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THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Thomson Reuters third-quarter earnings call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Mr. Frank Golden, Senior Vice President of Thomson Reuters. Please go ahead, sir.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

Good morning and thank you for joining us today. Our CEO Jim Smith and our CFO Stephane Bello will review the results for the third quarter in a moment. When we open the call for questions, we would appreciate it if you would limit yourselves to one question each to enable us to get to as many questions as possible.

Today's results are shown for our continuing operations; that is Legal, Tax & Accounting and Reuters News. I will remind you that consistent with how we reported the first and second quarters, the Financial & Risk business was classified as a discontinued operation for the third quarter as it was for the prior two. Therefore, adjusted earnings per share do not reflect any revenue or operating income contribution from the Financial & Risk business in the third quarter.

Now consistent with this approach, beginning with the fourth-quarter results, Refinitiv will be accounted for as an equity method investment and its results will not be included in our adjusted earnings.

As a reminder, throughout today's presentation when we compare performance period on period, we discuss revenue growth rates before currency, as we believe this provides the best basis to measure the underlying performance of the business.

Now, today's presentation contains forward-looking statements. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings that we provide to regulatory agencies. You can access these documents on our website or by contacting our investor relations department.

I'd now like to turn it over to Jim Smith.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Thanks, Frank. Good morning to all of you and thank you for joining us today. I plan to cover three topics this morning. First, I will provide a few highlights regarding the closing of our transaction with Blackstone. Second, I will review our results for the third quarter, and last, I will preview the new Thomson Reuters and share some thoughts regarding our aspirations for this business going forward.

After eight months of an enormous amount of work, we are very pleased to have closed the transaction with Blackstone on October 1. We received $17 billion of cash and are very pleased to continue to hold a 45% ownership interest in the business now known as Refinitiv.

As I said at the time of the announcement, this is a transformational deal for both of Thomson Reuters and for our financial services business. And we look forward to working with Blackstone to drive the business forward and to create value for all stakeholders. So as Refinitiv begins a new chapter, we wish them continued success and we look forward to being a supportive partner.

Now let me turn to results for the quarter. Our third-quarter results continued to build upon a solid first half. Accelerating sales momentum and strong recurring revenue growth delivered our best top-line performance in more than two years.

Achieving 3% organic growth is particularly encouraging and we view this as a base to build upon. Our year-to-date performance strengthens our confidence that we are on track to deliver a solid year and an even better 2019. Given these results, we have reaffirmed our 2018 guidance.

Now, recurring revenues, which comprise 75% of our total revenues, grew 5% in the quarter and were up 4% year to date. And, as expected, adjusted EBITDA for the quarter was down 22% to $302 million.

And the margin was down year on year, reflecting higher corporate costs related to the transaction with Blackstone and higher bonus accruals we had to make during the quarter due to the fact that our financial performance this year is a bit ahead of our expectations. Absent these factors, our underlying EBITDA margin actually improved from last year's level.

Adjusted EPS was $0.11 versus $0.27 a year ago. And lastly, the Financial business grew by 1% on a reported basis and was up 2% on an organic basis for the quarter. Stephane will provide more detail in a moment related to these results for the Financial business.

Now let me turn to the new Thomson Reuters and share some of our aspirations for the business going forward. As I said last quarter, we are now in a position to play offense, with businesses where we have leading positions and markets where we are considered true and trusted partners by our customers.

That time has arrived, and we are aggressively moving forward by rolling out a new organizational structure and executing on our strategic plan to hit the ground running on January 1, 2019. The chart on the right reflects the way we will report fourth-quarter results in February.

It's customer focused. This new structure is intended to move decision-making closer to the customer and allow us to serve customers better with our full suite of offerings. The Legal Professionals, Tax Professionals, and Corporates businesses will comprise 80% of total revenues. Those segments grew 4.4% in 2017 and accelerated to 5% growth in the third quarter this year.

Our already strong positions in these markets, coupled with further investment, means these segments will comprise an increasing proportion of our total revenues, which is expected to lead to higher revenue growth. We are fortunate to have solid businesses and the financial wherewithal to execute on our ambition. We plan to ramp up investment, both organically and inorganically, in these segments to achieve our aspirations.

Now, we will have more to share with you about the new Thomson Reuters at our Investor Day next month, but let me give you a preview of what we'll be discussing and how we are thinking about the Company going forward.

Earlier this year, we set out the new objectives following the announcement of the Blackstone deal. First, we wanted to effectively separate the companies with as little disruption as possible. That has been successfully completed.

