LSEG H1 Interim Results - Investor & Analyst Call Transcript

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Hosts:

David Schwimmer – CEO

Anna Manz – CFO

Paul Froud – Group Head of Investor Relations

Paul Froud:

Good morning. Thank you for joining us and welcome to London Stock Exchange Group's first half presentation. I'm pleased to be joined by David Schwimmer, the group CEO, and Anna Manz, the group CFO. As usual, David and Anna will provide some comment and insight on the financial and operational performance of the group. Then we will open up to Q&A. As a reminder, there are two ways to ask a question. You can send in writing by following the instructions on the webcast page. Alternatively, you can ask a question over to the telephone line using the number provided in today's release. We have provided some slides that will accompany this webcast and they're available through the Investor Relations section of the group's website. So with that, let me hand you over to David.

David Schwimmer:

Good morning, everyone. Let's get started. On slide three. LSEG has delivered a strong first half performance with continued revenue growth across our businesses. Simply put, our strategy is working. We're making great progress in realising the benefits of the integration. And we're making it easier for our customers to work with us across different parts of the trading lifecycle. Customers who know us in one part of their business are seeing the benefits of working with us more broadly. And there is plenty more opportunity ahead. When I say our strategy is working, the numbers we are delivering back that up.

As you can see on slide four, we continue to hit all of our financial targets. Total income grew 7% or over 10% on a headline basis. We're on track to meet our EBITDA margin. We have realized £44 million pounds of run rate revenue synergies in the first half. And we continue to deliver ahead of plan on cost synergies. I've talked in the past about the great cashflow generation of this business. That strong cash generation is allowing us to deploy capital across organic and inorganic investments. Grow our dividend by 27% in the first half and confirm the start of a £750 million pound share buyback programme with the first tranche to begin immediately.

Turning to slide five. There's a lot of uncertainty in the markets about the current macro-environment, including inflation, rising rates, recession risk, geopolitical challenges. Given that uncertainty, I do want to spend a minute talking about how well-positioned LSEG is to navigate an environment like this. First, we are highly diversified across geography and products with over 40,000 customers in 190 countries. Second, we provide critical services to our customers. Many of our products or offerings sit deep within customer workflows and over 70% of our revenues are recurring. I would suggest that our customers need us even more in an environment like this. As we provide the data and services they need to help them navigate the uncertainty. Third, interest rate volatility is driving growth in our transactional businesses such as TradeWeb and SwapClear. And last few points, we have multiple levers to manage costs with our people, spread geographically and a strong track record of managing technology spend. And as I have said, we remain highly cash generative with strong credit ratings and a balance sheet light business model.

Turning to slide six. The combination of our strategy and our business model makes LSEG a very compelling proposition. We have highly recurring subscription revenues, diversified across customers, products, activities and geographies. And we have strong customer retention. We're driving higher growth in a number of our businesses. And we are investing for further growth while building a more agile, scalable, and efficient business, particularly in Data & Analytics.

Let me pause there and hand over to Anna to provide more details on our strong first half. I'll then give more colour on how we are benefiting from the growing linkages among our businesses. Anna, over to you.

Anna Manz:

Thanks David. And good morning. Starting on slide eight. As David said, we've had another strong half with 7% growth in total income. All of our divisions are performing well, with progress continuing into the second half. We're seeing a growing contribution from revenue synergies. And cost synergies are ahead of expectations. That firmly puts us on track to deliver our 5-7% revenue target and our margin guidance of at least 50% on an exit basis at the end of next year. Cash generation continues to be robust, supporting both investment and shareholder returns. But the message is clear. We're both investing and improving execution. And we're making good progress on building a sustainably stronger business that delivers high-quality, broad-based growth. And I'll share more detail on this over the next few slides. I'm going to focus on constant currency performance, excluding the actions we've taken around the Ukraine, Russia conflict. As this gives you the best view of the underlying strength of our business. As you've heard, we're well-positioned for the current environment.

And you can see that on slide nine, all of our divisions grew strongly. I'll unpack the 5% growth in Data & Analytics in a moment. Capital markets revenues grew over 13%, with new trading functions and services driving double-digit growth at both Tradeweb and FXAll. Post Trade was up 9% with continued growth in repos and record volumes and interest rate swaps. We saw an impact from the Ukraine, Russia conflict. In the full year, it's still expected to be around £60 million, which is roughly one point of revenue growth. And we saw some benefit from FX moves in the half. Let's turn to the strong performance in Data & Analytics On slide 10.

Over 90% of our Data & Analytics revenues are from recurring subscriptions. And these continue to accelerate growing 5.1% in the first half. Price growth is broadly consistent over the period shown. So the acceleration reflects the improvement we've delivered in sales, both retention and new sales. The balance of our Data & Analytics revenues are transactional. The growth here was lower in the first half due to the market environment and the timing of acquisitions in the prior year, we expect the second half to be similar. Coming back to the 90 plus percent of subscription revenues, the best lead indicator for these is ASV growth. And you can see how this continues to accelerate on slide 11.

I love this slide. It's the visual representation of a lot of hard work. Price growth has been consistent over the period. And so the acceleration you see is driven by better retention of our customers, combined with incremental sales to both new and existing customers. We've achieved this by focusing on our performance culture. Using data to drive customer-centric execution. To bring that to life. We've used data to describe who is using our products and how and are aligning our sales force to that with clear goals and incentives. We're shifting from product sales to selling customer solutions. And for all of our bigger customers, we have a single lead to work strategically with them. We're relatively early in this journey. And there is much more we can do, which David will get into later.

Turning to slide 12. You can see we're making good progress against our revenue synergies. We ended the first half with £44 million of run rate synergies driven by using the Refinitiv enterprise data in our index products, by the strong demand for that enterprise data from our index customers and by purchases of Yield Book analytics by our Data & Analytics customers. We expect to be at the top end of our £40 to £60 million range for the year. And are on track to deliver a total target of £225 million. Now let's look at custom margins on slide 13.

