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TRI.TO - Q1 2014 Thomson Reuters Earnings Conference Call

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OVERVIEW:

Thomson Reuters announced 1Q14 adjusted EPS of \$0.46. Management reaffirmed its previous 2014 outlook.



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Thomson Reuters first-quarter 2014 earnings call. (Operator Instructions). As a reminder, this conference is being recorded. I will now turn the conference over to Frank Golden, Senior Vice President, Investor Relations. Please go ahead, sir.

Frank Golden - Thomson Reuters Corporation - SVP, IR

Thanks very much and good morning and thank you all for joining us as we report our first-quarter results. We will begin today with our CEO, Jim Smith, followed by our CFO, Stephane Bello. Following their presentations, we will open the call for questions. We would appreciate it if you would limit yourselves to one question each in order to enable us to get to as many questions as possible during the call.

Throughout today's presentation, keep in mind that when we compare performance period on period, we look at revenue growth rates before currency as we believe this provides the best basis to measure the underlying performance of the business.

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. Let me now turn it over to the CEO of Thomson Reuters, Jim Smith.

Jim Smith - Thomson Reuters Corporation - President & CEO

Thank you, Frank and thanks to those of you on the call for joining us. Today, we will begin with a review of the first quarter's results. Then I will update you on the progress we continue to make. I will then turn it over to Stephane who will review the results in more detail.



Now to the results for the quarter. In short, the year is off to a good start with the first quarter's performance consistent with our full-year expectations. As you've heard me say on several calls, the key is the trend line, not the performance in any given quarter and the trend continues to improve. I am pleased with the trajectory of the business.

As I said last month at our Investor Day, our actions are taking hold and enabling us to build a much better platform to support future growth as we execute more effectively, launch better products and simplify the business. And you can see that in these results. For the quarter, total revenues were up 1% reflecting an exceptional period for Tax & Accounting, continuing good growth from IP & Science and a marked improvement for our Legal segment. All of which more than offset a decline in Financial's revenues.

Our Financial business continues to make progress. That said, given the subscription nature of that business and its lag effect, our progress will not translate into top-line improvement in 2014. Simply put, Financial's revenue performance this year reflects last year's negative net sales. However, the current trend in our net sales performance continues to improve and we are making tangible progress on the cost side.

At the consolidated level, EBITDA rose 8% primarily from lower severance charges this quarter as compared to the first quarter of last year. And underlying operating profit rose 14%, again, primarily due to lower severance charges. Adjusted EPS was \$0.08 better than Q1 of last year. We have also made progress returning more capital to shareholders. Since announcing our \$1 billion share buyback program last October, we returned nearly \$1.1 billion in capital to shareholders through share repurchases and dividends. And lastly, we are reaffirming our full-year 2014 outlook.

Let's now look at the results by business segment for the quarter. Financial's revenues declined 1%, which was expected in light of the negative net sales performance in 2013. The business continues to make significant operational progress with substantial improvement in execution. For example, during the quarter, we launched Eikon 4.0, as well as Accelus Org ID, an exciting know-your-customer product in our Risk business. We also closed the legacy Reuters 3000Xtra with over 120,000 customers upgraded to Eikon.

Net sales, as expected, were negative for the quarter, though better than the first quarter of 2013 and the fourth quarter of 2013. In fact, net sales in both the Americas and Asia were positive for the quarter. That was offset by continued softness in Europe. For 2014, we forecast better net sales than 2013, which should lead to improving growth next year.

Now, as you can see on this slide, we are no longer reporting four units within the Financial segment given that the business is no longer managed under that structure. As David Craig discussed at Investor Day, we are moving to a unified platform, which gives us the opportunity to now operate and manage as one business operating at scale. Prior to that, we had four business units each with their own development organizations, their own commercials, their own strategies, their own products. This change has enabled us to simplify our structure and remove cost. It also means we can spend in areas that drive the biggest benefits while ending investment in duplicative areas.

