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TRI.TO - Q2 2017 Thomson Reuters Corp Earnings Call

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OVERVIEW:

TRI reported 2Q17 adjusted EPS of $0.60. Expects 2017 EPS to be $2.40-2.45.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Thomson Reuters Q2 2017 earnings call. (Operator Instructions). As a reminder, today's call is being recorded. I would now like to turn the conference over to your host, Senior Vice President, Investor Relations, Frank Golden. Please go ahead, sir.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

Good morning and thank you for joining us as we report our financial results for the second quarter and half year. Jim Smith, our CEO and Stephane Bello, our CFO, will review the results in a moment. Now following their presentations, we will open the call for questions. We appreciate it if you would limit yourselves to one question each to enable us to get to as many questions as possible.

Two items to point out before we get started this morning. First reminder that throughout today's presentation when we compare performance period on period, we discuss revenue growth rates before currency as we believe this provides the best basis to measure the underlying performance of the business. Second, I will remind you that consistent with the way we reported Q1 and how we provided guidance for the full year, we no longer report underlying operating profit. This reflects the simplification of our reporting structure and is in line with how we manage the business internally.

I will note that on the last page of today's earnings release, there is a supplemental schedule that provides depreciation and amortization expense by business unit, as well as on a consolidated basis.

Now today's presentation contains forward-looking statements. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings that we provide to regulatory agencies. You can access these documents on our website or by contacting our Investor Relations department. Now I'll ask Jim Smith to review the results for the quarter.

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

Thank you, Frank and thanks to those of you on the call for joining us today. Our results for the second quarter reflected the continuing improvement in our business performance. It's a pleasure to report to you better than expected results overall for the first half of the year. Revenue growth continues to improve. The margins are up significantly benefiting from greater operating leverage.

Earnings per share increased nearly 30% compared to a year ago. Given this performance and the improved trajectory of the business, we are raising our full-year outlook for earnings per share and EBITDA margin. More details on this in a moment.

Now, for the second quarter, reported revenues were slightly higher due to the impact of currency, but increased 2% at constant currency. The improved revenue performance, as well as additional savings from our simplification initiatives, led to a double-digit increase in EBITDA and a more than 200 basis point improvement in margin.

Adjusted EPS for the quarter increased $0.13 to $0.60 per share driven by the stronger operating performance. For the first six-month period, EPS was up more than 30% compared to the prior-year period.

Now let me turn to the results for the quarter by business. I am pleased to report that all three business segments delivered positive organic growth in the quarter. That's the first time all units delivered quarterly organic revenue growth in two years.

Revenues for our Financial business increased 2%, a 300 basis point increase from Q2 last year with all three geographies -- Americas, EMEA and Asia -- reporting revenue growth. That growth was driven by our Elektron data platform and Risk businesses, which increased 8%. This was partly offset by a 5% decline in Desktop revenues and you might remember a little less than half of that was due to pricing adjustments.

Net sales were again positive, driven by growth in the Americas and Asia with EMEA flat. This was a good performance given that we were in the last stage of migrating a number of legacy products to Eikon in our asset management business. With that migration now largely complete, we can turn our focus to driving new sales in the asset management space as opposed to defending our footprint by migrating legacy products to the new platform.

Turning to Legal, revenues grew 1% in spite of declines in U.S. Print and Transactional revenues. Importantly, recurring revenues, which represent about three quarters of Legal's revenue base, again grew a healthy 4% and finally, Tax & Accounting continued its strong performance growing 8% following a 6% increase in the first quarter.

I said on our year-end call in February that 2017 will mark the year that the benefits of working as a true enterprise really start to shine through. Our results for the first half of the year are evidence that those benefits are starting to take hold.

Our execution focus is paying off and we believe efforts to improve customer experience will keep the trendlines moving in the right direction. We expect our revenue growth to continue this gradual acceleration as we continue to invest behind our higher growth businesses and as we execute on the key initiatives we have in process.

We expect the stepup in these investments during the second half of 2017, which is likely to lead to a modestly higher CapEx for the full year. As I look to the second half of the year, I remain confident that the underlying fundamentals of our business will continue to improve and therefore we are raising our guidance that we outlined at the beginning of the year.

First, we are raising our full-year earnings per share guidance to between $2.40 and $2.45. That's up from the prior target of $2.35. And, secondly, we are also increasing our full-year EBITDA margin guidance to between 29.3% to 30.3%. This reflects an increase of 50 basis points from our previous target.