Second, we have an opportunity to fundamentally reset the organization and to change the way we manage and measure the business. For example, we are reducing the number of management layers by one-third and the number of real estate offices by one-third. This will lead to a flatter organization designed for speed and greater productivity.

Our third objective is to accelerate revenue growth. And let me explain how we plan to do that. First, we are reorienting the business for our customers, which is already beginning to unlock opportunities. As we redefine our markets around broader customer needs and shifting content to software, we have an opportunity to accelerate growth.

Our mission is to simplify the lives of professionals, enable them to focus on high-value activities, and provide superior advice, insight, and judgment to their customers.

As you will hear at our Investor Day, we have a strategy and a plan to deliver on this opportunity by providing additional value to existing customers and expanding our reach to new customers. We will supplement these organic opportunities with inorganic additions. Like Integration Point, the global trade management business we agreed to acquire last month.

So to conclude, I'm excited about the future of our Company and I believe that we have a rare opportunity to reshape the professional markets we serve. I believe that opportunity will be crystallized through mid-single-digit revenue growth and expanding free cash flow. That's our goal, that's our aspiration, and we are now beginning to execute on that ambition.

Now let me turn it over to Stephane.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Thank you, Jim, and good morning or good afternoon to all of you. Before I turn to the results, I would like to remind you once again that our Financial business is excluded from our consolidated results and was reported as a discontinued operation until the close date.

Our financial results remain distorted as we navigate towards the transition towards a smaller but more focused business. Specifically, our profitability metrics at the consolidated level are depressed by stranded costs and charges resulting from the separation. As discussed previously, we intend to gradually eliminate most of these stranded costs over the next 12 to 18 months.

And while our EBITDA performance no longer includes a contribution from our financial business, our debt level and share count as of September 30 remains essentially unchanged, as the Blackstone deal didn't close until October 1.

Immediately following the closing, we began to buy back shares and reduce outstanding debt, which I will discuss later in this presentation. This will allow us to significantly reduce our interest expense and share count and to improve both earnings per share and free cash flow per share going forward.

Now as we always do, I will talk to revenue growth before currency. So on a constant currency basis, third-quarter revenues were up 3%, which was all organic. Adjusted EBITDA was down 22%, with the margin down over 700 basis points versus the prior-year period. And that was driven primarily by additional cost and investments related to the separation of the two companies and it was also attributable to higher compensation-related expenses at the business segment level. I will provide some additional color on these two factors in a few slides.

But first, let me provide additional detail on the revenue growth performance of both Thomson Reuters and the Financial business. For Thomson Reuters, reported revenues grew 2% with a 1% negative impact from currency. As I just mentioned earlier, our organic revenue growth rate was 3% during the third quarter, which represented the best organic growth performance since the first quarter of 2016. And for our Financial & Risk business, reported revenues grew 1% with a 1% negative impact from currency, and organic revenue growth was 2%.

Now breaking down the growth rate further by revenue type, in Thomson Reuters, our recurring revenue base continued to grow strongly and was up 5%. And as you know, we are watching the progression of our recurring revenue base quite closely and it really represents the foundation for future growth rate of the Company.

Transaction revenues grew 1% and print revenues declined, as expected. And in our Financial & Risk business, transaction revenues had another strong quarter, up 5%, and recurring revenue growth, excluding recoveries, was 2%.

Now, this next slide provides a bit more color on our EBITDA margin performance during the third quarter. As expected, we incurred higher expenses related to the Blackstone transaction. Both stranded costs and one-time costs were higher than during the first half of the year.

As a reminder, we expect stranded costs to peak in the fourth quarter before starting to decrease over the course of 2019 as we generate savings from the various efficiency initiatives we are implementing in order to assess the stranded costs.

As Jim pointed out earlier, our financial performance for the year is a little bit ahead of our expectations. And as such, we had an increase on annual bonus accruals during the quarter, which also depressed our reported EBITDA margin in the third quarter.

Now the first two factors shown on this slide, stranded and one-time costs, impacted our corporate center, while the last one was spread across the business segments. And overall, you can see on this graph that our margin performance during the third quarter was actually positive when you take into consideration the various factors outlined on this line, which negatively impacted our quarterly performance.

Now let me provide some additional color on the performance of our individual segments, starting with Legal. We are pleased to report that demand for legal services, as noted in Peer Monitor, was up 1.9% in the third quarter, one of the highest year-over-year growth rates seen in the last seven years.

Overall, Legal revenues were up 4% during the quarter, with organic growth reaching 3%, which represented the best organic revenue growth performance for our Legal business in nearly 4 years. And excluding print, revenue growth was 5% for the quarter.

