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CORPORATE PARTICIPANTS

Susan Taylor Martin *Thomson Reuters - President, Legal*

CONFERENCE CALL PARTICIPANTS

Drew McReynolds *RBC Capital Markets - Analyst*

PRESENTATION

Drew McReynolds - *RBC Capital Markets - Analyst*

Okay, we're going to roll right into Thomson Reuters. And we're very pleased to have with us today Susan Martin Taylor (sic), who is President of the legal division within Thomson.

Just for context, legal accounts for about 27% of Thomson Reuter revenue, 36% of EBITDA, and about -- we estimate 40% of Company net cash flow. It's a key delta for any Thomson shareholder to understand what's happening in this business.

After some sluggish years, we are beginning to see organic revenue growth kick up, which is nice to see. And for a lot of investors that follow this name, legal EBITDA margins are now stabilizing at around 37%, 38%.

So certainly before we get into how this business mix is changing and the economic impact of it, Susan is going to lay the groundwork with a 5 or 10 minute presentation. So Susan, over to you.

Susan Taylor Martin - *Thomson Reuters - President, Legal*

Thanks very much. Thank you. So good afternoon. Good to see you all. I'm glad a few people have come back in. I was slightly worried by the exodus that happened as we arrived. But anyway, it's been a long day, I know, for everyone.

So I was just going to cover a few slides to kind of set -- as Drew said, sort of set the context for the legal business. And then I think we're going to spend most of our time on discussion and questions.

And some of these slides will be a little bit familiar if you were at our investor day earlier in the year, because some of the messages are exactly the same and apologies for repeating them, but they haven't changed. So reinforcement is always a good thing.

And this first one is a reminder of the thinking of the evolution of the legal business that we have from a Thomson Reuters perspective. The fundamentals of the business everywhere in the world were their legal publishing business.

And as a result, always very, very content-focused and very jurisdictional actually, so the content didn't really travel globally. US legal content was really used within the US and not much further.

And the other thing that we think was very interesting about our traditional sort of mindset was extremely law firm-centric in terms of the user. So it was the lawyer in a law firm. It wasn't historically the lawyer in a corporation and it wasn't historically a lawyer in a government office, either.

So very much the traditional world. And in the middle there in terms of what's changed, I think there have been some really dramatic changes, both to the environments in which we operate, and therefore some dramatic changes from a Thomson Reuters perspective.

And the huge changes are -- if I start on the left-hand side -- I'm using a little bit of financial services terminology, which is more my background -- but the power really has shifted to the buy side in terms of the corporations, in terms of the GCs that are buying legal services. And we are seeing increasing pressure on costs and on efficiency and that is really changing the market.



So that kind of shift started sort of 2007, 2008, and really hasn't abated. And we don't see any scenario where the world goes back to those heady days of 2007, 2008.

On the right-hand side, this kind of increase in demand for efficiency -- and again, very, very much driven by the client. So the legal services client really requiring of their legal services providers a much better and more effective way at delivering legal services, because typically, their budgets internally have decreased. They have to do more with less, and therefore that is absolutely fed through to the law firm market.

And equally, GCs now have more alternatives in terms of how they could get their legal work done. They can use a legal process outsourcer; they can use different sorts of service providers that are going to come in and do quite specific things for them.

So that world has also changed. And again, very much driven behind that kind of power to the buy side. And all of that, I think -- the very fundamentally fueled by the changes in technology.

And the world that you all know from a kind of financial services institution perspective in terms of very much financially -- very much technology-driven in terms of how your workflow has changed, that really is just beginning to hit the legal world. And we think that is the dramatic kind of long-term change in the market.

And as a result of those three things, what we see our clients wanting is very much a smarter way to work. It is all about effectiveness and efficiency across the board.

And we feel we are extremely well positioned to help this new -- our clients adapt in this new world, because as we shift our business from that traditional mindset around content and research and print publications to much more of a software and a services world, where the workflow, which will be increasingly automated, can pull through fantastic quality content and expertise and know-how, we think that's an extremely attractive place for us to position ourselves. So that's very much the pivot that we described at investor day.

Just a couple of statistics here that I think are interesting in terms of supporting that shift and change. And so these are just relatively recent numbers. The first is around in-house counsel saying that they are reducing their spend on outside counsel as one of their top goals, so that's that -- in a recent survey of GC, 61% said one of our most important goals is to reduce our cost in outside counsel.

And they are doing that by using alternate providers, but also doing increasing amounts of work in-house. So we see that shift very, very clearly now.

