LSEG H1 23 Interim Results –

Analyst & Investor Call Transcript

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PRESENTATION

Good morning, everyone, and welcome to LSEG's H1 Results Presentation. I'm here with David and Anna, and they'll take you through our performance and outlook in just a moment. We'll then be happy to take your questions. If you want to ask a question, please join the conference call line. Details are available in the results release or from the IR team.

David, over to you.

David Schwimmer:

Thanks, Peregrine, and good morning, everyone. I'll give you the brief highlights and then hand over to Anna to go through the financials in more detail, before I bring to life some of the great strategic progress we are making. And of course, then we'll be happy to take your questions.

We have delivered another half of strong performance as we continue to accelerate revenue growth and drive transformation across our business with Q2 growth at 8.4%, up from 7.5% in Q1. Our Data & Analytics division grew by more than 7.5% in the half, the fastest it has grown for many years, as the investments we've been making in our products and our stronger customer relationships are now really starting to bear fruit. We made progress in Capital Markets despite headwinds in Equities. And we delivered outstanding growth in Post Trade as we once again demonstrated the critical role we play in helping customers manage risk in uncertain markets.

We're making very good progress on a number of key strategic priorities, including projects to re-platform our FX venues and our index business. We'll be rolling out the first features of our new FX platform in the second half. We made a great start with the Microsoft partnership, and we now have hundreds of people around the world building products together.

Cash generation is good, and that's driving continued shareholder returns. Our GBP 750 million on-market share buyback is now complete. We have a further GBP 750 million directed buyback approved, and the dividend continues to grow. So those are a few highlights of a really strong first half.

I'll now hand over to Anna to take you through our financial performance.

Anna Manz:

Thanks, David. Good morning.

Let's start with the financial highlights: strong, sustained growth; an EBITDA margin consistent with our guidance and reflecting the investments we're making in future growth; strong cash generation, supporting our active approach to capital management; and confidence as we head into the second half, supporting our full year guidance.

You can see the strength of this first half on this slide. Total income, excluding recoveries, rose almost 8% and closer to 12% on a reported basis. For the rest of the presentation, I'll focus on constant currency growth as this gives you the best insight into our underlying performance.

EBITDA growth was strong, up 6%. Both this year and last year's EBITDA margin are distorted by non-cash FX-driven balance sheet adjustments. Stripping these out, our first half EBITDA margin was 47.7%, and this is consistent with our full year guidance of around 48%. I'll cover this in more detail in a moment. Growth in adjusted operating profit is a little slower than EBITDA, driven by investment into integration and our platforms for future growth.

Looking at the lower half of the P&L on the next slide. Our finance expense has come down, reflecting better returns on gross cash as interest rates have risen. On the other hand, the tax rate is going up. This mainly reflects the higher U.K. tax rate now in place. The combination of the non-cash FX item with higher depreciation and tax has impacted our EPS performance relative to EBITDA.

All our divisions delivered sustained growth. Data & Analytics grew 7.6%, supported by higher pricing, improved retention and stronger sales. Capital Markets grew 1.5% with continued growth at Tradeweb, partly offset by market-driven weakness in Equities and parts of our FX offering. And Post Trade had an outstanding half, up 19%, as interest rate uncertainty drove strong client demand for our SwapClear services.

Let's start with our Data & Analytics businesses, all of which performed strongly. I'll cover our 3 largest businesses: Trading & Banking, Enterprise Data and Investment Solutions on the next slide. Wealth was up 5.8%. Growth was strong in both Digital Solutions and Workflow, while Workspace revenues doubled from last year. Customer & Third-Party Risk posted high-teens growth with continued strength in our World-Check screening business. Last year's acquisition of GDC expanded our presence in the high-growth digital identity space and boosted our overall growth rate.

Trading & Banking, Enterprise Data and Investment Solutions account for 85% of Data & Analytics revenues, and all 3 grew strongly in the first half. Trading & Banking performed well, up 4.7% in the quarter and has now delivered underlying growth for 6 consecutive quarters. We're getting better and better feedback on Workspace, which David will come on to later. And our 2023 price increase landed well.

Enterprise Data also grew strongly, up 11.8% in the quarter. We saw strong demand for our proprietary real-time data and continued cross-sell of data to FTSE Russell customers. Subscription revenues in our Investment Solutions business have accelerated over recent years and grew 9.5% in the quarter. Growth in asset-based revenues improved over the period, and we entered the second half well set with assets under management 17% higher than at June 2022. Our investment in the index platform has already reduced our time to market by 25% and contributed to a near doubling of new products in the first half.

ASV growth continues to be the best evidence of the huge improvements we're making to our business and the investment going into our customer proposition. Subscriptions are growing almost 400 basis points faster than when we acquired Refinitiv. Sequentially, our ASV growth fell slightly in the second quarter.

To be clear, we don't see any issue here with business momentum. It merely reflects short-term differences in timing of different growth drivers between higher retention, which has an immediate impact, and onboarding of contracted sales, which can take anything from a day to several months. A lot of the rise in ASV over the past couple of years has been driven by higher retention. And now we're seeing more of it driven by new sales, which is a good thing. We expect this timing difference to reverse in the second half.

Our Capital Markets businesses grew 1.5%. Equity revenues declined due to global market conditions. In FX, our Matching platform sustained its return to growth, supported by last year's change in commercial incentives. Most FX platforms saw weaker buy-side activity in the first half. Our FXall platform is the global leader in this space. So it's something we saw, too, and this offset the strength in Matching.

Tradeweb, which drives 2/3 of our Capital Markets revenues, saw record transaction volumes and revenues in the first half with continued share gains in both U.S. credit and global swaps. Activity in the period skewed towards shorter-duration instruments and asset classes where Tradeweb earns lower fees. So revenue growth was a bit behind volumes.

Our Post Trade business delivered an outstanding performance, up 19%. Interest rate uncertainty drove strong client demand for SwapClear services, and that was the primary driver of growth in OTC Derivatives. Reference rate reform also added GBP 18 million of one-time revenues in the half.

