a bit faster than in Q1, where we had a 5.3% growth rate on operating costs, but we also mentioned in our Q1 earnings call that in the following quarters of 2025 we expect the growth rate for operating expenses to go up. For other expenses, you can see that in comparable data we had much higher numbers connected to non-recurring one-off items. Hence, we are presenting adjusted data and adjusted net profit numbers even though we didn't have any non-recurring one-off transactions in Q2 or the first half of 2025. We have them only in the comparable data. When comparing adjusted data to Q2 2024, it went up by 43%, a pretty impressive growth, and our profitability margin also stood at over 43%—it's been the highest for the last three years and we are very happy about it.

What happens below the operating profit line? We still have pretty good growth in our associated companies, mainly in the depository, where the profits grew by almost 22% compared to Q2 2024, and also better results on financial activities. Here we have both slightly better returns on our deposits, but also we have lower financial costs related to interest on potential liabilities. As a result, adjusted net profit was almost 58 million zlotys, growing by almost 43% compared to the previous year, so generally speaking, a very strong quarter and we are very happy with these results.

Looking at the revenue mix, unsurprisingly, following the high growth rate in the financial market, the share of this segment in the overall revenue mix went up and in Q2 it was over 66% of total consolidated revenue of our group. The commodity market grew slightly slower, and consequently, the share of this segment in the overall revenue mix was a bit lower than the year before and stood at 31% with other revenues remaining on a stable level.

Now, let's have a look at the biggest segment, the financial market and the revenue here. Looking at different classes of assets, you can see that we observed the most dynamic growth in equities. On the left-hand side of the slide, you can see that the dark blue bar represents revenue from equities. In Q2, this reached a level of 52.5 million PLN after a 45% growth year-on-year. And this is a consequence of record-high turnover on equities we had in the Polish market in Q2. It was 131 billion PLN and it was almost 49% higher than the year before. Looking at the operating data table on the right-hand side of the slide, we can see that the average fee per transaction went down a little bit, almost 5% year-on-year. This is not because of changes in fee levels, it's simply because of the higher value of the average transaction. This is how our fees structure is composed. At the same time, the number of transactions went up. There were 13.4 million transactions in Q2, which was 34% more than the year before. For other assets, we had smaller variances with derivatives going down a little bit and revenues from debt trading going up, with other revenues not changing very much.

Speaking about other revenue streams within the financial market segment, we can see, maybe not super dynamic, but solid growth in the information services line and we are very happy about it because this growth we have observed for a few quarters now. The number of customers and new subscribers is growing and this revenue is consistently going up. For listing revenue, there were no big changes and for our Armenia Securities Exchange, there was slightly lower revenue in Q2 of 2025, but in the first half of the year, revenues were up 6% from this market. Now, a few words about the commodity market.

Mariusz Buraczyński, COO of Polish Power Exchange (TGE):

Hello everyone. Revenue from trading on the commodity market represents an increase of more than 20% year-on-year. On the electricity market, we recorded revenues of nearly 6.5 million, representing nearly 6% growth. On the other hand, gas trading generated revenues of 7.3 million, which translates into an increase of over 90% year-on-year. This high growth in gas trading reflects the growth of gas's role in Polish energy generation. On the property rights market, we suffered a decrease of almost 20% in Q2 as we observed a shift in key redemptions from Q2 to Q1. For other fees from market participants, the increase in revenue is mainly related to revision of our clearing house discount policy. Let's move on to other revenue streams within the commodity exchange group.

In Q2, for the clearing segment, we recorded an increase of over 21%. This growth was driven by higher trading volumes, mainly on the gas market, which are cleared by our subsidiary clearing house, IRGIT. In the operations of registers, we observed a decline in income from the register of certificates of origin, which was a result of lower volume of operations. Additionally, it is worth mentioning that the decrease in revenues was caused by a decrease in the level of certificate redemptions. I think those are the most important things to point out in the commodity segment.

