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THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRI.TO - Thomson Reuters Corp at TD Securities Telecom & Media Forum

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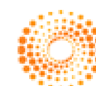

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CORPORATE PARTICIPANTS

Neil Masterson *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

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Vince Valentini *TD Securities Equity Research - Analyst*

PRESENTATION

Vince Valentini - *TD Securities Equity Research - Analyst*

We'll continue with our luncheon presenters while everybody finishes their lunch. We're thrilled to have Thomson Reuters with us here today, to give us an update on their strategy and the great transformative things they've been doing with their business.

So we've got Stephane Bello, the Executive Vice President and Chief Financial Officer to my far right, your far left. And coming back also to our conference, again, is Neil Masterson, Executive Vice President and Chief Transformation Officer. So Stephane and Neil are going to go through a few opening slides to set the table for us, and then we'll go to a Q&A session.

So I'll pass it over to Stephane, I guess?

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

Sure. Thank you very much, Vince. Thank you very much for having us, inviting us here, and thank you all for coming to listen to us and we look forward to your questions a little later.

We thought we, maybe, would start with a little bit of context. I think many of you in the room are very familiar with the story. And one thing that can be said, it's boringly consistent what we've been doing over the last 3 or 4 years. But I think it's worth, as I said, as context setting, reminding what we said about 4 years ago, when really, we announced what was, at the time, a pretty fundamental shift in our operating philosophy.

Those of you who've followed the name for a long, long time know that the Thomson Corporation first and Thomson Reuters really has been acting for a very long time as a portfolio company, really buying companies and selling them, never really trying to integrate anything that we were buying. It's a model that worked very well for us for a period of time.

When Jim Smith became CEO of the company, he made a very fundamental shift to that strategy and said, "You know what, we're going to start operating the business. Instead of being just portfolio managers, we really want to like act as true operators and we're going to move to that enterprise." Really relying more on organic growth, less on acquisitions and really trying to finally take the advantage and the benefit of the scale that a company of our size should really have.

That was a very profound change at the time, I would say. And it took a few years to get the whole organization to this new enterprise mindset. But what it means essentially was, as I said, that we would rely much less in acquisition, much more on organic growth and look at driving scale. That was the big #1 priority that we announced at the time.

The second priority was that we were going to continue the work that we had started in our financial business. And just to put things into perspective, that's about the time where we set this objective of achieving a 30% EBITDA margin in our financial business, for perspective back in 2013, the margin. And before, the margin had been in the mid-20s. We've achieved that objective last year, and we did that in an environment where, really, we didn't get much help from the top line growth. So it was really done by driving efficiencies and cost takeout and combining platforms and the like. You're familiar with the story.

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And then the final priority we announced there was about our capital strategy, and that was very much the logical coloring if you want, of the business strategy, to the extent that we would rely less on acquisitions and more on organic growth. We would -- and to the extent that the business model is still very free cash flow generative, we would have a lot of cash on our hands. Obviously, we would be very committed to a dividend philosophy and we spent about $1 billion a year on dividends. But the rest of our free cash flow, we would use essentially to buy back shares.

And to put things into perspective, since that time, since 2013, we have returned about $9 billion of cash to our shareholders, about half of that in the form of dividend, the other half in the form of buyback. We are now in the process of executing under our fifth tranche of the buyback program, and we're well on our way to executing under that program.

And just as an interesting useless factoid, we just crossed the 60% count in terms of looking at how much shares we've bought back compared to the shares we issued in connection with the Reuters acquisition. Remember, we issued a large number of shares in connection with the Reuters acquisition. We now have essentially bought back over 60% of these shares. Not that we're counting, but it's something we track nevertheless.

So that's really what the strategy we announced 4 years ago. We've been very consistent. We show this slide pretty regularly, both externally and internally. And what has the strategy resulted from a financial perspective? Well, here's essentially the picture from that time, both from a revenue growth perspective, from a margin perspective.

Now starting with the right-hand side of the slide, the margin perspective, if you look at the guidance we've provided for this year, our guidance is to deliver EBITDA margin ranging somewhere between 28.8% and 29.8%. So that will be, if we achieve that guidance, which we very much count on achieving, of course, that will represent a 350 to 450 basis points improvement in margin. And as I said, we've done that in an environment where the top line growth has been -- has remained pretty low. You can see that on the left-hand side of the graph.