Recurring revenues, which make up almost three-quarters of the total, were up a healthy 5%. Transaction revenues, 9% of the total, were up 7%, reflecting strong performances by our Elite and Clear businesses as well as favorable prior-year comparison. And finally, Global Print, which makes up the remaining 18% of revenues, was down 4%.

From a profitability standpoint, Legal's margin was 37%, which was down about 300 basis points. And this was driven primarily by three factors: first, compensation-related costs that are not expected to recur in the fourth quarter; second, investments in Westlaw Edge; and finally, a tough prior-year comparable when the margin was over 40%. For the full year, we expect Legal's margin to be comparable to the nine-month figure.

Here is a more detailed look at Legal's revenue performance. As I said, Global Print revenues declined 4% versus the prior year, and on an organic basis, print revenues declined 6%. The Global Solutions businesses, which are 41% of the total, grew a healthy 9% versus the prior year. And encouragingly, recurring revenues in Global Solutions also grew 9%, which was a slight acceleration from an already consistently strong performance in the recent quarters.

Now, while we don't expect Global Solutions growth to continue quite at this accelerated pace, that segment should nevertheless continue to deliver healthy growth rates, which should favorably impact the overall growth performance of our Legal business. Finally, the U.S. Online Legal Information segment was up 2% and it represented 41% of total revenue.

Westlaw Edge continues to be very well received by our customers, with clients viewing that product as a best-in-class tool. We are selling Edge at a premium relative to WestlawNext and we plan to make future enhancements to further increase its capabilities. And given the early success of Westlaw Edge, we believe that we will be able to accelerate growth in our US Online Information segment in 2019.

Now turning to our Tax & Accounting business, third-quarter revenues were 3%. And excluding the negative impact of IFRS 15, organic revenue growth was 4% during the quarter. Recurring revenues, which are about 80% of the total, were up 5%. Our transaction revenues, which represent 16% of the total, were down 5% compared to the prior-year period.

Importantly, Tax & Accounting has seen good momentum in its net sales performance over the last couple of quarters, which should translate into a slight acceleration of its recurring revenue growth rate in the fourth quarter.

Adjusted EBITDA was down slightly versus the prior-year period. For the full year, we continue to expect margins for our Tax & Accounting business to be in line with or slightly higher than last year. I will remind you that Tax & Accounting is our most seasonal segment, with nearly 60% of full-year revenues typically generated during the first and fourth quarters. And as such, the margin performance of this business is generally weaker in the second and third quarters as costs are incurred in a more linear fashion throughout the year.

Now looking at Tax & Accounting's results by subsegment, our Professional business delivered another good quarter, growing at 5%. The Corporate business grew 3%, which was a slightly lower performance than we would typically expect from this business. And that was caused by lower transactional revenues and a difficult prior-year comparable when revenue grew 8%. Knowledge Solutions was 2% and the smaller Government segment grew 3%.

Moving on to Reuters News, results for this segment do not yet reflect any of the annual $325 million payment from Refinitiv. One-quarter of that payment will be included in our fourth-quarter results. I will remind you that the payment from Refinitiv essentially covers the cost providing the new service and contributes very little in the way of additional EBITDA. So during the quarter, Reuters News revenues were down $2 million and EBITDA declined $1 million from the prior-year period.

Let me now speak for a moment to the performance of the Financial & Risk business, which was reported as discontinued operations. As I previously mentioned, the information on this slide reflects the metrics that we will provide you going forward, allowing you to value our 45% interest in the partnership.

So F&R revenues grew 2% in the third quarter to $1.5 billion and on an organic basis, they also grew 2%. Continued market volatility led to a 5% growth in transaction revenues with strong growth in the quarter from Tradeweb.

Adjusted EBITDA rose 5% to $482 million with the margin up 110 basis points to 31.3%, mainly due to revenue flow-through and technology savings. And if you exclude separation costs, adjusted EBITDA increased an impressive 13% and the margin increased 360 basis points. Free cash flow for the first 9 months of the year was $882 million, which was a 56% improvement compared to the prior-year period.

Now let me turn to our earnings per share and free cash flow performance, and I will also update you on our expectations for Corporate costs over the balance of the year. Starting with our earnings per share, adjusted EPS in the quarter decreased by $0.16 to $0.11 per share. And as shown on this slide, this was driven by lower adjusted EBITDA resulting primarily from stranded and separation costs. Currency had no impact on EPS in the quarter.

The remainder of the decrease was driven by two items. First: depreciation was $120 million in the third quarter versus $99 million in Q3 of last year. And of the $21 million year-on-year increase, $13 million reflects the true-up adjustment [holding appreciation] expense resulting from the final split of assets between Refinitiv and Thomson Reuters.