Marcin Rulnicki:

Now, coming back to consolidated numbers, let's look at the operating expenses for a moment. In Q2 25, they reached a level of 90.6 million zlotys, 8.1% up year-on-year. Again, a bit faster than in Q1, and we expected this growth and informed you about our expectations in the presentation of Q1 results. What are the reasons for this growth? Mainly staff-related costs. For personal expenses, we had three reasons for this number going up so much by 13.5%. The first one is the number of our employees. The number of full-time employees at the end of June 2025 was almost 6% higher than the year before. This growth is mainly in IT-related teams. We have more employees in teams which are involved in the development and implementation of our transactional system GPW WATS. But of course, most of these costs are capitalized and treated as investments. And at the same time, we also strengthened the teams which are responsible for maintenance of our infrastructure and software that we use for operational activities. We also had an increase in remuneration throughout the whole group, which happened in October 2024. The average level of this remuneration growth was 6%. Of course, we don't have the comparable data yet. And last but not least, our variable remuneration is very much dependent on the performance of the company. Therefore, our good results in the first half of the year and expectations for the second half translate into higher provisions for variable remuneration - that's the third component of cost growth.

Regarding external services, we see a small decline compared to the previous year. And trends within this group of costs are more or less the same as in previous quarters. We spend more on IT-related services, and in Q2 we saw growth of almost 10%. At the same time, we try to be very careful spending on the external advisory and other external services. It's also worth commenting on the higher depreciation and amortization costs in Q2. There are mainly two reasons for this. One is that at Warsaw Stock Exchange, we developed two software platforms that were transferred to our dedicated subsidiaries, Logistics and DAI. They were operationally launched and we started depreciation of this. The other reason is that we had a number of investments in operational systems of our commodity stock exchange. These expenses were finalized mainly at the end of 2024, so they resulted in higher amortization in the current year.

Looking at the big picture, we are happy to say that this is the fifth quarter in a row in which the revenue growth rate has been higher than the operating expenses growth rate, which you can see on the graph on the right-hand side of the slide. This means that for five quarters in a row we have been able to increase our profitability, which you can see on the bottom graph. Our cost-income ratio is in Q2 at the level of 63%, the lowest in the last three years.

For capital expenditures, there are no surprises here, even though the growth rate of investments year-on-year looks pretty dynamic at 42%, but I would say that the comparable data is very low, especially when you look at equipment investments. What we can see in Q2 2025—3.3 million per quarter—is the average level that I would expect, whereas the comparable data was just 300,000 or so—that was an exceptionally low number. For tangible asset investments, we can mainly see salaries and costs related to the development of our proprietary transaction system, which are capitalized. This represents the majority of the light blue bar. It grew 16% year-on-year, which is according to plan because we are intensifying works before the WATS launch.

Regarding liquidity and our cash position, there are no surprises here. We had a very strong operating cash flow in the last 12 months, ending June 2025, and even after deducting high capital expenditures, we still end with free cash flow that was more than 30% higher than in 2024. Our results are still translating into cash very well - if you look at the operating cash flow to EBITDA ratio for the last 12 months ending June, it's almost 95%, so I would say it's pretty high. Our net cash position at the end of June was almost 470 million zlotys. Please note that this was before we paid out the dividend in the first days of August. The dividend has a value of 132 million. In any case, we have a very safe liquidity position, and very strong operating cash flow, no changes. Now I will ask Tomasz to give you an update on the progress of some of our strategic initiatives and to share our H2 2025 outlook with you.

Tomasz Bardziłowski:

