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LSE.L - Half Year 2019 London Stock Exchange Group PLC Earnings and to Discuss Acquisition of Refinitiv Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, thank you for standing by, and welcome to the London Stock Exchange Group Interim H1 Results 2019 Investor Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday, August 1, 2019.

And I would now like to hand the conference over to your speaker today, Mr. Paul Froud. Thank you. Please go ahead.

Paul Froud - *London Stock Exchange Group plc - Head of IR*

Thank you. Good morning, everyone. Thank you very much for joining us. On the call today, we have David Schwimmer, CEO of London Stock Exchange Group; David Warren, CFO, London Stock Exchange Group; and David Craig, CEO of Refinitiv.

We released our H1 results this morning, as you've seen, and the results announcement and the slide deck are available on the IR section of the website. However, for this morning, the focus of the call will naturally be around the acquisition of Refinitiv that we have announced today.

After you've heard from the three speakers, we'll open up the line to take any questions, but for now let me hand you over to David Schwimmer.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Thank you, Paul. Good morning and welcome, everyone. Before turning to the acquisition, let me take a moment to run through the key financials from our first-half 2019 results.

Starting with Slide 3, the Group has delivered another strong performance, with an 8% increase in income during the first half of the year. We've seen continued growth in our Information Services and Post Trade businesses, with revenues up 9% at FTSE Russell and 12% at LCH.

Operating expenses, excluding depreciation and amortization, were flat and 2% down on a constant currency basis due to good cost control. Adjusted operating profit rose 11% to GBP 533 million.

We continue to execute our strategy successfully, underpinned by our Open Access and Customer Partnership approach. We have also made good progress against our 2019 financial targets.

Let me now turn to the main focus of the call.

Turning to Slide 6, this morning, we have announced terms to acquire Refinitiv in an all-share transaction for an enterprise value of $27 billion. The acquisition of Refinitiv is transformational and significantly accelerates our existing strategy to be a leading global financial markets infrastructure provider. Refinitiv brings highly complementary capabilities in data, analytics, and capital markets, as well as deep customer relationships across a truly global business. As a result, we will significantly expand our data and analytics offering and create a global multi-asset-class capital markets business.

We share a commitment to open access and to partnering with our customers to deliver innovative solutions across the financial markets value chain. We will deliver substantial cost and revenue run rate synergies of GBP 350 million and GBP 225 million, respectively.

In addition, the transaction will deliver enhanced returns for shareholders, with significant EPS accretion of over 30% in the first full year post-completion and increasing further in years two and three.

The key terms are summarized on the previous slide, but let me spend some time highlighting the strategic benefits and growth opportunities. David Warren will then talk you through the significant financial benefits for our shareholders.

Turning to Slide 7, financial markets infrastructure is a rapidly evolving sector and one where the needs of our customers are changing. I have been closely involved in this industry for the last 20 years and have seen firsthand how the market landscape has changed, and change is happening at an even greater pace today. Increasingly, our customers want to trade across different regions and currencies with fewer firms that can do more for them across the value chain, from capital markets to data to clearing and settlement.

In this evolving landscape, financial markets infrastructure, FMI, needs to be global, cover multiple asset classes, and have deep data management, analytics, and distribution capabilities. This is something we are consistently hearing from our clients, and further developing these capabilities has been a strategic priority for the Group.

On to Slide 8. LSEG has consistently anticipated notable trends in financial markets and has a strong track record of delivering solutions for our customers while creating shareholder value.

Starting on the left of this slide, we saw the shift to passive early on and made moves to acquire FTSE, and subsequently Russell, to create a leading global index provider. Passive investment is now growing at 20% per year, with assets expected to reach $30 trillion by 2023.

Similarly, we saw the regulatory-driven trends in Post Trade and acquired a majority stake in LCH, the leading provider in OTC clearing. Together, our Information Services and Post Trade businesses represent around 80% of the Group's total revenue and have been key drivers of our double-digit growth in recent years.

Looking at the right-hand side, we believe that two big industry drivers going forward will be the increased value of data and analytics, and multi-asset class trading and investment strategies. As before, these will be underpinned by best-in-class technology and global reach. Refinitiv will allow us to capitalize on both of these trends and positions us strongly in these future growth areas.

Turning to Slide 9, we are excited by this rare and compelling opportunity to combine two world-class businesses and create a global financial markets infrastructure leader. This transaction will create a business with global scale and geographic diversification in key markets, including North America, and in fast-growing emerging markets, particularly in Asia. This provides an opportunity to broaden the number and, importantly, the type of customers we work with. For example, extending our reach to support customers in areas such as wealth management, where Refinitiv has a significant U.S. footprint, and our relationships with corporates, enabled by their leading KYC service, World-Check.

Second, it strengthens our multi-asset-class capital markets capabilities through the addition of FX and fixed income, the two largest traded asset classes globally.

Importantly, this will all be underpinned by world-class data content, management, and distribution capabilities, where Refinitiv has the expertise and scale of a top-tier global data provider. Data and analytics are already critical to the digitization of financial market infrastructure, and that importance will continue to grow. Together, we will be the largest listed FMI provider by revenues, with leading positions in key areas of future growth.

David Warren will talk in greater detail on the financial benefits of the transaction, but let me highlight a few key areas, as outlined on Slide 10.