So if you look at how the strategy is evolving now, and I'm -- the last slide I'm going to go through before passing on to Neil, very consistent with this strategy in terms of the priorities we've set for this year. And I'm going to start from the bottom of the slide. The #1 priority is obviously achieving the commitment, delivering on the commitment that we've made. And about 4 years ago, we set an EPS objective, an EPS target, which at the time was $2.80 per share. We've since then brought the target to that $2.35 for 2 very simple reasons: one was that currency essentially has a negative impact on our results, but more importantly, we divested 1 of our 4 big businesses, our IP & Science business last year, and that was the majority of the reason for the reduction. Nevertheless, that $2.35 still represents an improvement of over 30% in earnings per share over a period of 3 years. We're very committed on hitting this target, I would say, this is stable stake. We want to deliver on the commitment that we've made.

Number two, we want to continue to drive productivity gains. Neil will speak about that a little bit more in a second. But the Transformation program that we started, that we embarked upon in 2013, was really aimed at driving scale. And driving scale in our mind means, first, like driving cost efficiencies, which will translate to margin improvement on one hand, but also help us fund the journey in terms of like being able to invest behind our highest growth initiative on the other end. And we've accomplished a lot in that regard, but we think there's still a lot to achieve.

And finally, the #1 objective is really to now shift the transformation machine that Neil is essentially spearheading towards initiatives, which will help us improving revenue growth. And that really falls into like 2 big buckets: number one, we believe we got an opportunity to improve sales effectiveness, making essentially our sales force much more effective than they've been in the past, allowing them to spend more time selling products as opposed to like administrative stuff.

And number two, is really eliminating a number of customer pain points. And when we interview customers and we run customer satisfaction surveys, what we find out is that, typically, we get pretty good scores in terms of product satisfaction, but pretty weak scores in terms of customer experience. They just don't like having to deal with the area of contractual agreements that we have with the differences in commercial policies, with the time sometimes it gets to get answers.

And so there's a lot of blocking and tackling that we need to do, and we've really now essentially aimed the transformation machine and the very programmatic approach that we have followed to drive scale initiative at improving customer experience.

And I'll turn it over to Neil now to speak a little bit more about that before we take your questions.

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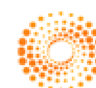

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Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

Thanks, Stephane, and thank you, Vince, for inviting me. So just a bit of context. So we kind of started the transformation back in 2014. And at that time, you have to, as Stephane mentioned, we're very much a kind of an almost a portfolio of portfolio companies. You have to remember, we did over 300 acquisitions over a decade. So -- and when you do that, you obviously have lots of stuff.

And so we started to really focus on some core back-office areas, so the infrastructure, how we build products. Some of the more visible things, for example, are real estate. We had over 500 -- we're operating from over 500 locations back in those days. And the goal was really to kind of make sure that -- and really, as we progress forward, is really to drive growth and also improve our retention, I'll come back to this retention point in a moment, and also improve the effectiveness of our organization, the speed it can react.

So we made some pretty good progress, and we've actually exceeded our internal targets as you can see there on the right-hand side of the screen. In 2016, for us, we took a very pretty significant step. Up until that point, each individual business and each individual sub-business actually looked after -- had its own technology build, did a bit of this, did a bit of infrastructure, did all sorts of stuff.

And -- but in -- so January last year, we created what we call, a bit of a mouthful, enterprise technology and operations, or ET&O. And what that is, is essentially all technical infrastructure, all product development, what we call our content factories and supporting functions like procurement and real estate, et cetera, we basically put into one organization.

And to give you a sense of -- and in our terms, that's quite a large organization, to give you a sense of scale, that represents about 1/3 of TR's total cost base. And in ET&O, we have 10,000 technologists. That's kind of sort of the scale that we're operating at. So -- and the reason that we did that is that we felt by bringing it together, we could actually create an organization, which will be much more responsive to our customers, and also we have a much more kind of -- have a much greater degree of fungibility in how we apply resources and to direct those resources much more quickly behind our best growth opportunities.

And frankly, it's a lot of bits and pieces as well. We have to -- not only do we need to kind of become a more flexible, fungible organization, but we have to become much more cloud based, we have to kind of invest in security and things like that at scale, right? And also to be able to develop these skill sets such as artificial intelligence, and also data science and cloud compute. So that's what we set ourselves to do, and we've made some quite good progress there.

I would say we've got quite a bit more to do. But we've made kind of a lot of progress in the last 18 months. And that's been borne out in the financials in many respects. And also, for example, in the headlines of headcount, we operate that and so on and so forth.

What we're trying to do is take the same discipline and the same methodologies to apply them to the front of the house, if you will, towards our go-to-market organization or our sales force. And as Stephane mentioned, we have some quite a bit of opportunity here. The first thing I said that overall, we spent -- we did some very, very detailed customer surveys and take feedback. It was all blind surveys and highly objective is that overall, our products are pretty well rated by our customers, right?

