

LSEG Q1 23 Trading Update – Analyst & Investor Call Transcript

THURSDAY 27 APRIL 2023



PRESENTATION

Peregrine Riviere:

Good morning, everyone, and welcome to LSEG's first-quarter update. I'm here with David and Anna. Anna will make some brief opening remarks on Q1, and then we'll open up to questions on the conference call line.

And with that, let me hand over to Anna.

Anna Manz:

Thanks, Peregrine, and good morning. The strong momentum and broad-based growth we delivered last year continued into the first quarter. As I run through the business, I'll mainly be talking constant currency growth as it gives you the best insight into our performance.

Total income grew 7.5% or 8%, excluding the impact of the Russia-Ukraine conflict. And this is the last quarter we'll see an impact from the conflict.

All three divisions grew well. Data and Analytics was up 7.1%. And as you heard me say at the full year, we're continuing to strengthen our offering through a combination of better execution, a greater focus on customers, and targeted investment in our products and services.

As you know, we've been seeing the benefits of stronger sales and better retention for the last couple of years. We're now seeing price as a further benefit with the improvements to our offerings, supporting a higher annual price increase.

We're also making great progress in our partnership with Microsoft. Joint teams are up and running on product development and working towards the introduction of the first products next year.

All five businesses in our Data and Analytics division performed well in the quarter. In Trading and Banking, revenues grew 4.7% or 6.1%, excluding the impact of the Russia-Ukraine conflict. Both Trading and Banking accelerated, supported by further improvements in retention, the benefit from this year's pricing, and growth from the TORA acquisition.

Enterprise Data was up 7.9% with strong underlying growth enhanced by the MayStreet acquisition. Our PRS business continues to see good growth, including revenue synergies from the linkage with FTSE Russell.

Subscription revenues in Investment Solutions continue to accelerate. Benchmark rates, indices and analytics were up 14% with strong demand for our flagship equity products. We saw a decline in asset-based revenues as a result of lower market levels.

Customer and Third-Party Risk was up 19%, driven by strong growth in our World-Check business. And Wealth was up 7.2%, reflecting good demand for data feeds and other digital solutions needed by wealth managers.

Turning to ASV, we made further progress ending the quarter with growth of 7.6%, almost a percentage-and-a-half higher than at the end of last year. Most of this increase was driven by the change to our pricing that took effect on January 1, though there was further benefit from improved sales and retention.

You've seen us accelerate ASV growth fairly consistently over the last eight quarters, taking it from 3% acquisition to 7.6% today. We believe we can sustain ASV growth broadly in this range for the rest of the year though we have no lack of ambition, and we'll continue to work to drive it higher over time.

And finally, last week, we announced that Satvinder Singh will be our new Global Head of Data and Analytics. He brings tremendous experience across data and capital markets and will play an important role in driving further change and growth in our business. We're really looking forward to having him join in July.

Our Capital Markets business performed well against the strong prior year, growing 2.5%. Revenues in our equity business were down 12%, outperforming a steep decline in trading volumes. In FX, the performance of our FX Matching business is improving with another quarter of growth. Activity on FXall was behind last year's record quarter. So taking the two together, FX revenues were broadly flat.

The largest driver of growth in Capital Markets was Tradeweb, which continues to innovate and drive the electrification of trading. Volumes continued to be strong, particularly during the volatility in March. But fee rates were down slightly as investors focus on shorter-duration instruments.

Our Post Trade business had a very strong start to the year, up 17%. SwapClear saw record volumes as customers reacted to market volatility by repositioning portfolios and hedging more. Activity related to reference rate reform added a further GBP8 million of revenues in the quarter.

Other OTC clearing activities saw good growth, too, particularly our FX clearing business, where option volumes more than doubled in the quarter. Growth in our OTC businesses drove cash collateral to record levels. This was the primary driver of the 21% growth in net treasury income. At the end of March, we completed the acquisition of Acadia, an important step towards a complete post-trade solution for both cleared and uncleared products.