The Legal segment's revenues rose 2%, a nice rebound from Q4 with strong performance from our growth businesses, including Elite, Practical Law and FindLaw. However, this was moderated by a decline in US Print revenues of 3% and by US Online Legal Information down 2%.

Tax & Accounting had a very strong quarter with revenues up 13% of which 10% was organic. That was driven by strong growth across the business, including the Corporate business, which was up 22% and the Professional business, which was up 10%.

IP & Science also had a good start to the year with revenues up 4% driven by subscription revenue growth of 5% and transaction revenue growth of 3%. And our global growth businesses continued to perform, up 7% during the quarter. And I would remind you that the GGO results are included within each of the four business segments.

Let me conclude by reiterating a couple of points we made at Investor Day that bear repeating. First, we believe that going forward we will achieve a gradual improvement in revenue performance, which is a natural evolution as our growth businesses comprise a larger proportion of total revenue, as new products take hold and as we continue to improve our competitive position.

Second, as we shift to an enterprise model, we have the opportunity to further reduce costs and we have targeted \$400 million of additional savings by 2017. These savings will provide bottom-line momentum in the near term while also enabling us to reinvest a portion in the business.



And third, through a combination of improving top-line growth and taking advantage of scale initiatives and employing a more balanced approach with regard to the allocation of our free cash flow between tactical acquisitions and share buybacks, I firmly believe our business is fully capable of delivering steady top-line growth improvement and attractive bottom-line returns.

Now, before I turn it over to Stephane, I would like to take a moment to recognize colleagues from Reuters News -- journalists, Jason Szep, Andrew R.C. Marshall and the team who won the 2014 Pulitzer Prize for International Reporting. The award speaks volumes about the dedication and courage of our journalists and it reminds all of us of the high level of professionalism to which we aspire every day across our Company.

With that, I want to thank you and I will now turn it over to Stephane to discuss the first quarter's results in further detail.

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

Thank you, Jim and good morning or good afternoon to you all. As Frank indicated earlier, I will speak to revenue growth before currency throughout today's presentation. This first slide provides a snapshot of our first-quarter results, which do reflect the impact of charges during the quarter, consistent with what we announced last October. As mentioned in our press release, these charges had a \$10 million negative impact at the EBITDA level. As a reminder, we still expect to incur a total of \$120 million of charges for the full year and we would expect the balance of the charges to be spread relatively evenly over the remaining three quarters.

Revenues were up 1% during the first quarter. Organic revenues were flat, which represents an improvement of about 100 basis points relative both to the same period last year and to our Q4 results. So this performance is very much in line with the gradual improvement in revenue growth we have been expecting as a result of our mix dynamics.

Overall, our Professional businesses grew 5%, 3% organic, while F&R declined 1% and was down 3% organically. Adjusted EBITDA in the quarter was at 8% with an EBITDA margin of 26.2%, which represented an improvement of 180 basis points from the prior-year period. This increase was primarily due to lower one-time charges compared to Q1 last year. In the first three months of 2014, charges totaled \$10 million compared to \$78 million in the first quarter of last year. Now excluding the charges from both periods, the margin in the first quarter of this year was 26.5% compared to 27% in 2013. The 50 basis points decline was primarily the result of the revenue decline in our Financial business, which I will discuss later in the presentation. Foreign exchange added 10 basis points of positive impact on the margin during the quarter. Finally, underlying operating profit in Q1 increased 14%, again, primarily due to lower charges.

Now let me provide you with some additional color on the performance of individual businesses starting with Legal. During the quarter, our Legal business grew 2% and was flat on an organic basis. This level of organic growth represented 200 basis points improvement over our Q4 performance. Excluding the impact of US Print, Legal's organic revenue growth during Q1 would have been positive 1%. Subscription revenues, which accounted for about three-quarters of the total, were up 3%, 1.5% organically. Transactional revenues, 11% of the total, were down 2%. This was in line with our expectations. It was primarily driven by lower ancillary revenues from Westlaw in the US.