We had a good margin performance in the first half, 48.8%. And we're on track to deliver a low single digit organic cost guidance for the year. We're executing well on our cost synergy programme and are increasing our full year guidance to a cumulative delivery of £250 million run rate savings that's over 60% of our £400 million target. Looking to 2023, we're continuing to make investments to drive future growth. And while we're not immune from the inflationary environment, We're well-practiced at managing our cost base. And we're on track to meet our target margin of at least 50% on an exit basis next year.

Slide 14 shows our first half operating expenses in a little bit more detail. Aside from FX moves, there's three elements of our cost growth in the first half. Growth in ongoing operating costs, the investments we're making to accelerate growth in our business. And the benefit from cost synergies in the period. You should continue to expect low single digit organic cost growth for the full year.

Slide 15 shows the improvement in our EBITDA margin. We delivered a first half EBITDA margin of 48.8%, a further improvement on our 2021 performance. And we've done this while continuing to invest in our business, We're practiced at managing our cost base and have levers to pull And the increasing strength of our customer relationships positions us well to manage our pricing. So we're confident in delivering our exit 2023 margin target of at least 50%.

Let me talk you through some of those costs levers on slide 16. We're making the business simpler, more agile for our customers, and easier for our people. And in doing so, we're driving cost efficiency. Our global footprint gives us flexibility in where we locate our people. More than 65% of new hires this year have been made in lower cost locations. And as we build a scalable tech platform, we're systematically tackling every aspect of our cost base. We're consolidating our low-latency data products onto a single efficient platform. And we're increasing the efficiency of our Cloud estate with our new standard efficiency metrics that are identifying areas of improvement, application by application. We continue to deliver well against our £400 million synergy program. And we expect to have reached £250 million of those run rate benefits by the end of the year. So while it's not possible to predict the inflationary environment in 2023, we are able to mitigate the impact on our cost base.

Let's turn to CapEx on slide 17. This is the same slide I showed you a year ago, but we're 12 months further along in delivery and we're making good progress. We broaden the Cloud distribution of our Data & Analytics services, meeting our customers where they want to be, and providing more datasets, faster data processing, and more efficient storage and greater flexibility of analytics. We started moving servers onto our software defined network and will be halfway done by the end of the year. This is a big step forward towards cost-savings. We're making great progress in modernising and digitising our data ingestion. Rolling out new intelligent filtering and tagging tools, and increasing the automation of our data sourcing. Our new FX matching platform is being tested by some of our customers ahead of full launch towards the end of next year. And we're also making good progress on the rollout of Workspace, which David will cover in more detail later. We expect to generate over £1 billion of post dividend free cashflow this year plus proceeds from the sale of Beta in July.

As slide 18 shows this will be second half weighted due to the phasing of our dividend investments and variable comp. We're putting the cash we generate to work consistent with our capital management framework.

As you can see on slide 19, we're actively managing our capital to create value. I've already talked about some of the CapEx investments we're making to accelerate the business and increase scalability. And we're also pursuing inorganic growth where it meets our strategic and financial criteria. We closed two acquisitions in the first half. We're increasing shareholder returns. Our interim dividend is up 27%. And today we announced the start of a share buyback, which I will get into in a minute.

Slide 20 shows the progress we've made in deleveraging our business in the last 18 months. Our growth and cash generation naturally reduce leverage over time. And we've disposed off non-core assets. Leverage is within our target range and consistent with our framework, we're now in a position to return surplus capital to shareholders via a £750 million buyback. This will take around 12 months to complete.

I don't intend to go through slide 21 on full year guidance, but it gives you the specifics you need for your models. One thing I would draw your attention to is that we expect a slightly lower tax rate this year, between 21-22%.

So to end where I started on slide 22, I'm really pleased with our performance this half. We've seen high-quality, broad-based growth, which should continue into the second half, Our run rate on both revenue and cost synergies is ahead at the half-year stage. And we are firmly on track to deliver our 5-7% revenue target. And our margin guidance is unchanged. Our cash generation continues to be robust, supporting investment and returns. And most importantly, we are making great progress in building a faster, growing, more agile and efficient business. And that let me hand back to David.

David Schwimmer:

Thank you, Anna, turning to slide 24. I'm going to spend the next few minutes on how we're improving our strong current positioning through better execution and investment. And the benefits we're seeing from the ongoing integration. We are a critical partner to our customers around the world, including almost all top global banks and the vast majority of the world's top asset managers. We have strong leadership positions across the financial markets value chain. And crucially, our open approach is a model that our customers prefer as we partner with them to deliver the solutions that they need. T urning to slide 25, this is the virtuous circle I've talked about before. Data providing the insight that drives trading executions. And those executions, generating new data, and so on. But it's more than that. Customers who have known and trusted us for decades and our markets businesses are now in many cases, very receptive to the benefits we can bring to them through our data and analytics offerings. And we're also serving our data customers better, improving our content and capabilities.

Slide 26 sets out our three strategic objectives. Integrating our business, driving growth, and building an efficient and scalable platform. We are executing on this strategy and this strategy is working. Let me break that out in more detail.

Starting on slide 27, our focus on improving the customer experience and bringing rigor to how we run the business day in and day out enables us to partner more closely with our customers. We're simplifying our offering in data and analytics. distilling more than 240 individual products down into nine customer solutions centered on core industry themes. We've also brought our sales functions together with better aligned incentives. And our customer service teams have a greater focus. Within our large customer segment, this has led to improved product retention up over 350 basis points since 2020.

Turning to slide 28, I want to give you a great example of LSEG's unique positioning and how it helps us serve our customers better. There are important bank capital rules known as FRTB, or fundamental review of the trading book that will be implemented over the next couple of years under Basel III. FRTB creates challenges for banks looking to manage their capital efficiently. To oversimplify, the better the quality of the data the banks have on the positions in their trading books, the less capital they will have to hold against those positions. We've worked with our customers to develop a valuable new FRTB solution that aggregates proprietary data from Tradeweb, yield book, and swap clear. We're the only provider bringing together this range of data. And our ability to deliver the solution to customers in a flexible way is a key differentiator. Let me give another great example of what we're doing to create a more seamless customer workflow.