And also is our service. You can see here, normally, the ratings we get are sort of 80%-plus net promoter score, so generally speaking, very positive. But in terms of ease of doing business, that we fall down, you can see there's quite a difference there between our ease of doing business scores, and basically the way our products are evaluated by our customers.

And there's some simple reasons for that. If you go out and go and buy 300 companies, you get lots of different billing systems, lots of different commercials, lots of stuff, right, things that customers don't like, but are integral to running our business. And so we do -- we also know -- and the opportunity here is that we also know that this pain of doing business with us has a negative impact in our retention scores.

So our retention rates, which are very important in a recurring revenue business, are about 89%. So if we can improve our retention by 1%, that's like $100 million, okay? And let me tell you, give you some sense about the ease of doing business scores and why they're not good, why it's in our control, and why I think we can improve in them.

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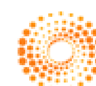

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So I'm ashamed to tell you that 11% of our invoices that go out are inaccurate, okay? We have 150,000 different products out there. That drives an enormous amount of commercial complexity. And at the start of -- at the end of last year, at the end of 2016, 75% of our invoices were actually sent out in paper, okay? So clearly, these are areas of obvious improvement that we can attend to, and I think they're areas that we can improve on quite quickly.

And so the way we're approaching this is, again, pretty systematic. We're using some of the tools that we used in the transformation of the technology organization. We're running a series of quite simple work streams, nothing terribly fancy. And each of them basically has a goal of -- well, 1 of 3 goals or all of or 1 and -- either 1 or 3. A, to drive growth, right? B, to be much -- b, to improve our ease of doing business; and c, to drive efficiency.

So when I go with -- the first 2 are really about driving growth. But you see they apply to all of those 3 objectives. So for example, today, we have 1,500 different external websites, okay? So it's very hard for us to get any kind of scale. And as customers are trying to find the services we offer, it's very hard to find a product that they want to buy. And even that is quite -- even if they find it, it's quite hard to get, download a free trial, get to a salesperson so on and so forth, because we have all this fragmentation.

So clearly, what we're trying to do is what we call the interest and exposure. We're trying to integrate that very quickly indeed, and that applies to all our customers, all right? And as I'm sure you know better than I do, generally speaking, professional users are behaving far more like consumers nowadays. And that also means that they want to interact with their partners digitally rather than automatically picking up a phone or seeing a salesperson. So we're building much more of an integrated digital presence across the company.

The second thing is that for many of our smaller customers, and we have 300,000 customers who spend $10,000 or less over the year, they want to not just evaluate our products and investigate our products electronically. They want to transact with us digitally as well. So in essence, we're building an e-commerce engine for our smaller customers.

And finally, from a service perspective, we see many of our -- even our largest customers want to have basic service standards deployed digitally rather than having to phone somebody else. Essentially, we're moving at pace on that.

The second box is really pretty obvious. And but it really is about allocating sales resources to where your best opportunities are. And that may seem rather obvious, but in a recurring revenue business, you tend to organize your coverage models by the size of revenue, not necessarily where the growth opportunity is. And so we have an opportunity to tweak our coverage models, to drive behind our biggest growth opportunities out there.

The third one around commercial simplification or as I mentioned, it's pretty difficult nowadays for us to cross-sell, particularly to large corporate clients. And the reason being is that each of our businesses have historic commercials. They have different terms, different cancellation periods and so on and so forth. And that commercial complexity has an impact as well and kind of has an impact on our sales people who spend a ton of their time doing admin rather than selling.

So in many cases, our sales people are making up for our business deficiencies -- our business systems deficiencies and our commercial complexity, they kind of try to hide that from the customer by having to basically use multiple systems and tie multiple commercials together to try and present a more consistent approach to customer.

So there are things that we can absolutely do there to simplify our commercials, to reduce the number of products. We expect to reduce the number of products by 20% this year, all right? We expect to be able to be in a situation on the right-hand side in business systems to be able to create automated order capture rather than having sales people having to fill in manual pieces of paper, all right? And we're also consolidating pretty aggressively our systems, particularly things like CRM systems and billing systems across the company.

So none of this, I mean, I hasten to add, none of this is particularly fancy. These are not like kind of huge leaps of faith in that no other company has done. This is basic operational stuff that modern companies do well. We're a little bit late to the game frankly. On the one hand, I feel a little bit embarrassed about that. But on the other hand, the fact that we are addressing it means we have quite a lot of upside here, I think.

