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EDITED TRANSCRIPT

TRI.TO - Thomson Reuters Corp at Deutsche Bank Media, Internet and Telecom Conference

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CONFERENCE CALL PARTICIPANTS

Ato Garrett *Deutsche Bank - Analyst*

PRESENTATION

Ato Garrett - *Deutsche Bank - Analyst*

Great, thanks for joining us here at the Deutsche Bank Media & Technology conference. I am Ato Garrett, part of the business services equity research group. And with me is Jim Smith and Stephane Bello of Thomson Reuters.

So jumping right in we are going to get some updates on the macro and competitive environment that Thomson is facing. So Jim, if you can offer your thoughts just on the changing macroenvironment and what we've seen in particular as markets have rallied? And what are the implications for that change and your expectations across the business lines at Thomson Reuters?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure, thanks for having us and thanks for everybody who has come in today. And it's been an interesting start to the year, that's certain. And what you are saying about the macroenvironment and change, I don't know that we've ever seen more change.

And I will come back to what I think it looks like. But the one thing about our business is in general change is good for us because what we do is help advise our clients and provide our clients with the tools to advise their client on how to cope with change.

So complex regulatory environments are good for our business generally. Conflict and changes to regulatory environments generally involve a lot of work for the kinds of lawyers and accountants that are our best customers. So change is good.

What do I think about the current environment? I guess the markets certainly would indicate that folks are expecting that this change will be good for the financial services market. About 60% of our revenues are still there. And so it is interesting to think about how that might impact the markets.

Certainly there is an expectation that there will be lighter regulation I think around capital requirements, that there will be a return to normalcy in interest rates and that all of that will create an environment where there is more volatility and more need to trade. And all of that I think is a net plus for our financial services business. I think all of the regulatory changes that we have been hearing about are in areas that I say that affect more capital regulations and guidelines more so than the kind of regulations where we play.

We focus very much on that intersection of regulation and commerce but more around regulatory compliance, things like KYC and the kinds of compliance tools that add transparency into the system. And I don't see any of the changes that we've been hearing about lessening the need for those kind of tools at all. In fact, I think if you look at what's on the books today those kind of tools are going to be ever more valuable in the future.

I also think when you think about all of the efforts around regulation around the world there is a greater chance that there is a divergence of regulatory schemes which makes our global position even more unique. We currently cover 700 regulatory bodies around the world and update their changes every day. At the end of 2016 there were an average of 200 regulatory updates issued a day by those 700 bodies, and I don't see the pace of that changing certainly anywhere in the near-term.



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Ato Garrett - *Deutsche Bank - Analyst*

Great. So then considering the fact that change is good, and we are seeing a lot of that, and we are getting rising interest rate but despite that we are still seeing some headcount declines within the banking sector. How would you buttress those two into your overall view of giving a little more detail on the F&R end market?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. On the F&R end market, it's interesting, there is a dichotomy here that we are seeing fewer heads but the demand for market data has never been greater and the demand for regulatory content has never been greater. And, in fact, we are in the position now where we deliver more of our data to machines.

We like to say we have more machines as customers than we do people these days. But the volume of data and the demand for data has never been higher. And if you look at our business, about 40% of that financial services business is data that we supply to the financial services markets via a desktop that's consumed by a human.

And 60% is what we call our feeds business which is more aptly described, I think, as our Elektron data platform which carries market data, regulatory data, news, and which we wrap a lot of services these days, as well. And that's been a business that's been growing in the high single digits for us and mid and high single digits for a long time and will continue to grow.

Ato Garrett - *Deutsche Bank - Analyst*

Great. That fits well with my next question. As you looked at growth being your top priority on your last earnings call, can you talk about where you see the incremental drivers of growth in 2017 and even beyond if you have a perspective on that?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. I think that market data will continue to grow. It will be fed across that Elektron data platform in that feeds world, feeding the kind of never-ending thirst for market data.

