LSEG Q1 2022 Trading Update - 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 everyone. This is Paul Froud. Welcome to the London Stock Exchange Group, first quarter 2022 update. I'm pleased to be joined on the call by David Schwimmer, the group CEO and Anna Manz, the group CFO. As is normal for our quarterly releases, Anna and David will make some just very brief introductory remarks around the revenue performance of the group. And then we'll open up to Q&A. So there are two ways to ask the questions. You can send one in writing by following the instructions on the webcast page. Or alternatively, you can ask a question over the phone using the number provided in today's release. We've provided a few slides to accompany the call. If you haven't got these already they're available for download from the Investor Relations section of the London Stock Exchange Group website. So with that, let me hand you over to David.

David Schwimmer:

Thank you, Paul. And good morning. Turning to slide two. I'm pleased with our first-quarter performance. We delivered a continuation of last year's strong operating trends. Our integration is proceeding well, and we remain on track to achieve all of our financial targets. As a group, we are well-positioned for the current uncertain environment. Nearly three-quarters of our revenues are recurring, generated from a diverse range of products, customers, and geographies. Most of our transactional revenues are from areas of long-term secular growth that also benefit from volatility in the short-term. Tradeweb and SwapClear in particular, stand to benefit from a more uncertain interest rate environment. We feel very good about this business mix.

We are investing to accelerate growth and bring further scale to our operations. And we are continuing to reposition our portfolio, further expanding our capabilities and driving incremental growth. In the first quarter, we announced the acquisition of TORA and GDC. We will provide financial details on those acquisitions when they close. We also announced the sale of the lower growth BETA business. We will return a significant proportion of the net proceeds to shareholders following completion of that divestiture in the third quarter.

Since the start of the Ukraine-Russia conflict, our focus has been on the well-being of our people in the region. In the first quarter, we also took actions in response to this conflict that will have a small financial impact on our business. Anna will take you through that in a moment. But there is no change to any of our financial targets. I'm pleased with our performance and feel very good about the positioning of our business. And with that, over to Anna.

Anna Manz:

Thanks David. And good morning. It's been another strong quarter, as you can see on slide three. We shared with you the actions that we're taking to run our business better at the full year. And they're continuing to drive our performance. Now as usual, I'm going to focus on constant currency numbers, excluding last year's deferred revenue haircut. As this gives the best insight into our underlying performance. Total income grew 6.3% in the first quarter. And this speaks to both the strength of our business in the current environment and the steps we're taking to improve execution.

Data and Analytics grew 4.5%. The vast majority of revenue in Data and Analytics comes from three businesses, Trading and Banking, Enterprise Data and Investment Solutions. And I'm going to focus here. Trading and Banking had a good quarter driven by the actions we're taking to get closer to our customers and service them better. Excluding the impact of the Ukraine- Russia conflict, we delivered positive growth, the first time this business has grown in many years. Our Enterprise Data business continues to accelerate. Better customer service has driven strong sales and record retention in our real-time business. And we've continued to gain share in pricing and reference services, in part by leveraging the combination with the FTSE Russell. And we maintain strong growth in our Investment Solutions business, with 10% growth in index subscriptions in the quarter.

Moving to Capital Markets, which grew 12% in the first quarter. The largest driver was Tradeweb, which saw another quarter of double-digit growth, reflecting market share gains and the continued expansion of electronic trading, particularly across fixed income.

Post Trade delivered strong, broad-based growth up 7% with record activity in uncleared swaps, repo clearing and record client body ins at our effects clearing business.

As a group, we saw a small impact from the Ukraine-Russia conflict. In this first-quarter, it reduced revenues by £6 million with a full year impact of about £60 million. That's in line with the guidance we've given you before. The first-quarter ASV metric already reflects the full annualised revenue loss. And you can see this on slide four.

This is a really important slide as it shows the underlying trend of the recurring revenues in our Data and Analytics business. And you can see that our underlying ASV growth accelerated to 4.9%, up two percentage points from a year ago and a further improvement in the quarter. As well as delivering a strong financial out turn. We've also made good progress on a number of initiatives which will drive future growth.