Now let me turn it over to Stephane who will discuss our results in more detail.

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

Thank you, Jim. Before I begin discussing the results, I would like to remind you that I will talk to revenue growth before currency as we always do because we believe that this is the most appropriate way to judge our performance.

So on a constant currency basis, second-quarter revenues were up 2%. The Financial & Risk business was up 2%; Legal was up 1%; and Tax & Accounting growth rate was 8%. Adjusted EBITDA was up 11% with a margin of 280 basis points to 30.1%. This was primarily driven by better operating performance in each business and by lower corporate costs.

Currency had a 50 basis points positive impact on the margin during the quarter, which means that our EBITDA margin was still up a healthy 230 basis points before currency. As Jim pointed out, we forecast higher investments in our customer experience transformation program in the second half of the year, which is likely to lead to a slightly lower margin. Our new guidance for full-year EBITDA margin ranging between 29.3% and 30.3% is 50 basis points higher than what we communicated six months ago and it fully reflects these additional investments.

I will now provide some additional color on the performance of our individual segments starting with our Legal business. Overall Legal revenues were up 1% and excluding U.S. Print, they were up 2% during the second quarter. Recurring revenues, which make up three quarters of the Legal revenues, were up 4%. Transactions, 10% of the total, were down 8% and U.S. Print, which makes up the difference, was also down 8%.

From a margin perspective, Legal's revenue growth and effective expense management led to a 140 basis point margin improvement versus the prior-year period and that was 110 basis points before currency. Here is a more detailed look at the revenue performance of the main subsegments in our Legal business during the second quarter.

U.S. Online Legal Information, which contributed 42% of total revenues, was up 3%. This was just a function of rounding in the quarter as we continue to expect that this segment will grow at about 2% for the full year. Solutions Businesses made up 44% of revenues and grew 2%.

Within that segment, recurring revenues, which comprise about 80% of the total, increased 5% and by contrast, Transactions continued to be a drag and were down 9%. This was predominantly driven by lower revenues from our Latin America business. We expect the Legal Transaction revenue performance to remain similarly week in Q3 before starting to improve towards the end of the year. And, finally, U.S. Print comprised 14% of total revenues and was down 8%.

Now turning to our Tax & Accounting business, second-quarter revenues grew 8%. Recurring revenues represented 84% of the total and were up 4% during the quarter and Transactions revenues, 16% of the total, increased 36%. This strong performance was partly driven by an adjustment to revenues in the Government business, which you will recall we made in the second quarter of 2016. This adjustment made for an easier year-over-year comparison this quarter.

EBITDA was up 26% and the margin was up about 400 basis points versus the prior-year period to 29.4%. That strong EBITDA performance was driven by revenue flow-through, coupled with savings related to the charge we took in Q4 2016 and tight expense management.

For the third quarter, we do expect Tax & Accounting to report lower revenue growth and lower EBITDA margin than in Q2 due to the seasonal nature of the business and also given a more difficult year-on-year comparison.

Turning to Tax & Accounting's results by segment, you can see on this slide that our Corporate business delivered another strong quarter posting revenue growth of 40%. Our Professional business grew 7%; Knowledge Solutions was down 2%; and finally, the Government segment saw revenues increase $6 million. This increase versus the prior-year period resulted primarily from the negative adjustment that was made in the second quarter of 2016 that I previously mentioned.

Turning to our Financial & Risk business, second-quarter revenues were up 2%, which represented a sequential improvement over first quarter as the impact of Recoveries continues to diminish. We expect this trend to continue and therefore we do not expect Recoveries to have a material impact on the growth rate of our Financial business during the second half of the year.

F&R's performance in the quarter was also negatively impacted by the commercial pricing adjustments on our remaining legacy asset management and foreign exchange products. This factor also continues to diminish and is expected to have a much more modest impact in the second half of the year as we had previously communicated.

So overall, excluding acquisitions, which contributed about 1%, Financial & Risk's organic revenue growth rate during the second quarter was about 2% before Recoveries and pricing adjustments.

Turning to the second-quarter profitability metrics, EBITDA increased 8% to $477 million, resulting in a margin of 31.4%, up 230 basis points from a year ago. This performance was primarily driven by revenue growth and by the actions we took in the fourth quarter of last year. Currency had a 50 basis points favorable impact on the margin and as such, the EBITDA margin was up 150 basis points from the prior-year period before currency.