I think the fastest-growing part of our business will continue to be in the Risk space. That's a business that's been a really nice double-digit grower for us over the years. I don't see any reason that that is going to slow down and, in fact, I think if we get it right there it could, in fact, speed up before us.

I also think that there is some attractive opportunities in our Tax space. They keep growing. Particularly in the corporate tax world if you look at the fastest-growing part of our business for the past several years as a unit it has been our Tax business.

And that's both in the tools we supply to accountants who prepare taxes for individuals and small businesses but also increasingly the corporate tax workstation where we provide the tools for corporate tax directors to manage their corporate tax affairs around the world. I think those are quite attractive growth areas.

Then I would add in the Legal space where I think the growth is going to come from is through the enhanced tools that we have been building. It's really good to have solid business that we have in Online Legal Research anchored by Westlaw back in a growth position again. And seeing that Online Legal Research growing at 2% is really important to our financial dynamics because it's such a profitable business.

But what's really encouraging about the future is to see how things like our Legal Tracker product, which is a software tool that we provide to general councils to help them manage their corporations' legal matter and the relationships with outside counsels to see how that is taking off



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and see how some of the other tools that we are providing to large law firms to help them manage their practices are indeed performing well. So I'm encouraged that there are green shoots of growth across the landscape for lots of our businesses.

Ato Garrett - *Deutsche Bank - Analyst*

Great. And being that you have such a diverse portfolio of products that are really going to be driving growth in 2017, then how should we think about the guidance that you issued for revenue growth in 2017 that's been consistent with what you saw in 2016 both targeting low single-digit growth? But it seems that there is more growth drivers now, so why should guidance be essentially flat year-to-year around the same growth rates year-to-year?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Well, Stephane can jump in and offer a better defense of our guidance than I can --

Ato Garrett - *Deutsche Bank - Analyst*

Or should we be thinking about upside to it?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

You are always going to ask that, aren't you? The truth of the matter is ours is a really steady business. The good thing about our business is that there's a high degree of recurring revenue and if you look at our business over time we are always the last into a recession, we are always the last out of recessions.

And we come into every year with greater than 80% of the book of business locked and loaded in January. That's the subscription nature of our business. But the truth of the matter is what we sell in this year has a limited impact on the revenues we recognize in this year.

So it's a good, solid, stable business that tends to take a while to start to decline but it also takes a while to turn around. So if you look at the sales performance of last year, that's the best indicator of the vast majority of our revenue this year and the sales efforts that I see and it looks so promising in this year will be the things that will fuel our exit rate at the end of the year and then into 2018. If you ask me to think about how this year should play out based upon our past sales trends and what I see in the pipeline, I think you should see a slow but steady acceleration throughout the year in our revenue profile, and that should continue into 2018.

Ato Garrett - *Deutsche Bank - Analyst*

Okay, great. And thinking about that growth rate you just mentioned that the slow but accelerating growth across the year, is that something that you can do within your current expense profile or is that going to require additional investments really to achieve that?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

No, we feel quite comfortable with the expense profile that we've built. As you know, we also at the end of last year we announced a charge to be able to accelerate some of our savings programs are underway.

That's been executed. Those cost reductions are now in force and those will play out. But the investments we've made behind the products and service required to deliver the revenue guidance we've given, they are in our current plan.

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Ato Garrett - *Deutsche Bank - Analyst*

And given the revenue guidance you have in place and thinking that if we do see revenue that's a little bit -- well, taking a step back, sorry, away from revenue, looking at your earnings target for 2017, is that entirely dependent on -- or how do you still achieve that even if these growth targets might be a little bit further out than what you are expecting?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Yes, the answer is yes. But the truth of the matter is, and I've said this before, we are going to try our best to make certain that we manage the business for the maximum sustainable rate of profit growth. We'd love to do that with the level mix and a healthy balance between the revenue growth and the cost base.