We do expect depreciation to increase by about $20 million in Q4 due to higher capital investments through the first half of the year to support our digital and lead to support initiatives. That said, and importantly, our full-year 2018 guidance for depreciation and amortization remains unchanged.

Second, our income tax expense increased $22 million over the prior year, largely because in Q3 of last year we benefited from the relief of certain reserves related to the stable development in various income tax audits. This helps to explain our higher tax rate in the quarter and along with the concurrence of some of the one-time cost in jurisdictions where these costs are not deductible. Now based on our results for the first nine months of the year, we have increased our full-year 2018 effective tax rate guidance to between 17% and 19%.

As I stated earlier, our earnings per share performance was impacted by F&R being classified as a discontinued operation and removed from our consolidated results. However, we expect EPS to improve [incrementally] as we deployed $17 billion in cash flow proceeds to reduce both our share count and our outstanding debt.

I will now turn to our free cash flow performance for the first nine months of the year. Our reported free cash flow exceeded $1.2 billion for the first 9 months versus $526 million in the prior-year period, which was an improvement of about $750 million.

As shown on this slide, there are a number of distorting factors which impact our free cash flow performance. And hopefully this slide will help you to remove the noise and give you a clearer picture of our underlying performance.

Working from the bottom of the page upwards, the Financial & Risk component of free cash flow was up $257 million from the prior year, primarily due to higher EBITDA and favorable working capital movements. Also in the first 9 months of the year, we had $54 million in costs related to the IP & Science transaction. We made a $500 million pension contribution and we also made payments related to the charge we took in the fourth quarter of 2016.

Excluding these items, comparable free cash flow from continuing operations was $488 million, a decline from the prior-year period, driven primarily by higher severance and stranded costs as well as working capital [time].

This next slide is an update to our expectations of the phasing of corporate costs for the remainder of the year as well as for 2019 and 2020. Let me start by saying that none of the annual estimates have changed from what we showed you last quarter.

Spend during the third quarter was lower than we had anticipated at $131 million, which was primarily timing-related. As you can see on this slide, we are increasing the estimated spend in the fourth quarter by $75 million. So now we anticipate our total corporate costs in the fourth quarter will be somewhere between $250 million and $350 million. Again, no change to the full-year estimate.

The ramp-up in spending is driven by an increase in stranded costs now that the F&R transaction is closed and also by the timing of investment and charges we are taking in the ongoing business to replicate functions, eliminate stranded costs, and build digital capabilities for the new Thomson Reuters. What's reflected on this slide is our current best estimate and these numbers may of course fluctuate somewhat from quarter to quarter based on various factors.

Let me now spend a moment to speak about our capital structure. I would first like to provide you with a brief update on the use of the $17 billion in cash proceeds we received upon closing the Blackstone transaction a month ago.

We expect to spend approximately $1 billion to cover transaction-related expenses and to make investments to reposition the new Thomson Reuters. And as a reminder, these investments include building digital capabilities, [supplicating] or replicating capabilities that were previously provided for the Financial & Risk business, and eliminating stranded costs.

Next, last month, we paid out $4 billion in debt, which reduced our outstanding debt from $7 billion to $3 billion. I will get back on that in a moment. We also completed the substantial issuer bid or tender offer and returned $6.5 billion to our shareholders.

Last week, we completed $1 billion in share repurchases under our NCIB program. And we are currently working towards the return of an additional $2.5 billion to shareholders through a return of capital while we have a cash distribution combined with a share consolidation of a reverse stock split, which we expect to complete by the end of November.

Now, the return of capital is expected to be tax-free for Canadian shareholders. However, for shareholders outside Canada, the tax consequences of opting out of the transaction may be preferable to participating in it. Therefore, we strongly recommend that non-Canadian shareholders speak with their tax advisor or broker about the opt-out right prior to November 14.

When these various steps are completed, we will have returned $10 billion of capital to shareholders, reduced our share outstanding by about 30%, and lowered our leverage ratio to below 2 times. The net result of all this is that we will have a very strong capital structure, affording us significant flexibility as we focus our resources on growing the new Thomson Reuters.

Now a few specific details on our debt position. As I mentioned, about $4 billion of the $17 billion in cash proceeds was used to pay down debt, resulting in debt outstanding of about $3 billion. This puts our leverage ratio at less than 2 times, well under our target of 2.5 times.

Based on the debt we retired, we have extended our average maturity to over 12 years. We have no debt maturing until 2021, and our average interest rate is approximately 4.5%, all of which is fixed. So we are in a good position from a balance sheet standpoint for the foreseeable future.