The integration continues well. Customers are benefiting from a more seamless experience across our products. And we're strengthening relationships by providing solutions across the trade lifecycle. As a result, we've ended the quarter with £25 million of run rate revenue synergies, putting us firmly on track to achieve our full year target of £40 to £60 million. And we continue to make good progress towards the cost synergy target we set for 2022. In addition, we're continuing to invest in the initiatives which will deliver long-term growth, scalability and agility of our business. So in short, it's been another strong quarter. Better execution is improving the quality of our business. And you see this in today's financial performance, and in our forward-looking ASV metric. The investments we're making will drive faster growth and better margins over the longer term. We're positioned well for the uncertain environment. And we're on track to deliver all of our financial targets. That's revenues, synergies, costs and margins. And with that, back to Paul.

Paul Froud:

Thanks, Anna. So we are into the Q&As now. So as we said at the outset, we've got a couple of questions that have already come through in written form. So we're going to deal with those ones first. The phone lines are open to take the questions. I think we've got three or four people in the queue now already. So do add your name to that if you want to put a question in person, but let me start with the written questions that we've got so far.

So let me take the first one and that is "We've had a few puts and takes in the first quarter, including the impact of Ukraine and Russia. So will you be resetting any of the targets and in particular the 5 to 7% revenue growth target?"

Anna Manz:

No. All of our targets are unchanged and that includes the revenue growth target. Again, we're really pleased with the progress we're making on the integration, I think you can see that in our strong 2021 performance and also strong performance this quarter. So no change to any targets.

David Schwimmer:

Let me just add to that as well. As Anna said, we're very pleased with the performance and the broad-based growth that we've delivered. Almost three-quarters of our group revenue is highly recurring. We've got subscription-based revenue. So you can see the growth that we are driving in that business, that book of business via our ASV growth metric. We've seen upside from the market volatility, particularly in Capital Markets. And we're investing to further improve the scale and the efficiency and to develop new products. So, with the diversity of revenue by product, by business, by geography, the group is well positioned for further progress.

Paul Froud:

Thank you, David. You mentioned ASV then and that's the subject of the next question we've got. So it is: "Well done, great progress on ASV Can you tell us what's driving that? Is that price, or is that other? And now has the baseline been reset at 3.6%?"

Anna Manz:

I'm really pleased with the ASV progress, just to say it again, because it is a relatively new metric. This is the book of recurring revenue of our business at the end of Q1 in D&A versus the same period a year ago. And as I said on the call, we've seen a two percentage point improvement versus a year ago, which I'm really pleased with. And I'm also pleased with the momentum that we've seen on an underlying basis in this first quarter of a further 30 bps versus the Q4 point.

So what's driving that? A combination of improved sales, improved retention, and price. So all three levers, and actually the biggest shift over that 12-month period is really coming from sales and retention so it talks to the underlying health of the business. Of course, we've exited Russia and we've exited, we've stopped trading with sanctioned entities. And that's had an immediate impact on our ASV metric, dropping it to 3.6%, and we'll show you our performance going forward, both on a basis including Russia- Ukraine, but also without it. So you can see the underlying performance.

Paul Froud:

Thank you Anna. One more question in written form and then we'll open the phone lines. So change of subject this time onto clearing. "So given what recently occurred in the LME nickel market, can you elaborate on any differences in risk management practices or procedures at LCH that may have dampened or limited such an outcome. Also, do you think that regulates, what do you think the regulators will be focused on in the wake of this event and could that have implications for LCH for capital requirements or potentially cause other changes at clearing houses in terms of oversight and broadly?"

David Schwimmer:

Thanks, thanks Paul. First, at the exchange level, you do need to have speed bumps or circuit breakers because once you get a price spike in any product of 50% or 100% or whatever the numbers are, then you are going to have some market challenges and market difficulties. At the clearing house level, which is where that question is directed, it's worth pointing out that our model at LCH for OTC clearing is different from the approach taken by the traditional futures verticals. We operate on a pay-as-you-go model. So what that means is we only clear risk that our members have prefunded with actual collateral. Whereas the futures model is an open offer construct which basically means clear now, pay later. Then I should mention we have additional liquidity and concentration margins as well. So I would say pretty a significantly different approach from what you would have seen at the LME. On the regulatory aspect of the question, I'm sure the regulators are looking at it very closely. I'm not really in a position to comment on how they will come out on it, but I do not expect an impact on LCH from a capital perspective or really any other way. But we'll let the regulators look at that very carefully and closely as I'm sure they will do.

