



BLOOMBERG: The Next Move? (aka It's Our Way or the Highway)

DataCompliance LLC



Bloomberg's Next Move?

Where is Bloomberg going?

Bloomberg

Old Chinese saying “A journey of a thousand miles starts with a single step”.

Bloomberg LP is well into a business journey since founded in 1981, but it does help if you know where you are going. On many levels the company has re-defined the financial information industry to the extent peers are benchmarked relative to Bloomberg, which in itself has been moulded into its founder's image, Michael Bloomberg.

As a private company Bloomberg has the luxury of being able to take long term decisions, and carry them through, without interference from activist shareholders fixated upon short term gains. The down side is a lack of accountability and scrutiny from outside investors demanding that management justifies its strategies.

Only Gods are Immortal, which begs the question how long can Bloomberg's incumbent management continue, and what is their end game? Bloomberg faces key challenges:

- Growth in its terminal business has essentially stalled, and the terminal market looks to be in long term decline
- Bloomberg's other business areas such as feeds, reference data, regtech, are far more competitive, but growing
- New technology is threatening to disintermediate aggregators as data consumers become more discriminating
- Bloomberg's inhouse technology is legacy, but its 'private cloud' type structure could yet prove a bonus
- Most of all, how is Bloomberg LP's future strategy going to evolve in the midst of a new information revolution?



Bloomberg's Next Move?

A True Business Icon

Performance

Revenue growth in recent years has been slower compared than competitors, a respectable 36% since 2010, but not matching ICE Data's 162%, IHS Markit's 109%, or S&P GMI's 67%. Indeed revenue appears to have reached a plateau since 2014.

The obvious answer, Bloomberg is comfortably the market leader in terminals yet real industry growth lies elsewhere, especially data feeds, enterprise data usage, evaluated pricing, RegTech, and Financial Benchmarks. Segments where competitors compete aggressively and successfully. However, since the return of Michael Bloomberg the company appears to be doubling down on its highly successful, high margin terminal business.

Bloomberg has been a reluctant acquirer, Polarlake (€24M¹), Barclays Indices (£520M²) except Media, with purchases of WNEW Radio, Business Week, Eagle Eye, New Energy Finance, and Bureau of National Affairs.

Looking Back

In 1996 I listed to Michael Bloomberg speak in Sydney where he stated "Nobody will make money out of the Internet", which proves even he is not infallible.

Looking Forward

The information world is on the cusp of another revolution like the one that brought the internet in the 1990s. Will Bloomberg be quicker to see the light sooner this time around?