We would like to share with you selected initiatives from the GPW Group strategy that we announced in November last year, starting with our increased support for local brokers for research and analysis of smaller companies listed on the exchange. We have increased the budget for the Analytical Coverage Support Program by 50%. This program now comprises research coverage of 65 companies by 11 local brokers, and we have also included quarterly reports on our alternative SME market NewConnect and bond market Catalyst. Speaking of NewConnect, we have created segments for the 300 companies that are listed there, and the largest and most liquid companies are included in the NC Focus segment. It will be covered by this new research program sponsored by WSE. There will also be new activities, including conferences, that we want to host for these companies this year. One initiative aimed at attracting new IPOs is our IPO Academy. For the first time, it will start in October this year. It's a five-month workshop program. We are very happy to see that we have an almost full list of participants already, so hopefully there will be some IPOs from this group as well. As we have spoken of on many occasions, a very important segment of the market are ETFs. Our Zero Trading Fee Program for ETFs is ongoing, and we are happy to see an increase in ETF turnover, which more than doubled in the first half of this year, and recently, a few days ago, we had the first listing of a very interesting ETF, the DywidendaPlus ETF, which is based on the WIGdivplus index—an index of 52 companies paying regular dividends. This ETF will pay a quarterly dividend to its holders. We have already observed a surge in turnover in this ETF, so I'm very happy with this development. There will be more ETF listings quite soon, including ETFs from global financial companies and the first Bitcoin ETF in Poland.

I also wanted to share with you an update on where we are with the launch of our new trading platform, WATS, which is a proprietary trading platform. Now we are using, as you may know, UTP, which is a platform delivered by Euronext. The works are going according to schedule. We are undergoing various tests together with Exchange Members. At the end of August, we will have the first of four dress rehearsals, and we will confirm go-live readiness for November 10th, the launch date, by the end of September. Regarding guidance for the next two quarters: for the financial market, we had very strong growth in trading—also in July—of almost 70% year-on-year, and in the first half of August it was slightly lower. In September, we most likely expect slower growth, assuming that volumes remain comparable, due to the base effect - September volumes last year were very significant. For the commodity market, we expect a similar trend to what we saw in the second quarter, with gas market turnover being very strong—almost 80% growth in July, and almost 100% growth in the first half of August. On the other hand, we saw a 70% decline in energy market turnover in July. Regarding operating costs, as we said, they increased by 8% in the second quarter on a year-on-year basis. We anticipate a slightly higher growth rate in the second half of this year, due to investment in the new trading system and in the accounting system, as well as higher expenses for the promotion of the market. CapEx should be at a similar or slightly higher level as in the first half of this year.

What's quite important regarding market developments as a whole is a recent announcement from the Ministry of Finance of a new personal investment account with some tax incentives. This new account, called OKI in Polish, will offer tax-free investments of up to 100,000 zlotys and, above this level, a tax on assets, which will be around 0.8%, calculated as the current rate of capital gains tax multiplied by the risk-free rate. This solution, as it was said by the Ministry of Finance, was inspired by a well-known account in Sweden, called ISK. In the chart, you can see the development and growth since the setup of this account in Sweden in 2012. It's one of the most popular accounts in Europe—as much as 40% of the adult population owns such an account with total assets amounting to almost 180 billion euro. We hope this could attract new investors to the Polish capital market and, according to estimates by the Ministry of Finance, within the first three years, the value of assets in OKI accounts may reach 100 billion zlotys or around 25 billion euro. We believe that part of this amount will also reach the Warsaw Stock Exchange. If so, it will be a real breakthrough for the Polish capital market. As you can see on the chart, in terms of market capitalization to GDP, Poland has a relatively low ratio compared to developed markets, with only 22%. Looking at the EU, Germany's ratio is close to 50%, while the EU average is 64%. Sweden, the most developed EU capital market, has a GDP ratio of around 170%. Really a long way to go for us. We hope that the new account will be introduced according to plan by mid-next year.

Moderator:

We are now opening the floor for questions and answers. If you are connected via the phone and you would like to ask a voice question, please press star 2 on your phone keypad and wait for your name to be prompted. Web participants also have the option to ask a voice question or send a question using the text box provided on the screen. We'll wait a minute or so for questions to come in. Once again, phone participants, please press star 2. Web participants, you have two buttons: Ask Via Audio, which means you would like to ask a voice question or you have the option to send your question as a text.

Since I see no questions, I'll pass it back for the concluding remarks.

Michał Kuzawiński:

Great. If you have questions that come up later, please reach out to our investor relations team. If not, well, thank you for participating in this presentation and we'll be happy to speak with you again during our Q3 results in November. Thank you.