Thomson Reuters Corporation (TRI)

Updated March 9th, 2019 by Quinn Mohammed

Key Metrics

Current Price:	$71	**5 Year CAGR Estimate:**	-4.1%	**Market Cap:**	$35B
Fair Value Price:	$39	**5 Year Growth Estimate:**	5.0%	**Ex-Dividend Date:**	03/06/2020
% Fair Value:	184%	**5 Year Valuation Multiple Estimate:**	-11.5%	**Payment Date:**	03/18/2020
Dividend Yield:	2.0%	**5 Year Price Target**	$49	**Years of Dividend Growth:**	27
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	5.6%

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 fourth quarter and full year 2019 earnings on February 12th, and revenues grew 7% for the full year and 4% for the fourth quarter due to the inclusion of revenues paid by Refinitiv to Reuter News, and to higher recurring revenues across all other customer segments. The majority of total revenue (78%) is recurring revenues.

Adjusted earnings-per-share for the fourth quarter came in at $0.37, a 95% increase from $0.19 in the same period a year ago, due to higher revenues and lower costs and investments to reposition the business following the separation of F&R (Refinitiv) from the company. Adjusted EBITDA increased 44 and the related margin increased to 25.0% compared to 17.9% in the prior-year period.

Adjusted earnings-per-share for the full year came in at $1.29, a 72% increase from $0.75 in the same period a year ago due to a 9% higher adjusted EBITDA and a benefit from fewer common shares outstanding.

The company announced in August 2019 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 $8.9 billion based on LSEG's closing share price at end of February 2020. It remains expected to close in the second half of 2020.

Management provided an updated 2020 outlook. They expect total revenue growth of 4.5% to 5.5%, vs. the 7.4% growth experienced in 2019. Corporate costs of $145 million were maintained and are significantly lower than the $564 million spent last year. 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.75	$2.05	$2.11	$1.54	$1.85	$2.13	$1.79	$2.51	$0.75	$3.11	**$1.93**	**$2.46**
DPS	$1.16	$1.24	$1.28	$1.30	$1.32	$1.34	$1.36	$1.38	$1.39	$1.44	**$1.52**	**$1.72**
Shares[1]	838	833	830	831	811	784	749	720	550	503	**490**	**450**

This will be the final year that Thomson Reuters works in separation of its business and will contain clean reporting with no additional one-time costs related to the Refinitiv separation. The company is targeting roughly 5% growth in the near-term and expects this will be sustainable. They hold roughly $800 million to target acquisitions that strengthen 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.

value proposition. They will also invest in their digital platforms with AI and machine learning technology and integrate with a cloud-based ecosystem while simplifying the buying, renewal and upgrading processes for clients.

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 transaction with LSEG should prove fruitful as LSEG has a healthy track record of earnings growth. Between 2019 and 2025, we expect Thomson Reuters to grow its earnings-per-share by 5% annually. This year will provide some much-needed clarity on what Thomson Reuters' business will look like post-Refinitiv.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	21.4	16.8	13.5	24.4	21.8	23.9	29.9	23.2	64.4	8.88	**36.8**	**20.0**
Avg. Yld.	3.1%	3.6%	4.5%	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	2.4%	**2.1%**	**3.5%**

We see fair value for this stock at 20 times earnings and today, shares trade for 37 times earnings, significantly higher than the 10-year average of 25. We therefore see a significant 11.5% headwind to total returns annually as the valuation moderates over time. The stock has rallied strongly in the past year 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