One more item to mention. Last month, we announced a $0.02 increase in our annual dividend and this marked the 25th consecutive year of dividend increases from the Company, an achievement that we are very proud of. Importantly, it speaks to the solidity of our business and its consistent free cash flow generation capabilities.

And finally, to conclude, based on our year-to-date performance we are reaffirming our full-year 2018 outlook with two modifications to point out. First, based on our results for the first nine months of the year, we now expect EBITDA to be approximately $1.3 billion for the full year.

And second, as mentioned previously, we expect our full-year effective tax rate to be in the 17% to 19% range, primarily as a result of the one-time expenses we are incurring in jurisdictions where we can't deduct these expenses from a tax perspective.

So with that, let me turn the call back over to Frank.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

Thanks very much, Stephane. Just before we go to Q&A, let me mention that I understand that we had a problem with the audio and slides for the first couple of minutes of the call. So some of you may not have been able to hear us.

We will have the transcript up on our website shortly after the call this morning, so you will be able to access the transcript as well as the slides on the investor relations section of our website. Again, apologies for that.

So with that, I'd like to take the first question, please.

QUESTIONS AND ANSWERS

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Good morning, guys. Jim, you mentioned in the news this morning and previously that you are looking at some big M&A deals instead of tuck-ins. Just wanted to get a sense of how you give investors confidence that you will be successful with that strategy?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. I think what we are looking at is our opportunities to strengthen the strong positions that we already have. So I think if you look at a couple of models for us would be looking back at what we did with PLC, where we bought that know-how business in the legal market that significantly strengthened our position from number three to number one in the UK markets and gave us capabilities that we needed in the US market that we were able to fold into our strong position in the US market.

And then not only were we able to treble the size of that business in three years, but it was an important part of new product offerings that allowed us to get our online legal research business back to growth overall. And you see that flowing through in the numbers in this quarter what a difference it makes to have that underlying business growing as opposed to declining, actually.

I think another proof point would be the kind of acquisition that we announced last month of Integration Point, which is a platform in a global trade management space. We have other businesses in that space today. It is a growing area for us and I think this is a great platform. And that we can stop some development spend that we were doing on the platform and incorporate many of our tools on to that platform and then fold it into our distribution network.

So we think that is going to be a plus-plus. Building on the strength and on the growth areas we already have identified, we'll continue to look at things that strengthen us where we already have solid positions in the market.

Toni Kaplan - *Morgan Stanley - Analyst*

That's great. My quick follow-up is, Stephane, you mentioned Westlaw Edge. You are expecting it to be accretive in 2019. Is there any way to size how much that could be? Or if you could break out sort of how accretive it was in the quarter, that would be great. Thanks so much, guys.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Sure, let me try to answer the question. I think that Westlaw Edge is accretive from a number of perspectives. First of all, let me reiterate: we are not trying to deploy Westlaw Edge as quickly as possible and essentially to replace WestlawNext. Westlaw Edge is a premium product that stands next to WestlawNext, which is an extraordinarily good product still and perfectly valid product for many of our customers.

So the accretion that we see from Westlaw Edge comes in the form, as I said, of higher pricing that we charge for that product because of the higher value that it delivers to our customers. And in some cases, we have also seen actually some cross-selling opportunities from selling Westlaw Edge because some of our customers are [trying] content sets that are useful to really benefit from the full analytical power that Westlaw Edge delivers. So we really see the accretion, if you want, coming from various sources, not just pricing.

Operator

Aravinda Galappatthige, Canaccord Genuity.

Aravinda Galappatthige - *Canaccord Genuity - Analyst*

Good morning. Thanks for taking my question. My question is mainly for Stephane, relating to the equity income line. As we look at sort of how your Refinitiv plays out, I know they talked about substantial cost reductions, which should drive the underlying EBITDA number.

But there will obviously be, I suspect, significant amount of restructuring costs (technical difficulty) investments, and also obviously higher interest costs. How should we think about that equity income line and sort of how the next year or so would sort of play out, given the indication they have made so far?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Thank you for the question. You are exactly right in terms of the way it will be recorded. From an adjusted earnings per share perspective, we will remove the contribution of that business from our adjusted earnings because exactly of the factor that you just described. We really have no control on the earnings, and there will be increased volatility.

So investors will obviously be able to see the contribution to our earnings from our 45% interest in Refinitiv in our IFRS result. But from an adjusted EPS perspective, we will remove these results from our [CDPS].