We completed the Acadia acquisition. This really enhances our offer for customers as they manage regulatory and capital demands across the whole derivatives portfolio. Securities & Reporting revenues grew 1.8% as revenues relating to early termination of a multi-year clearing agreement offset ongoing pricing pressures in Equities. And higher cash balances contributed to Net Treasury Income, up 19%.

Moving on to costs on Slide 13. Organic cost growth of 6.1% was evenly balanced between ongoing operating costs and investments for growth. As with all companies, we're going through an inflationary period, and average pay increases this year have been around 6%. But at the same time, we've delivered cost synergies, which are partially offsetting this headwind. Longer term, the platform investments we're making will build a simpler, more efficient and scalable business.

Acquisitions added 3.4% to our first half cost growth. The vast majority of the FX impact shown here relates to non-cash movements in the balance sheet, which I'd encourage you to look through.

Turning to profitability on Slide 14. At the start of the year, I explained how our investment with Microsoft and recent M&A will impact on this year's EBITDA margin. That, along with the impact of the Russia-Ukraine conflict, reduced first half margin by 120 basis points. Our underlying efficiency improved slightly, giving an underlying margin of 47.7%, on track to deliver our full year EBITDA margin of around 48%. On a reported basis, margins were adversely impacted by non-cash FX-related balance sheet adjustments. As you'll remember, the same period last year benefitted from similar adjustments. So this accounts for the swing in the reported margin.

Now looking at reconciling items between adjusted and reported operating profit, these largely relate to the Refinitiv acquisition, the main exception being the GBP 69 million gain relating to the acquisition of Acadia in the first half.

Moving now from the P&L to cash flow. Our business is highly cash generative, as you can see on Slide 16. We delivered GBP 1.2 billion of operating cash in the first half. As a reminder, the CapEx figure here is both the cash cost of business as usual and integration CapEx. Equity free cash flow was substantial at almost GBP 600 million.

Let's look at how we're deploying this capital on the next slide. As you can see, our use of cash in the first half was balanced between CapEx, acquisitions, dividends and share buybacks, and reflects our active approach to capital management within our allocation framework. Our CapEx reflects the transformation we're driving in our business and our investments in future growth. We completed the acquisition of Acadia at the end of March, an important step that rounds out our Post Trade solutions business.

On dividends, the cash flow in the first half reflects the 2022 final payment, and we're proposing an increase to the interim dividend for the current year of 12.6%. We returned GBP 400 million to shareholders via share buybacks in the first half, with a further GBP 50 million repurchased in July. This completes the GBP 750 million share buyback announced in August last year. We also have approval for a directed share buyback, allowing us to target the shares owned by the former Refinitiv shareholders. This could be around GBP 750 million by the next AGM.

Our success in integrating Refinitiv and building a track record of strong growth and cash generation supports a higher leverage range. We're confident we can maintain leverage between 1.5 and 2.5x net debt to adjusted EBITDA without impacting our current credit rating. Our new leverage range reflects our improving earnings quality while maintaining a sufficiently conservative structure even at the top end of the range. On a day-to-day basis, we expect to maintain leverage around the middle of that range, and we're currently there at 1.8x.

Looking ahead, we're confident we'll deliver all of our full year targets, which I won't read out, but you can see on the slide. As you saw from the release, we now expect top line growth to be towards the upper end of the 6% to 8% range. Implicit in this is we expect continued strength in our ASV growth. Execution on synergies continues to be very strong, and we're well on track to meet or exceed those targets.

So in summary, we delivered strong broad-based growth in the first half, supporting our confidence of being towards the upper end of the growth guidance for the full year. We're on track for a broadly flat EBITDA margin this year of around 48% despite the additional Microsoft investment and the impact of a number of high-growth bolt-ons. And we're confident in delivering all of our targets for the full year.

With that, back to David.

David Schwimmer:

Thank you, Anna. As you can see, we're now in a position where we're delivering consistently strong broad-based growth. With the breadth of our offering and the depth of our relationships, we see significant further potential. So I think it's worth recapping here on why that is, those really powerful market trends that we're taking advantage of and the transformation we are driving into every corner of our business.

Demand for data is greater than ever, and that's only going to grow from here. Customers want to automate workflows, manage financial and reputational risk, optimize capital and trade electronically and cross-border. We're at the fulcrum of all of these trends. We already have a great business for this environment. We're multi-asset class, we're global and we serve our customers across the trade life cycle.

And we are transforming our business. We're transforming LSEG to match our customers' needs as the world continues to evolve in line with these key trends. We're creating greater connectivity across our business, linking our different offerings to serve our customers better, and we're turning our data infrastructure into a scalable machine where we can ingest data once and distribute that data an unlimited number of times in a more cost-effective way.

And we've transformed our earnings profile with almost 3/4 of our business now recurring revenue with strong and long customer relationships, something our new leverage range rightly reflects. And we're not even close to done. We're building the next generation of workflow tools for financial markets with Microsoft, the world's leader in enterprise productivity. We're creating a new business in Post Trade solutions, which will expand our addressable market significantly and help our customers optimize their capital. We'll tell you more about that at the Capital Markets Day. And we are upgrading and modernizing almost all of our platforms, whether they are externally facing, like our FX Matching venue; or internal, like our network infrastructure or our billing system. That's a great position to be in as we look ahead.

We're delivering a strong performance across the group. We're innovating and improving the customer offering on many fronts. Just a few examples on this slide. We're delighted with how we've driven performance in Data & Analytics, growing almost twice as fast as the first half of 2022. We're accelerating innovation in FTSE Russell where we're getting to market much faster with new index products, thanks to our investment in the systems driving that business.

Trading & Banking is now achieving consistently healthy growth after over a decade of decline, building on our deep and broad customer relationships. And we're constantly improving our products. We executed 130 updates to Workspace in the last 6 months. And we saw record volumes in both Tradeweb and Post Trade, where we continue to demonstrate the critical role we play in helping customers navigate periods of market volatility and uncertainty.

We're focused on building a consistent track record of growth across the business. And on the next few slides, I'll outline some of the ways we're doing that. Now we're aware that some of our peers have been calling out longer sales cycles, given the tougher environment for some customer segments. Currently, we are not seeing a longer sales cycle. In fact, sales cycles are holding pretty steady over the last few quarters. Where we are seeing change in our sales data, it is positive, and I'll call out a couple of things in particular.

