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PRESENTATION

Vince Valentini - *TD Securities - Analyst*

Okay, welcome back, everybody. We are continuing our session this afternoon with Thomson Reuters, a very exciting company that still happens to be deemed to be Canadian, although very much global in nature and doing some exciting things on the technology and artificial intelligence and also even work-from-home solutions in their markets for people.

So it's a stock that has held up extremely well during the pandemic. And we're thrilled to have both the new CEO, Steve Hasker, President and Chief Executive Officer, as well as the new Chief Financial Officer, Mike Eastwood, join us today. So, Steve and Mike, thanks for being here.

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Thanks for having us Vince. We are thrilled to do it.

Vince Valentini - *TD Securities - Analyst*

Let me start off with the strength of your balance sheet and the potential for acquisitions. It struck me a little bit that, even though you entered the pandemic with very low debt leverage and almost no near-term debt maturities and still strong free cash flow, you've still gone out and sort of availed yourselves of the credit markets recently and a new \$1.4 billion bond issue.

And I think you drew down \$500 million on your credit facilities in the first quarter. Am I reading too much into it here to say you're building a bit of a cash cushion here in case some acquisition opportunities may present themselves during the crisis?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

The short answer to your question is no. We drew down \$350 million on March 31 as a precautionary measure, as did many companies with balance sheets as tremendously strong as ours. We did not draw under a bank facility nor did we issue \$1.4 billion of debt to build a war chest per se. We have plenty of capacity already with available cash and room under our maximum target leverage ratio of 2.5 to pursue the acquisitions that we need to pursue.

So, our capital structure and our liquidity remain extraordinarily strong. And we, as you know, plan to generate about \$1 billion in free cash flow this year. We have \$800 million or thereabouts on hand, we have another \$800 million under -- available under our original \$1.8 billion revolving credit facility. And we also have -- \$1.8 billion in commercial paper program. So, all that added up just gives us lots of financial flexibility, lots of room to move, but no intent to do any big boulder acquisitions in the immediate term.



Vince Valentini - *TD Securities - Analyst*

And I think, Mike, on the first-quarter call you cited global trade management and government services as two areas that could be of interest to make acquisitions. Can you update us there? Is there anything that could be getting closer? And also are these -- would you consider more smaller tuck-in deals or is there anything -- maybe \$400 million plus let's say, anything on the slightly larger side in those two segments?

Mike Eastwood - *Thomson Reuters Corporation - CFO*

I won't isolate it, Vince, just to global trade management or to the government. I would say across our total TR, we are looking -- continuing to look at a number of acquisition candidates in the near term. So, would we do an acquisition in the next few months? Probably not of size. Certainly, as Steve said, we have the capacity and the availability.

As we get closer or later into the year would we consider an acquisition? Possibly. We have the firepower to do that. I would think, Vince, they would be more in the size of the recent acquisitions that we've done. But we certainly have the ability to do a larger one if an interesting one presents itself. But certainly would not isolate it, Vince, just to global trade management or to government. Although they are very interesting spaces for us, there are more spaces that we're interested in.

Vince Valentini - *TD Securities - Analyst*

Excellent. Now your predecessors, Jim and Stephane, seemed to indicate, and correct me if I'm wrong, that acquisitions in the future would be a little more software driven as opposed to more content publishing type deals we are used to over the longer-term history. And those might come with different valuation parameters that obviously could drive higher organic growth and be buying businesses with significantly above double-digit growth rates.

But maybe they wouldn't come at the normal frequent (technical difficulty) revenue multiples. Is that still where your heads are at, that there may be some slightly higher multiples paid for more growth or not?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Well, Vince, as we've mentioned, and certainly mentioned on our recent earnings call, we think there's plenty of runway for both organic and inorganic growth within the Big 3 segments. And we're excited about the prospects that we see in each of those segments. We will build upon the approach that Jim and Stephane laid out as far as M&A concerns. You won't see any sort of U-turns or diversions from that strategy. I do not foresee any need to add a fourth leg to our business as one example.

As you point out, we are and we have been interested in software deals that can have a multiplier effect when combined with our current businesses. But having said that, we don't want to make acquisitions that may be great businesses in and of themselves, but standalone and are disparate from our existing products and services and solutions within the Big 3 and therefore can't be leveraged across the organization.