Paul Froud:

Great. Thank you David. Okay. So that's the written questions we have so far. So let's open it up to the phone lines. So operator, I think we got some questions in the queue already. Do you want to open it up for the first question, please?

Operator:

Definitely. Just a quick reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. As a reminder, again, participants can continue to submit questions in written format, either via the webcast page by clicking the ask a button question, or via email to the LSEG Investor Relations team at ir@lseg.com. We will pause for a moment to assemble the queue. Our first question is coming from Mike Werner of UBS. Please go ahead.

Mike Werner:

Thank you very much. Two quick questions, please. First, on the customer and third-party risk business. We saw about 8% constant currency revenue growth in Q1. Obviously I think this is lower than the underlying growth rates due to some divestments. I was just wondering if you could get a better sense of what the ongoing or revenue growth rate from that business was on an organic basis.

And then second, with the sale of BETA+ how should we think about the revenue growth rate over the medium-term for the, I guess the new Wealth Solutions business? Is that still thought about as a low single-digit revenue grower? Thank you.

Anna Manz:

Thanks, Mike. So on your first question, customer and third-party risk. Yes. It was impacted by a disposal in the period. The underlying organic performance was of the order of 15% ish. And that is consistent organic growth with what we've been seeing previously. So we're really pleased with that business, it's performing really nicely.

Secondly, BETA. So post the disposal of BETA, we guided that you should expect wealth growth to be mid-single digit. And that's unchanged and we're well on track for that.

Mike Werner:

Thank you very much.

Paul Froud:

Thanks Mike. Can we have the next question, please?

Operator:

Our next question is coming from the line of Haley Tam from Credit Suisse. Please go ahead.

Haley Tam:

Morning. Thank you. Two questions for me, please. First of all, thank you for confirming there's no change to overall targets despite the Russia-Ukraine impact. Can you tell us how much of that £60 million will actually sit within Trading and Banking. And whether you think it's still reasonable, reasonable for us to expect revenue stability this year versus last year in that segment, even after the Russia-Ukraine impact?

And the second question. Given the ongoing strength of the Tradeweb contribution, can you give us any update on your view on the level of your shareholding there and whether you might increase it in the future? Thank you.

David Schwimmer:

Thanks, Haley. I'll answer the second one and then turn it over to Anna for your first question there. Just with respect to Tradeweb. Really happy with the performance, really happy with the continuing development of our broader relationship there and working together and very comfortable with our current ownership stake. So nothing further to add there.

Anna Manz:

Yeah. And Haley, so we said the impact of Russia and Ukraine on revenue is about 60 million in the year. About 80% of that is sitting in Data and Analytics. And by far the majority of that, and I'm not gonna give you precision here, is sitting in Trading and Banking. So that's where the biggest impact will be felt. We're absolutely confident that we're going to see Trading and Banking coming back to low single-digit growth. We haven't put a date on that, and I'm not going to. But as you see from the underlying improvement we're delivering, we're making really good progress.

Haley Tam

Thank you very much.

David Schwimmer:

Thanks Haley.

Paul Froud:

Thank you. Next question, please.

Operator:

Our next question is coming from Philip Middleton from Bank of America. Please go ahead.

Philip Middleton:

Yes. Thanks. Good morning. Again, the obligatory two questions. Firstly, sticking with Trading and Banking, it actually grew this quarter, which is of course a celebration you've been a bit modest about this. Could you talk in a little bit more detail about what's underlying this, is it, is it the rollout of Workspace? What exactly is going on here? And do you think that's sustainable?

And secondly, Investment Solutions, if you compare this to MSCI, MSCI didn't have a great looking quarter as far as I can tell. This quarter, you seem to do a lot better. And in particular your ETF revenue seemed a lot, lot better. What's going on there, please?

David Schwimmer:

Thanks, Philip. With respect to Trading and Banking, it's the same story that we talked about at the full year results. So what was that, six weeks, two months ago? We are spending more time getting closer to our customers, understanding what they need, what they're using. The offering for. We are investing in the capabilities we're improving some of the content or adding functionality with things like Yield Book.

And we're also working on the alignment of the the product team, the sales team with the customer. So it's a lot of, I'll say, nuts and bolts, better execution of that business.