So in summary, our business continues to grow rapidly, supported by strong demand for data, our improving customer proposition, and from the trust that customers are putting in us to manage their risks. Our strategy continues to deliver. And the volatile market backdrop in the first quarter highlighted the unique strengths of our business model, in particular, the visibility and stability provided by our subscription revenues, combined with the benefits of our diversified range of transaction revenues.

We're confident in our prospects for the rest of the year and are on track to deliver on our guidance. And we continue to invest for long-term growth both with Microsoft and across our own products and platforms.

And with that, I'll pass you back to Peregrine for questions.

Peregrine Riviere:

Thank you, Anna. Operator, please, could you open the lines now for questions?

QUESTIONS & ANSWERS

Operator:

(Operator Instructions) Bruce Hamilton, Morgan Stanley

Bruce Hamilton (Morgan Stanley):

Thanks for taking my questions. First one, I mean, obviously, a good, continued improvement in ASV and you gave comments about how you expect that that should run at around these levels through the rest of this year. I guess some of your competitors have talked about elongated sales cycles and pressure on end clients driving some moderation in growth. But obviously, it didn't sound like you're seeing that. But how should we think about growth and those pressures as we look across that perhaps into next year?

And then secondly, on the index subscription growth, obviously 14%, above some of your peers. Any particular colour on growth drivers there? Are you taking market share in ESG? Is it driven by demand for thematic or something else? Is there any colour in what's driving that very strong growth? Thank you.

David Schwimmer:

Bruce, hi. Maybe I'll just touch on your first question. And Anna, if you want to touch on the subscription growth. We are seeing good performance across the business. And the short answer to your question is no, we're not seeing the kind of slowdown that you are referring to with some of the other players out there.

We continue to focus on the key areas of our business. We continue to invest in our product, invest in our customer relationships. And as you can see from the ASV metrics, we are making very good progress. So we're pleased with that. And we're, at this point, not seeing any such slowdown in sight.

Anna Manz:

And shall I just pick up your question on the index business? Yeah. We grew 14% in the quarter. So strong demand for our products. We probably benefited by a couple of percentage points of catch-up revenue. But even that aside, very strong demand. And the strong demand is very much across the board. There's not one theme I would point to. It's predominantly around our flagship equity products. But we've got really good momentum in that business, and it continues.

Bruce Hamilton (Morgan Stanley):

Very helpful. Thank you.

David Schwimmer:

Thanks, Bruce.

Operator:

Tom Mills, Jefferies.

Tom Mills (Jefferies):

Hey, good morning, guys. Thanks for taking my question. Just a follow-up on ASV side. I think you take the vast majority of price on January 1. But could you just remind us of how much additional you take throughout the balance of the year? And any other sort of dynamics on the ASV side that we might want to think about sequentially? Obviously, I take your point, given the size of the step-up that we've seen in 1Q that stable from here would still be very strong.

And then just on the Trading and Banking sides, I guess the progress there looks very good. Could you perhaps just talk us through some of the dynamics that you're seeing there as well, please, and the kind of conversations you're having? That will be very helpful. Thank you.

David Schwimmer:

Sure. Do you want to take the first question on the trading and banking?

Anna Manz:

Sure. So we took vast majority of our price increase on the January 1. And I'd really think about it that way. Previously, that business had taken a roughly 2% price increase, price yield. And this year, we've taken a little bit more. So about a point of -- a little bit over a point of our ASV acceleration between the end of December and the end of March came from price, so we would have taken a little bit over a 3% price yield.

Really pleased with that in an environment where some of our competitors have had a price pushback. I feel that the investment that we've been making in our products and services, and the improvements that our customers are seeing is creating very sound platform for us to increase our prices.

We've also seen both improved gross sales and improved retention in the quarter as well. And again, that is on the back of the investments that we're making in our products. We're not stopping in improving our products. I guess what we're cautioning is the rate of increase we've seen over the last couple of years from 3.3% to 7.6%. It won't continue at that rate of improvement, but we are absolutely working to continue to deliver against our customer needs and so I would expect to continue to see improved retention and gross sales. And with time actually, those investments will also support greater pricing power.