Turning to our profitability metrics, Legal's EBITDA increased 3% and operating profit increased 7%. Now here is a more detailed look at the revenue performance within Legal. At a recent Investor Day, we introduced this new way of looking at revenues. It allows us to focus our attention on the changing revenue mix of the business as our growth businesses become a larger proportion of total revenues. As a reminder, what we call our growth businesses include everything except core legal research in the US, both Print and Online.

So in aggregate, these growth businesses, which made up 44% of Legal's total revenue base during the quarter, rose 7%, 4% organic and this was driven by solid performance from Elite, Practical Law and FindLaw. US Print revenues, which represented about 15% of the total, were down 3%. As indicated earlier, we expect to see mid to high single digit revenue declines for US Print for the full year. And finally, US Online Legal Information, which is about 40% of total revenues, declined 2%.

Turning to our Tax & Accounting business, that segment delivered a very strong quarter. Revenues grew 13%, of which 10% was organic. Recurring revenues, which is about 80% of the total, grew 9% organically and transaction revenues grew 11% organically. From a profitability standpoint, EBITDA was up 17% and operating profit was up 22% in the quarter with the related margin up 210 and 230 basis points respectively primarily



reflecting the flowthrough of the strong revenue growth. As we always remind you, small movements in the timing of revenues and expenses can impact margins in any given quarter for the Tax & Accounting business and as such, full-year margins are more reflective of the segment's underlying performance.

As you can see on this final slide, we achieved strong growth in Tax & Accounting for the quarter across all segments. In particular, the Corporate and Professional segments delivered organic growth rates of 14% and 10% respectively.

Now turning to our IP & Science business, first-quarter revenues grew 4% with organic growth up 3% and each of the IP & Science businesses recorded organic growth for the quarter with Scientific & Scholarly Research performing particularly well and delivering 8% organic revenue growth. This revenue growth led to a 3% increase in EBITDA with operating profit flat due to a \$2 million increase in depreciation and amortization expenses. EBITDA and operating profit margins declined 40 and 90 basis points respectively due to the dilutive impact of acquisitions made in 2013. As you can see on this slide, the majority of IP & Science revenue is recurring. During the first quarter, recurring revenues represented about three-quarters of the total and they grew 5%, 4% organic, while transaction revenues in Q1 were up 3% and 2% organic.

Now turning to our Financial & Risk business, performance for both revenue growth and profit was in line with our expectations. Financial & Risk revenues were down 1% with a 2% contribution from acquisitions. So organic revenue was down 3%. This organic revenue decline reflected the continued impact of our sales performance over the prior twelve-month period. So as Jim mentioned, the trend line in F&R's net sales performance is encouraging as the first-quarter net sales, although still negative, were better than the prior-year period with the Americas and Asia both positive. And we anticipate this gradually improving trend to continue over the balance of the year.

The EBITDA margin and operating margins were both up 260 basis points and the primary driver of the improvement was lower one-time costs compared to the prior-year period. Excluding one-time costs from both periods, the EBITDA margin for F&R was down 60 basis points primarily due to the flowthrough of the 3% decline in organic revenue. We anticipate seeing year-on-year margin improvement for the balance of the year as expense savings have a greater impact as we progress through 2014.

And one of the key reasons we expect to see such a margin improvement over the balance of the year is related to the benefits resulting from the actions we took in the fourth quarter of last year. We continue to realize savings from the headcount reductions related to platform shutdowns and other efficiency initiatives implemented over the last 18 months. However, the margin impact of the savings actions we announced at the end of last year will be greater as 2014 progresses. This chart shows that, as we have simplified and continue to simplify the Financial & Risk organization, our headcount continues to decrease. As we mentioned during our recent Investor Day, we are targeting a 20% reduction over a two-year period. For perspective, F&R headcount stood at around 19,400 at the end of the first quarter and is expected to be at around 18,500 by the end of the year.