On slide 29, in June, we announced that FXall and Tradeweb are collaborating to link trading workflows in emerging markets, bonds and emerging markets currency swaps. This will allow market participants to buy or sell emerging market bonds and hedge their currency exposure on the same system simultaneously with efficient straight through processing. This is a powerful example of the opportunities LSEG and Tradeweb have to create value for financial market participants. We're also investing for the future to build more efficient, scalable platforms.

Turning to slide 30. In May, we announced plans to launch a new non deliverable forward or NDF matching venue in Singapore to support strong demand from the Asian market. This represents the first phase of LSEG's plans to implement NDF and spot matching based in Asia. I should add that the integration of clearing into the design of NDF matching will also enable easier access to the full book of liquidity in the venue for all participants. The venue will be open for integration testing later this year with a full production launch in mid 2023 and it is the first stage of LSEG re-platforming our FX venues to our world-class trading technology.

Turning to slide 31. We're making excellent progress on the rollout of Workspace, our next-generation Desktop solution. We are ahead of plan with over 50% of users now migrated. The Beta version of Workspace for FX trading launched at the end of last year. And all remaining user types will be live or in beta form by the end of this year. Well, there's still plenty more to do. Workspace is a part of the turnaround we are seeing in trading and banking, which is now growing for the first time in years. Importantly, customer satisfaction with Workspace is up more than 10% compared to prior offerings based on search functionality, ease of use, and value for money.

Turning to slide 32. We also continue to create shareholder value through strategic acquisitions. We completed the acquisitions of GDC, which globalises is our digital identity and fraud prevention capabilities. And MayStreet, which expands our enterprise data offering into ultra low latency services. We're beginning to see the benefits of these transactions. For example MayStreet has already onboarded eight new customers since the acquisition was announced in May. We expect to close on our acquisition of TORA shortly, while Quantile should complete by the end of the year subject to regulatory approval. Each of these is a relatively small acquisition, but by combining their capabilities with our connectivity to and relationships with customers all over the world, we can create substantial incremental value. You should expect us to continue to make strategic investments to strengthen our customer offering.

In conclusion, on slide 33, we have delivered a strong first half performance and LSEG is well-positioned. We're continuing to invest in growth to build a more agile, scalable, and efficient business, we generate a lot of cash with a strong balance sheet and an active approach to capital allocation, including the announcement of a £750 million share buyback. Our strategy is working. I'm pleased by the great progress we're making and excited by the opportunities ahead.

With that, I'll open it up for your questions. And while the questions come through, let's hear from some people across our business.

David Shalders – Chief Operating Officer and Head of Integration:

We continue with the great progress we made in 2021 on our transformation and integration journey. We've launched 24 new products this year, bringing a total of 70 since day one. And we've continued to consolidate offices four more this year, bringing a total of 27. We're really pleased with our progress.

Ron Lefferts – Group Head of Sales & Account Management

Our approach to our customers is straightforward. Understand their needs, understand their strategies, and bring our best talent, services and offerings to solve their most complex challenges. And this focus on our customer is what has been driving our outperformance in terms of our overall customer retention, as well as our growing pipeline of new opportunities.

Dean Berry – Group Head of Trading & Banking Solutions:

Over the first six months of this year, I'm delighted that we've continued to deliver positive revenue growth and increased momentum in the turnaround of our trading and banking business. We've also made strong progress with our Workspace programme. With over 50% of our users successfully migrated, including some of our first trading customers. The great news is that we continue to hear positive feedback. Our customers, especially liking the improved search, ease of use, and overall flexibility that workspace provides.

Corentine Poilvet-Clediere – Head of Repoclear, Collateral and Liquidity:

In the first half of 2022, "RepoClear is very pleased to report a very strong performance. In that first half, we also continued to partner, especially with the launch of the enriched value at risk model, which applies to the RepoClear euro segment. This model is designed to help members face what's going to be a very uncertain market. But it is already bringing significant financial benefits to the reduction of initial margins for balanced portfolios. This is breathing space for the members.

Billy Hult – President and CEO-elect Tradeweb:

FXall and Tradeweb are collaborating to develop hedging solutions that allow emerging market products to be traded more efficiently. This is a great example of how we can help our clients by looking across asset classes to deliver the best solutions to meet their needs. We're delighted to be working closely with LSEG and we're excited by the opportunities ahead. Right!

Paul Froud:

So now to the Q&A section of the presentation. So just as a reminder, again, if you've got a question you'd like to submit in writing, please use it through the webcast service. Please don't message me directly, I can't pick that up. You can also dial in and use the phone lines and put your question in person. I can see that we've got some written questions already submitted and we're going to go to those in a moment. And then we will get to the people on the phone lines.

So with that, let's start off with the first question I can see is coming up on costs and it is, you are restating the low single digit guidance for 22 despite the high inflation you'd be commented on. Is that right? And can you also comment on the guidance for costs in 2023?

Anna Manz:

Thanks Paul. So yes, we've restated our 2022 guidance for low single-digit cost growth. And that is because while we do experience some inflationary pressures, you can see that we're very well-practiced at managing the efficiency of our cost-base to offset that. So 2022 guidance unchanged. With respect to 2023. I'm not going to give you a precise answer because of course, it's hard to know what inflation we will see as we get towards 2023. But I can tell you what I am confident of. I'm absolutely confident of the 5-7% revenue growth. And I'm absolutely confident that we'll hit our exit run rate 2023 margin of greater than 50%. And that's because the investments that we've been making in our customers, the customer experience and product means I think we're well positioned around price. And also because you can see that we're very well-practiced at managing our cost base and using efficiency to offset inflation. And you should expect us to continue to do that.

Paul Froud:

Thanks, Anna. Next question is on Workspace. So the question here is the roll-out of Workspace seems to be going better or maybe faster than you thought originally. What does this acceleration mean to the overall timeline for the migration and the turning off of the technology?