The second chart is around the greater usage. And in this particular instance, it's around of cloud technology, but I think it applies to technology in general. Much, much greater acceptance of using technology to help achieve that effectiveness and efficiency, both within a corporate environment -- so the GC -- but also within a law firm environment increasingly.

People understanding that that is going to enable that next level of effectiveness and efficiency within their organizations. And particularly at the smaller law level -- small law firm level, you can see 72% of firms are planning to use cloud-based services. So this is software services that don't need to be installed on-premise, but are available in the cloud.

So that's a big shift for a traditionally pretty technology conservative, data and information security obsessed group of people to kind of start saying no, we can see how these services could help us change the way we work. That's a big shift.

And then the final one in terms of drive for efficiency -- and this is just over a year. You can see that Chief Legal Officers are making much greater use of technology for efficiency's sake. And again, that's up from 59% last year to 67% this year, so really quite a big change.

And a couple of years ago, and I mean no more than three, this barely registered on the question list, but that kind of technology acceptance, I think, is really now starting to take hold.



This again. If you are with us in March, this was a slide that we showed then that really talked about the way in which we are seeing the legal opportunity for us as Thomson Reuters. And I think traditionally, we have very much played in that kind of -- particularly, that top right-hand quadrant around US print and US online legal information.

But as you can see, of this kind of total market environment, \$17 billion around the world, that's actually only about 20% of the overall opportunity. And by far, the majority of the opportunities -- what we call in sort of solutions businesses -- and there is a huge range there from software and services that allow law firms to manage themselves better, so kind of SAP or ERP systems for law firms, all the way through to matter management solutions, sort of helping them manage legal matters through a process, so process management, all the way through to educational, professional development, and even court room management systems for government institutions.

So a much -- it's a much, much bigger pie than I think if you had a very traditional mindset you would think about. And again, we think we are very, very well positioned to take our core traditional strengths on the content side, the domain expertise, and marry that with our technology expertise to really start to deliver against this solutions opportunity globally.

And then this is a slide from our recent Q3 results. And -- so this is trying to map exactly where our performance is against those three broad pieces of business. As you can see, we have a US print business, which is about 15%, 16% of our revenues overall.

And that's declining; as I'm sure many of you that cover other media markets understand, that's just a kind of structural shift. We're trying to clearly manage and optimize that business as well as we can, but the shift is inevitable.

You can see that we've got a large chunk of revenue on the US online legal information side of things and that is declining about a percentage point. I have to say the trajectory and the momentum on that side of the business has improved this year.

And on the right-hand side, what we would call our sort of solutions businesses. So these are much higher growth. This time last year, that accounted for about 45% of our overall revenues. This time this year, it accounts for 47%.

The next slide I'm going to show just shows that kind of progression over the last few years. So we really are shifting our emphasis here.

And I would just like to say that I would like, in a way -- I feel like we could do this slide a little bit better, because for me, the orange and the kind of the green segment really merge into each other, because I think the key thing that we need to try and do as an organization is parlay the traditional strengths that we have around exceptional content, great expertise and know-how -- domain expertise that we have within the legal markets. Fantastic customer relationships.

But all of that strength, we need to use to really push that solutions world. And when we talk about -- and this sounds quite an abstract way to talk about it, apologies. We really think about the solution software and services world pulling through that value-added content.

And we can imagine a world where that content will start to be used at the point of need in a particular workflow -- so as part of a software solution, not as a sort of standalone content-only experience, as it were.

And we have started to make some really important steps on that trajectory. And the acquisition that we made in 2013 of a company called Practical Law is exactly the kind of business that starts to bridge that gap between the traditional and the new.

Practical Law is extremely high-value, expert-driven, what we call know-how and content for lawyers. And it is written by ex-senior partners and partners of city law firms around the world, so exceptionally high quality. And it is completely driven at helping a practitioner do a particular legal thing.

So it really is what it says on the tin: extraordinarily practical. And it's full of -- this is what's -- if you need to draft this kind of employment contract, this -- here is one that we made earlier. This is what you need to know.

By the way, these are the things that have changed in terms of regulation. This is the clause that you might have an issue with. If you have to negotiate this clause, by the way, these your various options. So remarkably effective at making the lawyer more effective. So really, really directed at the practitioner.

There is only a very short leap, really, between that kind of content and pulling that into a much more sort of technology-enabled automated workflow and that's very much what we're doing. And we have married that together with the fantastic Westlaw content that we have in terms of research.

So it's starting to be a really unified kind of customer experience and it starts to really -- that's the sort of example of almost reinventing that world in orange, as it were, and taking it into that new world of it being a solution, it being an answer, it helping someone actually physically do their jobs. So very much what we are focused on.