The aggregate enterprise value of $27 billion represents approximately 11.9x adjusted EBITDA, inclusive of already-delivered cost saves from Refinitiv's existing change program. Specifically, we will deliver 5% to 7% revenue CAGR over the first three years following completion and enhance our revenue mix geographically. We plan to generate significant value through cost and revenue synergies and comfortably meet our ROIC targets in the third year post-completion.

The transaction will be immediately and substantially earnings-accretive. In addition, approximately 70% of revenues will come from recurring subscription. The highly cash-generative nature of the business will also allow us to delever quickly while maintaining our progressive dividend-per-share policy.

Before I talk more about the strategic benefits, let me hand over to David Craig to give a brief overview of the Refinitiv business.

David Craig - *Refinitiv - CEO*

Thank you, David, and good morning to everyone on the call. Firstly, I just want to say how excited I am about this combination and the benefits this will bring for customers, for the market, and for investors, and also say how well David and I and our respective leadership teams have really worked together to evaluate what is an industry-shaping opportunity.

So turning to Slide 12, Refinitiv is a leading data and financial market infrastructure provider. We're providing services to 40,000 customers across the sell side, across the buy side, and to corporates. We collect data and deliver services into every major financial center and across 190 countries. And Refinitiv's business offerings are grouped into three areas: The first is data, distribution, analytics and workflow; the second is our trading venue; the third is our risk business. These are all underpinned by our global Refinitiv data platform.

The first and largest part of our business is our data distribution, collection, analytics, and workflow, representing 75% of our total business, with revenue of GBP 3.2 billion in 2018. The industry tailwinds of demand for new and broader data sets; increasing automation, machine learning, and AI; and the need to source and manage data both physically and in the cloud are all growth drivers of this business. We operate one of the most expansive data and data management platforms in financial markets, distributing many thousands of data types and billions of messages and data updates per day, from market pricing, reference data, economic, company, ESG, fundamental data, deals data, just to name a few of the examples.

We capture and distribute real-time and nonreal-time data from over 150,000 sources, including exchanges, brokers, and contributors and distributors from both public and private sources and data partners, including over 500 of the world's exchanges. We offer thousands of unique and high-value derived data sets--for example, fixed income pricing, valuation data, the WM/Reuters FX benchmark, and almost 100 other industries and benchmarks. And in some of these data sets, we have up to 40 years of historical data.

And of course, we're one of the largest news providers, carrying not only Reuters news in a long-term relationship, but aggregating and distributing content from over 10,000 other local and global news providers to both humans and machine users. And importantly, as an open platform, we have the largest partner network in the industry, with around 10,000 content partners collaborating to deliver best-in-class data, services, and access across our customer base. And supported by this data platform, our range of workplace solutions provides strong data analytics, trading workflow, and execution and portfolio management and risk capabilities.

The second part of our business is our trading venues. We run significant leading venues in OTC markets, including in FX, dealer-to-dealer, and dealer-to-client in the shape of FXall and fixed income trading on our Tradeweb, a leading trading venue for government and corporate debt globally. These each support up to $400 billion to $500 billion of trading volumes every day. This represents 19% of our business, with revenue of GBP 0.8 billion in 2018. It is growing quickly, driven by global volatility in FX; expansion into emerging markets, such as Indonesia, China, Thailand; and the shift from voice to electronic trading.

And last but certainly not least, the third part of our business is risk, where our risk analytics and data help our clients manage their financial crime risk, help them manage and onboard and screen customers, screen suppliers, companies, and partners. The business has exhibited strong growth, driven by increasing global regulatory risk and compliance and the need to digitize client and third-party onboarding.

As I outlined on Slide 13, these three business areas are designed and tailored to our global user communities, which include trading, investment and advisory, wealth management, and risk, many of whom are not just data and workflow consumers, but actually provide data back into the platform as well. And at the core of the value is our Refinitiv Open Data platform with its global scale and reach, powered by proprietary and open technology and deep domain and operational expertise. We collect and process millions of data sets every day, driving the financial markets and financial community. And to us, data is infrastructure.

In addition to desktop distribution, we deliver data through data feeds, open APIs, and on-premise, and we are literally under the floorboards of most of the world's trading floors and, more recently, in the cloud.

We have many specialist data product brands, such as Lipper for fund performance, Datastream's vast economic data, IBES for estimates, or our BETA trade processing platform in wealth, just to name a few. We power the platforms and collect data from our OTC data venues in FX and fixed income, as well as supporting other electronic trading, post-trade, execution management, and order management systems. And we support risk management for financial crime using the flagship World-Check product, which is used by 50 of the world's leading banks.

And as I mentioned, the platform is open. In addition to supporting data partners, we have a rapidly expanding developer community of over 24,000 developers. This developer community and the algos and machines they build rely on Refinitiv to extract and integrate data.

Turning to Slide 14, over the last 18 months, we've been executing a very successful carveout and transformation program, and as a result, both margin and growth is accelerating. We've accelerated revenue growth through enhancing our data platform with new data sets and analytics, for example in emerging markets, [China] pricing content, new fixed income pricing, or ESG data. And we've been improving the desktop technology, functionality, and experience.

We've improved our sales and service capabilities to drive new sales, higher usage, and retention. And as of Q2 2019, we have already delivered $380 million of the targeted $650 million run-rate cost savings, and we are on track to deliver two-thirds of our target by the end of 2019. And this has been achieved through delayering, through leveraging our global operating centers in Manila and Bangalore, using modern technology to reduce our technology and content costs, and executing on real estate and vendor procurement savings.