David Schwimmer:

Thanks Paul. So as I mentioned in the presentation, as we just heard from Dean Berry, our head of trading and banking with the rollout of Workspace is going very well. In fact, it is a bit ahead of schedule. We're now about 50% through the migration. At the end of last year, we launched the Beta version of Workspace for FX trading. By the end of this year, we should have all user types for Workspace, either launched or in beta testing. And so specifically, that means we should see in beta versions by the end of this year Workspace for commodities, equities, and fixed income trading. So looking forward to that. In terms of banking, we've also seen really good progress there and the migration of customers for banking. And we've seen very good feedback. Dean touched on this as well, where we've seen customer ratings moving up over 10% in terms of functionality, usability, value for money. So great to see that. Now we've always said that this was going to be a multi-year journey. And we still have thousands of users to migrate and we have to work with our customers to make sure that that works on their timeframe. So plenty of work yet to do here, but very pleased with how the rollout is going so far. The last point I should just make is that we've seen the higher growth in D&A and we've seen the turnaround in trading and banking without a material benefit from revenue from the Workspace rollout. So real confidence both in terms of the growth in D&A, the trading and banking turn around and we'll continue focusing on the continued progress with Workspace.

Paul Froud:

Next couple of questions obviously had chance to crawl through the detail of the release. So I think it is for Anna. First of those is on the cost of sales. We saw an increase in Q2 versus Q1. So what was the driver behind that? And what level should we be modelling for the second half of the year? So you first.

Anna Manz:

Sure. So the thing that moves around in cost of sales is of course, the revenue share associated with SwapClear. And of course, as you see SwapClear performance improves, you see that flow through the revenue share. It is quite lumpy as are prior comparators, which is why you see the movement in Q2. In terms of guidance, what I would do is I take the full first half rather than than Q2 and use first half as, as, as something to think about for the second half.

Paul Froud:

Okay. And then the second question is, can you, sorry, on the balance sheet, we saw a negative working capital movement in the first half. And what's the confidence that this will improve in the second half?

Anna Manz:

Sure, yeah, two factors here. Firstly, FX moves, of course impact working capital. And then secondly, the nature of our sales cycle means that we always have higher working capital at the end of the first half versus the full year. So yeah, it's phasing and timing. And you should expect to see this normalise towards the full year.

Paul Froud:

Okay, thanks. There's a couple more we'll go to now on the written submissions and then we'll open up the phone lines. So the next question is, since the closing of the Refinitiv acquisition, how much have you invested into Refinitiv to bring it to where the business should be and how much more investment is going to be needed incrementally.

Anna Manz:

Sure. So what we've guided on is CapEx, and we've guided to £650 to £700 million for last year, this year, and looking forward to next year. Now that is a complete business number and I'm not going to break it out between legacy, Refinitiv and legacy LSEG, because this is an integration and frankly a transformation. And so we're investing across the business as a whole to bring it together. And, you know, I'm really pleased with the progress we're making on that investment. I spoke just now about how I'm moving some of those CapEx projects forward and how we're starting to see some of those benefits flow through. And I think you see that in our strong top-line performance today and also our strong ASV metric. So really good progress and I'm pleased with where we are.

Paul Froud:

Okay, I'm going to continue on a similar vein. Any data on Workspace in terms of the responses that you're getting. You mentioned that you've got some good response on the banking side from clients. Have you got any feedback from Workspace users in other parts of the business? And, then secondly, on the synergy delivery. So let's do that one first and then we'll go back to the synergy question.

David Schwimmer:

Sure. So as I mentioned, very strong feedback in a number of different areas just to break that out a little bit more. So I touched on the 10% plus customer ratings with respect to banking. We're also seeing positive feedback in other areas. RPM research and portfolio managers, on Workspace for FX trading. As Dean touched on in his video clip there, good receptivity there. In wealth, It's actually been interesting. We've seen very strong receptivity in the Asian market and a little weaker in the US market. And so that's something that we're, we're focused on addressing. The wealth market tends to be a regional market. But again, very strong feedback there, very strong receptivity in Asia. So overall, I'm really pleased with how Workspace migration is going. As I mentioned earlier, we're a little bit ahead of schedule and look forward to continuing to deliver on that.

Paul Froud:

Okay. I'm gonna go to a similar or related question before I come back to the synergy question. So surprised to see the really good performance in trading and banking. Great to see that. Is that due to the good reception of Workspace, or are we seeing other effects here as well?

David Schwimmer:

So as I mentioned earlier, we're not really seeing a material benefit yet from Workspace. And that's just in terms of where we are in the phasing of the roll-out. What we are seeing in terms of trading and banking is a much stronger alignment with our customers. And we talked about this a little bit after the first quarter, where we have gone through the process of really having a much better understanding of what our customers are using the product for. And then getting our sales team or customer service team and our product team aligned with those customers. So that has helped to improve retention. We have also improved the product capability on Workspace and putting for example products like Yield Book and making that available on Workspace and in trading and banking in Eikon. So that is also helping. Other areas where we expect to see future contributions are continued investment in the content, continued investment in the capability, continued rollout of Workspace. And then I should also mention TORA, our order and execution management system that we announced the acquisition of a few months ago. We have not yet closed on that, but look forward to closing on it very soon. And when we integrate that into trading and banking capabilities as well, we also expect to see that with an additive performance, So, really positive trajectory and feeling good about it.

Paul Froud:

Okay, so let me just take the one question was about to start and we'll answer this one and then we'll go over to the phone lines because I know some people have been waiting for a bit. And then I've got a few more written ones to go to. So the question is around synergies, great that you're running ahead of plan would this suggest that there is now going to be upside to the 2025 targets even if you're not actually doing a change today?

Anna Manz:

Yeah sure. So as you know, we increased our £350 million target to £400 million at the year end. And we continue to be really focused on delivering the synergies as quickly, as efficiently as possible. And I am thrilled with the progress we're making. We're not changing our targets today. So the 400 is the right target. But you should expect that we continue to look at the efficiency of our cost base and what the opportunities are.

Paul Froud:

Okay, right. We're going to open up to the phone lines. I think we've got around about three people at the moment. So if I open up the phone lines when we go to the first question, please. Thank you, everybody. If you would like to ask a question, please signal by pressing star one on your telephone keypad and the reminder, participants can continue to submit questions in written format, either via the webcast page by clicking 'Ask a Question button' or via email to the LSEG Investor Relations team at IR@LSEG.com.