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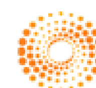

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And also, it's a lot of small initiatives, which will move us forward, I think, quite significantly, and they're things that we can fix. Then, when I look at this, compared to some of the things -- other things that we've done in terms of migrating large-scale data centers and building new technologies and massive product launches, this stuff is infinitely within our control. And I think we should be able to make some pretty rapid progress, and we're starting to see some early results already.

That's the summation of my comments, really.

QUESTIONS AND ANSWERS

Vince Valentini - *TD Securities Equity Research - Analyst*

That was outstanding. You made me -- I don't usually have to take notes while I'm on stage with the speakers, but you had some interesting stuff there. Thanks very much.

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

Thank you.

Vince Valentini - *TD Securities Equity Research - Analyst*

I guess, I should've mentioned before as well that Stephane has now moved to Toronto, so this shouldn't have been too big of a stretch for him to come down the street. But Neil comes all the way from Switzerland. So it actually -- we now have a global conference, because Neil was willing to join us. So good luck to make it [global]. Let me pick up on some of this. This looks like some great plans you've got going on here. For the investors in the room, what are realistic expectations of how long is it going to take you to get to the finish line on all of these nuts and bolts?

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

It's a good question. So I'll give you a granular answer, and then I'll give you a broad answer. So basically, for each of these, what we've done is our approach, historically, has been pretty systematic. What we're trying to do is find out what kind of world class looks like. Find out what those benchmarks are, then we find out where we are, and then we figure out an execution plan and get to A to B is essentially what we've -- that's been our playbook from looking at technology. So each of these 4, we have targets to get to essentially by 2019. The targets are heavily front-loaded though as what we did on the previous transformation. And generally speaking, what we find is that we should pick up steam as we go. Some of these things will be harder for us than we think, but other things will be easier. So I think on the digital -- forgive me, the digital stuff, we're making pretty rapid progress on that. And I really hope to be in a situation where we will have made a visible step change on that. Basically by Q1, Q2 next year, we expect. Some of the other things take a little bit longer, right? So the commercial simplification, we expect to make a 20% reduction in the number of SKUs we have this year; it'll be 40% by the end of next year is what we're targeting. In terms of the invoicing, if I recall, as I mentioned, I think 75% of our invoices were essentially paper, the end of last year. We've made a 16% improvement in that already. And we expect to kind of get to about 80% electronic, I think, by the end of next year. So some of them have varying maturity periods. A lot of this is frankly -- it's not quite as scientific as doing stuff in technology where you have an unknown outcome. In this case, it's all part of the picture that many of these initiatives will build to a better outcome. So I expect to see positive on a statistical perspective, positive improvement this year by middle to end of next year really quite significant. And I hope that will start flowing through in a material way to our ease of doing business scores quite quickly. But that remains to be seen.

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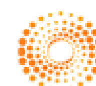

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Vince Valentini - *TD Securities Equity Research - Analyst*

Okay. Great. And some of the stats you shared on retention and customer satisfaction and so forth, so that 89% figure, that's a pretty recent figure? Or past year type thing?

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

That's where we are today.

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

Today.

Vince Valentini - *TD Securities Equity Research - Analyst*

And would that have changed much in the past couple of years? Because you already made pretty big improvements on the product side, even though as we see some ease of doing business with you isn't great. But products do a lot better. Did that use to be 87% or 85%?

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

Yes, that's probably the rate of improvement that you're speaking about. It's not coming from 80% to 89%, exactly what you say, it was probably around 87% or 88%. So we're not looking for -- we're not targeting to get to 95% retention, that would be unrealistic. But as we said, if we can get 1 point, I mean, that -- if you think about normal recurring revenue business model, if you can permanently improve your retention by 1 point, that gives you a permanent 1 point of growth that you can get year after year. So it's certainly worth going after.

Vince Valentini - *TD Securities Equity Research - Analyst*

And that's what I was going to ask, so for you, the senior executives who were measuring Neil's performance on these nice plans, is success a 1% improvement or maybe 2% over a couple of years?

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

It's a hard question. I would hope we can get 1%. I don't want to be unrealistic in terms of expectations. To be completely honest also, we know and it's pretty obvious that there should be a correlation between customer experience and the satisfaction scores we get there and retention rate. We don't know, which -- like how big of a -- where we make the biggest leap so that's what we're going to figure out over the next few months or years, what are the things that we need the most on the retention. It would vary by customer groups, right, for a small customer who has to pay his or her bill for themselves, figure out the invoice, it's a big pain point. For a trader in the bank, they frankly don't care that much if the bill is complicated to read. So it's going to vary by customer business. I think what Neil is trying to do is really put his efforts like digitalization, is something we're trying to push more for smaller customers because that's where it's going to have a larger impact. But we very much -- it's not an exact science as Neil described.