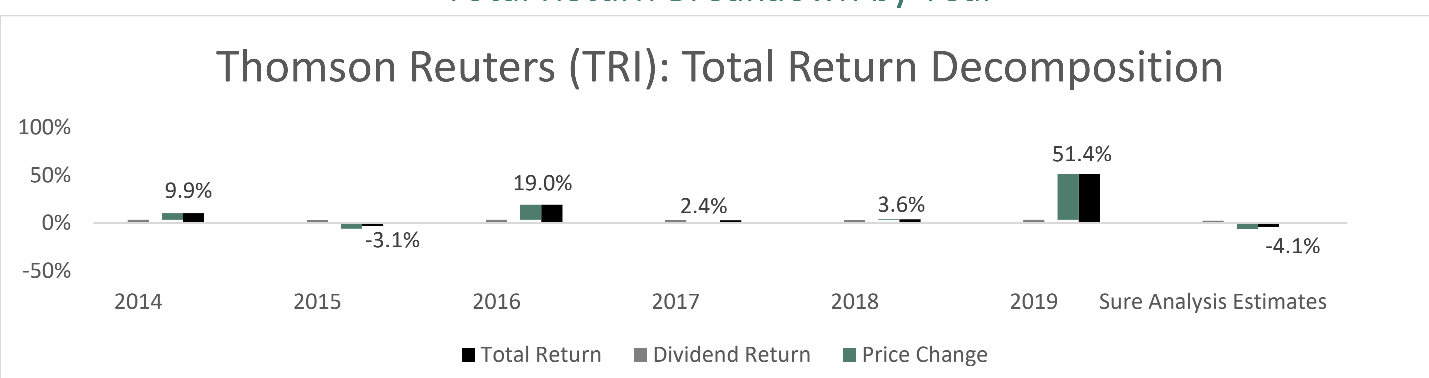
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	66%	60%	61%	84%	71%	63%	76%	55%	185%	46%	**79%**	**70%**

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, and 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 -4.1%, entirely due to an expected negative unwinding of the valuation level. The sale of the Financial & Risk business is a net positive, but the stock is near its 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.

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 March 9th, 2019 by Quinn Mohammed

Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	12997	13070	13807	13132	12702	12607	11257	11166	11333	5906
Gross Profit	3122	3009	3810	3422	3148	3398	3095	2934	3254	1878
D&A Exp.	1556	1574	1709	1735	1830	1822	1582	1552	1463	717
Operating Profit	1575	1419	2305	2570	1516	2545	1526	1390	1755	1199
Op. Margin	12.1%	10.9%	16.7%	19.6%	11.9%	20.2%	13.6%	12.4%	15.5%	20.3%
Net Profit	844	909	-1390	1989	137	1909	1255	3098	1395	15464
Net Margin	6.5%	7.0%	-10.1%	15.1%	1.1%	15.1%	11.1%	27.7%	12.3%	26.5%
Free Cash Flow	1569	1558	1556	1694	1099	1446	1887	2079	1079	197
Income Tax	-299	139	293	126	848	62	34	-15	-274	-1198

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	34573	35531	32476	32537	32439	30597	29112	27852	26480	17295
Cash & Equivalents	1111	864	422	1283	1316	1018	966	2368	874	825
Acc. Receivable	1742	1854	1966	1795	1733	1792	1714	1327	1415	1120
Inventories	N/A	N/A	66	55	46	37	33	32	31	23
Goodwill & Int.	28319	27606	26043	26044	26383	25056	23781	21534	21815	10271
Total Liabilities	15238	15856	15726	15039	16009	15938	16012	14596	12905	7735
Accounts Payable	N/A	N/A	508	461	406	411	282	311	307	265
Long-Term Debt	7603	7518	7594	7231	8066	8110	8424	7389	7026	3255
Total Equity	19267	19322	16295	17035	15926	14068	12503	12663	12967	9450
D/E Ratio	0.39	0.39	0.46	0.42	0.50	0.57	0.67	0.58	0.54	0.34

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	2.4%	2.6%	-4.1%	6.1%	0.4%	6.1%	4.2%	10.9%	5.1%	9.1%
Return on Equity	4.5%	4.7%	-7.8%	11.9%	0.8%	12.7%	9.4%	24.6%	10.9%	16.9%
ROIC	3.2%	3.4%	-5.4%	8.1%	0.6%	8.1%	5.7%	14.7%	6.8%	12.4%
Shares Out.	834	838	833	830	831	811	784	749	720	503
Revenue/Share	17.19	17.21	18.25	17.44	16.84	17.12	15.81	16.42	17.33	11.75
FCF/Share	2.07	2.05	2.06	2.25	1.46	1.96	2.65	3.06	1.65	0.39

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