And part of this savings has been used to fund investments in new products and technology platform capabilities, as well as new talent, which is driving the growth momentum that we are now seeing.

So if I can just summarize, firstly, Refinitiv's core strength is our data, our data platform, and our global data collection, aggregation, management, and distribution.

Secondly, this platform, alongside our OTC venues and risk business, are highly complementary to LSEG's capabilities. As a result of the transaction, we will be able to offer new and enhanced services to benefit our customers and our employees.

The business has been transformed over the last 18 months, with increasing growth in margin and much more potential. And lastly, we have a strong, experienced global management team which has led the carveout, and we're excited by the opportunities that this transaction brings.

And with that, I'll hand back to David Schwimmer.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Thank you, David. Over the next few slides, I will outline the strategic importance of this transaction for our group across four areas, as described here on Slide 16.

The box on the right-hand side demonstrates how well positioned the Group will be, creating a global leader in FMI. Our shared commitment to open access and customer partnership is also a core part of our operating model and is a key competitive differentiator from our peers. The fact that we share this strong commitment to customer partnership and innovation will also be key to our cultural integration and collaboration.

Turning to Slide 17, as the graphic on the left shows, LSEG and Refinitiv have highly complementary world-class businesses built around three core strategic areas. There are many benefits, but let me give you just one example in each of the three segments.

First, in capital formation and execution, the transaction will create multi-asset-class trading capabilities across equities, FX, and fixed income.

Second, investment tools and research: Here, Refinitiv provides large and unique content sets that will expand our global index and analytics offering, particularly in the growing areas of fixed income and sustainable finance, or ESG.

Finally, risk management and post-trade services, where the transaction will allow us to unlock value-added services. For example, Refinitiv's market data assets and capabilities in product development will allow us to unlock LCH valuation, margin, and capital optimization tools and make these more widely available to customers.

Turning to Slide 18, the Group will significantly deepen and expand its global footprint, particularly in Asia and emerging markets. As you can see from the chart on the right of the slide, it also substantially diversifies our overall revenue pool in North America, the world's largest financial market. We will also maintain strong positions in our home market in the U.K. and across Continental Europe, where we have significant market infrastructure businesses in Italy and France, and it will grow our presence in other countries.

On to Slide 19. Data capabilities will define the success of financial market infrastructure businesses in the future as our customers seek to create value through unique insight and analysis and to operate their businesses in the most efficient, technology-enabled way. London Stock Exchange Group has created, through organic growth and strategic M&A, a leading global benchmark data and analytics provider in FTSE Russell. FTSE Russell has consistently achieved double-digit growth over the last several years and is a key contributor to Group revenues.

Now we are adding proprietary content like fixed income and FX pricing and reference data, plus content from 10,000 data partners. Refinitiv is one of the largest data providers globally, with a leading position in data feeds. Its global distribution covers more than 190 countries and 400,000 end-users. This gives us more high-quality data than almost any other provider.

However, it's not just about the quantity of data, but the deep capabilities in managing the sourcing, integration, and organization of that data to make it valuable for customers. That is what's important.

We are very impressed by the data management capabilities of Refinitiv. Combining LSEG's IP with Refinitiv data management allows us to do more with our customers to provide the products and tools that they are looking for.

Let me provide more detail on the next slide. Data is already a critical driver of market infrastructure today. Our customers are demanding more data and data-enabled services, and this trend will only continue. For example, linking the underlying data of Refinitiv through index structures and definitional frameworks provides unique value to customers by creating a coherent view of their investments and reducing the need for reconciliation or the risk of data errors.

And in post-trade, customers face considerable challenges to meet their evolving regulatory requirements while improving performance and efficiency. Consistent and accurate data from the front to back office and data-enabled tools to enable efficient collateral and risk management are areas where we will be able to develop new offerings by combining LCH's deep knowledge and risk management experience with Refinitiv's data capabilities.

As you will see on Slide 21, the acquisition is a great fit with our existing capital markets businesses, adding trading venues that cover the two largest asset classes, FX and fixed income. Over $10 trillion globally is traded daily across these two asset classes alone.

Refinitiv operates leading FX trading platforms and solutions across spot, swaps, forwards, and options, with a presence in every FX market globally. Transaction venues include FXall, a dealer-to-customer platform, and Matching, a primary dealer-to-dealer platform. Electronic trading in FX has more than doubled since 2007, yet it is still significantly behind the levels we see in the cash equities and futures markets. We believe FX will continue to grow, particularly in the dealer-to-client segment, benefiting from increased direct participation of the buy side.

As you know, Tradeweb is a leading fixed-income, derivatives, and ETF electronic trading platform for institutional and retail investors, and it has delivered strong growth over the last three years. Through its attractive market positions in rates, credit, and money markets, Tradeweb is well positioned to benefit from the increasing electronification of fixed-income markets and from expanding corporate and government debt pools in emerging markets. For example, it has been successfully developing its offering in China, with record trading recorded in June 2019. Earlier this year, Tradeweb completed a successful IPO in the U.S. We will look to retain this listing, and we will hold a 54% shareholding.