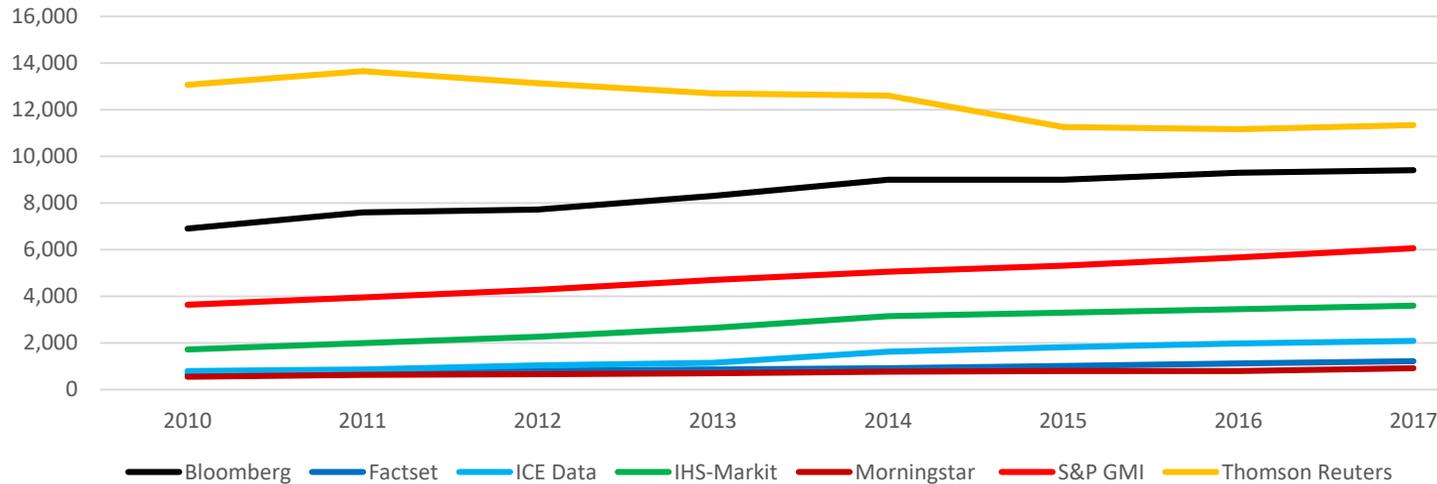
¹Source *The Times* ²*New York Times*



Bloomberg's Next Move?

Global Market Data Industry Revenues

TOP 7 MARKET DATA VENDORS REVENUE US\$M



Bloomberg's market share of revenue of Top 7 vendors has climbed less than 2% since 2010.

Bloomberg's overall revenue has increased from US\$6,900M in 2010 to US\$9,400 Million in 2017, i.e. 36%.

Vendors building their businesses around their own proprietary data are experiencing faster growth.

Source: Annual Reports

Revenue for all business activities per company.

| Top 7 Revenue US\$M | 2010 | 2017 | % Change |
|---------------------|---------------|---------------|---------------|
| Bloomberg | 6,900 | 9,400 | 36.23% |
| Factset | 641 | 1,221 | 90.48% |
| ICE Data | 797 | 2,084 | 161.60% |
| IHS-Markit | 1,726 | 3,600 | 108.59% |
| Morningstar | 555 | 912 | 64.17% |
| S&P GMI | 3,639 | 6,063 | 66.61% |
| Thomson Reuters | 13,070 | 11,333 | -13.29% |
| TOTALS US\$ | 27,328 | 34,613 | 26.66% |

1

Top 7 vendors revenue in 2010 was US\$27,328M in 2017 US\$34,613M
 Bloomberg's percentage share in 2010 was 25.25%
 Bloomberg's percentage share in 2017 was 27.16%

2

Bloomberg's revenue growth is slower than all competitors except TR
 Bloomberg's rate of revenue growth has been slowing
 Market data is increasing in sectors where Bloomberg faces competition

3

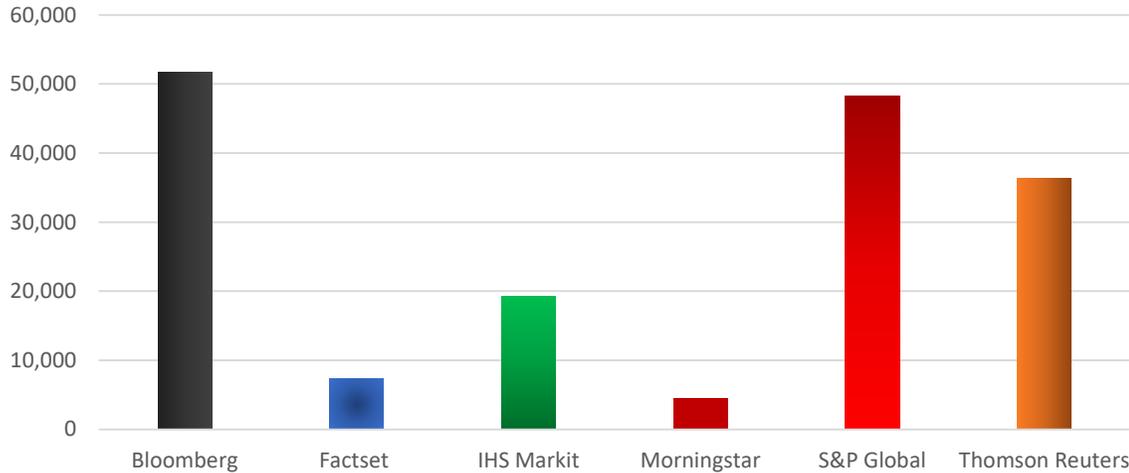
Bloomberg business is overly reliant upon terminals
 The terminal business faces long term decline as DMA grows
 Though Bloomberg's terminal business is high margin and 'sticky'



Bloomberg's Next Move?

