Thomson Reuters Corporation (TRI)

Updated February 14th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	$124	**5 Year CAGR Estimate:**	3.6%	**Market Cap:**	$57 B
Fair Value Price:	$98	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date:**	02/22/2023
% Fair Value:	126%	**5 Year Valuation Multiple Estimate:**	-4.5%	**Payment Date:**	03/16/2023
Dividend Yield:	1.6%	**5 Year Price Target**	$138	**Years of Dividend Growth:**	30
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Sell

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.

On January 3rd, 2023, Thomson Reuters acquired SurePrep, a U.S.-based tax automation software and services company for $500 million in cash.

In February 2023, Thomson Reuters announced a 10% increase to the dividend to $1.96 per share, which marked the 30th consecutive annual dividend increase.

Thomson Reuters reported fourth quarter and full year 2022 results on February 9th, 2023, for the period ending December 31st, 2022. For the quarter, total company revenue grew 3% to $1.77 billion. The majority of total revenues is recurring revenues (82%). The company produced adjusted EPS of $0.73 per share, compared to adjusted EPS of $0.43 in Q4 2021. The increase is due primarily to higher adjusted EBITDA, as a result of growth in revenues and lower costs.

The company completed its two-year Change Program, which saw Thomson Reuters become an operating company from a holding company, and position itself as a content-driven technology company rather than a content provider.

For 2023, Thomson Reuters forecasts total revenue growth of 4.5% to 5.0%, adjusted EBITDA Margin at roughly 39%, and free cash flow of $1.8 billion.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.54	$1.85	$2.13	$1.79	$2.51	$0.75	$3.11	$2.25	$11.50	$2.88	***$3.28***	***$4.60***
DPS	$1.30	$1.32	$1.34	$1.36	$1.38	$1.39	$1.44	$1.52	$1.62	$1.78	***$1.96***	***$2.16***
Shares[1]	831	811	784	749	720	550	503	490	489	480	***470***	***450***

In January 2021, Thomson Reuters sold Refinitiv to LSEG, then set off on a two-year Change Program, which resulted in the company transforming itself from a holding company to an operating company. Thomson Reuters became a content-driven technology company rather than a content provider.

At the end of Q4 2022, they held roughly $1.0 billion in cash and cash equivalents to target acquisitions that could strengthen the company's growth. One such recent example is the acquisition of SurePrep in early 2023 for $500 million.

In addition, the company has made it clear that share repurchases are a priority, which will help drive earnings-per-share higher as well in the intermediate term. Thomson Reuters anticipates completing its $2 billion buyback program by Q2 2023.

[1] In millions

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Finally, the large position in LSEG shares should prove fruitful as LSEG has a healthy track record of earnings growth. However, 31 million of its LSEG shares have been released from the lock-up agreement at end of January 2023 and can now be sold. The company plans to sell at least $2 billion worth of its LSEG shares, and then return the proceeds to shareholders.

Between 2023 and 2028, we expect Thomson Reuters to grow its earnings-per-share by 7.0% annually.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	24.4	21.8	23.9	29.9	23.2	64.4	8.9	33.1	15.3	37.0	***37.8***	***30.0***
Avg. Yld.	3.5%	3.3%	2.6%	2.5%	2.4%	3.2%	2.4%	1.9%	1.6%	1.5%	***1.6%***	***1.6%***

We see fair value for this stock at 30 times earnings and today shares trade for 37.8 times estimated earnings, significantly higher than the 5-year average of 31.7 and 10-year average of 28.2. We therefore estimate a meaningful headwind to total returns annually as the valuation moderates over time. We are forecasting mediocre dividend growth as the company is targeting a 50% to 60% dividend payout ratio, and they are at the top end of this.