So we will do our best to make certain we are continuing to fund those things that don't keep the top line going for two reasons. I've said I don't want to hit that earnings number in 2017 and collapse at the finish line out of gas. I'd rather hit that number with an accelerating top line and I'm pretty sure that we will.

But it's also really important for our business that we do that because one of the easiest ways for us to drive top line or drive bottom line is to have a revenue growth rate in our business that exceeds, say, the 3% mark on the top line. Because we are a high fixed cost business, and once you get a cross that threshold of say 3% growth to cover increases in fixed cost, boy, it just falls to the bottom line in massive ways. So we look forward to the day when an increasing percentage of that profit growth can be driven by flow-through from the revenue growth.

Ato Garrett - *Deutsche Bank - Analyst*

We can stop here if there are any questions in the audience.

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible - microphone inaccessible)

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Thanks, Chris, for the question. The short answer is we are not seeing any dramatic changes in the legal market either from the demand side or from the competitive side. There have always been a number of startups that we've kept our eye very closely on and we watch and we continue to do that.

I don't sense there is any material shift around marketshare or any inroads that are being made by startup information providers. I am naturally paranoid and worried about each and every case that I hear and I think that's healthy, but I don't sense there is a big shift. And if you look at demand we are seeing very slight movement.

As you know, we issue our Peer Monitor Index because we run the largest time and billing system for large law firms around the world and because we have the right to anonymize the data we publish on a quarterly basis the Peer Monitor Index, which tracks demand by legal practice area and utilization and whatnot. And there have been no significant shifts in that underlying demand, and demand remains relatively weak by historical standards and even in the United States litigation remains subdued by historical standards.

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I think what we are seeing in that market is a bit of a bifurcation where a lot of the largest firms on the Am Law 100 are doing very well indeed on the backs of a lot of capital markets activity recently and a lot of folks in the middle are getting squeezed even more tightly. But that has been the case for some time now and we don't see big shifts there.

Ato Garrett - *Deutsche Bank - Analyst*

Any other questions? Great. Given that you have seen that the marketplace within Legal has been pretty steady but in terms of your financial results Legal has good (inaudible) a little bit more recently, so how should we think about Legal revenue trends going forward and why would we expect to see any change in your performance even though the environment remains pretty steady?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

I am happy to try to take this one. What really happened last year, if you look at the performance it was a bit weaker than we expected because our transaction businesses were essentially going backwards last year where as they were up quite meaningfully the year before. There is more relativity.

Although transactions revenues represent only 15% of the total revenue of our Legal base, they can represent a big swing factor. So that was clearly something at play last year.

If you look at the underlying trend of the core of the Legal franchise, whether you look at as Jim just said our US Online Research business, that one essentially went from a decline of 2% four years ago to growing 2% last year. So that's a 400 basis point positive shift over the last four years. If you look at what we call our Legal Solutions businesses, that has been growing very steadily, at least a subscription part of that business at mid single digits, 5% to 6% every year for the last of four years. So the swing factor was really the transaction.

So as you look forward I think that there is two factors to take into consideration. The first one is the one that's the hardest to predict is what our transaction is going to do. That, frankly, it will depend on a number of factors including market-driven factors.

The second is more predictable which is this virtuous change in revenue mix should help the overall growth profile of the business over time, meaning if our Solution business becomes a larger portion of the total as it has been over the last few years and, for instance, the Print business represents a smaller and smaller portion of the total, that should overall help the revenue growth. Although as Jim said it's going to be steady and slow over the next few years.

Ato Garrett - *Deutsche Bank - Analyst*

And you mentioned that the Solutions business historically has been a 5% to 7% grower but more recently we've seen growth come in a little bit lower than that. What's going to really drive that turnaround there given that you are seeing that bifurcation in the marketplace between large firms and midsize firms?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Again, if you break down the Solutions business between subscription and transaction, the subscription growth has been 5% or 6% every single year over the last four years. It's really the transaction business which is just to put it into context 10% of the total Legal revenues which has ranged over the last four years from I think it was minus 6% last year to plus 8% in a different year. So that is a much more unpredictable business.