And then this final slide -- actually, sorry. There are two more slides. You will have seen from kind of the Q3 results, we talked about kind of a return of organic growth, which although sort of small, is a step in the right direction and good momentum.

This slide excludes our US print number, which is declining at sort of 7%, 8% a year. And it just shows the kind of the underlying momentum of that future-looking business. And you can see that we've made really steady progress Q1, Q2, Q3 this year in terms of getting back to organic growth.

And one of the things that is obviously extremely important for us is how we balance making sure that we are very ruthless on cost, on the parts of the business that are not growing, and making sure that we have enough money to invest in those parts of the business that really are growing. That is absolutely what we're focused on sort of day in, day out.

And this slide, then, gives you just a little bit of a snapshot in terms of since 2010, how that business mix has been shifting and changing. And you can see the growth in that solution space, the green bars, the reduction in that core legal research space, which is the orange bars, and obviously the decline in the print -- the US print numbers over time.

We have also managed to -- as we've promised -- to continue to kind of keep that margin flattish, which is no mean feat, I have to say, from an operational perspective, because clearly we want to move to that new world as fast as we can.

But it absolutely means us managing the business that we have that is still extremely strong in the market. And remember something like Westlaw is in excess of 90% retention rates. It is preferred two-to-one to its nearest competitor in the US market, so it's a very, very strong franchise.

So we need to make sure that it's still at the top of its game and it's still worth the price -- the considerable price premium that it plays in the market. But at the same time, the future is much more in this software and services world and therefore, we have to transition to that.

So Drew, that is all I was going to start. Is that good?

Drew McReynolds - RBC Capital Markets - Analyst

Thank you very much, Susan, for that. And I guess my first question out of the gate, just having, I think, been familiar with Thomson Legal over the years. It's an amazing pivot.

And I think I've underappreciated it until now, because essentially, you've got an existing customer base that is more heavily weighed in law firms versus the corporate, so you're going to have to shift that.

And then you made the point there about there being this opportunity on the small- and medium-sized law firm, not just the large law firms, which you guys have historically served really well with Westlaw. So can you characterize how long this pivot takes?



Is it -- are you knocking on cold calling corporates to get in the door? Are there other parts of the business you can leverage to move this along?

Susan Taylor Martin - Thomson Reuters - President, Legal

Well, so you are absolutely right. I think the corporate business is a relatively small business for us today. However, from a US context -- actually from a UK context, where Practical Law was particularly -- it was very strong and was more well established, for example -- the corporate business in the UK is now half our legal business overall.

So it is a very substantial play and that's because it is a proposition that absolutely suits the corporate lawyer. They do not have time to go and research kind of go into the kind of in-depth legal research. That is not their thing. They need an answer right now. They need to draw off that contract right now.

So Practical Law is brilliantly positioned at that and we've seen -- we've got a reasonably sized corporate business in the US. Typically, the larger corporates, where they do more work in-house and have therefore used Westlaw.

We've also got a very interesting solutions service aimed at corporates, which is called Serengeti, which is all about e-billing. So it helps corporations manage their bills with their law firms. So it's not a space that is new to us completely, but there is no question that something like Practical Law.

And as we start to bring Westlaw and Practical Law together to really change the way a lawyer actually works, I think that is going to take off. There's no question from a corporate perspective.

Very difficult, when your question around sort of transition and pivot, because I -- you all cover media markets and digital media markets are in constant transition and constant change. And I think one absolutely has to focus on continuing to add value to a customer all the time and be very aware of changes that are happening in the market and things that are happening from a technology perspective.

That could really have quite a dramatic difference. So I'm pretty certain this is the right shift, but I think that transformation, as it were, is -- you've got to always be on it.

I like this concept of dynamic stability. I think you need a stable business. We have a very stable, highly profitable business, but we do need to make sure that it's really dynamic and it's start -- it's moving and changing with the demands in the marketplace.

And I think the good thing about what we are laying out strategically is that is absolutely the way the market is going. We've got some very good assets, actually, in those -- in some of those spots.

One of the big things that we're doing is starting to integrate those better and integrate those with our information, so that we feel we've got a best-in-class proposition for our clients.

Drew McReynolds - RBC Capital Markets - Analyst

When you look at the acceleration in organic growth on a quarterly basis, and I know it's a little four-quarter snapshot and you are thinking well beyond that, but --

Susan Taylor Martin - Thomson Reuters - President, Legal

We've got more to go, yes.