As you can see on Slide 22, the combination of trading venues will allow us to better serve our customers across the sell side and buy side. For example, both Turquoise, our pan-European MTF, and Tradeweb have successful existing relationships with the Plato Partnership. And we will look to further develop these partnerships with the buy side community.

FTSE Russell receives Tradeweb prices for calculation of gilt indices, demonstrating the interconnected ecosystem of trading, data, and investment insight which we can build across multiple asset classes and geographies. As well as enhancing our global offering, we will be able to develop more innovative products for our customers.

In a financial market driven by electronic trading and passive investment, the relevance of multi-asset-class capabilities will only increase as customers seek efficiency and simplicity with fewer but deeper partner relationships.

It is also important to note here our continued unwavering commitment to capital formation, supporting small- and medium-size enterprises and facilitating job creation by enabling businesses and economies to fund innovation and sustainable economic growth. Refinitiv's content and product creation capabilities will also enable LSEG to improve transparency in capital markets and to support companies from SMEs to blue chips in communicating with investors.

Turning to Slide 23, customer partnership is one of our shared core principles and is key to our strategic success. Both businesses have a proven, strong track record of partnering with customers, and we will continue to work with Refinitiv to deliver innovation. This is a key competitive differentiator.

The numbers on Slide 24 speak for themselves. We have a traditionally strong position with the sell-side community through our trading and post-trade businesses. We also have strong links to the buy-side community through FTSE Russell indices, with longstanding relationships with 98 of the top 100 asset managers. And now we can expand this through Refinitiv's relationships with over 30,000 buy-side analysts that use their data and trading products.

We see multiple cross-selling opportunities such as providing Refinitiv pricing and reference data to our index customers and extending the full range of our index and analytics products to Refinitiv customers. Refinitiv also brings additional exposure to corporates that use both risk services and the data platform. For example, corporate finance and strategy teams use Refinitiv to gather market intelligence and explore M&A opportunities. At the treasury level, it is widely used for financing planning and hedging. LSEG can now offer a number of additional services to its corporate issuers.

I will now hand over to David Warren to talk through the key financials.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Thank you, David.

If we turn to Slide 26, we have a strong track record in successfully executing transactions, having consistently delivered against our strategic and financial objectives in previous M&A. As David has mentioned, this transaction delivers very attractive financial returns for our shareholders. And over the next few minutes, I will provide more detail on four key points: the high-quality revenue mix and attractive growth; value creation through significant synergies; attractive returns for shareholders; and a commitment to our capital management framework.

If we move to Slide 27, the enlarged Company will deliver 5% to 7% revenue CAGR over the first three years following completion. This includes continued organic growth at LSEG, driven by FTSE Russell and LCH, as evidenced in today's first-half results, and this is also alongside Refinitiv's businesses.

FXall and Tradeweb are both benefiting from the shift to electronic trading in FX and fixed income. Refinitiv's risk business is structurally benefiting from regulatory-driven growth in KYC and other services, and we expect those growth rates to continue. There is also an acceleration of Refinitiv's growth due to ongoing transformation of the data platform, where increased commercialization and investment are driving topline momentum. And finally, revenue synergies, which I will go through in more detail shortly and which we are highly confident of achieving.

As you will see on Slide 28, both businesses have a loyal and high-quality client base, driving recurring revenues with high retention rates. The transaction will increase our recurring subscription-based revenue from nearly 40% today to around 70%. This enables us to have strong visibility and predictability.

If we turn to Slide 29, we have done significant work over the last few months in really thinking through both the cost and revenue synergy potential. The ability to work more closely with our customers to deliver innovative products and services means that we are highly confident in delivering in excess of GBP 225 million of revenue synergies.

These can be broken down into three broad areas. Approximately 60% of these are core cross-sell synergies. As David said, an example of this could be the distribution of Yield Book analytics via the Refinitiv platform and distribution of Refinitiv pricing and reference data to index customers. 30% of these synergies are enhanced products such as enhancements to issuer services in our capital markets business. And 10% of these synergies are new products such as ESG indices and analytics and regulatory services such as surveillance. We expect to achieve 60% of these revenue synergies by year three, with full run rate achieved in year five. These synergies are a key part of the targeted increase in Group margin.

And as you will see on Slide 30, we have already undertaken a large amount of work between the two teams to identify cost synergy opportunities. We estimate at least GBP 350 million of cost synergies delivered through a wide-ranging efficiency program. This will include the removal of duplication and greater use of our wider geographic footprint. In technology, we will look to adopt the best of both organizations' capabilities and further develop cloud-based strategies where appropriate. Consolidation of our property footprint will also continue. And it's important to note that these synergies are separate from and on top of Refinitiv's current $650 million cost save program referred to earlier.

We are also committed, as we have always done, to continue to invest for growth. The expected cost synergy run rate will be 25% in year one and 70% in year three, with synergies fully achieved in year five. We estimate the onetime cost to achieve these synergies will be approximately GBP 550 million, the majority of which will be incurred in the first two years following completion.

The cost and revenue synergies we are announcing today have been verified by an independent third party. And as you know, we have a strong track record from previous transactions, and we are very confident in delivering the synergies we are announcing today.

If we turn to Slide 31, this deal is highly attractive across the strict financial criteria that we apply for all transactions. I've already covered most of the points on this slide, but I think it is important to talk through our ongoing capital management framework.