With respect to the specific question around Workspace, we have only started the rollout of Workspace for FX Trading on the trading side. And that continues to go well, other traded asset classes to come. But we've also made good progress on the Workspace for banking. And that continues to go well. So those products, I would say, while still early stage, particularly on the trading side, are continuing to improve retention.

So with respect to Investment Solutions, I don't think we'll comment on any competitor performance. I think that's another area where we continue to focus on the business, business, investing in the product, investing in our capabilities, aligning the sales force. We've rolled out a number of new products over the last year. And a number of those are gaining traction. We are also seeing some of the early benefits of the synergies of the cross-selling of the underlying PRS data as well as the index product. So those are a few of the things that are just driving strong performance. I don't know, Anna if there's anything you want to add?

Anna Manz:

On your comment on the assets under management number, Philip I mean, yeah, there is a bit of a lag in the way we account for that, which means we sort of lag the movement in assets under management. That said, David's point is absolutely right. We've launched a good number of new products and with that comes new assets under management. And that benefits us too so really pleased.

Philip Middleton:

Okay. Thank you very much.

David Schwimmer:

Thank you.

Paul Froud:

Thanks Philip. Can we have the next question, operator, please.

Operator:

Our next question is coming from Arnaud Giblat from BNPP, please proceed.

Arnaud Giblat:

Yeah. Good morning. If I could just have three questions please. First, I'd like to follow up on set of question with regards to the rollout of Workspace. You mentioned you put in effect trading and with some banking clients, are you seeing a pickup in the consumption of data with these clients? Are you, are clients taking advantage of the new functionality to, to use the product more? That's my first question.

Secondly, if I could just ask you about the current backdrop for consolidation market structure, are you seeing opportunities out there to do some further add-ons on an inorganic basis?

And finally, could you perhaps give us a bit of an update on what's happening with regards to the push from the European regulator to clear, to force European participants to clear your industry swaps in Europe? Thank you.

David Scwhimmer:

Got it. Thanks. Thanks Arnaud. With respect to Workspace, not too much more to add frankly. We have seen improved retention. The customers like it. And it's performing very well. So I'm not gonna get into the specifics about whether we are seeing a higher quantum of data usage because we don't really think about it that way, but the rollout is going very well and the customers like it.

With respect to your question on consolidation and potential for more add-ons, I would say we will continue to consider what might make sense out there. And you've seen in the transactions that we have announced this quarter as well as quantile at the end of last year. If there are opportunities that make sense for us from a strategic perspective. And it makes sense from a financial perspective. We certainly are in a position to continue doing that. We, as I have mentioned in the past, we're very focused on continuing to deliver on our existing targets and on the integration that we have before us here. So you should not expect us to go out and do something large or transformational. But some of these smaller bolt-ons, We will continue to see what, what might make sense in the marketplace.

Then your third question on European clearing. We now have been recognised as systemically important. I think that's been very clear that how important our business is to our European domiciled members and clients, we are able to continue serving them, I will say at least through June 2025. And we continue to engage with the relevant stakeholders, whether that is the members and clients, whether that's the European Central Bank, whether that's ESMA, various national regulators to maintain our service in the EU going forward. And I am both optimistic and hopeful that we will be able to do that.

Arnaud Giblat:

Right. Thanks.

David Schwimmer:

Thank you.

Paul Froud:

Thanks Arnaud. Right. Well, we'll move on with the next question. Thank you.

Operator:

Our next question is coming from Ian White from Autonomous Research. Go ahead.

Ian White:

Hi, morning. Thanks for, thanks for the presentation, two questions from my side, please. The first one, I guess I'm wondering how should we think about the resilience of the Group's monetisation or pricing power, particularly in data analytics, in a more challenging financial environment for your clients. If we see further declines in equity market levels, for example, do you still expect to be able to deliver broadly similar growth rates in Data and Analytics. Are there any sort of pre-agreed price increments there you could walk us through that would kind of make that business anymore resilient, please. That's question one.

And question two. Just wondered if you could provide a bit more detail on the risk business given the increasing complexity and the sanctions environment, is that kind of all part of the service at risk? Is there a revenue increment that might be derived from all the issues that have gone on with Russia. And if there is some revenue tailwind is that already in ASV and Q1 numbers or is that still to come? Thank you.