Vince Valentini - *TD Securities Equity Research - Analyst*

Okay. But it is part of the broader push to get back to better revenue growth as opposed to the cost focus we've had for a few years now. How do you -- either of you can take this. I mean, how would you rank -- obviously, first. Maybe I'm wrong, but I see 3 levers to revenue growth: one, is we're talking about improving your retention of current customers; two, is gross adds of new customers; and three, would be rate increases, price increases,

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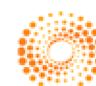

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on the base. Can you talk about which of those 3 levers you think are, first, more imminent, and second, more important to getting back to mid-single-digit revenue growth?

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

Sure. Not to overcomplicate, I would add another level, which is probably revenue mix, meaning to the extent that we can make the businesses that are -- where we're operating really good markets that are growing faster, can we divert more resources to these businesses and make them bigger, faster. And to give you just one statistic on this, Vince, you know, you've heard us speak about our big 4 growth priorities, like the feeds business, the Risk business or tax software solutions and our Legal Solutions. In aggregate, these 4 businesses represented 38% of our revenue base in the first quarter and grew 8%. So the more -- and we've been diverting more capital towards these businesses. I think some of what Neil is trying to do and -- in his Transformation program is making sure as he said, it's not just capital. It's also do we allocate the right sales force to these businesses as opposed to doing it democratically. Do we have the right technology skills to these right business also? So this is -- I mean, revenue mix also will play in the overall improvement in our revenue growth. Now with regard to the other 3 factors that you did mention, we always said, typically, in aggregate, the price that we get is roughly in line with inflation, so call it like 1.5% to 2% we should be able to get from price. So if you say -- you always hear our CEO, Jim, saying we've got pretty good visibility to like getting to a 3% growth rate. Well, that's because the majority of that half or a little bit more than half, we should be able to get from price. So it's where do we get the additional 1 point, 1.5 points to get to 3%? Based on some of the initiatives Neil described, it doesn't take much to believe that you can get to 3%. The key question is if we get to 3%, can we get to 4% or 5%? And that's what needs to play out with all the initiatives that he just described. But I would say at a high level we think we've got an opportunity on retention, and that's the cheapest way to get growth because you don't have to pay sales commission or very little on this and so that's really what our #1 focus is. I would say the second area is also that by simplifying our front-line infrastructure, we, hopefully, liberate opportunities to do cross-selling in some of our segments. And when we talk to external consultants who look what we have, they say, not surprisingly, having been a portfolio company, you tend to rely very heavily on upsell in your genes for the company because you know one product you sell and you try to sell more of that product. There's probably a bigger opportunity in terms of cross-selling, not just across the business units, some opportunities there with large corporate customers but even within the business unit. And so I think what Neil is trying to do with this program is trying to like put the right effort in terms of not just like changing the systems, but also see if we got the right training programs in places and trying to see if we can simplify our compensation incentive schemes for sales people just to try to push a little bit on cross-selling. So I would say that's probably the order.

Vince Valentini - *TD Securities Equity Research - Analyst*

Excellent. Is it fair to say there's a fair degree of synergy, if that's the right word, between some of these initiatives to improve the customer experience and the rate increase piece? If you get this right and everything Neil's doing, and people are happier doing business with you, doesn't it make it easier to put through 2.5% instead of 1.5% rate increase and make it sticky?

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

It should do it or stated differently, your yield on your price increase should improve. So the answer is yes.

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

What typically happens is that you push -- I don't think there's going to be a higher headline price increase you can push every year, but your ability to like retain the price to push as opposed to having to offer discounts, that ability should increase a little bit.

Vince Valentini - *TD Securities Equity Research - Analyst*

Right. Maybe an unfair question, but would you have any idea what some of your main competitor, like say a Bloomberg, what their retention rate would be relative to what yours is? Is there some goal that you're going to aspire to?

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

You talked to our competitors. Many of them all say they are like in the low 90s. So that should be an aspiration, I would think.

Vince Valentini - *TD Securities Equity Research - Analyst*

So there's nothing heroic about what we're trying to achieve. It's just...

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

No.

Vince Valentini - *TD Securities Equity Research - Analyst*

As you said, Neil, things that maybe should have been done a long time ago, but you were so busy on M&A.

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

Yes.