Drew McReynolds - RBC Capital Markets - Analyst

A sell side analyst doesn't, unfortunately. But when you look at that reacceleration, is that -- how much of that is a function of this pivot and bringing more of that higher growth software and services in and how much of it is just a little bit of the tailwind, more broadly, from a macro perspective? Maybe it's both?

Susan Taylor Martin - Thomson Reuters - President, Legal

I think it's probably a combination of both. And I think it's a -- and very important in that it's just extremely good execution. And we are very focused on fantastic execution of what we have today. So we have a vision of where we are trying to get to, but it's that dreadful phrase, you've got to walk and chew gum.

You absolutely need to deliver today, so therefore, working on your sales organization, your customer service organization, making sure that the proposition that you have really resonates with clients, that they are delighted with your services. That is a huge component of that as well and I think behind this year's pivot in performance, a lot of that has been done to very, very solid execution.

I think in the US, there's been a little bit of a tailwind, you're right. But certainly, when we look at the large law market, it's been pretty flattish since the bottom, as it were. We've seen a little bit of a step up in growth. We have something called peer monitors, so we look at a pretty carefully.

I think September, we saw legal services growth of 5.5%, which was higher than normal. It's been at kind of minus 3% to plus 3% range every month for the last few years. So we're seeing a little bit of a pickup there.

We've seen a little bit of a pickup in law firm profitability, which is another thing that we look at, so that's now just under 2%. So there's a little bit of -- I think you're right, of kind of stuff in the market there, but I think more of it is around execution.

And you are also absolutely right that over the year, that 2% shift, from 45% to 47% of the portfolio really being in that solution space, is important, because that growth is at a substantially higher level. And overall, it's kind of high mid-single digits -- high single-digits in terms of that growth portfolio.

We've got certain propositions there that are that are really on fire. We've had a fantastic performance this year from P3, which is our legal outsource provider; fantastic performance from Elite, which is sort of a backend system for law firms. So we have some things that are really doing incredibly well. And again, fit those trends in the market.

Drew McReynolds - RBC Capital Markets - Analyst

And in that software and services segment -- and this is clearly going to be what I think likes of investors and us are going to be talking about for many years to come -- just describe the competitive dynamic.

Because in that traditional Westlaw business, you've had the duopoly. You guys would never call it that, I know, but we do call it that. And -- so are you -- I know it's a higher growth segment you are getting in the software and services. Is it more competitive? Just describe that dynamic for us.

Susan Taylor Martin - Thomson Reuters - President, Legal

Yes, so I would just start with apologizing. I don't think we've done a great job. I think we need to do a better job going forward of describing what that world looks like, so I think that one of the things that we want to do going forward is really start to give a lot more color to what those solutions look like and organize that rather than just a list of names. I think that's one of the things I've -- we have certainly taken away to think about how to kind of position that better.



I think there's one very big difference, which is in this kind of nonjurisdictional piece, which is historically, that legal information world really does operate country by country. And therefore you're right; you ended up with quite a concentrated market from a publishing perspective and then an online perspective.

What's very interesting then about the competitive dynamic in that kind of solution space is this is actually not country by country and these are truly global businesses. And that's one of the things that's going to be very interesting for us in terms of how we can globalize and scale some of these software businesses in a way that we were never able to scale some of our US information businesses.

So I think it is a much more global competitor set and is much more fragmented. And I apologize for that, because I think it's been rather easy to focus on the right-hand side. Not too many people to worry about.

Actually, on that left-hand side on the green side, it is a veritable patchwork of small providers often and we often have, by far, the -- they are not necessarily the largest of businesses, but we often have some of the largest of the players in that market.

For example, something like Elite on the law firm management side is a substantial business and the largest player in its field. So it's quite a patchwork.

I think we feel what strategically will give us the edge is that combination of the content and the software and services piece, because that really is a sweet spot for us and we don't really see anyone else quite bringing together those content assets with those technology assets, with a focus on the end practitioner in the same way.

Could someone replicate that? They could. But I think that is tough to do.

So we certainly don't see someone with the kind of the breadth that we have and I think that's what makes us feel very confident about that strategy going out. And there is just a myriad of different, much smaller competitors, typically, for each of the offers that we have. No one really substantial that's emerged and no one global.

Drew McReynolds - *RBC Capital Markets - Analyst*

When you look at software and services as a category and you've got your product suite, are there holes or alternatively opportunities that are not there and is this something you buy or build as you roll that out?

Susan Taylor Martin - *Thomson Reuters - President, Legal*

I'm going to think across the firm -- you have heard this from Jim, I think, that we are much more interested at the moment at exercising our organic growth muscle, A. And B, we've done a number of acquisitions over the years that we haven't really integrated and that's where you get tremendous scale. So we've had a big focus on the integration piece this year.