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Jim Smith - Thomson Reuters Corporation - President & CEO

And just to put it in context what that business is, that's largely driven by our Legal Managed Service business that we have where we have attorneys in India and Texas who provide flags to corporations and law firms when they get big mass tort or big cases brought against, enforcement cases, regulatory cases brought against them. And that plus 8% in 2015 was driven by big actions involving two banks where their law firms needed to supplement their electronic discovery processes with our attorneys in India and in Texas. And both of those cases settled and didn't repeat in 2016.

So that business is by nature going to be more volatile and will impact growth rates. But it's also a business that, frankly, we got into because our clients asked us to be in it. So it's one we are pleased with.

Ato Garrett - Deutsche Bank - Analyst

And being that with the new administration in place we are likely to see a loosening of regulation and one could read from that that we wouldn't see those same kind of large enforcement actions coming in, but then you do have other areas of growth within the Legal business line. How should we think about Legal's overall top-line growth in 2017?

Jim Smith - Thomson Reuters Corporation - President & CEO

I think we will see improvement. I think we will see improvement in the top-line growth and we will see that on the back of the subscription products.

I think what we see when we look at the underlying growth, particularly of the subscription products in the Legal business, is slow, steady progress that should show itself in 2017 and then continue to grow in 2018. So we are pretty pleased with the underlying trajectory of that business.

Ato Garrett - Deutsche Bank - Analyst

Great. I met my own target now. We've crossed more than 10 questions without bringing up net sales, so I think it's about that time.

By looking at net sales you are running positive in all regions for a few quarters, but then we saw the negative net sales the last quarter and particularly attributed to the European region. Just does that signal any kind of challenge for the business or do you expect a return to positive net sales there?

Jim Smith - Thomson Reuters Corporation - President & CEO

What we try to do and strive to do is to have positive net sales for the year in F&R. And the year is important because there is a seasonal cyclicity. And the last two years, prior to last year, were actually the first time we had ever seen a fourth quarter be net sales positive in our Financial business.

Because what happens is the fourth quarter is when the big banks take the opportunity to reset their user base for the future year. And historical practice had been that that was always a downtick, and hopefully you had outsold that throughout the year and then you would be pulled down in the rate of growth by what happened in the fourth quarter.

This year and in the fourth quarter of 2016 what we saw was that indeed a couple of large banks, particularly in Europe and then combined with some pressure in emerging markets like Russia and Brazil combined for us to be negative net sales for the quarter for the first time in 10 quarters, I guess, or 11 quarters. And so I, frankly, think the fourth quarter in any given year can go above or below the line, and I try not to pay an overdue amount of attention to that because we are focused on the number for the full year. And I think we can expect that's always going to be the time when the big banks are going to reset.



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Ato Garrett - *Deutsche Bank - Analyst*

So we kind of have the volume side of the story told through net sales. But thinking about pricing, have you seen any dramatic changes in the pricing landscape as some of your competitors have either consolidated over the last couple of years and whether that's pushing pricing through or that bundling tactic has made any changes in terms of meaningful market share or just in competitive environment overall?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Look, I think the competitive environment is intense and it seems to get ever more intense, but it's not dramatically changed. So we are not seeing big changes, nor are we seeing an inability for us to recognize the price increases that we push through. And I think it's been a surprisingly logical market from that perspective, and we are not seeing big changes there.

Ato Garrett - *Deutsche Bank - Analyst*

Okay. So it sounds like if we have pricing being reasonable, volumes given through net sales as being positive for the last 10 quarters you mentioned, overall the business now getting back to positive organic growth, when do we see an acceleration beyond that? And how high do you think it could go?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Look, I think we are going to see steady growth in our Financial business, and Stephane can elaborate on this. But as we get through, if you will remember coming through last year we were still facing real headwinds from two things: one, some pricing adjustments we put into our foreign exchange business to keep it competitive with some developments from our competitors, and while we were building a better platform we also were facing headwinds from what we call recoveries which are third-party revenues that we build for our clients. So some of our large data providers would have us do the billing.