Looking at the Financial & Risk revenue in a bit more detail. Recurring revenues, which were 76% of the total, declined 2% during the quarter, 3% organically. This decline was the result of the negative net sales performance in 2013. Transaction revenues, 13% of the total, increased 3%, but they were down 4% on an organic basis as a result of lower foreign exchange volumes across the industry. Recoveries, about 11% of total revenues, declined 1% and as a reminder, recoveries are low-margin revenues.

Looking at revenues for the first quarter by geography, Europe, Middle East and Africa, which represents F&R's largest geographic segment, was down 3% reflecting the continuing challenges, particularly in the European banking sector. Revenues in the Americas were flat and revenues in Asia were up 1%.

Now let me turn to the review of our consolidated results. First-quarter adjusted EPS was \$0.46 per share, \$0.08 higher than a year ago. This \$0.08 increase was attributable to higher operating profit, which was primarily driven by lower charges, partially offset by a slightly higher tax rate. For the full year, we remain comfortable with our guidance for interest expense of between \$450 million and \$475 million, as well as an effective tax rate for the year of between 13% and 15%.

Turning to free cash flow, the first quarter is usually our weakest quarter from a cash generation perspective and this quarter was no exception. It is not reflective of what we expect for full-year performance, which to remind you is between \$1.3 billion and \$1.5 billion. While our free cash flow



performance in the first quarter was negative, it was close to \$100 million better than last year despite the negative impact of higher cash severance charges, which were about \$40 million higher on a year-on-year basis. Again, this is from a cash perspective. This year-on-year improvement was driven by a better working capital performance and by lower capital expenditures.

And finally, let me update you on our capital strategy. During the first quarter, we bought back about 8 million shares for a total capital outlay of \$264 million. So from the announcement of a \$1 billion buyback program last October through the end of the first quarter, we had repurchased over 15 million shares for an aggregate capital outlay of \$564 million. And as Jim mentioned, over the past six months, we have returned nearly \$1.1 billion to shareholders through a combination of share repurchases and dividends. Finally, at the end of the first quarter, our net debt to adjusted EBITDA ratio was 2.3 times, which was well within our target of 2.5 times.

So to wrap up, we are pleased with our start of the year and based on the first-quarter results, we are reaffirming our outlook for the full year. Let me now turn it back over to Frank.

Frank Golden - Thomson Reuters Corporation - SVP, IR

Thanks very much, Stephane and that concludes the presentation, so I'd like now to open the call for questions please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Drew McReynolds, RBC Capital.

Drew McReynolds - RBC Capital Markets - Analyst

Yes, thanks very much and good morning. Maybe just two quick ones from me. Just on the Eikon situation, I'm just wondering if, Frank or Jim, you can give us an update just on the kind of number installations and billing terminals that you have. And then just in terms of US Legal Print, obviously down a little bit more modestly this quarter, can you help us just understand why the fluctuations in those organic growth declines quarter to quarter? Thanks.

Jim Smith - Thomson Reuters Corporation - President & CEO

Why don't I start with the second question first and then come back? I think I will kick the Eikon question to Stephane if that's okay. I think the simplest answer on the Legal Print question is seasonality. We have published on different cycles throughout the year, so it just depends upon what the publishing schedules are. As we've said, we still expect that to be more of a mid-single digit decline for the full year and we expect that to influence by seasonality.

As a kicker into the Eikon number, we finished the number roughly in line with where we were at the beginning of the year and that is a net of solid gross sales and some cancellations. And I would just remind you that this is going to be a little bit of a different journey this year than we had last year where we were working very hard to do a one-for-one swapout of 3000 Xtras for Eikon. Now as we begin to move the functionality from the old ThomsonONE products onto the Elektron infrastructure and accessible through an Eikon platform and viewer, this will be a slower and steadier journey and one that will be managed to maximize revenue as opposed to just move people as quickly as we possibly can.

