Thomson Reuters Corporation (TRI)

Updated August 4th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$157	**5 Year CAGR Estimate:**	4.2%	**Market Cap:**	$71 B
Fair Value Price:	$113	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/15/2024
% Fair Value:	140%	**5 Year Valuation Multiple Estimate:**	-6.5%	**Payment Date:**	09/10/2024
Dividend Yield:	1.4%	**5 Year Price Target**	$181	**Years of Dividend Growth:**	31
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

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, and in June 2023, it announced the agreement to acquire Casetext for $650 million, which uses AI to improve the efficiency of legal professionals.

In February 2024, Thomson Reuters announced a 10% increase to the dividend to $2.16 per share, which marked the 31st consecutive annual dividend increase.

Thomson Reuters reported second quarter 2024 results on August 1st, 2024, for the period ending June 30th, 2024. For the quarter, total company revenue grew 6% year-over-year to $1.74 billion. The majority of total revenues was recurring revenues (82%). The company produced adjusted EPS of $0.85 per share compared to adjusted EPS of $0.88 in Q2 2023. The decrease is due primarily to lower adjusted EBITDA, higher software development amortization, and higher taxes.

For 2024, Thomson Reuters now forecasts total revenue growth of 7.0% (up from 6.5% to 7.0% previously), adjusted EBITDA margin of approximately 38% (unchanged), and free cash flow of $1.8 billion (unchanged).

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.85	$2.13	$1.79	$2.51	$0.75	$3.11	$2.25	$11.50	$2.62	$3.51	***$3.75***	***$6.04***
DPS	$1.32	$1.34	$1.36	$1.38	$1.39	$1.44	$1.52	$1.62	$1.78	$1.96	***$2.16***	***$2.76***
Shares[1]	811	784	749	720	550	503	490	489	480	455	***448***	***400***

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. Upon completing this program, Thomson Reuters became a content-driven technology company rather than a content provider.

At the end of Q2 2024, it held approximately $1.7 billion in cash and cash equivalents to target acquisitions that could enhance the company's growth. Some recent instances are the acquisitions of SurePrep for $500 million in early 2023, Casetext for $650 million, Imagen Ltd, Westlaw Japan (in November 2023), and Pagero and World Business Media Limited (January 2024).

In addition, the company has made it clear that share repurchases are a priority, which will help drive earnings-per-share higher as well over the long term. In 2022 and 2023, Thomson repurchased $1.28 billion and $1.08 billion of its shares. In

[1] In millions

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November 2023, Thomson Reuters announced under its new share repurchase authorization it may repurchase up to $1.0 billion worth of its shares, which it completed in Q2 2024.

Finally, Thomson Reuters completed the sale of its stake in LSEG as of Q2 2024. In 2023, TRI sold 56 million shares for gross proceeds of $5.5 billion. It returned some of this to shareholders through a return of capital transaction, a cash distribution of $4.67 per share and a reverse stock split which reduced the share count. In the first and second quarters of 2024, Thomson Reuters sold 10.1 million more shares of LSEG for $1.2 billion and 5.9 million more shares for $0.6 billion, respectively.

Between 2024 and 2029, we expect Thomson Reuters to grow its earnings-per-share by 10.0% annually.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.8	23.9	29.9	23.2	64.4	8.9	33.1	15.3	40.7	37.1	***42.0***	***30.0***
Avg. Yld.	3.3%	2.6%	2.5%	2.4%	3.2%	2.4%	1.9%	1.6%	1.5%	1.5%	***1.4%***	***1.5%***

We see fair value for this stock at 30 times earnings and today shares trade for 42.0 times estimated earnings, significantly higher than the 5-year average of 27.0 and 10-year average of 29.8. We therefore forecast 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