If you look at the Financial & Risk revenue in a bit more detail, you can see on this slide that Desktop-related revenue represented 37% of the total and declined 5% during the second quarter. And excluding pricing adjustments on our foreign exchange, Desktops revenues are down 3%.

Now the balance of recurring revenue is comprised of Elektron data platform, which we used to refer to as Feeds and Risk, which are now 40% of the total and grew 8% in aggregate during the second quarter. Recoveries revenues made up 8% of the total and were down 5%. As I just mentioned, we do not expect Recoveries to have a significant impact on growth in the second half of the year.

And, finally, Transactions revenues, 15% of the total, were up 8% during the quarter. That growth was driven by strong performances from Tradeweb and BETA, as well as the acquisition of REDI. These increases were partially offset by lower foreign exchange revenues where dealer-to-dealer volumes continue to be challenged.

Let me now update you on our earnings per share and free cash flow performance. I will start with our earnings-per-share performance. For the second quarter, adjusted EPS increased by $0.13 to $0.60 per share, which represents a 28% improvement compared to the prior-year period. As was the case in the first quarter, the performance was entirely driven by stronger operating results across the board.

As you can see on this slide, the so-called below-the-line items did not have a material impact at all on the year-over-year EPS improvement and currency had no impact on EPS in the quarter either.

This next slide reflects our free cash flow performance. Now given that there are several items impinging on free cash flow in 2017, I will focus on our performance over the first six months of the year. So working from the bottom of the page upwards, you can see that our reported free cash flow was negative $5 million during the first half versus a positive $748 million in the prior-year period.

Now our prior-year period benefited from the exclusion of our IP & Science business, which we sold last October. The year-over-year variance related to that disposal was just over $200 million.

In addition, as we referred to during our first-quarter earnings call, there are two other significant factors impacting free cash flow in 2017. First is the $500 million pension contribution that we made in the first quarter and second, we have incurred $160 million of cash payments related to the severance charges that we took in the fourth quarter of 2016. So the aggregate impact of these three factors I've just described was about $830 million negative. If you exclude these items, free cash flow on a comparable basis would have been $660 million in the first half of 2017 versus $579 million for the prior-year period.

And this increase was driven primarily by stronger EBITDA and by timing factors impacting our capital spend. On a full-year basis, we continue to expect free cash flow to range between $900 million and $1.2 billion and since the pension contribution and the cash impact of the charge are clearly temporary factors, we do expect to return to a stronger free cash flow performance in 2018.

As you can see on this next slide, we remain committed to returning cash to shareholders. During the first half of 2017, we returned $1.1 billion in the form of dividends and share buybacks having repurchased 13.5 million shares at a cost of about $600 million. This leaves us with about $400 million of capacity against the $1 billion buyback program, which we announced last February. And under the capital strategy program that we announced back in the fall of 2013, we have now returned just under $10 billion to shareholders.

So to conclude, as Jim mentioned, given the better-than-expected operating performance for the first half of the year, we are increasing our full-year outlook for our EBITDA margin by 50 basis points and we are increasing our full-year EPS target to between $2.40 and $2.45.

In addition, we also expect capital expenditures to come in slightly higher at 9% of revenues due to additional investments we expect to make during the second half of the year. As a result, we are projecting depreciation and software amortization expense to come in at the top end of our previously communicated range.

Finally, we previously indicated that we expected 2017 corporate costs inclusive of depreciation and software amortization to be about $300 million. Now in the first half, we spent $120 million and we expect to spend another $160 million in the second half for a total of $280 million for the full year. As a reminder, this is down by about $100 million from last year's [settle].

Now as we look to the remainder of 2017 and into 2018, accelerating revenue growth continues to be our number one priority. As we have said previously, given the largely subscription nature of our business, improvements will be gradual in nature, but it is encouraging to see that the actions we are taking are starting to flow through into our financial results.

With that, let me now turn it back to Frank so that we can take some of your questions.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

Very good. Thank you very much, Stephane. That will conclude our formal remarks and we'd like to open it up for questions now. So if I can have the first question please, operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ato Garrett, Deutsche Bank.