Vince Valentini - *TD Securities Equity Research - Analyst*

So let me circle back on that, Stephane, just -- people hear you say it, that you guys have a good strategy, you're sticking to it. But it's nice to reiterate in this sort of context that if you went back to making $1 billion or $2 billion acquisition every year, how disruptive is that to everything you're doing? It seems to me virtually impossible and counterintuitive to try to bolt-on acquisitions at the same time all this work is being done to fix the prior acquisitions.

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

It's a very good question. I would say -- let me give you some stats first. We were just looking at that with Frank and Ben over the last couple of days. In the 3.5 years following the change in strategy that we announced in October 2013, I think we've made, if I recall correctly, 16 acquisitions for a total consideration of somewhere around $320 million. If you look at the 3.5 years before that, we made close to 100 acquisitions for $3.8 billion. So there's been like a very, very visible reduction in the acquisition activity. Where we are now, we are looking at acquisitions. And if we -- I will be completely honest, if we could find an acquisition of one good company in 1 of our big 4 initiatives, whether to tax a software company or a risk software company, that would be $500 million, $1 billion, but that like doesn't require massive integration because it's one business and is not a nosebleeding valuation, we would absolutely go for it. We would love to be able to find that. We haven't found many recently. I mean, the threshold that we set when our investment committee in terms of ease of integration is pretty high. And you combine that with the fact that valuations in our space also pretty high has made it pretty difficult. You would never see us going back to doing 30 acquisitions a year. I don't think we will, at least not under Jim or my tenure, we will not do like 30 acquisitions a year. And to answer a question that we get pretty often, we don't think we need like another leg so like do another very large segment. We think we still have a lot of runway in the segments where we operate. But if we could find 1 or 2 midsized type acquisitions where we can earn return on investment and where the integration is feasible, we certainly would love to consider them. We haven't been able to.

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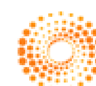

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Vince Valentini - *TD Securities Equity Research - Analyst*

Excellent. Neil, for you. In doing this, and I don't know if everybody has appreciated fully what you're saying, taking a team that was dedicated to simplifying your processes internally to reduce your costs, you're now trying to use that same team to simplify external processes to make it easier to do business with you and improve customer satisfaction. Has there been any cultural or people issues there? Or can the same people who are focused internally on cost do these type of jobs? Is it basically just the same job with a different end point?

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

I mean, as I say, sure there's cultural issues. Yes, absolutely. I mean, look, what we've also done is that we've also supplemented it with people who are actually within the businesses who actually have frontline roles today. So before I did this job, I ran -- I was lucky enough to run one of the quite a large chunk of businesses in Thomson Reuters. So I have managed to convince a few of my former compadres to kind of get involved. And so what we have is for each one of these, for each one of these streams, if you will, we have a -- one of my ex-comm peers is a sponsor of it. And we have the right level of kind of commercial and frontline people involved in each one of these. So when you get to the ones that are on the right-hand side, this is what I would call -- some of these are a bit of what I call hygiene, right? Some of these -- the way I think about it, I think about it in 3 buckets. Hygiene is what I call first aid of building capabilities. So the hygiene stuff, we basically got people from across the businesses involved. And first aid is where we just put -- we can immediately make an improvement for a chunk of customers in a particular market because it's quite a small problem and rather than having like an industrial process to fix it, we can just kind of get [amongst] it. And then there's what I call building capabilities. For example, around digital, for example, we are essentially a digital business, but we have an analog kind of go-to-market because of our publishing heritage, so we don't necessarily have the kind of the skill sets around digital, which is much more of a consumer sort of capability so we're basically bringing people in to do -- help us do that.

Vince Valentini - *TD Securities Equity Research - Analyst*

Excellent. Let's talk about current events first. I think you guys had a nice little announcement yesterday, I believe it was, with partnership with Symphony. So your over 300,000 Eikon messenger users now partnered with about 200,000 Symphony -- you created a bigger ecosystem. Can you talk a bit about what that might do for you? Is that big enough to break down what I think has been a pretty big barrier to entry of, over the years, of the Bloomberg messaging system that people don't want to leave?