Having -- so there's nothing sort of that's out there right now. Having said that, we would always be interested if there was something that absolutely hit a sweet spot. And what we are -- what we do do is we are very engaged with universities and the startup community around some of these new spaces that are kind of emerging, which again, we feel like we are extremely well positioned to take advantage of.

A number of them are in sort of the Big Data world, where you can start to use predictive analytics based on Big Data, which is absolutely what we have with Westlaw, to be able to understand where things might be. So where might you sort of file that patent suit and which judge would you want to get in front of and why?

So now we are able to mine that kind of data to give much more pre- or value-added advice to the legal professional and that's very much kind of an area for focus. But I think a lot of that we are able to do, perhaps potentially in partnership. Wouldn't necessarily require an acquisition. And I think some areas -- I think we will feel very confident building it out.

Drew McReynolds - *RBC Capital Markets - Analyst*

Fabulous. Is there any question from the audience?

Unidentified Audience Member

So I wanted to drill down into transition to cloud and just get an understanding. First of all, where you are in terms of customer preference for cloud solutions and your ability to provide that.

And the revenues and margin implications, both in case of addressable market and whether it costs more to focus your own cost structure. And then how that affects the competitive dynamics, whether it (inaudible - microphone inaccessible).

Susan Taylor Martin - *Thomson Reuters - President, Legal*

Yes. So from our software and services perspective, we have a variety of offers out there. We have certain very robust on-premise solutions based for typically large global firms and they will probably stay that way for some considerable time.

We also have in the portfolio -- and I'm thinking of something like Firm Central for kind of our smaller clients, we already have SaaS-enabled kind of solutions today so that the lower end of the market and around the world in other markets, we've already got SaaS software solutions.

You are absolutely right, it's kind of different model. And I think one of the attractive things about the SaaS side is much more of a move to subscription rather than chunky one-off fees, which actually, from a law firm partnership perspective, are extremely difficult to justify.

These are these hideous -- every six years, you've got to do this humongous transformation, in a way. So I do think there's kind of a -- there's absolutely an attractiveness around this more of a subscription model that comes with SaaS and it can be at a different price and a different margin point, so it's very -- it's very difficult to generalize across the piece.

I think what we need to be -- to do is make sure that we are ready from a cost structure perspective to be able to optimize our position in whatever that scenario is -- for whatever that market segment is. But I do think we will see, particularly at the small end of the market, an adoption of that and we are certainly seeing that right now. And we have products out there right now.

I think it will take some time before it gets to the top end. But -- and I can't remember who said this. I thought it was a great quote. We will never see technology move as slowly as it does today.

So I think we are at the cusp of really quite a dramatic shift and change. And it may be that something that has taken two decades to get to actually now starts to happen quite quickly, but I do think it is something that we are very focused on and I think we will just have to manage that appropriately.

Drew McReynolds - *RBC Capital Markets - Analyst*

Anybody else? Yes, Jeremy.



Unidentified Audience Member

One more. So legal margins have been a pretty good focus for investors. Do you ever feel hemmed in by the commitment to keeping Flash? Are you ever worried that it might be starving the core businesses for growth or that with more investment, you can grow the solutions business faster?

Susan Taylor Martin - Thomson Reuters - President, Legal

Yes. It's interesting, actually, because one of the things I remark when I read some of your work is that never seems to get much of a callout. Certainly versus our competitors, I'm always interested by that.

Because you're right, we've got a very high margin and it is one that we're trying to keep flattish. I think it's just very, very good business. And we have a phrase that we use in the team, which is it is important to fund the journey.

So to my mind, particularly in a digital business that is going through transformation, and this will be with many of the organizations that you look at, you've got to be very careful to make sure that you are doing the things that are -- have been hugely important and profitable for you over time, but are declining in value.

You've got to do those more and more efficiently every, every year and really make sure that you are focused on clients and adding more value. And it sounds very basic, but that really has got to be the focus.

And therefore, I think the discipline that we've got into is very much that that additional room that we make by being more efficient on the bits of the business that aren't growing as much is what we can afford then to invest on the growth sides of the business. So that's kind of the mantra very much that we have.

Now equally, I think -- do I think it's tough? I think that's tough, but I think that's the job. I think that is the job.

Drew McReynolds - RBC Capital Markets - Analyst

All right. Well, Susan, again, with the eye to the time, I think we may make these sessions a little longer next year, but thanks very much for joining us. We really appreciate it.

Susan Taylor Martin - Thomson Reuters - President, Legal

You are very welcome. Thank you very much. Thank you.

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