Safety, Quality, Competitive Advantage, & Recession Resiliency

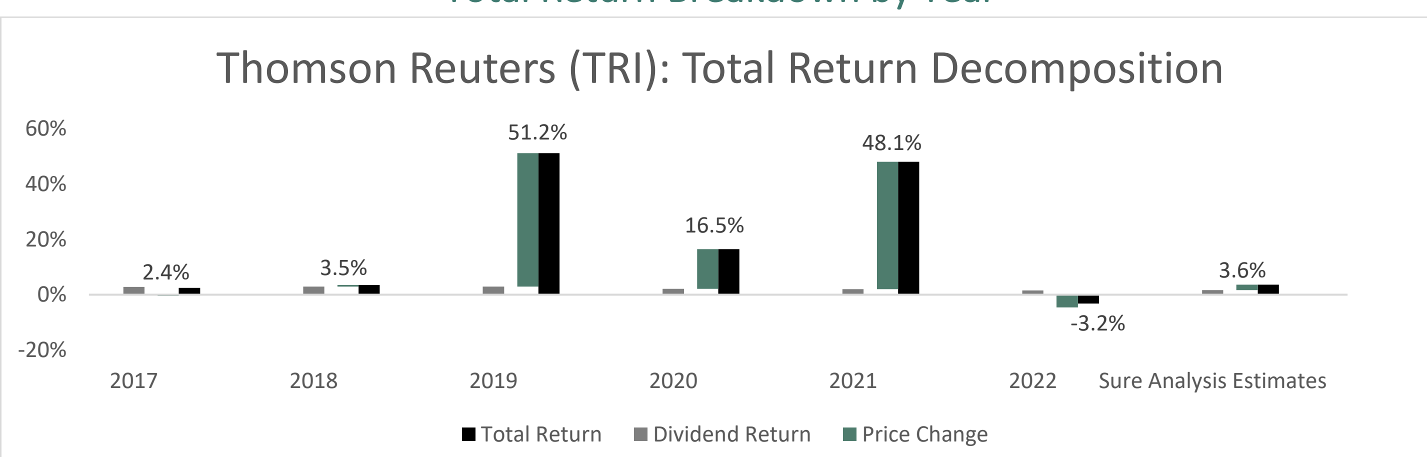
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	84%	71%	63%	76%	55%	185%	46%	68%	14%	62%	***60%***	***47%***

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 safe today, and we expect the 30-year annual dividend streak to continue. TRI was founded during the last recession, so it is difficult to know exactly how much its business was impacted. As Thomson Reuters generates most of their revenue from selling information and software solutions electronically and on a subscription basis (with 82% of revenue recurring), the business has historically been resilient, and this resiliency has benefited them throughout the pandemic impact.

Final Thoughts & Recommendation

We see total annual returns for Thomson Reuters coming in at 3.6%, which is underwhelming, and entirely due to an expected negative unwinding of the valuation level. The company completed its two-year Change Program, and it now labels itself a content-driven technology company. We assign Thomson Reuters a hold rating, however shares are trading at 126% of our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	12,702	12,607	11,257	11,166	5,297	5,501	5,906	5,984	6,348	6,627
Gross Profit	7,327	7,626	6,832	6,566	2,844	2,805	3,475	3,715	3,870	
D&A Exp.	1,830	1,822	1,582	1,552	605	619	717	792	770	724
Operating Profit	1,502	2,454	1,520	1,410	1,034	775	1,199	1,919	1,234	1,834
Op. Margin	11.8%	19.5%	13.5%	12.6%	19.5%	14.1%	20.3%	32.1%	19.4%	27.7%
Net Profit	137	1,909	1,255	3,098	1,395	3,933	1,564	1,122	5,689	1,402
Net Margin	1.1%	15.1%	11.1%	27.7%	26.3%	71.5%	26.5%	18.8%	89.6%	21.2%
Free Cash Flow	1,099	1,446	1,887	2,079	1,510	1,486	197	1,241	1,286	1,320
Income Tax	848	62	34	-15	-134	136	-1198	71	1,607	195

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	32,439	30,597	29,112	27,852	26,480	17,018	17,295	17,881	22,149	21,711
Cash & Equivalents	1,316	1,018	966	2,368	874	2,706	825	1,787	708	1,069
Acc. Receivable	1,733	1,792	1,714	1,327	1,415	1,069	1,120	1,122	1,038	1,069
Inventories	46	37	33	32	31	33	23	26	28	
Goodwill & Int.	26,383	25,056	23,781	21,534	21,815	9,308	10,271	10,233	10,093	10,023
Total Liabilities	16,009	15,938	16,012	14,596	12,905	7,808	7,735	7,901	8,315	9,762
Accounts Payable	406	411	282	311	307	326	265	217	227	1,222
Long-Term Debt	8,066	8,110	8,424	7,389	7,026	3,216	3,255	3,772	3,786	4,761
Total Equity	15,926	14,068	12,503	12,663	12,967	9,100	9,450	9,870	13,724	11,949
LTD/E Ratio	0.50	0.57	0.67	0.58	0.54	0.35	0.34	0.38	0.27	0.40

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.4%	6.1%	4.2%	10.9%	5.1%	18.1%	9.1%	6.4%	28.4%	6.4%
Return on Equity	0.8%	12.7%	9.4%	24.6%	10.9%	35.6%	16.9%	11.6%	48.2%	10.9%
ROIC	0.6%	8.1%	5.7%	14.7%	6.8%	23.8%	12.4%	8.4%	36.3%	8.2%
Shares Out.	831.0	811.0	784.0	749.0	720.0	550.0	503.0	490.0	494.5	484.9
Revenue/Share	16.84	17.12	15.81	16.42	8.10	8.23	11.75	12.02	12.84	13.67
FCF/Share	1.46	1.96	2.65	3.06	2.31	2.22	0.39	2.49	2.60	2.72

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