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

Look, I mean, first of all, the reason we did this is frankly because our customers asked us -- saw that it's a good idea, and asked us to do that. And you've heard us say on conference calls and many other earnings call that like our philosophy in our financial business is this open platform philosophy, where we're saying you know what, we have our messenger system, we think it's pretty good as you get some of the data. There's like 10 million messages a day that are being exchanged on our messaging system. But we believe that the same way you use different phone carriers, there's not going to be only one messenger system that should rule the whole industry. Symphony was set up as a consortium of banks initially to come up with a competitive alternative for a messaging system perspective. And we're very happy to essentially have them operate alongside with Eikon Messengers. We think we're absolutely delighted some of our customers wants to use a Symphony messaging system to essentially share information of data from Eikon. That's perfect. So from Symphony's perspective, I think what it does is essentially give Symphony access to like a breadth of content that they probably didn't have until this alliance. From our perspective, it showcases what Eikon can provide to some customers that may not use Eikon. If you use Eikon, you can send that information to someone who uses Symphony even if they don't have Eikon. If they don't have Eikon, it will show up as a PDF as a fixed picture if you want. If they've got Eikon on the other side too, the picture is alive. I mean, the data will continue to be updated, and it's much, much, much richer. So at the margin, will it help us sell a few more Eikon? Perhaps hopefully, I don't think it's a massive new revenue opportunity. But I think what this is really good for is that it, as I said, it makes the industry more open. And hopefully, soften a little bit what has been seen as a stranglehold on the messaging system, which is, in our mind, is more kind of a commodity product that should be used by the financial community.

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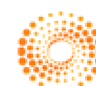

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Vince Valentini - *TD Securities Equity Research - Analyst*

Would it be a big deal and beneficial in your view if we saw Bloomberg and Symphony partner up and Bloomberg users could access it?

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

We'd love it. I don't think they would consider it, but I think if messenger is commoditized and there is one messenger system that everyone can use and is absolutely open, I think that would be -- we would be certainly a proponent of that.

Vince Valentini - *TD Securities Equity Research - Analyst*

I can't let you come to a conference and not update us a little bit on recent events and how that may be impacting your customer base. As much as you can do things internally to try to improve your revenue growth, you have to live in the macro environment we're in as well. So maybe both in the U.S. and Europe, with things going on with the recent turmoil in the U.K. and Brexit, and uncertainty again there. Maybe your updated thoughts on how that's played out so far. Have you seen any disruption and maybe more importantly on that front is do you see a little bit of a clearer path now that if jobs do leave the U.K. and go to the continent that you'll be able to just follow them because you guys have presence there as well?

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

It's still too soon to say, I mean, very honestly. I think from a -- we were just having a discussion about that this morning. If you look at our industry because it's very intangible I would say, it's very easy for us to set shop and serve our customers from everywhere we want in the continent. So there's not any meaningful material cost associated with having to like shift your presence from one country to the other. We can support our customers from wherever they want us to support them. The more pertinent question is the one that you're asking, which is will some of our customers take the opportunity of Brexit not just to like move headcount around, but reduce some of their headcount and take down some of their activities? I suspect there's going to be some of that in the process. I will be surprised if it were not, but it's hard to quantify that factor. We'll have to see how much that is. Now as you know well, right, desktop is still a very significant portion of our business, but it's only 40% of our revenue base in the financial business. So we are less exposed to headcount-related revenues that others might be, simply because we have more of a revenue base that's in other areas like feeds or risk and the like.

Vince Valentini - *TD Securities Equity Research - Analyst*

I guess, unfortunately, it could be entire trading floors leave London, not just headcount at some point too...

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

Yes.

Vince Valentini - *TD Securities Equity Research - Analyst*

In which case, the plumbing and data feeds would go as well.

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

Absolutely.

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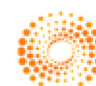

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Vince Valentini - *TD Securities Equity Research - Analyst*

And in the U.S., from week to week, you could talk to people and say, "Hey, the banking regulations are going away and rates are going up. Banks are going to make a lot of money, and maybe they'll spend more with you." And the next week, people think that we're in quagmire in Washington and nothing is going to happen, and maybe nobody will spend any money. Where are your latest thoughts of it -- glass half empty or glass half full right now?

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

I would say, if you look at the results posted by some of the large U.S. banks, they've been much better over the last 2 quarters. What's good for our customers beneficially is good for us. But this being said, we haven't seen customers coming to us and say, "Our results are better. We want to spend more." I think banks are still very, very focused on cost actions and discussions when we have them is how do you help us reduce our overall cost of ownership. That's always the starting conversation. So I think it's probably a little less pressure that they get better profitability, which I think it's a very good thing, but we have that translating into higher demand.

Vince Valentini - *TD Securities Equity Research - Analyst*

Okay. And on Legal, you guys have started, obviously, to show some positive growth in the core U.S. Legal research business, which had not been the case for a few years after the financial crisis. Have we finally seen a full digestion of whatever structural changes had to happen in the market after that, with the move to more flat-rate billing versus hourly, where they could just pass through your -- the cost of their Westlaw terminals? Has we've reached a new base line that we can keep going from in your mind? Or is there more sort of structural change in Legal to come?