Unlocked Value

GLOBAL MARKET DATA VENDORS MARKET CAP



Because Bloomberg is unlisted a notional market capitalisation has been calculated by applying the purchase price ratio of Interactive Data by ICE.

This is because Bloomberg enjoys high margins on terminal subscriptions and data licence sales.

Bloomberg also has strong brand recognition which translates to potential 'goodwill premium'.

| Market Data Vendors Price/Sales Ratio | Ratio |
|---------------------------------------|-------|
| S&P Global | 7.97 |
| Factset | 6.04 |
| Bloomberg | 5.50 |
| IHS-Markit | 5.37 |
| Morningstar | 5.00 |
| Thomson Reuters | 3.21 |

Price/Sales Ratio is the Market Cap at close 04/05/2018 divided by 2017 Earnings.

Bloomberg Market Cap is estimated at 5.5X Earnings based on IDC purchase price.

1 **Total Market Capitalisation of top 6 Vendors** US\$167,597 Million
Average Market Capitalisation US\$27,933 Million
Average Price/Sales Ratio 5.51

2 Bloomberg's core clients are the large financial institutions
 They balance increased demand for data with cutting expensive services
 Bloomberg is too expensive for marginal clients where growth lies

3 Outside terminal sales, Bloomberg faces stronger competition
 In trading platforms, evaluated pricing, datafeeds, & reference data
 Longer term plays are Indices, Financial Benchmarks, & RegTech



Bloomberg's Next Move?

Adapting to a Changing World

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ONE TRICK PONY

- Bloomberg's strength is the terminal business, however, a 2016 Morgan Stanley report concluded there will be medium term decline
- Depending on the source, terminals account for 70% to 80% of revenue
- Bloomberg has been expanding gently into specialist areas
- While the Polar Lake purchase does not appear to have generated the synergies expected, other acquisitions offer promise
- These include Indices, & RegTech
- So is Bloomberg more like a stable of horses where the one named 'Terminal Business' is the favourite?



BELIEVING OWN PROPAGANDA

- There is an undeniable strength in not wavering from the basic business principles which have brought Bloomberg success, i.e. the ability to set the price for the market, rather than the other way round
- Yet flexibility in adapting to rapidly changing markets where Bloomberg's current strengths are constrained by lack of long term growth prospects does not appear to be there
- Changing a successful strategy is very difficult, knowing when to change it is a whole lot harder



LEGACY TECHNOLOGY

- Bloomberg's technology has served the company well but it is founded upon Fortran first developed in the 1950s by IBM
- Bloomberg's inhouse systems are closed which has allowed Bloomberg to connect clients with people and data quickly via emulation terminals
- This leads to common standards
- However it is inefficient in an inter-connected world where smarter processes allow innovation competition
- Bloomberg tech can be considered a very private cloud, which is also co\$tly



Bloomberg's Next Move?

The Crown Jewels



Universal Data Content

1. Only Bloomberg has access to a data universe that can match TR's
2. The 'one size, one price' strategy successfully avoids cannibalisation suffered by competitors
3. Open Ticker Symbology. Reinforces Bloomberg usage and adopted by competitors



Global Presence

1. Strong brand recognition globally
2. Presence in all major, secondary, and tertiary financial centres
3. Client base that includes all major financial institutions



Terminal Business

1. The Heavyweight Champion of the Desktop in the professional market space
2. Able to command premium subscriptions of US\$48K per contract (US\$2K PM per access)
3. However growth rates are declining, and development of the terminal market is non-premium



Bloomberg Messaging & User Database

1. Early adoption of Bloomberg email before competitors a major factor in Bloomberg's success
2. This created an unrivalled connected private user database of movers & shakers globally
3. This has proven the key lock on clients. However, compliance and security are now issues