Operator:

And the first question is coming from the line of Kyle Voigt, KBW. Please go ahead. Your line is open from now.

Kyle Voigt:

Hi, good morning. Just a few questions from me. First question. The trade and banking solutions, constant currency revenues grew by 0.7%, excluding the impact of the Russia, Ukraine conflict, I guess has that year-on-year organic growth metric, excluding the Russian, Ukrainian conflict trend positively, positively from 1Q to 2Q of this year. I'm just trying to get a sense of the exit rate on that heading into the back half of the year.

Second question is also related to Workspace. You note it's customer satisfaction is up for those customers that have migrated. But can you just speak a bit more about the pricing impact as the migrations happen? I think there is some desire to move more of those contracts to Enterprise licenses, but maybe just a progress update there on how the migration impacts revenues more broadly and from a pricing standpoint.

Then last question from me is around NTI is quite strong in the quarter. Sounds like that was mostly driven by collateral balances and your guiding this back lower in the second half. Just wondering if the guidance is due to expectations that the collateral will move lower or was there also one-off benefits on the yield that won't be sustainable into the second half as well, thank you very much.

David Schwimmer:

Thanks Kyle. Turn it over to Anna to take a few of those.

Anna Manz:

Alright, so trading and banking, I'm really pleased to see this business and growth and all of that effort that has gone into great execution is what is driving that acceleration. And you should see that acceleration continue systematically as we rollout Workspace and as we continue to really, really focus on that customer execution and making sure that we're delivering for our customers. So I think the way to think about it is consistent, steady progress.

Workspace and pricing - So firstly, I'm really pleased that we're halfway through our migration onto Workspace. And customer retention is only increasing, which just goes to show that we're executing on this really smoothly. And it's been well received by our customers. In terms of pricing impact. Yes, we have talked about enterprise pricing. That's a different thing. So where that is appropriate for our customer. And they are buying a large range of products. And we think that it is the right thing for a really strategic medium-term relationship, then we're using enterprise pricing. With other customers, it remains appropriate to price in other ways. But net-net, I think the move to Workspace and the progress we're making in that business, I think positions us really well in strong strategic relationships with our customers, which as I said earlier, means that we can take price with the appropriate judgment around those medium-term strategic relationships. In terms of upselling, you'll see us continue to add new functionality. I mean, David talks about the introduction of Yield Book. Those are all opportunities to sell more product.

And NTI, we do have very high collateral balances currently, but we would expect those to reduce as we move through the second half. The biggest driver of NTI is the size of the collateral bank balance. And it's that reduction in collateral balances, which is why we're saying you'd expect it to sort of tail off from here. I think that's the key thing for you to focus on.

Kyle Voigt:

Great. Thank you very much.

Paul Froud:

Thanks.

Operator:

We will go to the next question, please. The next question is coming from the line of Michael Verner, UBS. Please go ahead.

Michael Verner:

Thank you very much and thanks for the opportunity to ask some questions. The first one is on the costs in this half. In particular, the £59 million benefit coming from FX to the cost base. I was just wondering as to kind of what happened this past quarter. I mean, I think you said that the impact from these derivative instruments have been lower in past periods. I was just wondering what happened particularly in June that kind of sparked or triggered this £59 million benefit. And then ultimately is this something where just to understand the mechanics behind this, is this something where an FX derivative is embedded into a contract so that you have US dollar exposure instead of local currency exposure. If you could just better explain that that would be helpful.

And then second and maybe a question more for David, but you talked about investments and M&A and I'm just thinking about in terms of the free cashflow you're generating and how that gets allocated between buybacks, M&A, and dividends. When you look at the M&A universe or the target universe, I mean, is this one where the deals that we have seen you do where we're opportunistic, are they front end loaded and you feel like you're in a good position now or is this something where if you had more access to capital, you would be more active in the M&A sites. Any thoughts there? Thank you.

David Schwimmer:

Thanks, Michael. I'll turn it over to Anna for the first question and then I'm happy to take your second one.

Anna Manz:

Sure. So let me, let me just start with constant currency because really that is the underlying driver of our costs and the most important piece so there we are reiterating our full year guidance of low single digit cost growth. And our constant currency cost growth in the first half is 4.3%. Now what you're calling out is we had a material FX impact on our cost performance in the half. We called out £59 million. So I will do this very briefly. And what I would suggest is you pick up on the detail with IR because otherwise I'm going to get into some very boring technical accounting. But really what's changed is we saw some very extreme FX movements in the period. And that's what's different. And that's the only thing that's different. So it's the scale of the FX movement that has caused what is a non-cash balance sheet revaluation. The very brief, um, explanation here is we have some legacy contracts that predate our ownership, and this is not something we're perpetuating going forward, which are in a different currency to the contracting entities. And that gives rise to effectively an FX embedded derivative which gets rebalanced at the ballot, revalued at the balance sheet date. We've always had them. The only reason that they're particularly visible now and we've called them out to help you understand things, is the sheer scale of the FX moves.

David Schwimmer:

So on your question on M&A and how we think about it. So our approach here has actually been pretty consistent. We and the, the M&A that we've announced over the past seven months or so is a pretty good indication. We look for opportunities that can be a strategic enabler or add a strategic capability to our business. We can plug them into our global distribution, into our global network of relationships and create a lot of incremental value. And so that's what we're seeing with GDC and MayStreet. That's what we expect to do with TORA and Quantile. I would say in all of these circumstances, we evaluate the strategic benefits and the strategic opportunity as well as the financial returns and the financial benefit. And we are very disciplined on both of those. And there are a number of opportunities that we have looked at and not done. So I would say, if you just take a step back, you put it in the broader context of the overall business, we'll continue to look for opportunities that can fit those criteria, those strategic criteria, and those financial criteria. I would say that the business generates a lot of cash. We have reduced our leverage, raised our dividend, announced the buyback today and funded the acquisitions. So this is not a capital shortage in any sense of the phrase there, we have the capital. And then we will also be very thoughtful about what it makes sense to do. So that's probably the best way to answer that and you should expect us to continue to evaluate such opportunities.

Michael Verner:

Thank you, David.

