Thomson Reuters Corporation (TRI)

Updated November 12th, 2018 by Josh Arnold

Key Metrics

Current Price:	$48	**5 Year CAGR Estimate:**	5.7%	**Volatility Percentile:**	9.3%
Fair Value Price:	$45	**5 Year Growth Estimate:**	4.0%	**Momentum Percentile:**	64.7%
% Fair Value:	106%	**5 Year Valuation Multiple Estimate:**	-1.2%	**Growth Percentile:**	20.1%
Dividend Yield:	2.9%	**5 Year Price Target**	$57	**Valuation Percentile:**	43.4%
Dividend Risk Score:	F	**Retirement Suitability Score:**	D	**Total Return Percentile:**	25.4%

Overview & Current Events

Thomson Reuters Corporation is a global financial information and data solutions provider for businesses and professionals in the fields of finance, accounting, tax, and media. Thomson Reuters was created in 2008 when the Thomson Corporation purchased the British company Reuters Group. Thomson Reuters is cross-listed in Toronto and New York, where it trades under the ticker TRI on both exchanges. Thomson Reuters is a rare example of an international company that trades on an American stock exchange and reports financial results in U.S. dollars. Accordingly, all figures referenced in this report are in USD and refer to the company's NYSE-listed common equity.

Thomson Reuters reported Q3 earnings on 11/6/18 and results were better than expected. Revenue was up 2% on a reported basis and 3% on a constant-currency basis. Adjusted EBITDA fell 22% as the company's Financial & Risk segment is now classified as a discontinued operation, and thus, was not part of the company's comparable results.

The legal segment showed a 3% revenue gain as recurring revenue was up 5% and transactions revenue saw a similar gain, partially offset by print revenue that fell 7%. Adjusted EBITDA margin fell 310bps and EBITDA fell 5% as a result. Tax and accounting revenue was flat as a sizable decline in transactions revenue was offset by higher recurring and print revenues. Adjusted EBITDA margin declined fractionally and as a result, EBITDA was slightly lower during the quarter as well. The Reuters News segment, which now does not include the Financial & Risk business, saw revenue decline 3% and adjusted EBITDA margin decline fractionally during the quarter. The discontinued operation accounted for roughly three-quarters of this segment's revenue, so it is comparatively very small now. For its part, the Financial & Risk segment showed a 1% gain in revenue and a 5% gain in EBITDA during Q3 as margins rose. Overall, adjusted earnings-per-share fell 59% year-over-year to 11 cents, which actually beat expectations that were for just three cents. In addition, free cash flow rose meaningfully, from $531 million to $599 million in the year-ago quarter. In total, there was some decently positive news for Thomson Reuters in what was certainly a complicated third quarter earnings report.

The Refinitiv deal, which is the new name of the Financial & Risk business, provided $17 billion in cash to Thomson Reuters. The company is using the proceeds to buy back its own shares as well as reduce its considerable debt load. Further, management stated it was setting aside at least $2 billion for acquisitions for its legal and tax units to position them for future growth. The cash infusion was well-received by investors and we think it is a long-term positive. Thomson Reuters continues to retain a 45% stake in the new company.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$1.89	$1.85	$1.75	$2.05	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	***$0.90***	***$3.15***
DPS	$1.08	$1.12	$1.16	$1.24	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	***$1.38***	***$1.60***
Shares	832	834	838	833	830	831	811	784	749	720	***700***	***600***

Thomson Reuters is seeing a significant decline in earnings in 2018 due to the Refinitiv deal as not only will the company lose 55% of the business unit's profit potential, but this impact will be exacerbated by the significant costs associated with the sale. After Q3, the company is on track to deliver about 90 cents of earnings-per-share this year. Beyond that, Thomson Reuters' growth is almost certain to exceed its historical average (2.9% per year over the last decade) as it is beginning from a very low starting point, and organic revenue growth in its remaining segments is in the low to mid-single digits. Between 2018 and 2023, we expect Thomson Reuters to grow its earnings-per-share from $0.90 to $3.15. Our long-term growth estimate is 4% based off of 2017 earnings.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	16.8	19.3	21.4	16.8	13.5	24.4	21.8	23.9	29.9	23.2	***19.2***	***18.0***
Avg. Yld.	3.4%	3.1%	3.1%	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	***2.9%***	***2.8%***

We see fair value for this stock at 18 times earnings and today, shares trade for 19.2 normalized earnings; the company's actual price-to-earnings ratio is not meaningful given the restructuring that is occurring this year. We therefore see a modest 1.2% headwind to total returns annually as the valuation remains roughly where it is today. That will keep the yield steady as well as we see it staying in the high-2% range for the foreseeable future.