Average deal sizes are increasing as we move from product selling to solution selling. Across the first half, deal sizes were up roughly 15% year-on-year. Even more positively, win rates in D&A have stepped up significantly under our ownership, moving up around 7 percentage points since 2020. This reflects the great progress we've made across sales, product and customer service over the last couple of years.

So I've talked in the past about how we partner with large customers to build enterprise-wide solutions across our offering and how that's leading to larger deals for us that are better for our customers. But what does that look like in practice?

On this slide, we've set out a real-world example, an enterprise-wide deal with HSBC, one of the world's largest banks. You can think of the benefits of a deal like this in 3 ways. First, we're saving them money by rationalizing their data vendors. We look at the vendors they use and tell them what we can provide and how much money we can save them. At the same time, we've displaced over 750 competitor terminals and their #2 provider of real-time data. As a result, HSBC is saving $30 million a year.

Second, we're partnering to create bespoke solutions to drive their growth. They've launched a next-generation digital wealth management portal powered by our data and our underlying tech workflow. And HSBC has joined our Design Partner Programme with Microsoft, so we are working together to build what they want and need for the future.

And lastly, the deal is financially attractive for LSEG. We've turned an account that was in slow decline into one that's growing, and we've left ourselves room to upsell new services. It's now consistently one of our highest performing accounts. It's a win-win situation, and we're seeing increasing demand from larger customers for these kinds of deals, particularly in the current economic environment. And these are strong, multi-year relationships. We have a number of other relationships like this. You would have seen the Barclays announcement earlier this year, that's another example.

Another area I want to focus on is Enterprise Data. It's a GBP 1.3 billion business growing at double digits. Data is becoming more valuable every day, backing AI and quant-driven strategies, and we've got more data and higher-quality data than anyone. We also have data that other providers just don't have, and we're seeing a lot of demand for it. This applies to stand-alone data sets, but even more so to packages of separate data sets, which together drive even greater insight.

A great example is Tick History, our comprehensive database of historical pricing information and one of our many proprietary data sets. It gives customers access to over 87 trillion ticks of data, spanning over 100 million instruments across over 500 execution venues dating back more than 25 years. With our PCAP, or packet-capture product, we can offer a subset of that historical pricing information in the cleanest, highest-quality format in the world. This is sourced directly from an exchange's data center and is timestamped to the nanosecond using GPS technology.

By combining these 2 data sets, Tick History and PCAP, customers are able to perform a deep regression analysis that would not otherwise be possible. They can use the data to power advanced back-testing techniques, precisely reconstructing the market at a point in time. And just as importantly, we are delivering these data sets in the most convenient and flexible way possible via the cloud and open-source file formats. This is a powerful example of the kind of technology-driven demand that we are seeing as customers realize what they can do with our data.

And we're also excited by the continuing progress we're making with Workspace, our next-generation workflow tool for financial markets. We're regularly adding to its functionality in many different ways, continuously improving the product. We continue to get positive customer feedback. Our first half customer survey is hot off the press, and it tells a great story.

Just to call out some highlights. Providing powerful analytics is up 11 percentage points. Ease of sharing news and analysis is up 13 percentage points. And functionality across multiple devices is also up 11 points. This reflects the continuous improvement we're driving in the product. We're well on course to migrate the vast majority of users from the prior-generation product to Workspace by the end of next year and are today announcing our intention to shut down that prior-generation product, Eikon, in 2025. We, of course, plan to take a significant additional step forward for Workspace with Microsoft next year.

Okay. Inevitably, we need to talk about AI. For successful use of AI in financial services, we think there are 4 critical conditions: the quality and breadth of the data, its integrity, its lineage and customer trust. We think LSEG scores very strongly on all 4 of these. The scale of our data assets is immense, and it's all clean and codified. It's internally consistent, scrubbed for quality control and comes with our decades of experience in data management.

Our data is fully auditable. We can tell you exactly where it comes from, and we are trusted. We've been working with most of the world's largest financial institutions for years. And our feeds and taxonomy drive many of their critical processes. So we see a great opportunity ahead of us to drive more value through AI.

But we've been working with AI for a while now, and it's already built into a lot of what we do, both in our own business and for our customers. First, we are building AI functionality into our platforms and workflow to enhance customer productivity. This is at the heart of what we're building with Microsoft, but we've already been innovating here.

Second, we're creating more valuable insight as we build proprietary AI-powered analytics. We have a number of tools in the market today, but we see this as the single biggest area of value creation over the next few years. One example we've been investing in for some time is our product, SentiMine, which mines earnings releases, filings and transcripts to assess key themes and related sentiment. It is available as part of Workspace and leverages large language models extensively.

To optimize the accuracy of sentiment and theme classification, we have performed extensive model tuning and selection experiments, and this work will continue as LLMs evolve. An example of something we are talking about with our customers today is bespoke large language models, combining our leading data with each customer's own private data, driving their productivity and giving them new capabilities in trading strategies and risk management.

And third, we are using AI to modernize our own business. Today, we have over 7,000 people working in data ingestion and another 2,500 in customer service. That's around 40% of our global workforce. We have a significant opportunity to do what we do a lot more efficiently. In the past, it might have taken us weeks to ingest all the data in a market's reporting season. Today, that same task could take us minutes.

To give you just one great example, we're automating the transcription of 38,000 company webcasts annually through natural language processing, reducing average processing time of transcript summaries into Workspace from 8 hours to 5 minutes, increasing company coverage by over 30% and eliminating the need to spend over GBP 5 million. Actions like these free up resources for quality control, audit and other value-add actions or simply allow us to create an even wider and deeper pool of data.

We're also increasingly using AI tools in customer service, and there's much, much more in development in this area. Here's one example of how AI is enhancing customer productivity, where we've brought a decades-old dealing platform up to date with a first in the FX industry. Our FX dealing product is a communication network for the FX trading community. It has been around for decades, and it has around 14,000 users. And for years, they've been pivoting between 2 screens: one for chat and news; and the other for trading. Tickets were entered manually and were entirely separate from the trade formation in chat. But now we brought all of that together with a new FX trading environment in the cloud, full integration with Workspace, seamless compliance and chat-driven trading functionality powered by AI. Tickets are now generated automatically with AI picking up key information like currency, price and size from the chat.