Drew McReynolds - RBC Capital Markets - Analyst

And if I can just follow-up there, Jim. Was that kind of in line with what you were expecting as you kind of kick off the ThomsonONE migration?



Jim Smith - Thomson Reuters Corporation - President & CEO

Yes, it is absolutely in line with our expectations.

Drew McReynolds - RBC Capital Markets - Analyst

Okay, thank you.

Operator

Sara Gubins, Bank of America.

David Chu - Bank of America Merrill Lynch - Analyst

Hi, this is David Chu for Sara Gubins. And in Legal, it appears that some costs were pushed back. Can you help us think about Legal margins for the rest of the year?

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

Sure, David. It is Stephane answering. I don't think there is any change to what we said earlier. I think for the full year we would still expect the Legal EBITDA margin to be flat to maybe down slightly and that is really a combination of two factors. One is the revenue mix change, which is very favorable from a revenue perspective how to grow businesses, representing a bigger proportion of the total of these growth businesses at a lower margin than the very, very profitable US Print and US Online businesses. And that would be offset by continuing actions, efficiency actions that the Legal business will take. So overall, if we can get the Legal business to continue to gradually improve its top-line growth, as you've seen very much in the first quarter, they were up 200 basis points, I would not expect this kind of improvement every quarter obviously, but it was great to see them move back up from the negative-oriented growth we had in the fourth quarter. That is really our priority in Legal and if we can do that while maintaining margins, I think that will be our objectives for the Legal business.

David Chu - Bank of America Merrill Lynch - Analyst

Okay, great. And then just one follow-up. So can you speak to the timing of shutdowns for the data networks? Just wondering how much there is left to do and the timing of these events?

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

That is very much the area of focus now. And I think it goes back to the earlier question of Drew whereas last year we were very focused on transitioning from upgrading all the 3000Xtra customers onto Eikon, which was a much better [front] and platform than 3000Xtra was. Now we are very focused -- the F&R community is very focused on the simplification of the back end of this system. So very focused on the (inaudible) network. You remember Tim Collier speaking about that at the Investor day. There, the migration -- (inaudible) have been fully migrated. We are still running the platform in parallel for a few more weeks, but we are well ahead with that migration. The next big one is the brand optimized network, which we are in the process of migrating. That one is going to take a little longer. I would expect that we would be done with this one by the end of this year or very early next year. And if we do that, I think we will have the largest proportion of our back-end systems on Elektron, which would be really a great achievement.



David Chu - *Bank of America Merrill Lynch - Analyst*

Okay, thank you very much.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

Yes, thanks very much. A two-prong question on the transformation program. Any further visibility on when you will identify any restructuring costs and announce those? And secondly, I am wondering, as you do all this massive real estate consolidation, are you taking a look to customer service? Is there a way to sort of optimize the efficiency and effectiveness of your customer service that I think is pretty fragmented across all your business groups? Are you creating sort of larger call centers as you do this transformation?

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

Look, that is a great question. To the first one, no, we are not at a point where we have any further visibility. We are working the plan and looking at everything and we do not, at this point, anticipate or see any future charges that we haven't announced at this point. We will do -- if that opportunity presents itself, we will let you know as soon as we know, but we don't see that yet.

As far as the location strategy, we think there is a number of positives from looking at our location strategy. The cost benefits are obvious, but our location strategy is really being led by the business teams and it is all about where we want to interface with customers, it is where we want our talent located and I think there is a real opportunity for us to improve our customer service by reflecting better our customer footprint and where we locate our workforce. So I think there are a lot of positives to the real estate strategy that we are looking at right now.

Vince Valentini - *TD Securities - Analyst*

Okay, thanks.

Operator

William Bird, FBR.

William Bird - *FBR Capital Markets - Analyst*

Good morning. I am just wondering if you could just speak to F&R. The wider organic revenue decline seemed to move somewhat counter to the improving net sales trend you've seen recently. So I just was wondering why that is and what you expect going forward. Thank you.