Ato Garrett - *Deutsche Bank - Analyst*

Good morning, guys. Just a couple -- first, great job on the quarter. Glad to see the results from Financial & Risk and just wanted to drill down on that a little bit more. We have seen the diminishing headwinds from pricing adjustments and a lower impact from Recoveries. So, to me, it sounds like we are going to tee up some nice acceleration in the back half of the year, or at least the glide path is there for that. Can you just comment on what factors might drive that acceleration? What we can expect about the business in the second half of the year and how we can start to think about it in terms of 2018 whether there is any changes to the competitive dynamic in Desktops or ongoing demand from the Elektron feed business or anything else that is going to be a long-term driver for that segment?

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

Sure, let me try to quantify a little bit the impact that you refer to. And I will start by saying that the year is unfolding very much as we expected in terms of revenue growth for Financial & Risk business. And we have said that we expected the impact both of Recoveries and of the pricing adjustments to start diminishing over the course of the year with a more marked impact in the second half of the year, but we are very pleased that we are now done with the migration of our legacy asset management Desktops and we feel that the biggest impact of Recoveries decline happened in the first half and that the second half should be much more neutral.

So try to give you a quantification of these two impacts in aggregate, I'd say in the first half, they were about or slightly above 100 basis points on the growth rate of Financial & Risk and in the second half, we would expect them to be 50 basis points or less. So you see clearly a diminishing impact of these two factors, which is, as I said, what we have expected all along.

Ato Garrett - *Deutsche Bank - Analyst*

Okay, great. And then just -- in terms of -- just to follow up on that, thinking about the business next year, could you give us just a way to think about how much that business might improve? I know it's early on and you are not giving guidance or anything like that, but just if you have a sense for the persistence of the trends with the strong growth in Elektron and it seems like the Desktop business, I know there's some declines there, but that looks like that -- that side of the business should improve as well given some of the diminishing headwinds that you've discussed.

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

Yes, I would say if you look at the second quarter, Elektron data platform revenues were 40% of the business, so they now represent the largest component of F&R's revenue base and they were growing at 8% whereas Desktop was declining 5%.

What I would say, however, is that if you look at next year, I would expect probably, at least as the business gets bigger and bigger, the growth rate on the Elektron data platform piece of the business will still be quite respectable, but maybe not as high as 8%. And on the other hand, Desktop growth should hopefully start to improve as we stop seeing the impact of these negative factors.

So there is still going to be a big difference in terms of Elektron data feeds business growing at a much faster pace than our Desktop business, but maybe the margin between the two is not going to be as extreme as what we've seen in Q2.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

Thanks very much and again, congrats on the very strong cost control and margins this quarter, but just to stay on the revenues for a sec, this CapEx increase to 9%, is that something that we should think of as more permanent as you strive to invest in revenue growth, if you can comment on how that transfers into 2018? And also if you can just clarify the Transaction revenue in F&R, do you have what the organic growth was versus the 8% that included that acquisition?

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

Yes, let me start with your CapEx question. There's a number of factors at play here. The first one, as we mentioned during our remarks, we are taking advantage of the strong performance to accelerate some investments particularly in our customer experience transformation and so this will impact things like enhancing our order to cash systems, including order processing, invoicing and order capture, as well as trying to provide better service functionality so that our customers have a more consistent digital experience. For instance, they should be able to change -- to make changes to their accounts electronically rather than heading to quota customer reps. That is what you're going to see in the second half of the year. I would expect some of these customer experience investments to carry through in 2018.

Second, we do have some investments going in to essentially meet regulatory requirements. I mean we all speak about MiFID II. The investments we need to make in order to be MiFID II compliant and to enable our customers to be MiFID II compliant are quite large. I would say between 2017 and 2018, they could be as high as like close to $100 million of investments and it's going to make the offering much more robust obviously, but that hopefully a regulatory level that we are going to see passing once we are through 2018, but that's reflected in the guidance that we have given you.

The last point I would mention is that, to the extent we've relied much less on acquisitions in order to ensure that we meet our objectives, continue to gradually improve organic growth rate, we have stepped up a little bit the level of product investments we are making. So there's a little bit of a change in the mix of investments, particularly capital investments. We have been able to drive down investments in pure infrastructure like platforms because we've got fewer of these platforms now to enhance, but we at the same time stepped up a little bit investment in product investment and more particularly in the big four growth areas that we have always mentioned, Tax, Legal Solutions, Risk and Elektron data feeds. So that's the answer on CapEx. Hopefully that helps you understand what is going on here.