The business will be highly cash-generative, which will allow us to not only delever quickly, but also maintain our progressive dividend-per-share policy. Our pro forma leverage at close is expected to be approximately 3.5x net debt to adjusted EBITDA. While this is outside our target range, we would expect to delever back to our target 1 to 2x range within 24 to 30 months post-completion. We are also targeting strong investment-grade ratings.

Now I will end here and let David Schwimmer provide an overview of the agreed management and governance structure.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Thanks, David. Turning to Slide 33, Don Robert and I will retain our current positions as Chairman and CEO, respectively, with David Warren as CFO. I'm also delighted that David Craig will join LSEG's Executive Committee and continue as CEO of Refinitiv. We will add three new directors to our board, two from Blackstone and one from Thomson Reuters. And we will remain compliant with the U.K. Corporate Governance Code. The Group will continue to be a global business headquartered in the U.K. and will retain its premium listing on London Stock Exchange.

Post-completion, I will lead the integration team with senior representatives from both LSEG and Refinitiv. I have personally been very impressed with the talented and experienced Refinitiv management team, and I look forward to working with them.

Turning to Slide 34, the long-term commitment to LSEG from our new shareholders is a testament to their confidence in the strategic logic of the transaction and the value-creation potential. Blackstone is transferring its entire Refinitiv stake for our equity, an expression of continued confidence in their investment. The lockup structure they have agreed to is a clear sign of their belief in the future value creation from this transaction. This will be a lockup for the first two years post-completion, with the shareholders then having the option to sell a 1/3 stake in each of the subsequent three years post completion.

In summary, on Slide 35, we are excited about the transformational nature of the transaction announced today. This is a rare and compelling opportunity to combine two world-class businesses and create a global financial markets infrastructure leader. The transaction will create a leading U.K.-headquartered global business with significant multi-asset-class capital markets capabilities, a leading data and analytics business, and a broad post-trade offering, well positioned for future growth in an evolving landscape. It positions London Stock Exchange Group for long-term sustainable growth while delivering valuable benefits to our customers, shareholders, employees, and other stakeholders.

With that, I want to thank you for your time, and we will be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Kyle Voigt from KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

So just looking at the Refinitiv business, I knew revenues grew by 3% or so in the past year. Looking back historically, revenues have been kind of flat to down over the last five-plus years. I think a big part of that has been the shrinking of the desktops business. Can you just talk about that desktops business a bit more, how it fits into LSE's strategy on a go-forward basis, or maybe those parts of it that don't fit in your strategy?

And then just as a follow-up to that, can you talk about the synergies that exist by having that desktops business and Eikon under the same roof as the Elektron and more of the enterprise data and risk business, and whether you view them as separate business lines or really one in terms of cost and investment?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Sure, Kyle. Thanks. So first, let me just touch on the growth aspect. We think that the combination will have a very attractive growth profile. And as David mentioned, we are expecting 5% to 7% revenue CAGR over the three years after the transaction.

A couple thoughts on that. So you're already familiar with the growth engines within LSEG. Our FTSE Russell business and LCH continue to grow very well. Within Refinitiv, there are a number of other growth engines, so we will have a diversified, broader set of growth engines, if you will. And those would include FXall, Tradeweb, the risk business, all growing at very attractive growth rates; on top of that, very attractive revenue synergies.

And then I would say with respect to the data business, there has been incremental investment in that business by David Craig's team over the last year, and we will continue to invest in that business. And we have strong conviction that there will be a healthy growth rate coming out of that business.

You asked about desktop. Desktop is a distribution channel; it's not a revenue line. And we view the distribution channels across the feeds, across the desktop, in the cloud, et cetera. We think about revenue according to the different communities that David Craig was talking about earlier. We have a lot of conviction that the demand for incremental data is going to continue to grow, and that will be distributed via desktop, via feeds and various other distribution channels.

Your last question, I believe, was around synergies, and we think that there are very attractive synergies across the different businesses. The data platform that Refinitiv brings will allow us to generate synergies across our businesses. And David Warren touched on some of these. But if you think about what we can do with our existing businesses and our existing product, whether it's our index and analytics business -- we touched earlier on distributing Yield Book analytics through the platform -- we also think there's a really interesting opportunity to create new product through -- and use the distribution power of this platform. We have very interesting and potentially very valuable data across the different businesses within LSEG that we are currently just not monetizing. And we will look to work together through those various opportunities, and we're very excited about that.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Thanks. If I could ask one more question, then I'll hop back in the queue. But just on the competition review, seems like there's some level of overlap on the trading businesses in terms of having key fixed-income assets. Obviously, you own MTS. You'll now own Tradeweb, or a majority stake in Tradeweb. And with respect to Tradeweb, it's the largest electronic swaps trading platform globally. Obviously, LCH is clearly the leader in swaps clearing. I guess why are you confident that you would not face regulatory pushback or antitrust pushback on combining this kind of leading rates trading venue with the leading clearing venue for interest rate swaps or combining those fixed-income assets?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Thank you. Our businesses are largely complementary. There is not a lot of overlap in the businesses. So we will work through the regulatory process. Not really for us to prejudge any of that at this point. I would say that both Refinitiv and LSEG share an open-access approach, and we will continue to operate according to that open-access philosophy. And we'll be working as a combined financial market infrastructure provider. We'll be providing services to customers as well as other market infrastructure around the world.