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

Sure, let me try to take that one. I think that -- you are right. I think that the numbers we published don't do justice to the progress that is happening [underlying]. F&R has been at minus 3% organic now for like the last four quarters, I think, if I'm correct. If you look at the rounding of the number, you can see that actually, in Q1 of last year, they were at like -- I think it was like minus 3.3% or something and this year, they are more like minus 2.5%. So there is underlying improvement; it is modest, but we never expected it to be really accelerated and really fast.



The other point I would make importantly in the first quarter is that there is one piece of the revenue growth that we can't really predict and that is the one that really leads to transaction revenues and in Q1 of last year, you will remember that transaction revenues were actually up slightly. Organically, I think they were up 2% or 3% and this year, they are down 4%. So that also has a dampening effect on the overall organic growth rate of F&R.

William Bird - *FBR Capital Markets - Analyst*

And could you speak to what you are seeing in Europe?

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

Look, as we said, I think looking at the leading indicator, which is net sales, Europe was the only region which was still negative in Q1. So there's a little bit of improvement, but it is still by far the region that is putting us down the most on the F&R business. The other two regions were positive this quarter. For perspective, in Q1 of last year, all three regions were negative. So we've seen progress everywhere, but the progress has led to essentially a move from negative to positive in Q1 for net sales for the Americas and for Asia, but that was not the case yet for Europe.

William Bird - *FBR Capital Markets - Analyst*

Thank you.

Operator

Andre Benjamin, Goldman Sachs.

Andre Benjamin - *Goldman Sachs - Analyst*

Hi, good morning. There is a lot of attention to the desktops within the F&R business. I was first hoping you could provide us with the percentage of F&R business that is desktop versus the rest and then maybe give us a little bit of color on what you are seeing in terms of trends for feed demand and what the growth rates have been there.

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

Sure, Andre. I think we've said in the past that the financial desktop business represents a little less than 50% of F&R's total revenue base, so probably around 45% of the revenue base. And that is obviously the portion of the business that is declining right now. The rate of decline, from a revenue perspective, is still in the mid-single digit area at this point in time.

Andre Benjamin - *Goldman Sachs - Analyst*

And with regard to the feeds in terms of what you are seeing in terms of demand for that business?

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

The feeds actually is more of a growth across our area. Both the market is growing and our business is growing too. So demand remains actually quite strong in the feed business.



Andre Benjamin - *Goldman Sachs - Analyst*

I guess without pushing on specifics then, maybe shifting to the tax business. It doesn't really get discussed very much. Growth accelerated the last three quarters to double digit on a constant currency basis. Could you maybe talk a little bit about the pickup there and whether we should assume that that normalizes back down to the kind of mid-single digits it has tended to be or if there is something special going on that we should assume that continues?

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

I would say that the 10% organic growth really was extremely pleasing for us. And it really demonstrates the tremendous work that the management team has done there, the shrewd investments that they have done and more importantly how well-accepted the product is. And you can see that that growth rate is very well-balanced across the segment both in the Professional and the Corporate side and now the smaller government business is kind of coming back following some of the issues we had last year. I would expect that for the full year I would probably not expect to see like a continuation of a double-digit organic growth rate; that would be quite remarkable. But I do think this is a business that has the potential to grow mid to high single digit and that is probably what we would expect for the full year for Tax & Accounting.

Andre Benjamin - *Goldman Sachs - Analyst*

Thank you.

Operator

Ato Garrett, Deutsche Bank.

Ato Garrett - *Deutsche Bank - Analyst*

Two quick ones from me. One, can you give me a little bit more of an update on Practical Law as you have been deploying that into the US? Just wanted to get a sense of how that is going relative to establishing its footprint here. And then two, just wanted to dive into the improving trends of the net sales a little bit to see if you guys could disaggregate that between trends as far as cancellations moderating or gross sales improving. Thanks.