We bill 100, we would pass 90 to them and keep 10 and that would go to the bottom line. Last year three of our bigger data providers decided they wanted to go direct bill, and rather than us taking 100, passing 90 to them, they billed directly and paid us 10. So there is no bottom-line impact, but it was an impact on the top line.

So those two factors together had a depressing impact on the overall revenue growth rate last year. When we get through the midpoint of this year those headwinds should largely be gone. And so we just under natural momentum without any improvement in underlying sales should see an improving revenue line this year just from those headwinds being removed. So our expectation for the year would be that we would see improvement as we move through the year in our Financial business, particularly as the headwinds start to dissipate in Q2, then in Q3 and Q4.

Ato Garrett - *Deutsche Bank - Analyst*

Stephane, did you want to --

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

No, I think that's exactly right.



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Ato Garrett - *Deutsche Bank - Analyst*

Great. And then considering that you had this 30% EBITDA margin target for F&R and you achieved that margin target before organic growth really came back online in the business, when you cover a number of reasons why we would expect organic growth to improve across 2017 should we think about that 30% as being the new normal or can the business achieve even higher margins for that?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Stephane, how do you think about 30% margin?

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

I would hope they can achieve greater than 30% over time, especially if we see an improvement of the top line. It's our most global business, it's the business that has the largest scale among all our businesses. So it's the business that benefits more from these platform integration efforts that we have been implementing over the last few years.

So I don't think we see 30% as a goal that and it stops right there. I think we are probably not going to give out new public targets in terms of what we want to do. But it's, I think, fair to say that the overall margin improvement we are expecting for 2017 based on our guidance will come in great part from improvement in our Financial business.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Yes, and I would just add to that, again going back to a point made earlier, that's part of the beauty of our business is that model, that high flow-through model. Once you get to I don't know if it's exactly at 3 or just above or just below 3, but given the large fixed, high fixed cost nature of our business and the incremental cost of adding a client basically by issuing a password at a certain point that becomes very high-margin business for us.

Ato Garrett - *Deutsche Bank - Analyst*

Let's see if there are any other questions before we shift to the Tax & Accounting business. Great, so looking at Tax & Accounting, business was a very strong performer if we look back over the last couple of years, but more recently we've seen some challenges to that business, specifically stemming from your Government end market. Can you just talk a little bit more detail what created those challenges?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Sure. I think it's important to remember that that Government market is a tiny piece of the Tax & Accounting business and it's been our attempt to branch out. We've had a very successful business serving accountants.

We've had a very successful business now of building into the corporate taxpayers. And we saw an opportunity to acquire a business that got us into the space of providing software to governments to collect taxes. And we've been working on that.

The truth of the matter is although it's a small business, most of the parts of that business are doing really, really well. We have a project involving two contracts actually in the United States that have proven far more difficult to build where it has been a lot of customization that's made.

What this software does is it allows counties in the United States to collect their property taxes. And we've had some difficulty with the schedule and it involves development by us and a lot of work with other third parties and folks on the part of the county, and it's fallen behind on schedule



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and we had to make some accounting adjustments to account for the fact that that wasn't on target. We believe we've put a ringfence around those issues and are executing now, and we've learned some lessons the hard way about customizing software for governments.

Ato Garrett - *Deutsche Bank - Analyst*

Great. So going back, earlier you mentioned the \$200 million charge that you booked in the fourth quarter. Maybe just give us a little bit of background about what that charge related to and whether that's something else we would expect going forward as you get the last steps of the Transformation project underway.

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Stephane.