Operator

Our next question comes from the line of Philip Middleton from Merrill Lynch.

Philip David Middleton - *BofA Merrill Lynch, Research Division - Analyst*

A couple of things. First of all, could you say a little bit about the CapEx profile of the Refinitiv business? This is something I've not really managed to get a handle on, but I think historically, it's probably run at about $500 million a year. Is that what sort of thing I should be thinking about for the merged business from Refinitiv?

And secondly, I think one of the really exciting areas in index at the moment is ESG. You've talked a little bit about that. Could you tell us what you've got that's genuinely proprietary in ESG which would enable you to drive growth in that area?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

So your question on ESG, is that a question as to what we collectively have that's proprietary? Or what...

Philip David Middleton - *BofA Merrill Lynch, Research Division - Analyst*

Yes, collectively, because that's where the value lies.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Yes. Well, first, I would say that the ESG content and data sets that Refinitiv has are world-class and are used by many in the industry. As I've said in response to an earlier question, we will maintain our open-access approach. And while our index business will benefit from access to that data, so will many other market participants out there. So hopefully, that addresses your question around that.

And then with respect to the CapEx...

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes. So you asked the question about -- look, I think the number that you're putting out is for current levels of investment, and I think is a good one to model for right now. I think I'd make two points around that. One is that that investment continues, and that's important to support the continued growth.

And the second point is that as these businesses come together -- look, we will be in a position to provide more information later, and you'll be able to adjust your thinking and modeling. But these businesses, as you, I think, can see, are highly cash generative. I mean, if you just add them together, we don't even call that a pro forma number. We're talking about a significant amount of EBITDA.

So the opportunity on synergies, the cash generation is there. And I think an important part of what we're saying today is that we really are viewing this transaction as data as infrastructure. With this cash generation, this gives us an opportunity to really continue to invest for growth. But I think for purposes of your modeling right now, the number that you gave is a good one.

Operator

Next question comes from the line of Gurjit from JPMorgan.

Gurjit Singh Kambo - *JP Morgan Chase & Co, Research Division - Head of Diversified Financials Research*

It's Gurjit, JPMorgan. Just a couple of questions. You mentioned that there's some investment being done in the Refinitiv businesses. If we think about that, I know that some of that investment started, and there's obviously some that will be ongoing. But is that broadly included within the guidance for the sort of EBITDA margin to hit around 50% in the medium term? Just trying to get a feel for that. And also incorporated within that $650 million of cost saves that are coming through. So that's just the first question.

And two, just any thoughts on the -- I guess the scrutiny in the industry around pricing of data, both in the U.S. and in Europe, and any thoughts around how Refinitiv has been dealing with that, and how you will deal with that going forward?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Sure. So I'll take your second question, and then David Warren will address your first one around the investment.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes. So the modeling that we are doing...

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

I'll do the other one. Sorry, sorry.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

So on the pricing of data in the U.S., that's a very different situation from what we have here. A couple aspects of why that's different. First of all, we have not raised our market data pricing. That was nearly as much and at the sort of pace or rate that has been done in the U.S. And if you look at what market data pricing is as a percentage of our overall business, it's somewhere around 5%, whereas it's significantly higher for the U.S. players, where this has become more focus and more of a controversial issue.

And that's really not an issue that Refinitiv directly has been involved in. While they have been distributing the market data from the exchanges in the U.S., the price rises that have created the issue or the controversy in the U.S. are driven by the exchanges themselves in the U.S. So we don't see that particular sensitivity that's taking place in the U.S. as having an impact on us.

I would also say just on that front, we share an approach of, as I mentioned earlier, open access, but in this case customer partnership. And we think in areas -- different areas of our business, there are many ways in which we work very closely with our customers and generate value together. And I think that philosophy will continue as part of this transaction.

Then let me turn it over to David to address your question on the investment.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

I think there are two parts to the question. One was as we modeled and what we've been saying today about the around-50% EBITDA margin in the medium term, this kind of goes back to the earlier answer I gave. We have modeled what that assumes is continuation of the same levels of investment.

I think there was another part of your question as to whether or not that includes or how is that impacted by the existing $650 million cost savings program. And those are separate. That program is well along, as David Craig has said, and we would expect that those would be delivered by -- at the end of 2020. So what's captured in that EBITDA projection is the run-rate benefit of that coming out of that program. I think that might be the answer to that part of your question.

Operator

Next question comes from the line of Arnaud Giblat from Exane.

Arnaud Maurice Andre Giblat - *Exane BNP Paribas, Research Division - MD & Research Analyst*

It's Arnaud Giblat from Exane. I've got three questions, please. First, on cost synergies, so can I ask if further cost synergies will touch Tradeweb? Because you said you're keeping the listing, so the ability to extract synergies -- cost synergies theoretically should be limited. Or is there perhaps a plan to merge MTS into Tradeweb down the line?

Second question is on the growth. So you're talking about 5% to 7% compounded annual growth rates of the combined business. I'm wondering how we get to that, because if I look at the last growth rate for Refinitiv, it was 3%. Annualize your revenue synergies, that adds 1% to growth, so 4%. And broadly I think consensus is looking for around 7% topline growth at LSE. So I get to slightly below that 5% to 7% range. So are you saying that the growth at LSE Group should accelerate? Or are you saying that all the investment that's gone into Refinitiv standalone should further enhance the growth versus what's been already done on a standalone basis in 2018, and the revenue synergies come on top?