So, we're going to be very disciplined about looking for acquisitions that financially make sense for us, that are additive to our customer experience, and where our content assets, to the extent that software plays, our content assets can be integrated into those. And that -- last but not least, those are complementary to our culture here at Thomson Reuters.

So yes, some of the SaaS businesses are more [expansive], but they also come with higher growth rates depending on the specifics of an acquisition. And that was certainly the case with three particular acquisitions that I've inherited -- one, Integration Point; secondarily, IQ; and thirdly Confirmation. All of those are characterized by fast growth.

Vince Valentini - *TD Securities - Analyst*

And before we move off to a sort of allocation of capital topic, the share buyback program has been pretty aggressive ever since the Refinitiv transaction and now you've put a pause to that. Is there a thought point to starting buybacks again, and is there room for both buybacks and acquisitions going forward?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

As we said on the Q1 call, we completed our regular \$200 million buyback program for the year in the first quarter and we don't expect to increase it over the remainder of the year. We'll revisit it for next year and consider if and when to recommence that at about the same level. No decision is taken on that yet.

And with regard to M&A, look, I think as we sit here right now, Vince, the current environment isn't conducive to M&A. So, just as a result of sellers and buyers being reticent to step forward, at least until we get clarity on -- more clarity on the health crisis and more clarity on the resolving economic situation. We think it's going to take time before we return to a more normalized M&A environment. When we do though we will be prepared to act.

We have the strength of balance sheet to act. We think we are advantaged acquiring in many situations within our Big 3. And this crisis is affording us the opportunity to get through a lot of homework in terms of what our list of potential targets looks like and how and who to acquire that might integrate into our business and better serve our customers.

Vince Valentini - *TD Securities - Analyst*

Excellent. When people think M&A with Thomson Reuters, they are usually thinking about what you might buy. But you have alluded to some potential non-core asset sales, maybe real estate or other items, that you could use to help fund the cash taxes of \$400 million to \$600 million that you anticipate incurring when the Refinitiv/LSE transaction closes. Do you still have that hope or has the slower M&A environment you just alluded to, Steve, made it less likely you'd be able to monetize those assets at reasonable prices?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Yes, we don't see the prevailing economic environment as impacting our ability to monetize those assets. We think those assets are in a category of businesses that are holding up well in this environment and some of our optimality around real estate is also holding up. So, we have a number of options available to us which we believe will provide us with several viable paths when those taxes need to be paid.

Vince Valentini - *TD Securities - Analyst*

Now let's shift gears to your actual operations and businesses. Before I get into the segments themselves, just as an overall comment on your net sales and growth, you mentioned that you're still being able to put up positive net sales in April and you expect all of Q2 to remain positive, albeit less positive than you would've expected before the COVID pandemic. So, can you frame that at all for us as to what the flow-through is?

We've always thought of Thomson Reuters as a business with a bit of a lag effect, that that sales activity of subscriptions today impact revenue for the next 12 months. So, if we just ignore the print and transactions and events side of the business where there's other temporary impacts and just look at the core subscription base, does the reduced pace of net sales versus your original plan sort of translate into 200 basis points of lower growth in 2021 as that flows through?

Steve Hasker - Thomson Reuters Corporation - President & CEO

Well, we are not a position to discuss 2021 guidance or expected performance today. There are still far too many uncertainties to contend with as we move through Q2 and into the back half of the year. But what I can say is that 40% to 50% of in-year net sales contribute to revenue growth in the same year with the balance not really contributing until the following year.

So, lower recurring sales in 2020 will have an impact on growth in 2021, all else being equal. The [progress] for us as we move into our 2021 budget season will be how much of that we can make up in 2021 through new product introductions, new sales, higher retention. And we think we're well placed as we make that transition and think through the implications for next year.

Vince Valentini - TD Securities - Analyst

That's certainly fair. The legal segment, you've talked about 60% of your revenue being on multiyear contracts. In the past we've thought of there's a bit of a linkage between legal employment numbers and your organic revenue growth and net sales in the legal business. I'm not sure if that's still as much the case.