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

Why don't I take the first one and then hand the second one to Stephane? I think we are very encouraged by Practical Law in the US and as we begin -- it has been a very, very successful integration for us, particularly in the UK and as we have got our editorial teams together in the United States, I think we see more and more opportunity to ramp up that kind of practical know-how solution from a Practical Law perspective and incorporate that into our Legal solutions at an even faster clip. So the short answer is that we have exceeded all of our kind of near-term goals for that acquisition and acceptance is proving to be very strong and demand for us to ramp up even faster is there. So that is a big success story for us.

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

And on the net sales (inaudible) you were asking, we have seen steady improvement in what we call our gross sales over the last few quarters actually and in the first quarter, gross sales actually showed a marked improvement relative to what they were in Q1 last year. What is offsetting that is the cancellation we continue to see and these cancellations come in the large accounts, as Jim mentioned in his remarks, primarily as large banks continue to reduce headcount.



Ato Garrett - *Deutsche Bank - Analyst*

Okay, great. And then I think it sounds like those cancellations are probably more concentrated within Europe being that's where your sales are still -- net sales are still negative there. But then in the US would you see that that trend has stemmed a bit?

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

Yes, it probably stems a little bit in the US, absolutely.

Ato Garrett - *Deutsche Bank - Analyst*

Okay, great, thank you.

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

I would say overall the retention rate in the first quarter was about flat and what we would expect. As we mentioned, (inaudible), we may see some improvement in the retention rate due to the fact that we get a much better (inaudible).

Ato Garrett - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Thanks. There have been a couple of media reports in the past few months on further expected sell side cuts at certain large banks, especially in Europe. This obviously isn't a new trend; something that has been going on for a while now. But do you view the trajectory of net new sales in F&R being more at risk now than you thought last quarter or do you feel like the operating environment is still about the same, like it has been challenging? Thanks.

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

A good question and we see the same headlines that you do and obviously we are in constant communication with all those customers and we think the environment remains challenging. Our biggest customers are the world's biggest banks and they are hardly in a state of normalcy and back to the good old days. I think we can all agree to that. So we think it is a continuing challenging environment, but it has been for quite some time. It doesn't feel to us like it is worsening. In fact, we are at a point, and as I said last year, where it is not everything getting worse all the time anymore. There are real positive pockets out there. And even in a choppy and tough environment, we are finding opportunities to grow because whenever we can be in a position to help those big banks who are all struggling with their costs, where we can be in a position to help them reduce their costs, when we can be in a position to help provide industry utilities that can help take cost out by doing things that they can all no longer afford to do for themselves, that is a real opportunity to grow.



So in some ways, the current environment has opened the door for us to have broad strategic conversations with our biggest customers that we wouldn't have had five years ago because folks are considering a whole range of services. And while we would all love a more robust environment for the big sell side banks, I have to say that there is opportunity within the current environment today. If you look at various pockets, our risk business for example was up 11% or something in the first quarter all in and that is a positive story for us. Our compliance products and services, the reason we launched this Accelus Org ID product is that we think there is a great deal of opportunity for us to grow there. So yes, I expect it will remain a challenged environment for our largest customers, particularly in Europe right now, but there is opportunity in that as well.

Toni Kaplan - *Morgan Stanley - Analyst*

Great. Thanks.

Operator

Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

Yes, hi, good morning. Could you reconcile your comments on -- you mentioned you thought that you were making tangible progress on the cost side, yet you indicated margins were down in the first quarter in F&R if we ex out the severance charges. Could you reconcile those comments for us? Thanks.

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

Certainly let me try to take this one. Actually the first-quarter results were very much in line with what we expected. As I mentioned in my remarks, the actions we took at the end of last year will have a greater impact on the expense base of the business as the year progresses. The simple reason for that I think is that, as we've seen -- if you were to look at our headcount number at the end of last year and what it was at the end of the first quarter, you see a big decrease. However, because of the way the notification rules work in certain countries, particularly in Europe, many of the people actually left later in the quarter, so you didn't see the full impact of the [extended] benefit in Q1, but it should become more transparent in the second quarter.