David Schwimmer:

And a lot of work. Anna just talked through more generally for D&A and applies to Trading and Banking. And it is a very consistent story with what we have been talking about for the last few quarters and what we're talking about at the full year. We continue to invest in our

product. We continue to invest and focus on the customer relationships. We are seeing improved retention. The pricing dynamics, Anna just touched on, and that applies in Trading and Banking as well.

The rollout of Workspace continues to go well. We have the benefits of the acquisition of TORA, and that is also going well. So really consistent story with what we're talking about at the full year and we're pleased with the performance. And we continue to focus on Trading and Banking as well as the other segments in the business.

Tom Mills (Jefferies):

Thanks very much. Very clear.

David Schwimmer:

Thank you.

Operator:

Greg Simpson, BNP Paribas.

Greg Simpson (BNP Paribas):

Hi, good morning. Thank you for taking my questions. Firstly, could I just ask you if you can share some thoughts on AI and the potential implications for LSEG? Is there anything you're actively exploring? Does the partnership with Microsoft allow you to leverage their expertise there? That will be the first question.

And then the second one is would the UBS-Credit Suisse deal closing -- being announced this quarter they will -- what is the kind of level of client concentration with LSEG? And what is your experience when you get these kind of mergers between firms? Is it like a 1 plus 1 equals 2 or less than 2? Just some colour there would be great. Thank you.

David Schwimmer:

Sure. Thanks, Greg. So first, on AI. It is very much a part of our world now. And obviously, that collectively -- you asked specifically about Microsoft. We are working closely with Microsoft on product development in a number of areas. And the capabilities that they bring to the table in terms of AI is part of that development.

So we shared the demo with you all at the full-year results, and there are some examples of the kind of AI functionality in there. I must say that was just a couple of months ago and things are moving on quickly, in terms of the progress being made, in terms of, I'll call it, just the potential of this technology.

So we're pretty excited about that as is Microsoft and really pleased to be working with them on it. But I would also say there's more to it than the partnership with Microsoft, and we are looking at how we can embed that technology in other parts of our business and improve efficiency in areas like customer service, responding to customer queries, et cetera.

So again, pretty interesting, pretty exciting in terms of the potential and how we're doing in a number of different areas of our business, including in the partnership. We're implementing it in a number of different areas of the business, including in the partnership with Microsoft.

On your question around Credit Suisse and UBS, this is a very diversified business. We are diversified by product, by geography, and yes, by customer. I believe that we have put out in the past that our top 250 customers or so is about 50% of the revenues. So that gives you a little bit of a sense of the client concentration.

And I don't expect we'll see any impact this year from the consolidation of Credit Suisse. We may see a very, very modest impact in 2024 or 2025 just as UBS works through that. So of course, we never like to see situations like that in terms of our customers. But in terms of impact on us, nothing we see very, very modest in the future

Greg Simpson (BNP Paribas):

Thank you. Maybe just a quick follow-up. In Post Trade, I'm just conscious that March did see very high interest rate volatility but has maybe pulled back a bit since. Is there any colour on net interest, net treasury income, the run rates into the rest of the year and were those record cash balances as sustainable?

Anna Manz:

Yeah. It's funny, I've said on these calls many times that we are at record levels of cash balances and that they should reduce from here. And actually, they're staying stubbornly high. As we've entered April, actually, our level of cash balance has remained high as it started to come down a little bit in the last few days. But it's a difficult one to call. If we continue to see a reduction in the level of volatility, we would expect it to trend downwards.

Greg Simpson (BNP Paribas):

Thank you.

David Schwimmer:

Thank you.

Operator:

Russell Quelch, Redburn.

Russell Quelch (Redburn):

Yeah, good morning, all. Wondered if you could talk to the strong growth in the Customer and Third-Party Risk business in the quarter. Interested to see if that is structural or cyclical. Wondered if this is an area you may be looking to grow the product offering either

organically or inorganically, given the sizable TAM opportunity and your strong competitive position.