And my final question is, sorry if it's in the release, but will there be any breakup fees in this transaction?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Yes. Great. Thank you. So let me just tick through your questions. No cost synergies around Tradeweb, and that is not part of our synergy plan as it is a separate company.

In terms of your question around growth, we do believe that we will be generating incremental growth through investments, but we also feel very good about the existing growth engines of the business. I touched on this before. In terms of LCH, FTSE Russell, Tradeweb, FXall, World-Check, we have a bunch of different businesses within the combined Company that will be generating very attractive growth rates.

On top of that, we have the revenue synergies. And then, yes, we expect that the investment that Refinitiv has been making in the data platform will lead to modest incremental improvement in the near term in the growth rate, but we think over the medium to longer term, we're very excited about that opportunity.

Your last question on break fee, yes, there is a break fee.

Arnaud Maurice Andre Giblat - *Exane BNP Paribas, Research Division - MD & Research Analyst*

Are you saying how much?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

It is GBP 198.3 million. And that is effectively 1% of the pre-announcement market capitalization of LSEG. It is on Page 13 of our longer release.

Arnaud Maurice Andre Giblat - *Exane BNP Paribas, Research Division - MD & Research Analyst*

Great. And just if I can have a quick follow-up, are you assuming that the desktop revenues stop declining?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Again, we don't think about it as desktop revenues. Desktop is a distribution channel, one of the distribution channels for our data revenues. And we expect our data revenues to grow, and to continue growing.

Operator

Next question comes from the line of Mike Werner from UBS.

Michael Joseph Werner - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst*

Just a handful of questions from me, if you don't mind. And again, apologies if this is in your release. But in terms of the delta between the 37% stake that Refinitiv shareholders will get in a combined entity, I think you indicate that there will be less than 30% in terms of voting rights, so I was just wondering if you could provide what the delta there is.

And then second, as you mentioned, in terms of distribution, you guys look at, really, data. How important, I guess, is the Elektron? I think you called it -- I think you've changed the name of it now that it's been bought by Refinitiv. But really the cloud-based distribution of data, is that going to be an important scale component of the value add that you're going to be able to provide to your customers?

And then finally, on the debt that Refinitiv currently has outstanding, if you could provide just a little bit of granularity as to whether there's call options, and potentially when that debt may be able to be expired.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Yes. So I'll take your first question. David Craig will take your second. And David Warren will take the third. We'll share it here.

So you asked about the 37% and the delta to the voting rights. So the Refinitiv shareholding consortium will have 29% voting rights and a 30 -- approximately 37% economic interest. The reason for that is that the consortium did not want to go over the 30% threshold and trigger a mandatory takeover obligation.

Let me turn it -- I personally would say we're very excited about the distribution capabilities, but I will turn it over to David Craig to talk about that.

David Craig - *Refinitiv - CEO*

Yes, thanks for the question. Distribution is key and will continue to be an incredibly important part of this. If I just summarize the five distribution capabilities on the Refinitiv data platform, one, as David said, the desktop, very important; two, the partners that we have, the distribution partners, many thousands of those; three, the APIs, the feeds, and the file base for the on-premise, very important for low latency, high volume; and then lastly, the cloud. And we're going to see all of those as being continually important. Clearly, growth in the cloud, that expands in future models.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

I think the last question was on the debt. The debt is public debt, so it's about USD 9 billion of term loan and about USD 4.5 billion of bonds. I'm very familiar with all the terms, but I won't go through them in detail today. But they are called -- the bonds are callable. The term loans obviously can be called at any time.

I think what we've said in the RNS is that we would expect to take advantage of refinancing opportunities on that debt, and we have secured a bridge, a committed bridge that would support that action, and we would look to do that at some point after completion. But I'm not going to -- I can't really say much more beyond that today.

Michael Joseph Werner - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst*

Excellent. Very, very helpful. Thank you.

Operator

Next question comes from the line of Benjamin Goy from Deutsche Bank.

Benjamin Goy - *Deutsche Bank AG, Research Division - Research Analyst*

Two questions, please. The first is on -- I think overall headline, you're not looking at disposals. So wondering why this in future is not part of a bigger business review and to shift to more recurring revenues, wire sales, or potential business sales?

And secondly, on the distribution and how this changes of data, so you highlighted the four channels effectively, but you mentioned basically all are very important, but, yes, maybe you can give us some nuances where you see much bigger growth opportunities and how it impacts the Refinitiv business.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Okay. So I'll turn it over to David Craig again in a minute on the distribution channel question. We are not looking at disposals, and the business through this combination will take our percentage of revenue that's basically recurring revenues to about 70%. And we view that as a very attractive level. I think that answered your question. If I've missed it somehow, please let me know. But otherwise, let me turn it back to David Craig on your distribution channel question.

David Craig - *Refinitiv - CEO*

Yes, and I think the question is not just about the channel, but why is the data platform growing. So there is channel growth, particularly in areas like cloud, as I mentioned, and as we penetrate further into the buy side with our data. But there's also growth because there's broader data sets, and the few examples that we mentioned earlier in the call, ESG, we talked about regulation like FRTB, emerging market pricing, just a few examples where actually there is increasing breadth of data that creates growth as well.

Operator

Next question comes from the line of Ian White from Autonomous Research.