And finally, a quick update on our Microsoft partnership. There's a lot of activity here, and it's been an incredibly productive 6 months. We have hundreds of people across the 2 companies working together, designing product and writing code. One big development is the launch of Fabric, Microsoft's end-to-end data and analytics solution, where we are working with Microsoft as their customer zero, i.e., jointly developing the product. This will make access to and usage of our data seamless for our customers in a very powerful and versatile Microsoft environment.

We're also making good progress in the development with Microsoft of our Workspace and analytics products. As part of our design and build process, we have created a Design Partner Programme with a number of customers. We had a lot of incoming interest from major customers when we announced the partnership, and we've captured that interest in a framework to work closely with those customers on our design thinking and new product capabilities. This, in turn, will inform where we focus and prioritize through the development cycle. So the end product meets our customers' most pressing needs. We'll bring you more detailed updates on all of this at the Capital Markets Day in November.

So bringing all of that together, LSEG's transformation is well underway. Our markets are growing, driven by the demand for data, the advance of technology and the need to manage risks of all kinds. We have a number of leading solutions, and the investments we're making are only improving and strengthening those assets. Innovation is at the heart of what we do, and the strength of our customer relationships informs the work we are doing to drive value for them and us. And we have a great opportunity with Microsoft to create the leading workflow tools and analytics standards for financial markets.

And with that, we'd be happy to take your questions. Peregrine, over to you.

Peregrine Riviere:

Thanks, David.

Operator please, could you open the line for the first question? Thank you.

Q&A

Operator:

Bruce, please go ahead with your question.

Bruce Hamilton *(Morgan Stanley):*

Thank you, so third effort. Hopefully, it's not that my questions are offensive. On ASV, just to understand a little bit more around the kind of step down Q-on-Q, 70 bps down. Obviously, there's some timing issues there, but any more color there? And also on your conviction levels, that recovers in the second half, and should we think it goes back to 7.5% like Q1? Or where about should we think?

And then second question, just on sort of operating leverage, obviously, you're investing in the business for future growth. The revenue growth is quite strong. But how should we think about EBITDA margin expansion from here? Could you deliver 100 basis points per annum in '24 and '25? Or how should we think about that, please?

David Schwimmer:

Thanks, Bruce.

Anna Manz:

So on ASV, as David said, we've had a really good half in sales terms. And the pipeline is strong and actually getting stronger, the quality is improving. And that's why we're confident to say that we'll be at the upper end of our revenue guidance.

ASV is a point-in-time measure. So it's the book of contracts that we're billing today versus the same book a year ago. And it's impacted by sales retention and price. So what's happening here is as we see much more of our ASV growth be driven by sales, which is a good thing and talks to our improving product offerings, we're seeing that it's getting a little bit lumpier, and that's because we can sign the contract. And for some contracts, we start billing immediately because the product is a direct install.

And other products can take up to 9 months to install, and that's really about working through the process with the customer. And that's what creates a sort of slightly lumpy timeliness. But I think what you should take away is sales pipeline is strong, contractual sales delivered in the period, feeling good about ASV, and you would expect it to absolutely improve from the point that it is at today.

David Schwimmer:

Second question around...

Anna Manz:

EBITDA margin. So we've been investing across the board to make our business more scalable over the medium term. And you will see ongoing enhancement in our EBITDA margin as we deliver on those opportunities. And as you've seen with both the early-stage M&A that we've done and also the Microsoft relationship, where we see opportunities to invest to deliver future growth, we're going to take them. So I suppose that's me saying you should expect ongoing EBITDA margin improvement, but it may be, again, a little bit lumpy where we see those opportunities to invest for future growth.

Operator:

The next question we have is from Mike Werner of UBS.

Michael Joseph Werner *(UBS)*:

Thank you very much. I have a quick follow-up on the ASV and then another question, if you don't mind. On the ASV, can you just tell us, what some of the businesses are or in terms of where you get the contract signed, but then there's a delay? My understanding that a chunk of that is probably from the Enterprise Data Solutions business as I think you have to install potentially some hardware on-premise at the customers. But I was just wondering if there is any other of the 5 divisions within Data & Analytics where you have that dynamic.

David Schwimmer:

I'm happy to take it. Mike, thanks for the question. So you're right in the context of Enterprise Data, that is one example. And you can see that in a number of different ways. In some cases, there is a time lag, for example, in terms of a customer being ready to take on a new feed that could require some technology changes or some shifts. Sometimes, if it's a displacement of a competitor, that competitor contract may run through a period of time, another 3 months, another 6 months or so. And then our product would only come in after the end of that other contract. So you can see that in a number of the different businesses. It's not exclusive to Enterprise Data. Anything you'd add?

Anna Manz:

No.

Michael Joseph Werner *(UBS)*:

And then just a second question, if you don't mind. Just going back to the EBITDA margin guidance. I just wanted to confirm that the guidance in terms of the constant perimeter of 48% EBITDA margin for full year 2023, that is the reported EBITDA margin. Just given the disparity that we've seen between the reported and adjusted, I just want to make sure that -- whether that EBITDA margin is on adjusted numbers or reported?

Anna Manz:

So the 48% guidance is against the perimeter that we described, and it's at the set of exchange rates that we described because, of course, exchange volatility, as we've seen in this period, can distort the reported number. We can maybe take you through that directly offline if that's helpful.

Michael Joseph Werner *(UBS):*

That works. Thank you very much. Appreciate it, Anna.

Operator:

The next question is from Arnaud Giblat of BNPP Exane.

Arnaud Giblat *(BNP Paribas Exane)*:

Good morning, I've got 3 questions, please. First, if I can start with the impact of inflation and the price-related increases that you put through in Data & Analytics, how much of growth did that contribute for? And I mean, given how your pricing is structured and since inflation has continued in 2023, should we be expecting some more price increases in 2024? Is that mechanical?