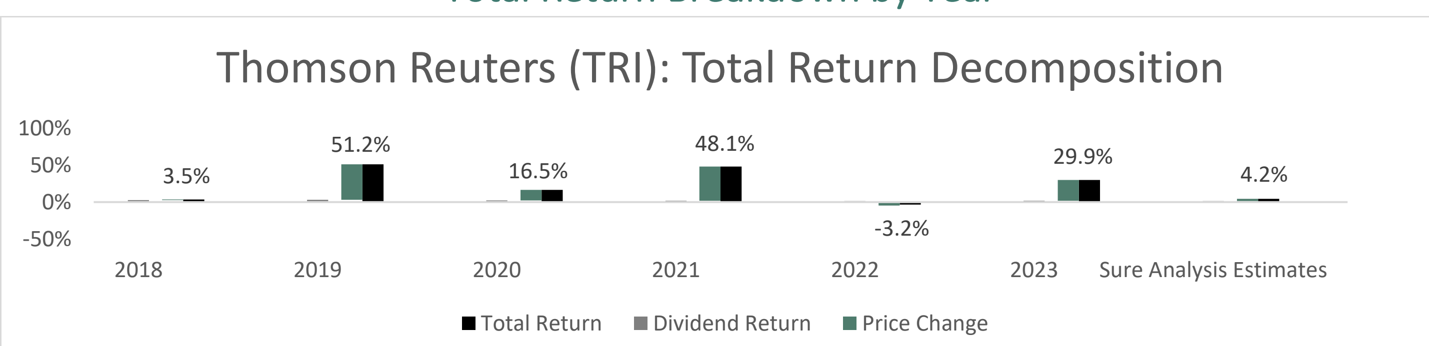
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	71%	63%	76%	55%	185%	46%	68%	14%	68%	56%	***58%***	***46%***

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 31-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 its revenue from selling information and software solutions electronically and on a subscription basis (with 80% 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 4.2%, stemming from 10% earnings-per-share growth and the 1.4% dividend yield, partly offset by -6.5% P/E multiple contraction. The company has completed its two-year Change Program, and now labels itself as a content-driven technology company. Given the recent price dip of Thomson Reuters stock, we are upgrading TRI from sell to hold, but shares are still expensive, trading at 140% of our fair value estimate.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	12,607	11,257	11,166	5,297	5,501	5,906	5,984	6,348	6,627	6,794
Gross Profit	7,626	6,832	6,566	2,844	2,805	3,475	3,715	3,870		
D&A Exp.	1,822	1,582	1,552	605	619	717	792	770	724	725
Operating Profit	2,454	1,520	1,410	1,034	775	1,199	1,919	1,234	1,834	2,332
Op. Margin	19.5%	13.5%	12.6%	19.5%	14.1%	20.3%	32.1%	19.4%	27.7%	34.3%
Net Profit	1,909	1,255	3,098	1,395	3,933	1,564	1,122	5,689	1,402	2,695
Net Margin	15.1%	11.1%	27.7%	26.3%	71.5%	26.5%	18.8%	89.6%	21.2%	39.7%
Free Cash Flow	1,446	1,887	2,079	1,510	1,486	197	1,241	1,286	1,320	1,797
Income Tax	62	34	-15	-134	136	-1198	71	1,607	195	417

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	30,597	29,112	27,852	26,480	17,018	17,295	17,881	22,149	21,711	18,680
Cash & Equivalents	1,018	966	2,368	874	2,706	825	1,787	708	1,069	1,298
Acc. Receivable	1,792	1,714	1,327	1,415	1,069	1,120	1,122	1,038	1,069	1,122
Inventories	37	33	32	31	33	23	26	28		
Goodwill & Int.	25,056	23,781	21,534	21,815	9,308	10,271	10,233	10,093	10,023	11,120
Total Liabilities	15,938	16,012	14,596	12,905	7,808	7,735	7,901	8,315	9,762	7,620
Accounts Payable	411	282	311	307	326	265	217	227	1,222	1,114
Long-Term Debt	8,110	8,424	7,389	7,026	3,216	3,255	3,772	3,786	4,761	3,277
Total Equity	14,068	12,503	12,663	12,967	9,100	9,450	9,870	13,724	11,949	11,060
LTD/E Ratio	0.57	0.67	0.58	0.54	0.35	0.34	0.38	0.27	0.40	0.30

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	6.1%	4.2%	10.9%	5.1%	18.1%	9.1%	6.4%	28.4%	6.4%	13.3%
Return on Equity	12.7%	9.4%	24.6%	10.9%	35.6%	16.9%	11.6%	48.2%	10.9%	23.5%
ROIC	8.1%	5.7%	14.7%	6.8%	23.8%	12.4%	8.4%	36.3%	8.2%	17.4%
Shares Out.	811.0	784.0	749.0	720.0	550.0	503.0	490.0	494.5	484.9	464.0
Revenue/Share	17.12	15.81	16.42	8.10	8.23	11.75	12.02	12.84	13.67	14.64
FCF/Share	1.96	2.65	3.06	2.31	2.22	0.39	2.49	2.60	2.72	3.87

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

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