Ian White - *Autonomous Research LLP - Research Analyst*

Just two quick follow-ups from my side, please. First of all, on the debt refinancing, can I just ask, do you think is it a reasonable assumption for our modeling purposes that the debt could be refinanced at rates kind of close to the prevailing issuance rates for LSE Group? I'm just conscious it's quite a significant increase in debt versus the Group's current leverage on a standalone basis.

And just secondly, obviously, via the transaction, you increase significantly your footprint in data ownership. Are there any areas within the data product offering where you still see the combined Group as being slightly underweight? And over the medium term, would there be potential for further M&A deals to build scale in those areas?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Sure. On your second question, I think we feel very good about the scale, scope of our data platform, so no current plans to increase that.

And I'll turn it over to David Warren to answer your question about the debt refinancing.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes. Thank you. To kind of go back to some of the answers I gave earlier, we would -- there are certainly opportunities for us to refinance that debt, and you would look to us to explore those opportunities. As to what the rates might be, that's really sort of anybody's guess right now. I said we would look to try to do this -- it would be market rates, obviously, at the time we would look to do it, and we would look to do that at some point after completion. But beyond that, there really isn't sort of any more I can add.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

The only thing I would add is the combined Company taking on that financing is a much stronger credit.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes. It's a much stronger credit, yes. The other thing I would also just say, because now, actually, I have thought about something I would add, is that whatever those savings are are in addition to the synergies.

Operator

Next question comes from the line of Richard Repetto from Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

First, congratulations on the transaction. I guess I have some questions in regards to Tradeweb. And you mentioned, David, that you own -- you'll have 54% ownership. Right now, that ownership translates to almost 70% of the voting power in the structure that Tradeweb has right now. I guess, first, does the ownership structure stay the same? Will you still have that same 70% voting power? And just longer term, I'm just trying to see what your intentions might be with Tradeweb, given that you have 54% ownership, would be to try to buy in the rest of it, or what's the longer-term thinking? And I do have one follow-up.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Okay. So, thanks. Ownership structure will remain the same. And if you are familiar with our broader business, and I know you are, we have a number of different entities within our broader business where we have minority ownership interest, and those have been working very well and have persisted over, in some cases, many, many years. So just a few examples, LCH, Turquoise, CurveGlobal, MTS. As a group, London Stock Exchange Group is very comfortable having stakes in entities and having other minority investors in those. And in the case it happens to be a public company, we're fine with that. We think Tradeweb is a great business. We were very happy to see how successful the IPO has been, and we look to retain our 54% stake.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Got it. And my one follow-up would be the banks provide -- well, first, there are significant owners of Tradeweb behind you, but they also provide a lot of the revenue, about 40% of the revenue, with a lockup coming, I think, sometime in October. I know this is premature, but has there been any discussions at all with banks so far as sort of the reaction of the LSE being the owner? Or what would you expect, I guess, the reaction to the relationship there?

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Yes. So no interaction at all. So you're correct; it is a premature question. I would just say that given our operating philosophy of open access and partnership with our customers, we have a very strong relationship with the sell-side institutions. And in some cases, that has included revenue share, for example in LCH, and just very consistent strong partnership operating relationship. And these are the same institutions that have been key drivers behind Tradeweb. So I would expect that we have a very strong and productive and constructive working relationship with them, whether they are equity holders or not.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Got it. One last quick thing. Was there a bidding process for Refinitiv overall? And that would be it.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

We have had a long, ongoing interaction with Refinitiv and its shareholders. I don't believe that I would characterize it as a competitive process. There were obviously other processes going on around that we were not specifically participating in, but I'm not really in a position to comment on those.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Thank you, and congratulations again.

Operator

Next question comes from the line of Bruce Hamilton from Morgan Stanley.

Bruce Allan Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

To be honest, most of my questions have been asked, but just a couple of clarifying ones. In terms of the -- obviously, you've given a sense of the revenue mix at Refinitiv. But the profit margin is very, very different. And as we think about the progress to sort of 50% operating margins, I assume that that's the GBP 350 million of cost synergies, but no more. But any way to think about how the margins shift in the different parts of the business, or is that not really kind of relevant in terms of how you think about it? That would be helpful.

David A. Schwimmer - *London Stock Exchange Group plc - Group CEO & Executive Director*

Yes, we're not going to get into that level of detail at this point. Obviously, there are different margins across the different parts of both our business at LSEG and the Refinitiv business. We certainly understand that people will want more information, and we'll be providing that over time, but for this morning, we're not going to get into that level of detail.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

Yes, other than just to say it's more than just the synergies that are contributing to the growth in the margin.

Bruce Allan Hamilton - *Morgan Stanley, Research Division - Equity Analyst*

Sure. Topline as well.

David P. Warren - *London Stock Exchange Group plc - Group CFO & Executive Director*

And I don't -- you probably have that. And, so, sorry if I'm reminding you of the obvious, but I just want to make sure it was there.

Operator

Thank you. No further questions at this time. Please continue.

Paul Froud - *London Stock Exchange Group plc - Head of IR*

Okay. Great. Thank you very much, everyone, for joining the call. I think we've come to the end of the questions for now. There will be a replay of this later on today. But in the meantime, have a good rest of the morning. Thank you.

Operator

Thank you. And that does conclude our conference for today. Thank you for participating. You may all disconnect.
