Thomson Reuters Corporation (TRI)

Updated November 15th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$70	**5 Year CAGR Estimate:**	-7.7%	**Volatility Percentile:**	10.1%
Fair Value Price:	$26	**5 Year Growth Estimate:**	8.0%	**Momentum Percentile:**	88.4%
% Fair Value:	267%	**5 Year Valuation Multiple Estimate:**	-17.8%	**Growth Percentile:**	78.3%
Dividend Yield:	2.1%	**5 Year Price Target**	$39	**Valuation Percentile:**	0.7%
Dividend Risk Score:	F	**Retirement Suitability Score:**	F	**Total Return Percentile:**	0.9%

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 third quarter earnings on October 31st and revenues increased 10% due to the inclusion of revenues paid by Refinitiv to Reuter News, and to higher recurring revenues across all other customer segments.

Adjusted earnings-per-share came in at $$0.27, a 125% increase from $0.12 in the same period a year ago, primarily due to lower number of common shares and lower interest expense. Adjusted EBITDA increased 10%, and margins were unchanged from last year at 24.4%.

The company announced in August that it agreed to sell Refinitiv to the London Stock Exchange Group (LSEG) in an all share transaction for a total enterprise value of approximately $27 billion. Thomson Reuters owns 45% of Refinitiv, with the remaining owned by Blackstone. By the end of the transaction, TRI would own 82.5 million shares of LSEG worth approximately $7.5 billion based on LSEG's closing share price at end of October 2019. The transaction has yet to be approved by LSEG shareholders and regulatory clearances. It is expected to close in the second half of 2020.

Management maintained their outlook for 2019 and 2020. Organic growth of 3.5% to 4.0% is expected for 2019, and 4% to 4.5% for 2020. Total revenue growth (including Refinitiv) for 2019 is expected at 7% to 8.5%. Adjusted EBITDA is estimated at $1.45 to $1.5 billion. Corporate costs will come in high this year at around $570 million, and then drop significantly in 2020 to around $145 million at the mid-point of guidance. Management expects 2020 will be the first year the company's financial performance will reflect the benefits of its recent actions. Management also sees the effective tax rate rising from 15% in 2018 to 20% in 2020.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	$1.85	$1.75	$2.05	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	$0.75	***$1.25***	***$1.84***
DPS	$1.12	$1.16	$1.24	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	$1.39	***$1.44***	***$1.58***
Shares[1]	834	838	833	830	831	811	784	749	720	550	***501***	***450***

Thomson Reuters' earnings before adjustments were very high in 2018 thanks to the Refinitiv deal, but as 2018 was a year of transition, 2019 should become more normalized. Starting this year, 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. In addition, the company has made it clear that share repurchases are a priority, which will help drive earnings-per-share higher as well. Finally, the

[1] In millions

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.

Thomson Reuters Corporation (TRI)

Updated November 15th, 2019 by Quinn Mohammed

transaction with LSEG should prove fruitful as LSEG has a healthy track record of earnings growth. Between 2019 and 2024, we expect Thomson Reuters to grow its earnings-per-share by 8% annually. This year will provide some much-needed clarity on what Thomson Reuters' business will look like post-Refinitiv.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	19.3	21.4	16.8	13.5	24.4	21.8	23.9	29.9	23.2	64.4	***56.0***	***21.0***
Avg. Yld.	3.1%	3.1%	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	***2.1%***	***4.1%***

We see fair value for this stock at 21 times earnings and today, shares trade for 56 times earnings, significantly higher than its average. We therefore see a significant 17.8% headwind to total returns annually as the valuation moderates over time. The stock has rallied strongly thus far in 2019 and that has caused it to become overvalued. A moderating valuation should see the yield rise over time as the dividend increases.