And with these contracts you talk about, are there minimum sort of volume guarantees in those contracts that protect you from one of your law firm clients potentially having 3% or 4% fewer lawyers employed than they had before?

Steve Hasker - Thomson Reuters Corporation - President & CEO

Well, as you know, 60% of our legal contracts are multi-year that include annual price increases. And those legal contracts are enterprise-based, not seat-based. So, reductions in headcount at law firms does not have a direct impact on us and our content and solutions are truly must have in order for our customers -- our legal customers to serve their clients and run their businesses.

That said, if there is a prolonged period of sustained headcount reductions, then when a contract comes up for renewal it could be a more difficult conversation that could have an impact. But there's certainly not a direct relationship between headcount and the characteristics of our contract.

Vince Valentini - TD Securities - Analyst

That's good color, Steve, thanks. So, in the Fed stats for the month of April that showed a 4% decline in US legal employment levels -- really doesn't matter much unless we saw that sustained for at least a year, maybe longer until you had to renegotiate these multiyear contracts. Is that a fair way to look at it?

Steve Hasker - Thomson Reuters Corporation - President & CEO

Yes.

Vince Valentini - TD Securities - Analyst

And in terms of the transaction revenue within legal, it's also been my understanding in the past that bankruptcy and restructuring activity is nice, and it obviously increases in times like this. But the much bigger volumes for your law firm clients are either in financial transactions like M&A, IPO or in litigation, so that in recessions the activity levels on a net basis [don't] still decline.

It may not translate into revenue impacts immediately given what you said as you're not as much seat-based. But is that still a fair characterization of the sort of legal volumes that you deal with in the industry?

Steve Hasker - Thomson Reuters Corporation - President & CEO

Yes. We are seeing continued levels of activity within our legal clients in serving -- in our customers within serving their clients. It's hard to say if one offsets the other or there's upside or slight downside in terms of comparing bankruptcy and restructuring and some of the sort of capital markets activities that have been elevated relative to M&A and IPO and some of the other things that have gone on hold or at least cooled down.

But what we are seeing is there are customers of ours, law firms, that are increasingly hiring and focusing more on their bankruptcy and litigation practices given the environment. And so, there's healthy activity within that segment of the customer base.

Vince Valentini - TD Securities - Analyst

And your Company has also been instrumental in serving the court system, especially in the US and some pretty nice contracts for Westlaw Edge in those markets last year. Can you talk us through, is there a revenue model there as courts have to go to virtual sessions? Is that just your base business provides for that is or is there actually some incremental transaction type revenue possible?

Steve Hasker - Thomson Reuters Corporation - President & CEO

We have not seen a decline in litigation-related activities thus far. And so, just to peel that back a little bit, what you're seeing is courts in many states have moved to virtual hearings. And anecdotally yearly evidence is that they're actually seeing greater throughput, greater efficiency and effectiveness from handling a number of matters in a virtual environment.

Now novel states have done that for sure. And so, you see some states and some court systems further along into that process than others. But the follow-on effect to us from having certain states not move to virtual courts and therefore be stalled, we haven't seen that follow-on effect yet.

Vince Valentini - TD Securities - Analyst

Excellent. Let's shift gears to the cost side of things. You've obviously targeted a \$100 million cost-saving program that you say should be sustainable into 2021 as well. Mike, on the Q1 call you said the reduction in revenues that you quantified at about 300 basis points, which would be about \$207 million, would basically be offset by this \$100 million OpEx program.

Can you just connect those dots for me? Because our prior understanding was your operating leverage was quite high and about 70% to 80% of the costs were fixed, which to me would mean a \$200 million revenue reduction would translate into more like \$150 million and \$160 million of operating profits. So, \$100 million cost savings wouldn't quite cover it off. So, has that operating leverage ratio and fixed cost ratio changed a bit as you've moved more into software and software as a service?

Mike Eastwood - Thomson Reuters Corporation - CFO

Yes, Vince, the fixed cost ratio for us is closer to actually 60% to 65% where we sit today. As I mentioned on the May 5 call, the \$100 million of cost containment for 2020, we are confident on delivering that this year. And we're also confident of sustaining that into 2021. There could certainly be a mix difference in 2021, but we think that will definitely sustain as we move forward there, Vince.