Safety, Quality, Competitive Advantage, & Recession Resiliency

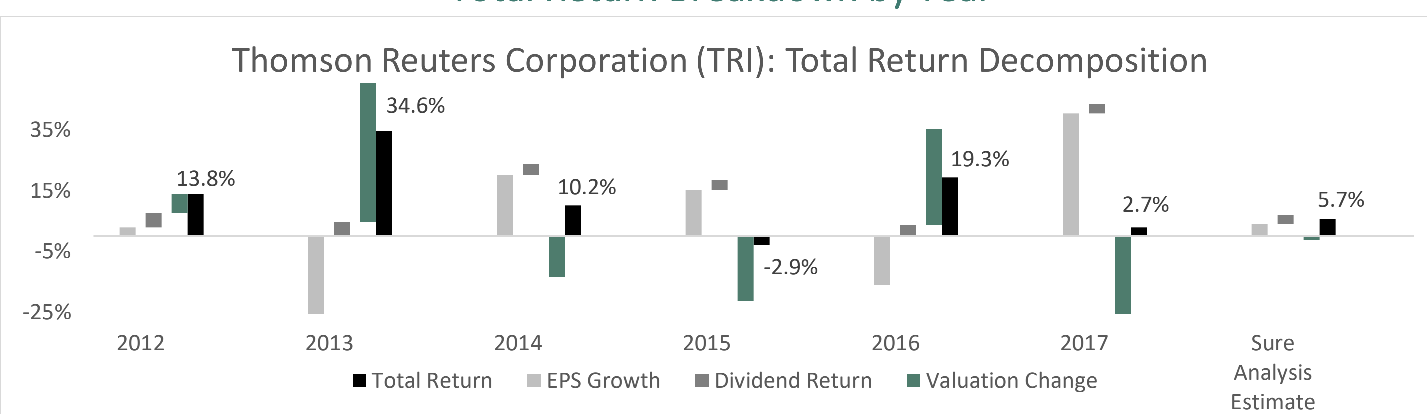
Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	8.7%	9.0%	8.5%	11.7%	10.5%	9.7%	11.1%	10.6%	10.5%	12.3%	***12.0%***	***13.0%***
Int. Cov.	9.2	1.8	3.8	-1.8	5.8	3.2	5.6	3.8	3.6	4.3	***4.0***	***4.0***
Debt/A	46.5%	44.1%	44.6%	48.4%	46.2%	49.4%	52.1%	55.0%	52.4%	48.7%	***50.0%***	***35.0%***
Std. Dev.	42.1%	29.3%	14.1%	21.6%	14.1%	14.9%	12.9%	12.6%	15.6%	10.4%	***14.0%***	***14.0%***
Payout	57.1%	60.5%	66.3%	60.5%	60.7%	84.4%	71.4%	62.9%	76.0%	55.0%	***153%***	***50.8%***

Qualitatively, Thomson Reuters' strongest competitive advantage is its brand recognition, which provides it with strong pricing power in the competitive world of financial information. The company scores well on each of our quality metrics, with a below-average stock price standard deviation and a balance sheet comprised of a roughly equal amount of debt and shareholders' equity. In addition, its balance sheet will improve significantly now that the company has the proceeds from the Refinitiv deal, which will help it reduce debt by billions of dollars.

Final Thoughts & Recommendation

We see total returns for Thomson Reuters in the mid-single digits, consisting of the 2.9% yield, 4% earnings growth and a 1.2% headwind from the valuation. The sale of the Financial & Risk business is a net positive, but the stock is near its highs, and is thus already pricing in some of that benefit. Thus, we rate the stock a hold and recommend investors interested in owning it wait for a better entry price.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	11707	12997	13070	13807	13132	12702	12607	11257	11166	11333
Gross Profit	3007	3122	3009	3810	3422	3148	3398	3095	2934	3254
Gross Margin	25.7%	24.0%	23.0%	27.6%	26.1%	24.8%	27.0%	27.5%	26.3%	28.7%
D&A Exp.	1321	1556	1574	1709	1735	1830	1822	1582	1552	1463
Operating Profit	1754	1575	1419	2305	2570	1516	2545	1526	1390	1755
Op. Margin	15.0%	12.1%	10.9%	16.7%	19.6%	11.9%	20.2%	13.6%	12.4%	15.5%
Net Profit	1307	844	909	-1390	1989	137	1909	1255	3098	1395
Net Margin	11.2%	6.5%	7.0%	-10.1%	15.1%	1.1%	15.1%	11.1%	27.7%	12.3%
Free Cash Flow	1822	1569	1558	1556	1694	1099	1446	1887	2079	1079
Income Tax	350	-299	139	293	126	848	62	34	-15	-274

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	34589	34573	35531	32476	32537	32439	30597	29112	27852	26480
Cash & Equivalents	841	1111	864	422	1283	1316	1018	966	2368	874
Acc. Receivable	1918	1742	1854	1966	1795	1733	1792	1714	1327	1415
Inventories	81	N/A	N/A	66	55	46	37	33	32	31
Goodwill & Int.	28325	28319	27606	26043	26044	26383	25056	23781	21534	21815
Total Liabilities	16101	15238	15856	15726	15039	16009	15938	16012	14596	12905
Accounts Payable	430	N/A	N/A	508	461	406	411	282	311	307
Long-Term Debt	7471	7603	7518	7594	7231	8066	8110	8424	7389	7026
Total Equity	18416	19267	19322	16295	17035	15926	14068	12503	12663	12967
D/E Ratio	0.41	0.39	0.39	0.46	0.42	0.50	0.57	0.67	0.58	0.54

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	4.6%	2.4%	2.6%	-4.1%	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%
Return on Equity	8.2%	4.5%	4.7%	-7.8%	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%
ROIC	5.9%	3.2%	3.4%	-5.4%	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%
Shares Out.	832	834	838	833	830	831	811	784	749	720
Revenue/Share	15.10	15.60	15.63	16.57	15.83	15.29	15.55	14.36	14.91	15.74
FCF/Share	2.35	1.88	1.86	1.87	2.04	1.32	1.78	2.41	2.78	1.50

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.