Aravinda Galappatthige - *Canaccord Genuity - Analyst*

Thanks. And just a quick follow-up on the CapEx number. I know you have kind of kept it at 10% there. Can you give me a sense of -- that is higher than historically what we have seen, sort of the 7% to 8% and close to the 8% range. Is that sort of the standard going forward or should we look at that number to kind of ramp down as some of the new product launches have concluded?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

That's a great question. As you have heard us say, we are essentially accelerating some investments that we made in capabilities such as order to cash systems and our digital capabilities. We take advantage of this transaction to really try to stand up the new Company and make the investments that we would have made over a number of years to accelerate these investments in 2018 and 2019.

So our goal is absolutely to reduce the capital intensity of the business going forward. We think we can absolutely do that without any negative impact on innovation and product introductions.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

Thanks. If I can try to just clarify the answer to an earlier question and then a new question. Westlaw Edge, you had 2% growth in Online Legal in the quarter. It doesn't look like any of that premium pricing on Westlaw Edge showed up yet in Q3. If you could just confirm that it was still too small to call out.

And then secondly, your guidance for the year, I just want to make sure I understand this. You are raising it to the $1.3 billion range or level for EBITDA, but you say that corporate costs will still be $500 million to $600 million, even though you are trending well below that.

Are those two things not linked at all? Is the higher EBITDA guidance just from what you are doing in the core businesses? Or is it possible that you will be at the lower end of that $500 million to $600 million range for corporate and that is what helps you get to the $1.3 billion? Thanks.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Thank you, Vince. So let me try to answer each question. The first one on Westlaw Edge. We saw some beginning of an impact of Westlaw Edge in the results of the online business. It just ended up still rounding to 2%, but I think I would say it was a better 2% than the 2%s we have seen in the past. And that's why we think that over time that we see absolutely a path to like rounding that to a 3% growth rate.

So you will see the impact coming in the coming quarters as you see the impact of Westlaw Edge shining through more forcefully in the performance of our US Online Legal Information business.

And with regard to your second question on EBITDA, it's a combination I think of two main factors. The first one is that stranded costs are running a little lower than we thought and for the reasons that we explain, which is that they were not as high as we expected early in the year for the first three quarters.

Now we expect stranded costs to start, as I said in the remarks, peaking in the fourth quarter before seeing them go down. But also more importantly, our underlying EBITDA performance is a bit better than we expected. And that's what resulted in some of the factors in terms of -- that I mentioned on the call: bonus accruals and the like. So it's a combination of these two factors.

Operator

David Ridley-Lane, Bank of America Merrill Lynch.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Morning. Just a clarification. Wondering about the $500 million to $550 million of expected corporate costs for next year in 2019. How much of that is CapEx since you did disclose some portion of this quarter's corporate costs were in the CapEx line?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Sure, David. Let me take that question. So if you look at the estimate that we did for five years, there's really like -- think about it as three components. The first one is the core corporate costs, which we said should be about $140 million.

The second is essentially the stranded costs, which over the course of the year will be about $100 million, but it's not going to spread equally. It's going to be higher at the beginning of the year and then start to go down as the initiatives we are implementing to offset these costs start to take hold. And the balance is really going to be what we call like one-time cost. And most of that is really P&L expenses.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

So there will be very little CapEx in that $500 million to $550 million?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Very little. Maybe about like less than 10%.

David Ridley-Lane - *BofA Merrill Lynch - Analyst*

Okay. And just a quick follow-up. Would you expect to incur additional costs under a hard Brexit scenario? Or is the Company already pretty much prepared for that scenario? Thank you very much.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

I would say we probably are less exposed to Brexit than we were when we owned 100% of our Financial & Risk business. We still have business in the UK, but what would we expect, if anything, is that in the short term, there is going to be an increase in legal activity.

Operator

Drew McReynolds, RBC.

Drew McReynolds - *RBC Capital Markets - Analyst*

Yes, thanks very much. Good morning. On the Legal organic growth, clearly a focus I think for everyone on the call here. I know last quarter you said it was trending better. You did 3% organic. It sounds like you are confident on your Solutions business and US Online picking up. When you run the math, absent some unforeseen decline in print, it seems like 3% is the new normal. Stephane, can you talk to that at all?

And then just secondly, bigger picture on the EBITDA margin side, you guided for the full year pretty much how you've guided before. You are now going to be next year above 3% organic, which really we haven't seen for the better part of a decade.

Can you talk to operating leverage generally? How much you plan to reinvest in the business versus have some of that operating leverage fall to the bottom line? Thank you.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Sure, thank you. So on your first question, you know, as Jim and I both said in our remarks, what was really encouraging in the results of our Legal business was that the recurring revenue (technical difficulty) was 5%. And that is really the foundation of that business.

Now what we had in this quarter, we also had a pretty strong transaction revenue performance in Q3. Transactions for Legal were up 7%. Hard to say if that is going to be replicated in the fourth quarter. Likely, it is probably not because that was a pretty high growth rate for transactions.