Paul Froud:

Thanks Mike. We take next two questions and then we'll come back to the written ones. So can you open up the line for the next caller? Thanks.

Operator:

Absolutely. So the next question is coming from the line of Andrew Coombes, Citi. Please go ahead. Your line is open.

Andrew Coombs:

Good morning. Two questions from me, please. Firstly on the synergies. You're clearly running ahead of expectations for 2022. You haven't changed your guidance on cumulative synergies out to 2025. So does that mean that it's just a faster achievement of what you would have already identified, rather than identifying incremental synergy opportunities. And perhaps you could just provide a bit more colour on exactly which of the synergies you've managed to achieve faster than expected?

And then my second question was just on excess capital in that you're down for 1.9 times leverage. The £750 buyback is explicitly linked to the BETA+ divestment. I guess in usual course of business, you did have a slide on this, but what it, how do you weigh up the opportunity between buybacks, M&A, and so forth. Thank you.

David Schwimmer:

Thanks, Andrew.

Anna Manz:

I'll do the first one. So synergies. Yeah, we are running ahead about which I'm really pleased. And what that talks to is great execution against our synergy programme. No, we've not changed our guidance out to 2025. If you remember, we changed it at the full year from £350 to £400. And £400 remains the right number. It's coming from faster delivery of the programmes that we already had in place. But you should expect us to be continually looking hard at our cost-base to see whether there are further opportunity. What's driving it? We've consolidated 31 offices now across the globe. We're consolidating datacenters, making really good progress there. So when our 60% of our datacenters done, we've gone through every one of our procurement contracts. We haven't done all of them yet, but we're making really good progress across that. And of course, the fourth lever is consolidating our organisation and removing duplication across many of the functions as we do that. So those are the big levers driving synergies. They continue to be the big levers. We're executing across them really well.

David Schwimmer:

Thanks Anna. Andrew, with respect to your question on capital, our approach here has been consistent and we will continue to actively manage our capital allocation and the business generates a lot of capital. So far as we've talked about, we have very successfully reduced our leverage. We've raised our dividend, we've done the internal investment, the organic investment, and funded that, and we have funded the M&A as well. So we are taking an active approach here. We have capital at this point that it certainly makes sense to return to our shareholders through the share buyback. We'll continue to evaluate the situation as we go forward. And that includes all of these different aspects that I was just talking about in terms of the internal investment, the M&A opportunities, as well as potential shareholder returns. So consistent approach and we continue to manage it actively.

Andrew Coombs:

Thank you,guys.

David Schwimmer:

Thank you.

Paul Froud:

Thanks, Andrew. So one more question on the phone lines and then back to the written ones. Next question.

Operator:

Alright, so the following question is coming from the line of Philip Middleton, Bank of America. Please go ahead.

Philip Middleton:

Yeah, good morning and thanks for the call. You're still forecasting 5-7% revenue growth. You've done 7% this half. Your ASV, which is supposedly a forward-looking indicator, is going up and up. You're bringing in more revenue synergies. You're talking very positively about new things that you hadn't even talked about when you constructed your original merger case, all of which is great, but it does leave you to ask, is 5-7% still the right guidance?

David Schwimmer:

So Philip, thank you for the question. And I'll echo what you were just saying and that we are very pleased with the performance. And we're very focused on continuing to execute, continuing to deliver. At this point, no change in our guidance, but there's also no shortage of ambition on this team. So we look forward to continuing to execute, continuing to deliver on our targets. And if there's any additional communication, will certainly share that with the market. But at this point, looking forward to continuing to deliver and Anna, anything you would add?

Anna Manz:

No.

Philip Middleton:

Okay. Thank you.

Paul Froud:

Right. So back to the written questions. The first one of those is back to the share buybacks. So £750 million return is very welcome. A clear recycling of the Beta proceeds. Give them the context of £2 billion plus annual free cash flow. And your leverage is back in the range. Can we think about directed buybacks, particularly if the anchor shareholder that you have will start to sell down at the beginning of next year in as a party original agreement.

David Schwimmer:

Maybe I'll just I'll answer the directed element of that and then Anna can talk about the broader forward look. So directed buyback is a tool in the toolkit in the UK markets. You do need shareholder approval for that. We don't currently have that construct. But we could certainly put that tool in our toolkit going into next year. But overall, in terms of the forward look, Anna do you want to touch on that?

Anna Manz:

Yeah. Look, I'm not going to make any commitments about ongoing share buybacks and you shouldn't put anything in your model. But what I would say, as David already has is you will see us be very active in the management of the cash we generate, in terms of investing in the business, M&A. And if we don't have a requirement for it to return it to shareholders.

Paul Froud:

Great. Okay, Two more questions on the written side. First of those, noted Anna's comments around the consistent pricing. So can you talk to more detail about the price increases that you have implemented in particularly in Data & Analytics in the first half and what's the outlook on pricing in the second half?

Anna Manz:

So we take price annually on our subscription revenues in Data & Analytics. And I would say historically that's been low single digit price. Through the periods that we've, we've shown in the chart I showed to you earlier. Equally, we've been making significant investment in improving the product offering, improving the customer experience, and improving our execution. And you can see the impact that it's having in terms of our ASV metric, in terms of our subscription revenue sales, and we're building stronger relationships with our customers. And so, yes, I think that positions us to take price, an appropriate price for the current environment, but also appropriate price with judgment in the context of medium-term strategic customer relationships.

Paul Froud:

Okay, change of tack. On slide 29, you spoke about the linkages between Tradeweb, FXall, or on hedging solutions. And that's interesting. Can you talk more to any other future opportunities that are there to leverage the Tradeweb, connectivity, the capabilities, and the data.

David Schwimmer:

Sure. So maybe it's worth just highlighting to start off the answer here, that when we announced the transaction, the acquisition of Refinitiv, there were no synergies in our projections there associated with Tradeweb at all. And so as we have worked through our integration of the Refinitiv business, We have also been investing in our relationship with Tradeweb, getting to, having the teams get to know each other better. And as we have continued to develop that relationship, we're discovering a number of different areas where it can make sense for us to do things together that could create value for Tradeweb's shareholders, and LSEG's shareholders. I think the announcement that we did several weeks ago with respect to TradeWeb and FXall working together is a great example of that. Bringing our two businesses together for the benefit of our customers. And there are a number of other conversations that we're having where we will see if we can do other things. And that may be on the revenue side, that may also be on the cost side. Nothing further to announce at this point, but it's a strong relationship and growing stronger.