Now in terms of the organic growth in our Transaction growth, it was about -- in F&R, it was about 4%. That was the organic growth rate for Transactions in the second quarter and that's up a little bit from the first quarter where Transactions were up 1%.

Operator

Andrew Steinerman, JPMorgan.

Michael Chill - *JPMorgan - Analyst*

Hi, this is [Michael Chill] in for Andrew. I just want to touch on -- just follow up to the previous discussion just now on reinvestments. We understand the margin improvement guide for 2017. Can you just, on the capital reinvestment side, can you just give us a sense of the investment on the OpEx side in terms of the high-growth areas?

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

Look, investments happen both on the OpEx and on the CapEx side. We don't really carve out investment on the OpEx side because we think you should judge us on our performance in terms of overall margin performance, but essentially what you see in the margin performance is the improvement probably would be higher if we didn't step up investments from an OpEx perspective and we let the savings from the severance we took in the fourth quarter flow through completely.

So there's increased investments that you see both on the CapEx and the OpEx side and we've actually included both of these in the revised guidance we just gave you.

Operator

Drew McReynolds, RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets - Analyst*

Thanks very much. Just a quick one, clarification from Stephane and then one for Jim. Stephane, you alluded to the 50 basis point margin impact in Q2. Can you just give us the first-half margin impact from FX?

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

Yes, why don't you ask your question for Jim and by the time Jim is done with his answer, I will have the answer --.

Drew McReynolds - *RBC Capital Markets - Analyst*

For sure. Just I guess for you, Jim, just in your opening remarks, you didn't specifically address the operating environment. Obviously just looking for any kind of incremental changes, positive or negative, across any of the regions in any of the businesses that are worth noting. Thank you.

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

Yes, sure. I would start by saying, if you think about the nature of our relationship with our customers, they are very much long-term relationships and given the subscription-based nature of our business, we tend to think in terms of years and multi-year relationships. So there are market shifts there quarter-to-quarter in our relationships with customers, so there's not big swings there.

I would say, however, that if you look around the world at our clients and you just saw this in the reporting, particularly from financial institutions this quarter, there is a bit more optimism in the financial services sector. It varies region to region, but, again, as reflected in their results, to see -- I begin to think about the potential of a world in which we return to a more normalized environment for interest rates is certainly encouraging to financial institutions, tempered a bit by some of the areas -- volatility in certain areas of trading, but I would say overall the United States tends to be the most optimistic at the moment, clients I speak with.

Asia is Asia and continues to chug along and we were just noting the other day that it's been 14 consecutive quarters of growth for us in Asia. That seems to be the expectation that we have for the future. And EMEA, while flat for us, and it's certainly an improved environment there, there's just a little more uncertainty around things like MiFID II and Brexit. And if we look into both of those situations in Europe, we see certainly some opportunities and some questions around the MiFID development and more questions around Brexit. But, all in all, it would be a bit of a more optimistic environment than we would have been facing a year ago at this time I would think.

Drew McReynolds - *RBC Capital Markets - Analyst*

And Jim, if I can just follow up on that. Just on the U.S. Legal industry, is there anything that's worth noting there that's different with how either big law or small law has been trending? Are you seeing any stronger or weaker cyclical impact within the legal space?

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

Yes, I think if you look back, what you see is demand is pretty much -- continues to be depressed, particularly in litigation in the United States, which is surprising as it was depressed for this long and you are continuing to see a bifurcation. If you look at within the Am Law 100 for example, those toward the top are doing really, really well right now with corporate work and those at the bottom and in the middle are getting squeezed a bit more.

So it's a bit of a mixed bag, but overall still relatively low demand in the legal sector. But one in which, frankly, we are encouraged by the solid performance of our underlying subscription revenues. If you think about our business, having those core legal subscription businesses go ahead by 4% is a really important part of our profitability story as well and then largely responsible, along with very prudent cost controls, largely responsible for the margin performance that we're seeing in our Legal business because those are very sticky revenues and they are also very profitable revenue.

Operator

Paul Steep, Scotia Capital.