My second question is on Workspace. Especially since you're talking about sunsetting Eikon in 2024, should we be expecting any material savings from that? And equally, is there a pricing opportunity with implementation of Workspace? I understand that's mostly going to happen now in 2024, the remaining clients.

And my final question is on Post Trade. So H1 benefited from strong NTI and some one-off from transitioning to SOFR. What is the sort of sustainable level of Post Trade if I normalize for those effects?

David Schwimmer:

Thanks, Arnaud. You want to take the first question? We can both do a little bit of the Workspace conversation and then you can talk about run rate for Post Trade.

Anna Manz:

Sure. So we took a slightly higher price increase this year. And actually, our realized price benefit was a little over 3%, which is something we've shared previously. And that was received very well by our customers.

In terms of how we think about price, what we're doing is we're building relationships with our customers for the medium term. So you see us look to see those improvements in customer satisfaction, and it's that, that gives us confidence to take price rises.

Now looking forward, a number of our products are priced more cheaply than the competitive product, and that gives us some opportunity. And as we see the customer satisfaction scores like David was just talking about with Workspace, that gives us confidence to start to close some of those pricing gaps. So that's price versus inflation.

Workspace?

David Schwimmer:

Yes, let me just -- a quick correction on Workspace. We -- I know you mentioned sunsetting Eikon in '24. We're actually sunsetting Eikon in '25 as we will be substantially complete with the migration from Eikon to Workspace by the end of 2024. So I just want to be very clear about the timing there. And that migration time line is one that we've been talking about, I think, for a couple of years now. So no change there, full consistency there. It is new today that we've announced the sunsetting of Eikon in 2025.

Anna can touch on your cost-saving question in a moment. But just to put this into a little bit of a broader context, we are upgrading a number of our systems. We are investing in a number of platforms, moving on from a number of legacy products and legacy platforms. And this is a multi-year process. We wanted to highlight the sunsetting of Eikon because it has gotten a lot of attention in particular from this community.

We're very excited about how Workspace is being received and the potential for Workspace to grow further and improve further, in particular, as we roll out the functionality with Microsoft next year. But I just want to put it into that broader context. And there are a number of different, whether products, systems, platforms, that over time, we will be moving on from and sunsetting, but you shouldn't expect us to be making regular announcements on all of those.

Anna Manz:

And in terms of costs associated with sunsetting Eikon or the benefit of that, we've been working through a huge change in our tech stack. And we've talked about moving D&A to being a much more scalable business as we do so. And as we do so, we are sunsetting elements of that tech stack all of the time, and Eikon is just one of them. So I wouldn't look to any specific cost savings associated with it. What I'd say more is this is one of the reasons, to Bruce's question earlier, that we should be seeing ongoing underlying EBITDA margin enhancement.

Should I do Post Trade?

David Schwimmer:

Sure.

Anna Manz:

So you're right, I mean, Post Trade had a very strong first half in part because of volatility in the market and also because we had an GBP 18 million benefit from the change in reference rate reform. In terms of go forward, we're largely -- we're done with reference rate reform, so that won't repeat. And it's hard to call what level of volatility we'll see in the market.

What I would say, if NTI is a bit of an indicator for where we are at the moment, at the end of July, our cash collateral levels have dropped about 10%. So that would say that there is less activity going on, and you would expect those numbers to be a bit more subdued in the second half.

Arnaud Giblat *(BNP Paribas Exane):*

That’s great, thank you.

Operator:

The next question we have is from Kyle Voigt of KBW.

Kyle Voigt *(KBW)*:

Hi, good morning. Thanks for taking my questions. With respect to the increase in the leverage target, I guess, given that LSEG has largely been a recurring business since the deal closure in early 2021, just wondering why make the change in the leverage target now? And should investors read into this as signaling anything with respect to your appetite for M&A near term?

And then my follow-up is also related to M&A. Just wondering if you could provide an update on the current environment. We've seen some larger deals in the broader info services sector. I guess, is there any indication that bid-asks are narrowing from your perspective, whereby we could see a bit larger-sized M&A from LSEG than some of the smaller-sized deals you've been executing on over the past 18 months?

David Schwimmer:

Kyle, so the leverage target does not indicate any change in terms of our capital allocation policy. We've been largely operating at the 1.8, 1.9 level of net debt to EBITDA. It's where we are today. I think it's really just a recognition, and a number of you all have been asking us about this for a couple of years, it's a recognition that we've really made great progress in terms of the integration of Refinitiv and very high level of recurring revenues, very high level of diversification across the business. So you shouldn't expect any change there. We're not trying to signal anything there.

And then with respect to the M&A environment, again, I would expect that we continue what we have been doing, and that's modest-sized bolt-ons that fit in strategically to what we're doing, that we can take advantage of our scale, our global distribution, our global customer relationships and plug those kinds of capabilities into that broader machine. So again, no signaling here of any change.

In terms of your question about the broader environment, it's hard to draw any particular conclusions. I think sellers still want to maximize value, and buyers will try to be opportunistic. I think from our perspective, you've seen what we've done in the past. We try to be very focused on a strong strategic fit, and we try to be very focused on financial discipline. And that's the approach we've taken in the past. And to the extent we do anything going forward, you'll see us take a similar approach.

Anything you would add?

Anna Manz:

No.

Kyle Voigt *(KBW)*:

Great, thank you.

Operator:

The next question we have is from Tom Mills of Jefferies.

Tom Mills *(Jefferies):*

Hi, good morning, thanks for taking my question. Two, please. Firstly, on the FCA wholesale data market study, what's the latest that you're hearing there? Do you have any sense as to whether there will be an interim report? And is there anything that suggests to you, one way or another, how they may be thinking about a potential CMA referral? Because I think the deadline for them to do that was the 1st of September.

And then just on AI, I think you referred in your prepared comments to proprietary data sets. Could you give us an idea of what proportion of your data sales relate to proprietary versus non-proprietary data? Is that something that we should obsess about in an AI world? And if not, why not?