Anna Manz:

Sure. Yes, Customer and Third-Party growth has had -- had a really strong quarter. We've grown 19%. Now it has benefited from some M&A activity in there with the acquisition of GDC. And so the organic growth was 13%, but still very strong.

That's predominantly coming from our Know Your Customer business World-Check, where there's very strong demand. And it's ongoing demand. It's not specific to a point in time or an event. It's an underlying business growth. And it's an area we have been investing. I mean, you saw us announce the acquisition of GDC in the second half of last year because it's very interesting market.

David Schwimmer:

Yeah, GIACT was the year before that. This is an area where, as you mentioned, there's a significant TAM. We've seen attractive growth in the area and we like this business a lot.

Russell Quelch (Redburn):

Well, thank you. Maybe just a short follow-up and correct me if I missed it. But have you -- I think you've reduced the disclosure on a divisional cost of sales basis. So could you give us the numbers on cost of sales at divisional level and just your thoughts on costs for the rest of the year, please? Thank you.

Anna Manz:

Yeah, we have reduced the disclosure on the cost of sales number because we didn't think that level of detail was particularly valuable. So I'm not going to give you the breakdown by division.

The driver of cost of sales in the quarter is the strength that you see in the Post Trade business where, as you know, we have a profit share with banks that comes -- runs through the cost of sales side. And so that strength that you've seen both in OTC, both in SwapClear, but also on the NTI line is what's driving the cost of sales in the quarter.

Russell Quelch (Redburn):

Just your thoughts on costs for the rest of the year?

Anna Manz:

I think the underlying run rate is no different than what we've seen before. We are seeing that -- the thing that is moving cost of sales here is business mix. And we've seen a very

strong quarter in Post Trade because of market volatility levels. And we will say it would have the benefit of the reference rate reform.

So I think the way to think about cost of sales is the underlying is consistent, but you need to think about the business mix. And if we continue to see strength in Post Trade, the cost of sales number will be higher.

Russell Quelch (Redburn):

Makes sense. Thanks very much.

Operator:

(Operator Instructions) Ben Bathurst, RBC. Please go ahead.

Ben Bathurst (RBC):

Morning. Thank you for taking my question. And there were some high-profile annual Data and Analytics industry data published last week. I just wondered if you had a chance to benchmark Refinitiv using that or any other information recently and if there had been any kind of key takeaways in terms of changes in your overall market share of late. But also interested to hear your views on if the overall Data and Analytics market is growing at the sort of rate that you'd have expected when announcing the Refinitiv deal initially. Thank you.

David Schwimmer:

Not sure exactly what you're referring to from last week, but we are very pleased with the performance of this business. I don't think we've changed our view of the TAM. And I don't know if there's any, Anna, you want to say about the growth rate in the industry.

But we, as you can see from our results today, are making good progress across the different segments of the business, seeing strong growth. We've talked already about Trading and Banking, Enterprise Data, doing well, Wealth doing well. We've already talked about Customer and Third-Party Risk, and we've talked about the benchmark and index business. So we feel we're doing very well and pleased with the performance of the business.

Anna Manz:

Yeah, my one comment on the market is -I'd say as we sit today, it's very much as we would have expected the acquisition. The only thing that has changed slightly is we're in a more inflationary environment. And so pricing has increased across the board, but the fundamental drivers are similar. We may see some acceleration as AI is used more, but that is as yet hard to predict.

Ben Bathurst (RBC):

Thank you.

Operator:

(Operator Instructions) At this stage, there are no further questions. I will now hand the presentation back to Peregrine Riviere, Group Head of Investor Relations. Please go ahead, sir.

Peregrine Riviere:

Thanks, everyone, for joining the call. I know you've had a very busy morning. And we look forward to catching up with many of you over the next few weeks. Have a good day.

Operator:

Thank you.