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

If I could, just before, Paul, if you don't mind, I'm sorry to interrupt you. I just wanted to get back to Drew on his other question. So the impact of currency for the first half was 40 basis points on margin. So our reporting margins, EBITDA margins for the first half were up 350 basis points. If you exclude currencies, they were up 310 basis points and the impact is entirely concentrated in our Financial & Risk business where the impact of the first half was also 40 basis points and actually the impact of currency on any of the other businesses was pretty neutral.

Paul Steep - *Scotia Capital - Analyst*

I guess for Jim on Elektron, could you comment a little bit -- we've seen now I guess five quarters of solid growth out of that business. Maybe talk a little bit about the trend driving the growth there. I know you are persistently launching new product, but what you actually see in terms of that market and potentially maybe how you would accelerate growth there. I know we keep calling it out as a growth driver.

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

Sure. Look, I think if you look at the demand for market data overall last year according to some third-party reports there, that continued to grow. There seems to be a focus on the terminal side of the business, but actually overall the demand for market data has never been higher and I think the Burton-Taylor report, which you guys site a lot, saw an overall 3.5% growth in the feed side of the business or an overall market data growth of 3.5%. That's driven by the feed side.

So what do we see? We see more people wanting to connect more data. We see more people and more demand for our services around helping them to connect our data to their data and helping manage their information infrastructure. We see more and more folks looking for broader data feeds, looking for cleaner data feeds and tying it all together in their shops, either things we do for them behind their firewall or increasingly things we do as managed services for clients.

So I don't think that's going to abate. In fact, I think it's going to be a solid source of demand going forward and I feel really fortunate that we have been in that game for a long time and we have really good information architecture and really good infrastructure to handle it and I think when you think about a world and what it might look like post MiFID II, I think there will be fewer and fewer players capable of providing compliant solutions in that space. And as Stephane referenced in his earlier comments, things like MiFID II and the increasing scrutiny around the regulatory environment for these services mean that the cost of entry is getting higher and higher and raising the bar. So we feel good about the continued demand in that space.

Paul Steep - *Scotia Capital - Analyst*

One quick follow-up for Stephane. Just on the charges out of Q4, I think we're about halfway through those in terms of the cash outflow. When would we expect the remainder of that charge to pull through? Thanks.

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

I would say about half of that would be over the remainder of the year and the other half may flow through next year from a free cash flow perspective and that's really related to countries outside of North America.

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Hi, I just wanted to ask, in the F&R business, given the increased popularity of quant investing, could you talk about how spend with a typical quant fund might differ from a typical fundamental fund provider? Thanks.

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

No, I would say probably stronger demand for feeds there because they are doing their own proprietary analytics around everything. So I actually haven't looked at it cut that way, but it would not surprise me to see a far greater mix of revenue on the feeds side into the quants, but we will take a look at that and get back to you.

Toni Kaplan - *Morgan Stanley - Analyst*

Okay, great. And just on MiFID II, you talked a little bit about some of the cost implications that you are investing in on the CapEx side, but just can you talk about your latest thoughts on what you are hearing from customers about the changes they might make or just forgetting numbers, just qualitatively, what are sort of the key things you're thinking about in terms of implications on the top line for your business?

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

Sure. I think we think about it kind of along three different ways as we think about it because that is what we hear our clients talk about. And I know, particularly for this audience, there's still a great deal of uncertainty particularly around how the research, the unbundling research is going to play out and I don't think anyone has a crystal ball looking into that one or has a more credible argument than anyone else.

I think there is great uncertainty around that unbundling right now and we will just see how it plays out, but largely for us, we look at it and say it's a compliance opportunity because the rules are changing in a pretty dramatic way and we've got to make certain that our products comply with regulation, particularly things around multilateral trading facilities, our Tradeweb business, things like that, have to be completely compliant and we have to make sure our platforms are compliant in all ways. And frankly, I think that makes us -- if you think about raising the table stakes to be in the business, that's the second way we look at it, one of those table stakes investments that we have to make to make sure that we are MiFID II compliant and there has been a lot of thought and we've all paid a lot of attention to a lot of the upstarts in the FinTech world and that sort of stuff. I think that that having a MiFID II compliant platform to work and partner with FinTech startups makes us an attractive partner in that space, both for our large clients and for those clients who want to bring specialty analytics and things like that to those large clients. So we think that's going to be a really interesting opportunity.