David Schwimmer:

Thanks, Tom. So on the wholesale market data study, a wide-ranging study, a lot of information that's being brought in or being considered there. As you would expect, we have a long and active engagement with the FCA. I think you're right about the September 1st date. But really, given where it is, given sort of the early stage, nothing -- no great insight that we can share with you on that.

And then with respect to AI, we often get this question around proprietary data sets. I think it's important to understand, so I was talking about the tick data set that we have and then the PCAP data set that we have. Now on one hand, I could say that's all public data. It's publicly available. It's been public for 25 years. On the other hand, no one has captured it and collected it and makes it available in the way that we have. So you could say -- you could define that as publicly available non-proprietary data. But the way that we monetize it, it's effectively proprietary. And so because of nuances like that and among other things, we don't break down how we think about proprietary versus non-proprietary.

To get to the AI part of your question, you used the word obsessed. I think your suggestion is that you shouldn't obsess about these kinds of things. We certainly don't think you should. What you should be very focused on in an AI-driven world and in terms of all of the potential to extract more value from generative AI is the quality of the data, the integrity of the data. So you know it's very high quality, you know where it's come from, you know the data lineage, you can audit it and figure out where it's come from. And then the ability to have trust, both in the data and in how that data is going to be used. And we think, as I mentioned in our presentation, we score very strongly on all of those.

And so if you think about what can go wrong in a large language model or in generative AI, if you don't have good data, you can make mistakes with even greater confidence than you could have before. If you do have confidence in the data and you can identify where it's coming from, you can evaluate if something is a hallucination. You can audit it, you can double-click on it and figure out where it's come from. So it's that kind of both quality of data, auditability of data and the ability to really evaluate it, know that it's not going to be used for competitors' models, et cetera, that kind of trust that we also bring, they are really important metrics as the world continues to move in this direction. I hope that helps.

Tom Mills *(Jefferies):*

That's very helpful. Thanks David.

Operator:

The next question we have is from Hubert Lam of Bank of America. Please go ahead.

Hubert Lam *(BofA)*:

Hi, good morning. Thank you for taking my questions. I've got 2 of them. Firstly, on Enterprise Data, you had a very strong first half of growth. How much of it was driven from the FTSE Russell cross-sell which you identified? Just wondering if there's any lumpiness in this -- in the first half, and how should we think about the second half? So just wondering if the second half would be lower if there's lumpiness in the first half?

Second question is on your Design Partner Programme. Can you just talk a little bit more about it? How significant are the members of your Design Partner Programme today? How much revenues do they represent? And does the firm have enough -- have the ability to meet the sort of requests that your partners may come up with?

David Schwimmer:

Got it. Do you want to take the first question?

Anna Manz:

Sure. So we've got some -- we've got really good momentum in enterprise. Strong momentum in real time, and that is also helped by the MayStreet acquisition, and we've disclosed the organic versus non-organic piece so that you can see that. And then in PRS, yes, we're seeing really strong cross-sell with FTSE Russell, and that's really benefiting us, and that momentum should continue. So no specific one-offs in there, just a really healthy business performance.

David Schwimmer:

And then to your second question around the Design Partner Programme, the -- probably the best way you should think about that, it's a fairly small number of our very large clients, our very large customers. And I wouldn't -- maybe first point just to make is that we have 250 customers making up 50% of our revenue, and then thousands making up the next 50%. So that gives you a sense. Although we do have some very large, important customers in the broader scheme of our revenue, we are a very, very diversified business.

So the way that you should think about those who are participating in the Design Partner Programme is not in terms of percentage of revenue, but as representatives of different customer groups. And so large buy side, large sell side, making sure that we're taking into account trading customers, wealth management customers, et cetera, and that kind of representative sample is the way that we have approached that.

And then in terms of how this is actually working, we will have both senior representation from the design partners and, frankly, relatively junior representation from the design partners so that we have the senior buy-in and the senior validation of what we're focusing on and prioritizing as well as members of their teams who will actually be using a lot of the products. And so they can work with us on some of the design, what would be most useful to them, most valuable to them, so that they can use beta versions, et cetera. That gives you a little bit of a sense of how we're working with that group.

Hubert Lam *(BofA)*:

Great, thank you.

Operator:

The next question we have is from Ben Bathurst of RBC. Please go ahead.

Ben Bathurst *(RBC Capital Markets)*:

Morning. Two questions from my side, if I may. Starting with one, on Acadia, I think the results suggest that it's running at a circa 25% EBITDA margin in Q2. But should we expect this business to be growing revenues at the sort of above the top end of the group revenue growth target with widening margins looking forward? And how much more growth there in your market conditions?

And then secondly, on Page 2 of the statement, you provide the detail that Q2 total income was up 8.4% year-on-year versus Q2 '22. I wondered if you could provide that same data point on an organic basis as well, so the equivalent of that 6.5% growth you reported for H1 or Q2.

David Schwimmer:

On Acadia, great business. I don't think we're going to be giving guidance on the specific margin within Acadia, a fast-growing business. It's a great contribution to what we are building in Post Trade solutions. And we'll talk more about this at our Capital Markets Day in November.

But just to give you a little bit of a sense of where we're going with that, the acquisition of Acadia, the acquisition of Quantile and the number of initiatives that we are building internally, SwapAgent is an existing product already, bringing all of these different businesses together will allow us to effectively provide what we're referring to, what Dan Maguire, Head of Post Trade, refers to as, the clearinghouse for the uncleared space.

And so what that will enable us to do is serve our customers in Post Trade across their balance sheets. They don't think of their balance sheets as the cleared part and the uncleared part. They think about managing their balance sheets, managing their risk, optimizing their capital. And so by bringing in the functionality that Acadia brings in, that Quantile brings in, what we can do with SwapAgent, some other things we're building, we'll be able to help them optimize their capital, make decisions as to what they want to clear, what they will leave uncleared, how they want to net their positions down through compression algorithms, et cetera. So more to come on that, but a really interesting space.

Do you want to...

Anna Manz:

Yes. The Q2 organic number, I don't have it off the top of my head. I don't know if you know it off the top of your head, Peregrine. But if not, I'm sure the IR team can...

Peregrine Riviere:

Yes, it's 6.7%.