Vince Valentini - TD Securities - Analyst

And I know I've had some investors ask me about this, so if you can just clarify. I think you are quite confident in the plan, but just to flesh it out a bit more. Travel and entertainment was a big component of what you articulated.

If we assume that the world will get slightly back to normal in 2021 and your employees are traveling a bit more and entertaining a bit more, I assume you're not just going to be putting a freeze on those expenses, and you're thinking there's other types of expense savings that come in to replace those as T&E expenses ramp back up?

Mike Eastwood - Thomson Reuters Corporation - CFO

Yes, that's correct, Vince. Certainly T&E is a component this year as well as the consulting and advisory services and also headcount management. We continue to hire in very strategic areas for our Company, especially to support growth initiatives. As we move into 2021, the key learnings from this year, we think we can certainly continue to have lower T&E than we had pre-COVID, but not to the extent that we did this year. So, but T&E will certainly be lower next year.

We think we can sustain the lower consulting and advisory in 2021 and there are a variety of other areas within our overall ex -- with our operating expense base that gives us confidence. I think we've had a good track record of delivering on our commitments historically in regards to lowering our cost base, and we'll continue that as we move forward. So, very confident, Vince, with that, but the mix will certainly be different.

Vince Valentini - TD Securities - Analyst

To go on the other edge of that sword for a second is -- your T&E expenses being down is a pretty common theme across a whole lot of companies these days. And there are some industries on the other end of that that obviously get hurt in the hospitality business.

I don't recall ever seeing any segmentation from Thomson Reuters since you changed these new reporting segments and added a corporate segment after the Refinitiv deal. Do you have any -- I mean I think you serve all types of global corporations who need complex tax and legal solutions. Does that presume that you have some exposure to these hard hit areas of the economy, whether it be airlines or hotels or other hospitality industries?

Mike Eastwood - Thomson Reuters Corporation - CFO

Yes, we certainly have relationships with some of those industries, Vince. It's not a high concentration for us. Certainly we monitor that closely internally in regards to industry verticals, but it's not a high concentration for us. And we factor any downturn associated with those more high-risk industries as we provided our guidance on May 5.

Steve Hasker - Thomson Reuters Corporation - President & CEO

I think, Vince, it's worth noting that we formed the corporate segment with Jim's leadership in and around January 2019. So, it's sort of in the -- given the long history of Thomson Reuters, it's pretty new to us. And I think it's a big opportunity, and it's one we've only just started to scratch the surface of. And so, in that context, our exposure to any one particular industry vertical is pretty mild and pretty manageable.

Vince Valentini - TD Securities - Analyst

Yes, that certainly makes sense. One other thing I'm confused about, which usually makes me think some of the investors might be confused, is there's a lot of this talk about global trade tensions, and obviously China versus US is the top of the pile of concerns.

How does it impact your business trying to sell global trade solutions to help companies manage trade treaties and international flows of goods and commerce? If we do see more protectionist measures, is that a net negative to the amount of demand that your corporate segment could see for your complex workflow solutions?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Well, the beauty of our business is that complexity breeds opportunity, and this is across all of the segments. If we see a Tick up in litigation activity as a result of the health crisis, we will benefit from that. Certainly more regulation and changes to the taxation system create demand for our solutions in and around tax and accounting.

And similarly changes to the global trade structures, whether they are positive or negative for our customers, generally benefit us as we'll have to provide those customers with more information and more data.

And so, for example, if someone's got to [unpick] their existing supply chain and re-create a different supply chain, they're going to need more information and data in order to do that in the best possible way and the most efficient manner. So, not to be callous about it but that's good for us. That sort of complexity creates demand for our solutions.

Vince Valentini - *TD Securities - Analyst*

Excellent. And Steve, just in terms of strategic priorities, I know it's only been a couple months that you've been in the CEO seat, but do you have any thoughts of where you want to focus your attention? Is there anything different that we should expect under you versus Jim Smith?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Look, I consider myself to be lucky to succeed Jim who, as you know Vince, is a terrific guy and has had a tremendous impact here. As I said on the Q1 call, I'm fortunate, very fortunate to have joined a company with a long history, a strong foundation and resilient businesses. TR is a company whose customers truly value our solutions and what we do and it's a company that plays an essential role to the addition functioning of critical markets and to commerce more broadly.