We, of course, are now going to have to go out and add, in terms of table stakes, a whole bunch of new venues that have traditionally been opaque and have had some visibility into those venues. We are working hard to do that in order to again open up that transparency. And then we think about new opportunities and launching new propositions which can drive new revenues for us, whether that's more best execution confirmation, which everybody is going to need or solutions to help firms understand when they are going to cross that line and become what's -- being termed what is systematic internal (inaudible) or the point at which they are going to cross the regulatory line and have to worry about how much business they are doing with a particular counterparty. That is all about visibility and that's a good place for us.

And then, as I said, we will all figure out together what this unbundling of research services means, but it very well might mean that there is an opportunity there for us to provide some new products based on the back of some of the quantitative analytics that we have today and offer up today in terms of computer-generated modeling and that sort of stuff.

So it's a pretty dynamic space for us and one which we are looking at it I hope with a dose of realism that says there's a lot of uncertainty around it. There is likely to be a large impact, all of it won't be good, I'm sure, but there is opportunity within it and we are trying to go after the opportunity.

Operator

Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Capital - Analyst*

Thank you. Good morning, gentlemen. Jim, earlier in the call, you talked about moving away from defending your territory in asset management to growing it and I was wondering if you could maybe just frame that with some context on what your exposure to asset management is and then what particular opportunities do you see? Is it just the Risk and Feeds business or is there more to it in terms of that growth you were referring to?

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

So I think, and, Stephane, I don't know if you have the exact number how the asset management business breaks out in terms of percentages there, about $400 million in asset management?

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

That's just the Desktop.

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

Just for the Desktops, just for the Desktops in asset management. So look, I think there's Feeds opportunity in asset management; there's no question about that. But I think there is also Desktop opportunities now, particularly for the analyst world. We have a much better product on the asset management side and I don't know how many -- I know many of you have seen demos of the product, but we are through that last mile, that most difficult last mile of the installations where we are taking -- where we have been converting folks who have been on single Thomson ONE products and now giving them a suite of products that's got far more robust capability. And I think for certain players in the asset management space, we ought to have a far more attractive selling proposition and a far more attractive commercial proposition to go with it with a really interesting product.

So I do think there's opportunity on the Desktop side for us as well. The way we look at the Desktop side is we don't think the world of Desktops themselves will grow and we don't think Desktops will be the driver of our growth overall, but we do have an opportunity to gain share and we continue to win our fair share of competitive bakeoffs and we are going to continue to improve our products and invest in our products and invest in the customer service that surrounds those products and fight tooth and nail to take every last station that we can.

I think it will be again not the growth driver of the business, but I think as Stephane mentioned earlier, we are at a point in the second quarter where now non-Desktop products, information products are exceeding the Desktop products in terms of the revenue mix and I think that bodes well for our overall revenue growth.

Manav Patnaik - *Barclays Capital - Analyst*

Got it. And then, Stephane, you mentioned I think those $100 million was what you were anticipating to invest to be MiFID compliant. Maybe I underappreciated the amount you guys have been investing there. What are the big buckets that you guys really need to invest to be MiFID compliant and so forth?

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

That would be a pretty long answer. We can go into more detail if you want after the call with you, but what I would say is that that's the amount over 2017 and 2018. I don't want to mislead you thinking that this is the annual spend on MiFID. That's the overall amount.

I would say probably 60% or two-thirds of that would be incurred this year in 2017 and the balance is going into next year. So this year is the big year in terms of investments behind MiFID. But it's essentially bringing more venues into our Elektron platforms and developing a number of products. We can give you a few more details on (multiple speakers).

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

We will follow-up with you, Manav, after the call.

Manav Patnaik - *Barclays Capital - Analyst*

Okay, thanks a lot, guys.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray - Analyst*

Thank you, good morning. So you've had really impressive margin leverage here in the last couple of years from these cost-cutting initiatives and then improved revenue growth. From some of your comments, it's sounding maybe like you are seeing the need for a little bit of stepup investment spend.

I'm wondering if that might suggest that the margin leverage going forward is going to be much more dependent on revenue growth that we've seen the benefits from the cost-cutting. Could you talk a little bit about that?

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

If I could jump in and Stephane could put any context he needs to around it. I want to be clear about that. I don't think we are at the end of our ability to continue to benefit from the scale in our business. And when we talked in 2013 about why we went down the road of transformation that we did it's because we had size but not scale. We are starting to see that scale and I still believe, when you look at our ability to operate more effectively and efficiently and to I will say redirect cost, but to get unneeded costs out of the system, I still think we are in the late early innings to middle innings of that. And the truth is, Peter, the more progress we make, the more opportunity I see to do that. And then our great challenge is what do we do, how much of that do we take to the bottom line and how much of that do we reinvest back into the business.