Tim Casey - *BMO Capital Markets - Analyst*

Thank you.

Operator

Doug Arthur, Evercore.

Douglas Arthur - *Evercore Partners - Analyst*

Yes, good morning. Stephane, two questions. The \$68 million drop in severance in the quarter, which I mean I think as you guys are explaining it explains most of the margin improvement. Irrespective of the \$120 million in charges that you are earmarking for 2014, is that -- from a quarterly point of view, is that going to be the biggest delta that you see for the remaining of the year on the severance line?



Stephane Bello - Thomson Reuters Corporation - EVP & CFO

Yes, with the exception of Q4 obviously where we took a very large severance cost last year also. But if you exclude that one, which we clearly identified, there was not a lot in terms of severance, nothing really material or meaningful in Q2 or Q3.

Douglas Arthur - Evercore Partners - Analyst

Okay. And then just a follow-up on Legal. The 2% decline in Online Legal, is that something you think flattens out as the year goes on? How do you see that playing out?

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

That was impacted partially by transaction revenue within Westlaw, as I mentioned. So that is a little harder to predict. The same issue we have in Legal and Financial for the proportion of the revenue base, that is transactional in Q1. What we call the ancillary revenue, which is really transaction revenues associated with Westlaw, show a bigger decline than maybe in prior quarters. So it really will depend on that aspect, I think, to see the overall evolution of the core on line subscription rate.

Douglas Arthur - Evercore Partners - Analyst

Okay, thanks.

Frank Golden - Thomson Reuters Corporation - SVP, IR

Operator, we would like to take one final question please.

Operator

Matthew Walker, Nomura.

Matthew Walker - Nomura Securities - Analyst

Thank you very much. Just a quick clarification, if you could, on one thing, which is Legal and the other thing, which is the buyback. On the buyback first, I guess you have motored through quite well. You've got only \$400 million or so to do in the last three quarters. Does that suggest that you are going to increase the buyback figure? Obviously, you have room to do so?

And the second one was on Legal. When you look at the 4% for the non-Online and the non-Print business, the 4% organic growth, what was the figure for Q4, if you have it, for that definition of revenue, i.e., the growth revenues? What was the growth rate in Q4 for growth for Legal?

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

Let me take the first question, the buyback, while the team is frenetically researching the answer to your second question. Hopefully we will have it by the time I am done on the buyback issue. But you are right, I mean our intent was to (inaudible) was based on the buyback. When we announced the program, we said quite clearly that our intent was to complete that \$1 billion buyback and that it was not like a figure that we would not intend to completely achieve.

I think what is important is you heard through our comments that we've states very clearly that we view share buyback as another important lever of our overall value creation toolbox going forward. So obviously we need to review the next (technical difficulty) once we complete the first \$1



billion buyback program, which you can read from our comments I think the intent was not to do one and then finish it there. We will obviously review like the circumstances where we are closer to being at the end of this \$1 billion buyback and see what are the calls for capital might be at the time. But as I said, share buyback is an important lever for us to create shareholder value by returning capital to shareholders.

Frank Golden - Thomson Reuters Corporation - SVP, IR

And Matthew, as it relates to the fourth-quarter growth rate for those growth businesses in Legal, we will follow up with you after the call on that.

Matthew Walker - Nomura Securities - Analyst

Sure. Okay, thank you, Frank.

Frank Golden - Thomson Reuters Corporation - SVP, IR

So that will conclude our call today and we'd like to thank you all very much for joining us.

Operator

Thank you. Ladies and gentlemen, this content will be available for replay after 10:30 AM today through midnight May 7. You may access the AT&T executive playback service at any time by dialing 1-800-475-6701 and entering the access code 323915. International callers dial 320-365-3844 using the same access code 323915. That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference. You may now disconnect.

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