But given like what we've seen in our Solutions from the subscription business, given what we said in terms of the performance of our US Online Information business and the contribution of Westlaw Edge, over time, we feel more confident certainly that the Legal business is absolutely able to achieve 3% or 3%-plus growth rate.

Is it going to be there every quarter? Hard to say. But in terms of like the trend, I think you are seeing the momentum that the business is having in its revenue performance.

Now in terms of your second question, EBITDA margin performance, you are exactly right. 3% is really a magic number for a number of reasons, so it's really important for us to get there and to build from there as a basis.

As Jim has always said, and you have heard us say that 100 times, what we focused on is not so much the absolute margin performance, it is trying to drive the maximum level of acceleration in our free cash flow and free cash flow per share. And that is really what we are focused on.

So where we are going to deploy the flow-through that comes from the revenue growth will depend on the opportunity that we see going forward. But it is all going to be (technical difficulty), it's going to be on driving accelerating free cash flow per share. And that's, as you know, one of the key measures of the compensation metrics that we have also as a Company.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan - Analyst*

Hi, just two clarifiers. The first one, Jim, when you said mid-single-digit revenue growth being the goal for the new Thomson Reuters, were you talking about organic revenue growth, including print?

And the second question is when the Company says it is positioned for a better 2019, does that mean [2000] organic revenue growth should be greater than the third-quarter rate or the 2018 rate?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

The answer to both questions I think is yes.

Andrew Steinerman - *JPMorgan - Analyst*

Okay. Thank you.

Operator

Paul Steep, Scotia Capital.

Paul Steep - *Scotia Capital - Analyst*

Great, thanks. Jim, on Tax & Accounting, I think you commented that this good quarter marked the low-water mark. What are some of the growth initiatives that you think drive growth higher? And then I've got a quick follow-up on corporate costs. Thanks.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. I think the opportunity for us to do more cross-selling of products within our Corporate channel. And if you look at our Tax business in Q3, the underlying business that we sell that we do with accounting firms, the tools we sell to accounting firms, continued to grow mid-single digits, as it has done consistently over the last several years.

We had some fluctuation in transactions and in the Corporate space and primarily the Corporate space and also [trust] tax softness. But again, those are episodic revenues. We believe that that has been a solid mid-single-digit growth business for us for a long time. We think it will continue to do so. We also think there's an opportunity for us to continue to grow through cross-selling in the Corporate space.

Paul Steep - *Scotia Capital - Analyst*

Great. And then just on the corporate costs for 2019, Stephane, what assumptions would have to sort of take place or hit at the more optimistic end for you to see the overall costs break below the $500 million level?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Look, I think it's going to be a matter of how large the one-time costs are. I think that the core corporate costs, that's essentially a target we set for ourselves. So we feel very comfortable we are going to hit it. The stranded costs, I think we got a better sense of what it will be.

These one-time costs, we put a range out there. I'll be honest with you, Paul. We will spend these costs if we think it is worth the investment. And I think we feel we have got a good chance to really reposition the Company. Plus, as Jim said in his management [deal], it's not very often that you

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get an opportunity like this one, where you can almost take a blank sheet of paper and say if we will start this Company, how will we try to organize it.

So we have been, I think, pretty aggressive in terms of trying to make sure we have just the number of management levels that we have. Like, take out even more real estate; locations are smaller. And we had try really to simplify the organization, make it much more effective and productive. And that is what investing these costs for.

So I'm not bothered if we are at the high end of that range, frankly, for 2019. Because I think that is going to actually increase the chances that the Company is really well positioned from 2020 and beyond.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Thank you. Jim, just to clarify an earlier point on the M&A front. Just wanted to make sure I understand this. The focus is on a small number of relatively large transactions; I want to confirm that, number one.

And then number two, thinking about since you are below the target leverage ratio, just whether you would be willing to think about perhaps getting a little more aggressive than the $2 billion acquisition target in the context of that leverage opportunity.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. I think the answer to both questions is yes. You kind of understand what we are looking for. So it would be fewer larger acquisitions. As far as the leverage target, we do have some capacity there. If an absolute home run deal presented itself, we would certainly consider it. But let us spend the $2 billion first, if you don't mind, Peter.

Peter Appert - *Piper Jaffray & Co. - Analyst*

Sure. And then can you remind me the thought around the level of dilution or acceptability of any dilution when you think about it in the context of the transaction?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Peter, are you thinking about before acquisitions that --?