Anna Manz:

Brilliant. You're very good.

Operator:

The next question we have is from Johannes Thormann of HSBC. Please go ahead.

Johannes Thormann *(HSBC)*:

Good morning, Johannes from HSBC. Three questions left on my side. First of all, on FXall, you described the weakness in the overall trading volumes. What is your feeling? Did you maintain, gain or lose some global market share in this business?

Secondly, regarding the recently spent money to acquire full ownership of LCH SA, are there any benefits for you in being the 100% owner? And then last but not least, as I have heard -- previously, I've heard that there are different rollouts of different Eikons coming still. How confident are you really in sunsetting them in early '25?

David Schwimmer:

Sure. Thanks, Johannes. I'll take your last question first, high level of confidence in 2025 of sunsetting Eikon. As I've said earlier, the migration path for Workspace is very much on track. And so we look forward to being substantially complete with that by the end of 2024, and then the 2025 sunsetting of Eikon makes sense.

On LCH SA, so when Euronext had the 11% stake there, there were some hoops that we had to jump through from a governance perspective. They had a seat on the Board. There were certain times when we had to navigate conflicts and [excused] their director from Board participation and things like that. It's not going to change how we operate the business.

I don't know if you want to touch on the -- some of the financial impact of that. It's not really significant.

Anna Manz:

It's not that really -- it's not material.

David Schwimmer:

Exactly. And then FX?

Anna Manz:

Yes, sure. Whenever we see revenue drop in the business, we look very hard at share. It's something we roll over all of the time, but FXall is holding to gaining share. Actually, it's doing quite nicely.

Johannes Thormann *(HSBC)*:

OK, thank you.

Operator:

The next question we have is from Russell Quelch of Redburn.

Russell Quelch *(Redburn)*:

Yeah, hi, three questions from me, please. Firstly, on pricing. When you talked to the pricing gap to peers, how big do you perceive that gap to be? And over what time frame do you think you can close that gap? I'm just trying to get a better appreciation of the path of pricing growth, please?

Second, on ASV, you said there's no impact of longer sales cycles. Can you clarify also that you've not seen any impact from higher customer churn and you don't expect that to be a problem in the second half of the year?

And thirdly, if I can, please, on AI. In addition to the cost already laid out with respect to the Microsoft partnership, do you expect to realize any additional OpEx or CapEx impact from AI product development in the short or near term?

David Schwimmer:

Just I'll touch briefly on the pricing gap to peers. We estimate that our high-end product in some areas is about 25% below the cost of competitive products. And that's just an example in one product area that a lot of people are focused on.

I think in terms of your second question on -- you want to touch on ASV and expectation or lack thereof? I think your question was around higher customer churn.

Anna Manz:

Yes, sure. I mean, in short, no customer churn. This is not about customer churn whatsoever. It's really just the timing lag, as we've talked about, between contracted sales and us getting them installed. Do you want me to do AI, cost and efficiency?

David Schwimmer:

Sure, the third question on AI.

Anna Manz:

Yes. I mean, look, we evolve as technology changes all of the time. I mean we've had machine learning, natural language processing, classic AI, now we're into generative AI. And we are forever evolving our business to make sure that we're taking the new technology and shifting our investment to be building our products that way and also using it to look for efficiencies, and you then see those efficiencies come through in our cost base.

So I just see generative AI as the next step along that journey. I don't see any specific big new cost. And you'll see us continue to look for efficiencies across our cost base using this capability, but also all of the other areas of technical capability that we can use to drive efficiencies.

Russell Quelch *(Redburn)*:

Ok, very clear. Thanks.

Operator:

The next question is from Ian White of Autonomous Research. Please go ahead.

Ian White *(Autonomous):*

Hi there, thanks for taking my questions. Just a few follow-ups from my side, please. Just finally, on the ASV growth point, I'm not sure whether it's sort of baked into your answer to the previous question, but we're talking about sort of impact in 2H. And are you expecting anything from, say, Credit Suisse-UBS merger or anything like that, that might have sort of a onetime adverse impact in the second half? Is that something we might need to look out for in the latter part of the year? That's question one.

Question two, I wondered if you could provide us with some help perhaps around how you see the total sort of addressable market opportunity in Enterprise Data, particularly interested in the material you've showed on Slide 26. Do you see this as a market where perhaps there are significant number of customers that you're not currently serving? Or is it the case that the existing user base might have significantly higher demand for these products in the future, and that's kind of where the growth is coming from, some monetization of higher consumption from the use? I'm just trying to get my head around whether this is a business that you see is doubling in size over a sort of a medium-term horizon or whether it's a couple of years of sort of high growth and then a reversion to more mature growth rates. So some detail around how you're thinking about that would be appreciated, please.

And then just finally, on FX, it sounds like the sort of technology upgrades now are basically complete. What should we be looking out for in 2H, just to affirm the success of the upgrades there? Do you expect to see a meaningful change in volumes, for example, or higher revenues from other sources? What should we be looking out for, please, in the second half?

David Schwimmer:

Thanks, Ian. Anna, do you want to touch on the first question on anything from CS? And then I'm happy to take the other 2.

Anna Manz:

Perfect. Yes. So as Credit Suisse and UBS was -- UBS absorbs Credit Suisse, that will have a single-digit-million impact on us this year, so very small in 2023. There will be a slightly larger impact in January 2024, which we will see in our ASV. But again, it's not big in the scheme of our group at all.

David Schwimmer:

Then in terms of Enterprise Data, I'll take a shot at this. And if we don't quite answer your question, we're happy to take it offline. But a number of things are going on in that business. One, Anna touched on this earlier in terms of we're seeing attractive synergies from the work that customers are appreciating with respect to FTSE Russell.

In terms of the real-time data, we are the #1 provider in the world in terms of real-time data, and we are continuing to invest in that. And so that's actually growing further. And when I say invest in that, some of that is making it available through different distribution channels. So for example, in the past, that was primarily available through putting our hardware on trading floors. And now you can get access to our real-time data through a cloud distribution. And that is enabling us to serve a different set of customers. Sometimes corporates are interested, sometimes want to have real-time pricing that helps them evaluate their supply chains or navigate their supply chains. We also made an acquisition of MayStreet, which has moved us into the ultra-low latency space, which is a space we weren't really in before. And that has been growing, and that's been extending as well.