Stephane Bello - *Thomson Reuters Corporation - EVP & CFO*

Sure. And you know from history, the last four or five years, that if you look at the margin improvement we've achieved over that period of time, if you look at the simplification we've driven in the business in terms of where you look at it in terms of the number of real estate offices that we've got around the world whether you look at it in terms of the number of platforms even if you just look at the sheer overall headcount reduction that we had over the last five years, we've achieved that as much as we could really through normal attrition. And we think that is far less disruptive and much more controllable than announcing a very large charge that spans over multi-years that's the [annualization] that tries to meet that objective.

So at some points, however, in the Transformation there are buckets where you just can't rely on attrition only or there are also instances where you see an opportunity to accelerate a little bit of the program that we have made and that's when we have taken a charge. We tried to be very, very prudent and don't do that as a matter of normal course. And if you remember, the last charge that we took was actually a little bit over three years before this one.

So it's something we really do when we feel it is absolutely necessary. And in this case I would say it impacted a number of pockets in the organization, primarily in our technology organization and, again, primarily into the accelerating the integration of products and platforms in our Financial business. That is where the brunt of the charge really was taken, and that's why hence my comment earlier saying that if you look at the margin improvement in 2017 it's probably going to come more, it's going to be more visible in our Financial business than anywhere else.

Ato Garrett - *Deutsche Bank - Analyst*

Great. And being that you have seen so much profitability improvement coming from the Transformation program, how much is left in that box as you look? Are you 80% done with it, or are there still levers that are going to be pulled through that Transformation program?

Jim Smith - *Thomson Reuters Corporation - President & CEO*

Look, I think we are uncovering all kinds of opportunities to continue to be more effective and efficient through the Transformation program. The thing I feel really good about is we've got the process in place, we've got the metrics in place, we've got machinery in place and that train is well down the track now. And that doesn't mean it's well down the track toward the end of the journey.

It just means it's running really well. And we have a way to look every month at our metrics and how we are progressing. And, frankly, every time we peel back a layer of the onion or take one bit of cost out we see opportunities to go do other things to improve the scale dynamics of our business.

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So I think we have a lot of legs left in the Transformation initiative that will perhaps not be as dramatic year in and year out but I think progressively over time will continue to reshape the cost profile of our business. And, frankly, I think that's just essential that we do so.

The thing I am most excited about, though, this year is that we have taken that machinery we've created for the Transformation, which is a Chief Transformation Officer and a fully staffed team of project managers and specialists and consultants experts in change management, and we've pointed that now at what I am calling transforming our customer experience in the front end. So everything we did to first look at our technology platforms, look at our real estate footprint and get cost out on that side, then to work on improving our product development flow which is well underway, we are now turning those resources and that process toward everything that touches the customer and our frontline.

So while we are still looking at things like production systems and data centers and all that stuff to be more efficient, we are now really focused on things like our CRM systems, our billing systems, our customer support systems. Everything that touches the customer with the end goal to make it easier for our customers to do business with us and easier for our frontline troops to navigate the organization to get the right answer in a timely fashion to solve customer pain points.

So this transformation effort is just become part of the machinery that we use to operate the business. I think it will continue to yield results on the bottom line and the cost profile, but I think now I'm looking forward to seeing what it can do for helping improve the frontline. The quickest way for us to grow our sales and the most profitable way for us to grow our sales and improve our margin is to increase our retention by doing a better job of serving our customers that we have today.

Overall, we have a highly sticky business. We have overall retention rates around 89% for the Company as a whole, pockets up and pockets down. But if you get the retention rate every point of that retention rate improves is another point of growth and virtually all of that flows through to the bottom line every year.

Ato Garrett - Deutsche Bank - Analyst

All right. Well, they have to stop there for time. But thank you very much for joining us at the conference and have a great rest of your day.

Jim Smith - Thomson Reuters Corporation - President & CEO

Thanks.

Stephane Bello - Thomson Reuters Corporation - EVP & CFO

Thank you for having us.

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