Peter Appert - *Piper Jaffray & Co. - Analyst*

Yes, yes. Exactly.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Look, I think at a number of criteria from a financial return perspective. And obviously, for deals of a certain size, we review these deals with our Board and they have to approve the deal.

I would say some of the criteria that we are usually very, very focused on is how quickly is a deal accretive from a cash flow perspective. I would say if there was one criteria that outweighed other ones from a financial perspective, that would be the one.

Operator

Doug Arthur, Huber Research.

Doug Arthur - *Huber Research Partners - Analyst*

Thanks. Jim, you threw out a figure of 1.9% earlier in the call. I think you were referring to sort of overall spend in the legal market. Is it your sense that the legal market writ large is beginning to get some animal spirits in spending and pick up? Is this an inflection or not?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Well, as you know, our own Peer Monitor stands as the industry guide there. And we saw for the first time in several years, we saw a pretty solid increase in demand writ large.

So a quarter doesn't necessarily make a trend, but it's certainly encouraging to see those demand numbers moving in the right direction for the first time in a long time. In fact, it's been seven years since we've seen that kind of an improvement.

And so fingers crossed it doesn't [return into a crin]. That said, there's a lot of change and dislocation in the space. And if you looked at where that spend went, the larger firms at the top of the food chain, the top of the [Amorall] 100 did better than midsized firms and small firms.

So we think the kind of tools that we are developing for both large and small law firms and for corporate legal departments have a lot of relevance today in this market environment. But suffice it to say, it's nice to have a little bit of tailwind in the macro news as well.

Operator

Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

Thanks. Jim, could you provide from a big picture perspective in terms of your encouraging outlook here, could you break it down notionally into how much of it is your ability to put through price increases, which I think has always been better on the Legal and Tax & Accounting side than when you had to do it on the old F&R side? And how much of it is demand growth? Any color you could provide on that would be great.

And just to follow up on Westlaw Edge, is that widely deployed yet or have you targeted it to perhaps some of your more bigger customers or premium customers? Just wondering if there is -- the real momentum has yet to come in there or if it is going to be more of a slow steady build. Thanks.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

I would hope it's going to be a slow steady build there. And Tim, it is a really good question. I will start first with the Westlaw Edge question. Westlaw Edge is -- obviously we introduced it to some key clients that we work with closely in the late stages of developing the product. And we steadily rolled that out amongst what we believe are our bellwether firms and market-leading firms.

So it is going to be slow steady build. I would say we have terrific uptake and interest out there. I would also say I would have to characterize it as the best customer reception I have seen to a new product.

So we have a solid pipeline of leads that are interested and we are working through with them on a deployment and sales program [with the] company. Because of the analytic nature of the tools that we've added in Westlaw Edge, there's a training program that's involved to get the most out of that.

So it will be kind of a long tail of acquisition, as Stephane alluded to earlier in his remarks. This isn't a platform replacement; this is a whole new suite of analytics that are being applied.

And the great thing about the product, actually, is that in some cases, it's not just been the uplift we have gotten from the Edge sale, but we have also seen some ancillary sales of underlying content that's needed to feed the analytics. So we are very encouraged about how that is going to build.

And also, we have in production right now new features and capabilities to add to that Edge platform in coming quarters and coming years. So we think that is going to be a foundational piece for us. But as far as Stephane alluded earlier, as a significant contributor to revenue in the third quarter, not yet. But it should be a bigger contributor in Q4 and a growing piece of the pie as we go forward.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

I think we have one final question. So we will take that call, please, or question.

Operator

George Tong, Goldman Sachs.

George Tong - *Goldman Sachs - Analyst*

Thanks. Good morning. Recurring revenue growth in your Legal Global Solutions business accelerated to 9% in 3Q from 7% in 2Q. Can you elaborate on the drivers of the acceleration and what unusual factors there were in the quarter that makes you think that recurring growth may not be sustainable at these levels?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

That's a pretty strong organic growth rate for the segment. As I said in the remarks, George, I think we expect to see continuing strong performance of the business. Maybe not quite 9%, but mid- to high-single digit is what this segment should be able to achieve over time in terms of their recurring revenue base for growth.

What happened in the quarter specifically, I think we had like a particularly strong quarter from our Clear business and a couple of other businesses that really delivered stronger-than-expected growth. But as I said, I think that with Legal Solution, if you look at the future evolution of the Legal segment, it's that part of the segment where we see a lot of growth, right.

And so both in terms of investments that we are making organically and also acquisitions, that is the segment we'd like to make as big as possible as quickly as possible.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

That will be our final question. So I'd like to thank everyone for joining us today. And as I mentioned earlier, you can find the transcript and slides on our website following this call. Speak to you again next quarter. Thank you.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Thank you.