And then the final point I'll just make is that we continue to invest in this space, both on the real-time side where it's about technology and distribution, and adding new execution venues. I think we, at last count, had access or connectivity to something like 534 different execution venues around the world. And recently, we added, for example, the Beijing Stock Exchange, which a number of our customers wanted to have access to. So there's more growth there.

And then on the non-real-time side, we are investing in new products and new capabilities. And we've been talking over the past year or 2 about how we've been adding, for example, in terms of corporate actions or evaluated pricing. And that kind of investment in new products is also driving incremental growth.

So in terms of broader TAM, maybe a little bit of expansion because the cloud distribution makes it more interesting and more accessible for a broader set of customers that might otherwise not have been interested in putting our hardware on a trading floor. So I hope that answers that question.

Anything you would add to that?

Anna Manz:

No.

David Schwimmer:

Okay. And then just to clarify on your question around FX. So we are launching our non-deliverable forward platform on our new tech this coming fall. We are not fully done in 2023 with the continuing redevelopment of our FX Matching platform, and that will be in 2024. So I just wanted to be clear about that.

The NDF platform, completely new platform. We're launching it in Singapore. It does not exist today. So I don't expect that will have a meaningful financial impact near term. But in terms of the broader matching upgrade next year, we have already started to see a stabilization of volumes in that business after they've been declining for a number of years. And with this new tech platform, I expect to see that continuing to actually grow going forward. But we look forward to seeing that in 2024.

Again, anything you'd add to that?

Anna Manz:

No.

Ian White *(Autonomous):*

Thank you so much. If I could just clarify on the first point around UBS-CS, it's a single-digit-million impact in FY '23, if I understood correctly. And does that mean I should be thinking about a number roughly 4x that in terms of run rate for FY '24? Is that the right sort of thinking?

Anna Manz:

I'm not going to be specific about 2024. It's a teeny tiny impact this year, as I say, single-digit million. It's a little bit more than that, and we'll see that flow through into ASV in January 2024.

Ian White *(Autonomous):*

Ok, thanks

Operator:

The next question we have is from Enrico Bolzoni of JPMorgan. Please go ahead.

Enrico Bolzoni *(JPMorgan):*

Hi, good morning and thanks for taking my questions. So the first question I have is on your dealing -- making bigger deals. So you say you're starting bigger deals, 15% higher. And at the same time, we did see the drop in ASV. So I presume that when you onboard the bigger clients, the lag between when you sign the contract and when you start to recognize revenues might be a bit longer, correct me if I'm wrong. But if this is the case, is it fair to expect a material pickup in ASV going forward because of the large increase in larger deals that you've been signing recently? So this is my first question.

My second question is actually related to the color you provided on the partnership with HSBC. I think it's very useful. You mentioned 750 terminals that have been replaced. It seems like quite a big number. Can you just give us some color on whether these are desktop solution or actually the mix of desktop and feeds that you managed to replace? And what was the driving factor? Is it because you offer a better deal? Or is it because of the product itself, so you're offering some data, some capabilities that the competitors didn't have?

And finally, just on customer satisfaction, the number is going up quite nicely. Can you give some color on what customers are liking more? Is it the product that has improved? Or is it the customer service that has improved? And if you can be a bit more granular in terms of what specific division -- in what specific division you're seeing the biggest uptick in customer satisfaction?

David Schwimmer:

Sure. I think I've got that, but we might need you to remind us on a couple of things. Maybe just on the -- your first question about the bigger deals, the important thing to think about is not the size of the deal, it's the kind of product. So -- because as Anna was touching on earlier, there are some products that you can basically switch on in a day. There are some products, and I touched on this a little bit earlier as well, that for a variety of reasons could take 3, 6, 9 months. And it comes into ASV not when the initial sale is made, but when the billing starts. If it's a big, complex deal, then perhaps that takes longer, but it's really more driven by what the nature of the product is.

Your question around the 750 terminals that we displaced, the first point I should just make on this, we often get asked questions when one of our competitors makes a specific announcement about a competitive process or a displacement, we tend not to do that. We have a lot of successful displacements of competitors, and this is just one example of that. And we thought it would be useful to share that with you all. The 750 displacements, likely to be terminals, not electronic feeds. We called out that we have also displaced the #2 provider of a feed there. So that's separate and distinct.

But I just think maybe for everyone to understand that we don't put out a press release every competitive process we win or every displacement we have. But we do -- you would not see the growth that you are seeing in our numbers without our having a lot of displacements of our competitors in a number of different areas. So that should just give you a little bit of a sense of the receptivity to our product and the success we're having.

And then with respect to your third question, on customer satisfaction, this is largely -- that specific customer satisfaction survey was for Workspace. And as I mentioned, we are -- we have a program of continuous improvement and have put out, I think, 100...

Anna Manz:

130.

David Schwimmer:

100 something, yes, a very substantial number of changes and improvements to Workspace just in the first half of this year. And that's something that we will continue to be doing. So it can be anything from the functionality to share an article or share an analytic with a colleague. It can be new analytics. I was touching earlier on the new functionality that we have around FX dealing, that's available in Workspace, all those kinds of things.

It can also be better customer service, as we've talked with you all in the past. We have a very different approach now to our Workspace customers because we have gone through the process of identifying what those customers are using the product for, which seems like an obvious thing, but it hadn't been done in the past. That allows us to serve our customers much more effectively to have the product team, the customer service team and the sales team coordinated in terms of making sure the customers are getting what they wanted. So hopefully, that gives you a little bit of a sense.

And again, anything else you want to add?

Anna Manz:

No. Very clear.

Enrico Bolzoni *(JPMorgan):*

Thank you, very useful.

Operator:

There are no further questions on the conference line. I will now hand the presentation back to Peregrine Riviere, Group Head of Investor Relations.

Peregrine Riviere:

Thanks for joining us, everyone. The IR team remain available for any follow-up questions. And Anna and David will see many of you on the road over the next week or so. So thanks for your time.