I think based on my first 90 days or so, I've observed a couple things. One is we have plentiful growth opportunities within our core franchises. So, we've got gas in the tank in each of our Big 3 and we are going to do everything we can to assess those opportunities and pursue them. And so, there's nothing untoward required in terms of step-out growth. I think we've got lots of room to move there, firstly.

Secondly, we have significant potential to take further advantage of operating scale and efficiency. We are still in assessment mode on some of this given the early stages from Mike and my point of view, but a couple different things.

One is we are very well positioned to navigate through this challenge. But from an operating and financial perspective we've migrated 98% of our workforce to work from home. They've done that seamlessly. And most importantly, they've actually improved our customer service through this, which I think is a significant achievement.

Secondarily, I think the crisis itself will create more demand for our core solutions. I have the luxury of spending time every day talking to our customers. And I see and hear more demand for accurate, timely, useful information delivered digitally and accessible 24 hours a day. That is only going up. And we're going to focus our efforts on making sure that our products and solutions today meet our customer needs, but also that which we are developing meets or exceeds those customer needs.

And then clearly as a management team, we are looking to take every opportunity to accelerate investments in the core franchises through and beyond the crisis and I think we'll emerge even stronger.

One particular opportunity we have, particularly post the divestiture of the F&R business now called Refinitiv, is we can shift from a portfolio or holding company in terms of sensibility to much more of an operating company, and take advantage of scale, perform activities that are similar across the business but currently are performed in disparate parts of the business, we can perform them significantly more efficiently. We can imbue technology in them and, most importantly, improve the customer experience.



And that's -- I think that's an exciting journey for us to get on and we can accelerate the start of that journey as a result of the crisis. And then we can work through that over the next few years.

Vince Valentini - *TD Securities - Analyst*

Excellent. We only have a couple minutes left, but I'm wondering if your philosophy about free cash flow per share has changed. And I think that was a core financial strategy for management and it also was embedded into compensation systems. Has that changed or do you see that changing as really one of your primary objectives is to grow free cash flow per share?

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Yes, we want to change that focus and, yes, it's a key objective. Sort of looking back, I appreciate that it's been a significant contributor to the increase in our share price over the past two years. And the expectations are around growing free cash flow and free cash flow per share has been instrumental there.

And so, the beauty of free cash flow is that cash is cash and it's highly measurable and our management team understands the (inaudible) impact free cash flow. So, whether that's driving growth and many customer needs, whether it's doing what we do more efficiently in terms of our operating expenses, or being more capital efficient, all of those things are part of the conversation of the [incentive] structure as a team here and part of our conversations with investors because I know they are laser focused on it.

Vince Valentini - *TD Securities - Analyst*

That's good to hear from my perspective. We have maybe 30 seconds left. Mike, I'm going to ask you one quick one and I think you can give us a quick answer. I haven't heard too much in terms of bad debts from Thomson Reuters. It has been a bigger topic with a lot of other companies.

Am I right that you serve primarily large corporations and large professional organizations, so bad debt expense as a percentage of your total receivables has never been a big issue and it probably wouldn't be anything we should lose too much sleep over during the pandemic?

Mike Eastwood - *Thomson Reuters Corporation - CFO*

That's a good characterization, Vince. I would just also remind the group that small firms, whether it be law, tax and accounting, is also a part of our business. But bad debt has not been a significant issue for us in prior recessionary environments. And we do not anticipate any significant concerns with bad debt in the near term.

Vince Valentini - *TD Securities - Analyst*

Thanks for that. Steve, Mike, I appreciate you taking time out of your busy schedules in this period of crisis to update us. Your insights have been very helpful. So, thanks very much for participating.

Steve Hasker - *Thomson Reuters Corporation - President & CEO*

Thank you, Vince.

Mike Eastwood - *Thomson Reuters Corporation - CFO*

Thank you. Have a good day.



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