Anna Manz:

Thanks Ian. So in terms of pricing power, in our Data and Analytics business, we are really working to build a medium-term, strong win-win relationship with our customers and frankly you see the improvements that we're making in that coming through ASV, and it is that structural win-win relationship where they can't operate without us because we're providing critical data and infrastructure, and we're meeting their needs, that, that gives us the medium-term pricing power that you're talking about. So that's a business that if you look back in time, has been incredibly resilient because of the strengths of the assets. And I would expect it to continue to be.

In terms of the risk business, World-Check has had a really strong quarter. World-Check has seen incremental volumes coming from what's going on in the world and sanctions and has been growing near enough 20%. So real strengths there. Interestingly, as, as, as the world changes, we've had other impacts in that GIACT benefitted substantially from fiscal stimulus. And so it's strong growth rate has slowed a little bit as we've seen, an end to fiscal stimulus. But overall, really strong performance across that business. I think there's real opportunity for World-Check This, has got, this whole environment has gone to show what an important product that is for people.

Ian White:

Got it. Thank you.

Operator:

Our next question is coming from from Gurjit Kambo from JP Morgan. Please proceed. Hi.

Gurjit Kambo:

Good morning. Just a few questions. Firstly, in terms of the synergy, so I think you've achieved £25 million in Q1. And if I'm right, I think you said £40 to £50 is the target for the full year. I'm interested to know, is that somewhat conservative given you've already done 25 in Q1. That's first question.

Second one is, if I look at the impact on ASV, I think it goes from 4.9% to 3.6%. when you impact, when you adjust for the impact of Ukraine and Russia. That, that impact seems quite high given I guess, you know, the business' relatively small part of the revenues, as you said, 1% on the group. Okay, I'm admittedly probably slightly higher on the D&A. but is it just the comms that are weaker in Q1? Just to understand that, that change.

And then finally just on the the, the capital, I think you said most of, a large chunk of the proceeds of BETA+ will be returned in the form of a buy, in the form of a buyback. Is that that sort of set in stone or if there was some sort of attractive bolt-ons that you saw, could that, could that be useful bolt-ons rather than the sheer buyback? Thank you.

Anna Manz:

So should I do the first two? So on the first one, synergies, we have guided to £40 to £60 million run rate synergies. So not benefit in the year, annualised run rate synergies, by the end of 2022. And what we've said is that we have achieved £25 million of run rate synergies by the end of Q1. So those are just the numbers. I think we feel confident that we're on track to the £40 to £60 million. If we thought we were not on track, we would have if we thought that we were going to substantially beat it, we would upgrade our guidance. So £40 to £60 is it and we're making really good progress.

On the ASV just to give you the maths of it. If you take that £16 million of Russia impact and apply it to, and take, call it 80% a little bit more, which is, which is in Data and Analytics and all impacting recurring revenue. If you take that number and apply it to our book of business or the annualised revenues of D&A. You're going to be able to see where we've got our 3.6% from. No, it's not that there's any funny comp, It's just that you're seeing the full impact in the ASV metric immediately because we've exited those contracts already.

David Schwimmer:

And on your third question, we will give more specifics around how we're thinking about buybacks at the half-year results. I think the important thing to take away is that this is a business that generates a very healthy amount of cashflow. So we are in a position to invest internally, invest in the organic growth. And you're seeing, you're starting to see the results of that. We also have the capital, the cashflow to continue to do the bolt-on M&A transactions. And then we are also in a position to return capital to shareholders. So we'll give more details on that at the half-year. But as I said, the key message here, this is a very strong model with a healthy amount of cash generation. I think the BETA+ divestiture, in this context, it adds to that and we'll give the details at the half-year results.

Gurjit Kambo:

Great thanks David.

David Schwimmer:

Thanks very much.

Paul Froud:

Thanks. We'll move on to the next question, please.

Operator:

Our next question is coming from Martin Price calling in from Jeffrey's.

Martin Price:

Good morning. Thanks for taking my questions, I have two if I may. First, on the FX business, I'm wondering if you could provide an update on the key initiatives you're planning to enhance performance within the dealer-to-dealer business matching.