Paul Froud:

Right David! We've got them all written questions, so we're gonna go back to the phone lines and take the remaining questions we've got there. So if I can go back to the operator. There's no need to remind us about the process. If you can just open up the phone line to the next question. Thank you.

Operator:

Absolutely, thank you. So the next question coming from the line is of Arnaud Giblat, BNPP, please go ahead.

Arnaud Giblat:

Yeah, good morning. I just want to quick follow-up some. Firstly, on the cost. You said you're running it on cost synergies. Yet there's no change on cost guidance for 2023. So is the other piece of the puzzle here just just inflation or is there something else going on? And does that have a bearing on its is mainly inflation where whereby there's a bit more uncertainty as to whether you, as to what the costs might be in 2023. Previously, you had said low single digits, 2023 as well. So I'm just wondering if it's just inflation that's, that's happening here.

And secondly, I was wondering on the rollout of Workspace, I think previously you talked about 2024 targets you are running ahead. Could you perhaps qualify that from a timelines perspective a bit more? Thank you.

David Scwhimmer:

Sure. Thanks, Arnaud. Anna why don't you take the first question and I'll answer the second one.

Anna Manz:

Yeah. So on synergies, yes, we have increased our synergy guidance for the full year. Of course, remember that is a run rate synergy number. So depending on the timing of the delivery of those synergies, you don't necessarily get the exact same benefit in terms of the in-year benefit. So what are the moving parts of costs? I would say across the board, we've looked for further efficiencies as well as through synergies to offset inflation. And, and I think this is really important. We are continuing to invest over five points of growth in cost. In order to deliver three things or do three things really invest in the tech required to support growth So you're seeing investments go in there, like incremental Cloud investments to support some of the changes we're making. You're seeing other areas of tech investment go in in support of new products and some cyber investment. You're seeing investment in straight revenue growth in the context of additional salespeople to deliver our synergies and other growth. And you're seeing investment go in in Tradeweb to support their very fast pace of growth. So the way I'd look at it is actually it's a really nice shape of cost. We're investing in the things that we need to invest in to make our business stronger growing forward. We're managing our cost base hard in terms of running the business better and driving efficiencies. And we're driving those synergies.

And as I look forward to 2023, I'm not gonna be precise on cost guidance in 2023 because it's hard to know what inflationary environment that we'll see. But I think what you, what I will say and what I think you should take confidence from in terms of seeing our 2022 performance is we're well-practiced at managing our cost base. And there are areas of efficiency that we can drive. And you'll see us be very active in tackling those areas in order to impact, mitigate the impact of inflation. And the other point I'd just remind you of, I'm really confident that we will be in line with our target of at least 50% margin as we exit 2023.

David Schwimmer:

Thanks Anna. So on your question on Workspace and timing going forward, as I mentioned earlier, we're, we're very pleased with the progress we've made so far, the migration and about 50% through that. But I also mentioned earlier, this is a multi-year process. And we still have thousands of users to work through and that's working with many customers. And we have to work in many cases, we have to work on the customer's timelines because our products are so embedded in their workflow. So I'm not gonna put any specific time-frame out there. At this point, I would say we multi-year process, we're feeling good about the progress we've made, but plenty of work to do in terms of the timeframe and the customer migrations that we still have ahead of us.

Arnaud Giblat:

Thank you.

David Schwimmer:

Thanks.

Paul Froud:

Next question, please.

Operator:

Next question is coming from the line of Ben Bathurst, RBC. Please go ahead.

Ben Bathurst:

Morning, everyone. Thanks for taking my question. I have one on the market backdrop, if I may. So many of your buy and sell customers have probably enjoyed stronger financial performance thinking over the period of covering the pandemic, during which time, I guess you've also shown momentum. But with your clients' revenues potentially falling and costs increasing now, I just wondered, are you noticing any recent evidence of a change in tone in discussions with them, perhaps getting more resistant to price increases or even cutting back on services?

David Schwimmer:

Thanks for the question, Ben. So The short answer to your question is no. But just to put a little context around your question, I know there's this sense that we've had this fantastic environment for a number of years and then now it's gotten really terrible all of a sudden. But for many of our customers, It's been a really tough environment for many, many years. And so if you think about for example European banks in the context of zero or negative interest rates. That has been a very tough, challenging environment for them for several years. And we have worked with those customers in a strong partnership manner to help them, in some cases reduce their costs and do more with us. I just mentioned that to I think it's important to keep this kind of environment in context where for a number of our customers actually, as interest rates go up, it's actually a healthier, more attractive environment for their core businesses. But again, to come back to your original question in terms of are we seeing any any any negatives or any pullbacks from customers? No.

Ben Bathurst:

Thanks.

Paul Froud:

Thanks Ben. Next question.

Operator:

Next question is coming from Ian White, Autonomous. Please go ahead.

Ian White:

Hi morning. Thanks for doing the presentation. Just a few follow-ups from my side, please. First up on Post Trade and RepoClear and EquityClear. The release you've put out points to those businesses have seen sort of limited benefits due to increased competition. Can you just say a bit, a bit more about that, please, in terms of what specifically you're seeing there. And whether that is manifesting through sort of reduced market share or downward pressure on pricing, please? That's question one.

Just secondly, also on post trade. Can you just maybe help us a little bit to think about when we're looking at year over year growth in OTC derivatives and the NTI. How much of that is what you might think of as sustainable, secular growth, and how much of it might be more cyclical and really a product of the sort of very favourable interest rate environment in terms of the rate volatility, please.

And the final question, can you just perhaps provide a bit more colour on what might be coming next in the wealth business. To drive the group up towards the mid single digit revenue growth target there. My understanding is that the Workspace rollout might be a bit more advanced in wealth. Just wondered if there were any specific milestones you were looking at there that might lead to a further sort of step change in performance over the next 6 to 12 months. Thank you.