Safety, Quality, Competitive Advantage, & Recession Resiliency

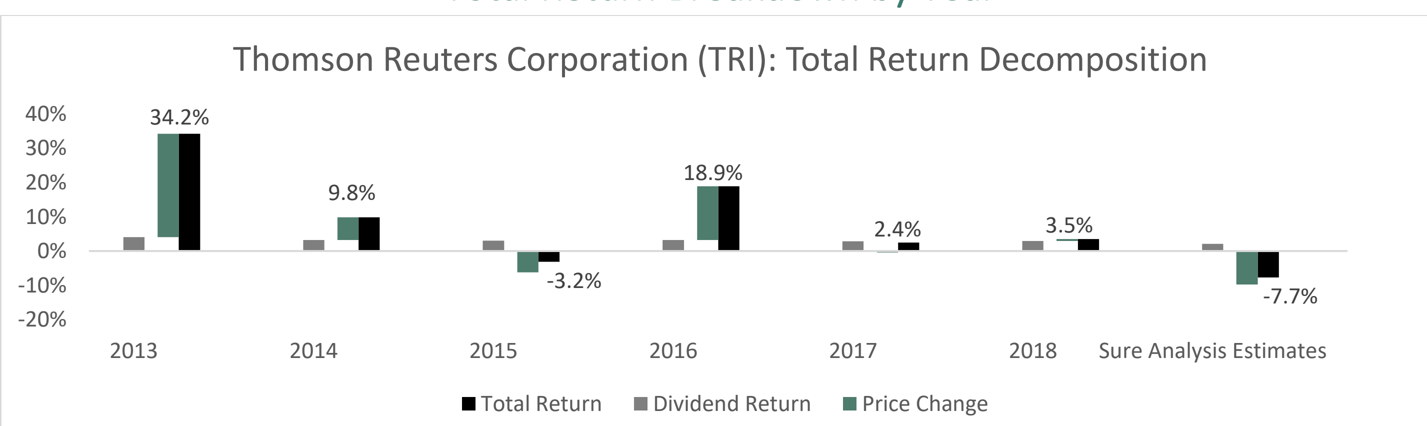
Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	61%	66%	61%	61%	84%	71%	63%	76%	55%	185%	***115%***	***86%***

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's payout ratio appears to be quite safe, despite expectations of a 100%+ payout ratio for 2019, we see little risk in a dividend cut for the foreseeable future. The company has proven it is much more interested in investing for future growth, as well as buying back its own shares, than it is in becoming a dividend growth story. However, the current yield is adequate. TRI was founded during the last recession, so it is difficult to know exactly how much its business was impacted. We don't see it as particularly defensive or cyclical and therefore expect a moderate impact from an economic downturn, but nothing that would threaten its dividend at the current payout ratio.

Final Thoughts & Recommendation

We see total returns for Thomson Reuters coming in negative at -7.7%, consisting of the 2.1% yield, 8% earnings growth and a 17.8% headwind from the valuation. The sale of the Financial & Risk business is a net positive, but the stock is at an all-time high, and is thus already pricing in much of that benefit. We are maintaining our sell recommendation on Thomson Reuters given the lower-than-normal yield, and the highly unattractive valuation. Investors are quite excited by the prospects of the Refinitiv deal, but we see that as already priced into the stock.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.]

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.

Thomson Reuters Corporation (TRI)

Updated November 15th, 2019 by Quinn Mohammed

Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	12997	13070	13807	13132	12702	12607	11257	11166	11333	5501
Gross Profit	3122	3009	3810	3422	3148	3398	3095	2934	3254	1370
D&A Exp.	1556	1574	1709	1735	1830	1822	1582	1552	1463	619
Operating Profit	1575	1419	2305	2570	1516	2545	1526	1390	1755	780
Op. Margin	12.1%	10.9%	16.7%	19.6%	11.9%	20.2%	13.6%	12.4%	15.5%	14.2%
Net Profit	844	909	-1390	1989	137	1909	1255	3098	1395	3949
Net Margin	6.5%	7.0%	-10.1%	15.1%	1.1%	15.1%	11.1%	27.7%	12.3%	71.8%
Free Cash Flow	1569	1558	1556	1694	1099	1446	1887	2079	1079	1486
Income Tax	-299	139	293	126	848	62	34	-15	-274	141

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	34573	35531	32476	32537	32439	30597	29112	27852	26480	17047
Cash & Equivalents	1111	864	422	1283	1316	1018	966	2368	874	2706
Acc. Receivable	1742	1854	1966	1795	1733	1792	1714	1327	1415	1313
Inventories	N/A	N/A	66	55	46	37	33	32	31	N/A
Goodwill & Int.	28319	27606	26043	26044	26383	25056	23781	21534	21815	9308
Total Liabilities	15238	15856	15726	15039	16009	15938	16012	14596	12905	7821
Accounts Payable	N/A	N/A	508	461	406	411	282	311	307	N/A
Long-Term Debt	7603	7518	7594	7231	8066	8110	8424	7389	7026	3216
Total Equity	19267	19322	16295	17035	15926	14068	12503	12663	12967	9226
D/E Ratio	0.39	0.39	0.46	0.42	0.50	0.57	0.67	0.58	0.54	0.35

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	2.4%	2.6%	-4.1%	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%	18.1%
Return on Equity	4.5%	4.7%	-7.8%	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%	35.6%
ROIC	3.2%	3.4%	-5.4%	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%	23.9%
Shares Out.	834	838	833	830	831	811	784	749	720	550
Revenue/Share	17.19	17.21	18.25	17.44	16.84	17.12	15.81	16.42	17.33	8.23
FCF/Share	2.07	2.05	2.06	2.25	1.46	1.96	2.65	3.06	1.65	2.22

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