And secondly, just the obligatory question on NTI. I was just wondering if you could share some thoughts on how you expect net Treasury income to develop this year given elevated cash balances and how you see, you see the yield environment developing. Thank you.

David Schwimmer:

Thanks Martin. I'll take the first one, Anna, you can do the NTI question. So the FX business, as you mentioned, Martin, we are continuing to work on the re-platforming of the matching business, so our dealer-to-dealer venue, and that continues to go well, it is a, I'll say a multi-year program where we started this last year. We're making good progress this year and we expect to see the implementation next year. And we've been, I think, pretty transparent about the fact that this is a tech platform. The existing matching platform is a tech platform that is out of date. And that means it does not have the product functionality that we would like to implement and that our customers would like. It doesn't have the speed and flexibility that we would like and that our customers would like. So it's going to be a full re-platforming. We will be introducing that, as I said, next year.

Anna Manz:

NTI, so as you know, the biggest driver for NTI really is the constant of cash collateral that we hold. Listen to what I don't have a crystal ball, I would say Q1 is as good an indicator as any. And so for modeling purposes, using Q1 for the balance of the year would be a good way to think about it.

Martin Price:

That's great. Many thanks.

David Schwimmer:

Thank you.

Paul Froud:

Thanks Martin. I think we've got a couple more questions left.

Operator:

Our next question is coming from Johannes Thormann from HSBC. Please go ahead.

Johannes Thormann:

Good morning, everybody. Johannes Thormann, HSBC. Just one question left regarding your Enterprise Data solutions. Nice 9% growth of constant currency. Should we expect this rate to remain? Or should we rather focus on the absolute revenue level for the next quarters? So as you guide and also for the NTI.

Anna Manz:

So just looking at our Enterprise Data solutions. I think I would focus you on the growth rate excluding the deferred revenue haircut, which for Enterprise Data Solutions is six and a half. And I think we should continue to see strong momentum in our PRS business where we're gaining share nicely, and I'm really pleased with the progress we're making there. In real-time, we've seen 6%, 6.6% growth in the quarter. Again, really great progress given that that was a business that was flattish a year ago. There I would caution that the Q1 comp is a little bit weaker. So I wouldn't extrapolate that number for the air, but great underlying progress in that business and sustained improvement in growth rates.

Johannes Thormann:

Okay. Thank you very much.

Paul Froud:

Thanks Johannes. May I have the next question, please.

Operator:

The next question is coming from Andrew Coombs of Citi. Please proceed.

Andrew Coombs:

Morning. Just a couple of follow-up questions on the ASV metric. The first one is I guess the timing of when you think the Russia and Ukraine attrition will flow through and fade. And so when would you expect your adjusted air to, also your reported ASV metric of 3.6% to converge with the 4.9%? Would that happen by the end of June, for example, or do you think it could take a bit longer. So that's the first question.

Second question is perhaps me being pedantic but if I take £60 million, which is the number you flagged, that's equivalent to 1.3% of Data and Analytics revenues, broadly speaking. And that therefore would explain the 4.9% versus 3.6%. I think in your earlier commentary you said only 80% of that £60 is expected to go to Data and Analytics, just trying to square the circle on that one. Presumably the 80 doesn't factor in some of the Investment Solutions contribution but any help would be appreciated.

Anna Manz:

So why don't I do that second one first, the ASV metric reply refers or focuses on the recurring revenue, the subscription revenue, which isn't all of the Data and Analytics revenue, it's only circa 90%. So that's, that's where mathematically the circle gets squared. But maybe it's worth just working that through with the IR team that you can show you through the moving parts.

And on your question about Russia. Again, the way to think about this is the ASV metric reflects all of the contracts that have been exited immediately. And of course, therefore, we will see that impact year-on-year versus a year ago where we had those contracts for a 12-month period effectively. So you'll see growth off a lower 3.6 number, but 12 months from now, we'll roll through it. But again, it may be worth just walking through that with the IR team. I think we're... I think that was the last of the questions.

Paul Froud:

We've had no more written submissions to us. So I think we're through the end of this call. So thank you very much, everyone for joining. Thank you for your questions. If there's anything else or if you want to step through in any more detail about anything, then obviously onto the IR team after this, we're happy to help you with anything else that you've got. But otherwise, we'll end the call there. Thank you.