Media

1. Bloomberg Television acts as a force multiplier is promoting brand, image & services
2. Focused on business news and comment, encompasses TV, Radio, Print & The Internet
3. Is it profitable? US law on media ownership restricts buyers of Bloomberg to Americans only



Technology

1. A double edged sword, Bloomberg's own private cloud but closed & out dated technology
2. Mainframe driven enables technology consistency and reduces client infrastructure
3. Limited integration to 3rd party systems and data distributed outside lacks control



Bloomberg's Next Move?

What might be done?



Management

1. How long will the current management be in place and what are their long term strategies?
2. Bloomberg clients desire reducing over-dependency on suppliers (Bloomberg-Mail/Symphony)
3. What strategies are available for Bloomberg to manage changing relationships?



Diversification

1. Proprietary data is driving new demand, Bloomberg must embed this content type in clients
2. Bloomberg should discover new ways to unlock the value of its universal content
3. However increasing the relative revenue share of other services versus terminals requires time



Technology

1. Bloomberg's Technology is dated but still functions & offers a high level of data control
2. Question is, how long can costly mainframes and Fortran be sustainable & supportable?
3. If Bloomberg changes technology what are the potential strategies, and who are the partners?



Inter-Connectivity

1. In a linear data world, Bloomberg processes and delivery are effective
2. In omni-directional data flow relationships, interaction changes especially for smaller clients
3. Implies Bloomberg requires structural changes to adapt to clients needs and data access



KulturKampf

1. Bloomberg's corporate culture is self-confident, abrasive and contemptuous of others
2. Endearing to client frontline users, creates pushback from users' management paymasters
3. Can this function effectively in an inter-connected, partnership driven environment?



Partnerships

1. Bloomberg's premium pricing model works, but limits the market without cannibalisation
2. Partnerships could offer way to open new markets, yet protect the Bloomberg premium
3. Potential areas of co-operation are third party data processors and service facilitators



Bloomberg's Next Move?

Checkmate: 5 Moves Ahead

Companies can become victims of their own success by not adapting to change fast enough.

The Bloomberg brains trust is amongst the smartest around, but:

1. How many moves ahead are they planning?
2. What is their business event horizon?

There are 5 immediate options available to take Bloomberg forward ranked by potential, with the status quo the most likely. However, surprises do happen.

Given the competition from other financial information vendors will Bloomberg's future be 'Primus Inter Pares'? First Amongst Equals, being a Microsoft to either a:

S&P's Google, or an IHS Markit's Amazon?

1. Remain Private. The most likely scenario. Bloomberg's success is built upon an unique formula that works but unlikely to gel with outsiders 

2. Technology Buy Out. Bloomberg's technology may be antiquated but the client base and data assets could be valuable to a Google or Amazon. 

3. Media Merger. Bloomberg's desire to be the world's premier news organisation may have faded, but other media might see synergies 

4. Private Equity. Bloomberg LP does not need the money, and can generate cash internally. Equally divesting non-terminal assets would generate low returns. 

5. Listing. Least likely scenario. If Bloomberg was going to list it would probably have already done so. Listing introduces an intrusiveness requiring a different corporate ethos. 



'Turning Data Into Dollars'

Our Consulting



DataCompliance LLC's consulting is about maximising the efficient use of data as a valuable strategic resource, not merely another cost, from original creation to usage. We **'Turn Data Into Dollars'**.



We take the global perspective, advising our clients from building successful market data businesses to effectively leveraging market data sourced both externally and internally enabling them to participate profitably in the financial markets.



It is about creating data, accessing data, the regulation of data usage, and most importantly the policing and protection of IPRs and data ownership.



Maximising data utility while minimising risk is key to the cost efficiency dollar equation.



This is not only about sourcing data externally, but maximising the value of in-house and proprietary data.



DataCompliance LLC provides a future view by analysing how market data is being used now, then we look forward to how innovation and change is creating new industry dynamics

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