David Schwimmer:

Okay. Thank you. I'll take your first couple of questions and then if you want to touch on wealth and how we've seen that trajectory go. So we have seen actually from a volumes perspective, very strong performance in RepoClear and EquityClear. There has been just to answer your question very specifically, there's been very competitive environment, particularly around pricing in equities. And so that's, that's the answer there. But Repos continued to perform very well, both from a volume perspective but also pricing perspective.

And then your question on the OTC space and NTI secular growth versus the interest rate environment that we've seen in that business. We saw very strong growth for a number of years in an environment when the interest rate markets and interest rate volatility was not particularly conducive to a lot of activity in terms of trading or positioning or hedging of interest rates. As we now see some of the interest rate uncertainty that is helpful and that is conducive to incremental trading. But I would say I wouldn't attribute it to. This is so solely a kind of a market driven growth in the business because that business has continued to grow over a number of years.

One other point, I should just make is that in terms of new clients signing up for that business, we have seen more new clients signing up than anytime since 2017, I believe. So that's a long way of saying that, yes, secular growth and cyclical benefits right now given the interest rate uncertainty. Over to you on the wealth question.

Anna Manz:

Sure. On wealth, what you're seeing is steady improvements in performance. And that is coming through better execution, rollout of the wealth workspace and better meeting our customer needs really. And in the quarter, I just remind you that wealth was impacted by the impact of Russia, Ukraine. So if you take that out, we're already growing over 3% now for the half. So we're getting into that mid single digit range that we should be in, as we said, we would and you'll see us continue to bring the focus there really to keep, keep doing more of what we're doing.

Ian White:

That’s great Thank you.

David Schwimmer:

Thank you.

Paul Froud:

Thanks. The next question, please.

Operator:

The next question is coming from the line of Russell Quelch, Redburn. Please go ahead.

Russell Quelch:

Yeah. Good morning. And thank you for having me on and thank you for answering my question regarding pricing that I submitted in the written questions. I just wanted to make sure I understand your response correctly. And am I correct in thinking that you may be able to do more than low single digit price increases going forward given the inflation backdrop and the improved product offering.

My second question is, I also noted your comments on levers in place to manage cost pressures going forward. I wondered if you could just talk to them in more detail, please.

Anna Manz:

Sure. So obviously, in a highly inflationary environment, we will look at our pricing and make sure that it is appropriate for the environment. So, we won't just stick to your historic low single digit. That said, you will see us exercise judgment around that, in that we've got medium-term strategic relationships with these customers. These are not deliver a product and go relationships. These are 3, 4, 5 year relationships where we're working with big strategic customers against their roadmap with our products. And so what you'll see is us absolutely price appropriately for the environment but with judgment so that it feels, it feels balanced in the context of that strategic relationship. And I think we're well-placed to do that.

In terms of levers on cost. Across the group, we are working to simplify. We've brought together two businesses. And neither of those businesses were particularly simple in terms of the underlying processes. And so there's quite a lot of opportunity for us to take legacy complex processes and simplify them and make them much more highly automated. And take out multiple steps, and that has multiple benefits. It doesn't just take out cost and it does take out costs. So that is a good thing. But it also makes us much more agile in responding to our customers. And frankly, it makes it easier to get things done for our people. So one of the biggest drivers as I look forward at the cost base is around those end-to-end processes and how we consistently drive efficiency and remove some of these areas of complexity.

Russell Quelch:

Great, thank you.

David Schwimmer:

Thank you.

Paul Froud:

Thanks. I think we've got one more question in the queue for the phone line, so we'll take that one and then I've got one more written question to finish off with.

Operator:

Absolutely. So our last audio question is coming from the line of Benjamin Goy, Deutsche Bank. Please go ahead.

Benjamin Goy:

Yes. Hi. Good morning. I have one question left and it's on customer retention. You mentioned that 98%, which is obviously a strong level. I was just wondering, can you improve that even further, slightly and improve revenue growth or is the new growth going forward much more driven by new clients pricing and so on? Thank you very much.

Anna Manz:

Sure. So that customer retention number is about the return, is obviously about the retention of customers. Internally, we also measure product retention, which is a more granular measure, and looks at the retention rates of each individual product. And as we look at product retention, we definitely see areas where better execution and better customer understanding and improving our products can continue to drive retention up.

Now as we look forward, what does that mean in terms of our growth? It's going to come from new sales, new sales to existing customers. So that's increasing the offering that they're taking, new sales to new customers, you see that in our real-time business and elsewhere. And it's also coming from improved product retention across the board. And of course, we've already talked about pricing. So all of those are a very balanced set of levers, which makes me feel very comfortable about the broad base of our growth.

Benjamin Goy:

Thank you.

Thank you.

Paul Froud:

Thanks, Ben. That finishes the phone lines. So one more written question to finish off with it. So slightly technical one. You talk about the £59 million of FX impact on your operating expenses in the first half. Is there a particular sub-line or the OpEx where this hits? And then more broadly with a number of adjustments that are being made. Would it be fair to take that and any others as non underlying costs?

Anna Manz:

Good questions. So it's probably worth going through the technicalities of the £59 million with IR offline and I won't go into more detail on it here. It is an underlying cost. We try very hard to inline with accounting standards, keep as much as possible in underlying whilst making it clear so that you can get your models right. Because I think lots of stripping stuff out below the line can be confusing. So no, it is an underlying cost because it relates to our ongoing business. But we've called out to make it really clear for you so that you can adjust for it. And it would be worth going through the detail with IR because I'm not going to go through the technical accounting now. But, if you've got questions about it, absolutely. Then I'll walk you through it. r

Paul Froud:

Right! Thank you Anna! Thank you, David. That brings us to the end of the Q&A session. So as Anna's just said, there's lots of technical questions that IR would be very happy to take those. We are gonna be around obviously after this call to take your questions that you've got. But thank you very much for joining the call. Thank you so much for listening and for your questions. We're going to finish there and we'll speak to you at some other point. Thank you very much.

David Schwimmer:

Thank you all.

Anna Manz:

Thanks.