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

I think that, that will continue. The trend that you mentioned will probably continue, but it continues at a very slow pace. It puts pressure on traditional core Legal research spending because, as you said, it's not as easy to just pass on that spending blindly to your customer. But at the same time, it also provides a big incentive for law firms to behave more as businesses and try to drive efficiency metrics. And as you know, we have a breadth of solutions to help them run their business better. And so that's where we're seeing the growth is in our Solutions business, which is really not just about practicing law, but about running a business if you are in the Legal profession, and we still see a lot of upside in that part of the business.

Vince Valentini - *TD Securities Equity Research - Analyst*

Excellent. Anybody -- I'll pause for a second, anybody in the audience have any questions for Stephane or Neil? Quiet bunch. So I'll ask one, maybe two more. But to come back to capital allocation and if we're not going to be doing as many acquisitions going forward, or granted that you're not necessarily 0, but not as much, and you're starting to see some of the benefits of all the good work you've done on cost cutting and revenue starting to come through, so your free cash flow is, I would certainly say, at least stabilized and hopefully improving. How should we think about dividends? Your dividend, yes, you've grown it every year. I forgot how many years it's been in a row, but a lot of years. Probably more than I've actually been covering the company, but the dividend growth has been very, very slow. Is there any chance that we start to get a little more generous on the payout ratio, given you're not making as many acquisitions? Should we be thinking 55% or 60% of free cash flow as a dividend instead of 50% as a more reasonable target at some point?

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

Well, look, I mean, like you've heard us, and we've been very transparent in terms of our capital strategy, right? And we have always targeted, as you mentioned, 40% to 50% as a dividend payout ratio. We've made our way gradually to that level. We're just above 50% now. And right now,

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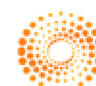

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we've been essentially returning the rest of the excess cash that we generate via share buyback. It's something we discuss with our board like every year. And so we listen very closely to what we're hearing from investors. As we said, the capital strategy, we will not amend our capital strategy every year or every other year. We tend to do that on, hopefully, set up a capital strategy that can be sustainable for a very long term. But I would say like the next time we are going to have a discussion -- a chance to discuss that with the board is in November. It's a relevant question because we're getting close to the objective that we have set in terms of getting closer to 50%. So wait and see is all I can say at this point in time. It's going to be a decision from the board.

Vince Valentini - *TD Securities Equity Research - Analyst*

One last one with me. Just the recent change in management with yourself and Jim Smith moving here to Toronto and a bit more of a focus on having a technology and employment hub in this Southwestern Ontario. Your thoughts on how that's going so far and maybe a little bit of background on what drove that.

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

Well, I'll let Neil answer that question, because as you said, one of the key considerations in this move -- there were a number of considerations. One of the key one was the attractiveness of Toronto as a place to hire extraordinary talent from a technology perspective.

Neil Masterson - *Thomson Reuters Corporation - Chief Transformation Officer and EVP*

Yes, so the second largest technology labor market in North America is actually here in the Toronto in sort of Waterloo corridor. And particularly for emerging skill sets like artificial intelligence and data science, particularly artificial intelligence is a real spike strength here in Toronto. And kind of the father sort of artificial intelligence is actually a Canadian. And there's a very, very strong sponsorship from the government here. So we have set up a -- our artificial and central intelligence for TR is actually here in Toronto. We're building up pretty rapidly our capabilities here. And so far, I have to tell you, we have been incredibly impressed by the talent that we've found. And we're looking forward to run that up pretty quickly. I can't quite remember the precise numbers, but we reckon we'll be sort of -- we'll be looking at trying to build a technology organization here in the hundreds pretty rapidly. So we're sort of moving ahead on that quite quickly. And also, I would add not only are the skill sets here, it's economically attractive too because the labor rates are actually pretty significantly cheaper than other locations which we operate in. So for us, it's kind of like a double win. And the third point is that it's close to some really great customers. You know we've got the big FinTech presence here. We've got all our customers here, in whether financial, buy side, sell side, Legal or Tax & Accounting. So it's a perfect location for us, and we're delighted to, a, made the decision, and b, by the support we're getting from the community here in Toronto.

Vince Valentini - *TD Securities Equity Research - Analyst*

Excellent. Well, on that happy note for of our great city, we'll end this session for Stephane and Neil. Thank you very much for joining us today and providing this update. We have -- we'll get back here on stage at 1:15 with our afternoon sessions.

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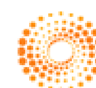

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