There will be some temporary things that we need to do that will be one-time investment behind -- MiFID II is a great example of that; that's point in time. We have to do that; those are table stakes. Not going to change them. But then there are other opportunities that we see accelerating our investments behind things like cognitive computing and artificial intelligence, which are going to result in products in the market in the very near term and when we believe that those are going to pay off, we will make those investments.

So we will just make those dynamic allocation decisions in real time and we are quite happy to keep going after the cost base. There is lots of opportunity in our cost base to be more efficient and more effective and we will just in real-time be managing how much of that we put back in where we think there is going to be a payoff and how much of that we take to the bottom line.

So we have got runway left on the efficiency side as well. I would hope we are going to see more opportunity to redeploy that and I would hope that, in the future, we are going to see greater profit growth driven by revenue growth, but we are going to be very judicious about how we manage that journey and given the large subscription base that anchors our -- and I mean that positively negatively -- anchors our business, right, it's going to be steady gradual progress just seeing that top line move up a point at a time.

Operator

David Chu, Bank of America.

David Chu - *Bank of America Merrill Lynch - Analyst*

Thank you. So Desktop revenue for F&R was down 3% ex the pricing adjustments. So does this suggest that Desktop's subscriber count continues to decline year-over-year? Is that a fair way to think about that?

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

Yes, it probably is a fair way to look at it.

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

And I would think, although I don't have the numbers in front of me, I would say I think the bulk of the headcount reductions that we saw in Desktops would have been in Europe.

David Chu - *Bank of America Merrill Lynch - Analyst*

Got you. Okay, thanks. Then, Stephane, you mentioned that the higher-margin outlook incorporates additional costs for the customer experience initiative. So without this, what would margin guidance have been?

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

I think what you should expect to see is actually -- if you look at the business, the margins of our businesses, the trends continue to be good, particularly Financial & Risk, as they ramp up the growth rate, the revenue growth rate, you should see margins continue to expand in the second half. There is going to be some factors, as I mentioned during my remarks -- if you recall, the Tax & Accounting business, Q3 seasonally always a weak quarter, typically Q1 and Q4 are the stronger quarters, so Q3 you should see a drop in margin, but then we expect to rebound in the fourth quarter.

So if you look overall at the second-quarter trends, we do expect the corporate costs to increase and I gave you some pretty specific guidance I think in terms of corporate cost being $120 million in the first half and going to $160 million in the second half. That's really what accounts for the margin guidance that we have given and I would remind you the guidance we have given at 29.3% to 30.3%, that represents an improvement, a year-over-year improvement of the full year, which is really the way we think about it. We don't look at it on a quarterly basis so much. That's an improvement of 100 to 200 basis points almost over last year.

David Chu - *Bank of America Merrill Lynch - Analyst*

Okay. So maybe I can just ask it another way. So how much OpEx cost for the customers like experience initiatives?

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

I would say it's probably in the range of like about $30 million.

David Chu - *Bank of America Merrill Lynch - Analyst*

About $30 million. Okay great. Thank you very much.

Operator

Doug Arthur, Huber Research.

Doug Arthur - *Huber Research - Analyst*

Yes, just a quick one. Jim, Europe F&R revenues were up, I believe, 1%. That seems like an important inflection that's been a tough market for you. Anything to elaborate on there? I know you've mentioned a few things already.

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

We were very, very pleased to see that and you are right; it was noted and I think, frankly, our sales team is executing a lot better in Europe this year. We have done some -- we reorganized just some of the way we go to market in Europe and I think we have improved our customer service there and I think that's starting to pay off.

As I said, you'd look at, while a challenging environment particularly on the continent and uncertainty around Brexit, the sales teams have been knocking it out of the park and have really been executing well and the client relationships are as deep and broad as they have ever been. So I think it's just really a reflection of better execution in Europe. And as I say, if you look at the sales activity for Q2, that was kind of flattish, but that's to me a victory being flattish there and if we can get some price next year, we should see for that quarterly growth to continue. So I think as I said earlier, more questions around Europe, but better execution in Europe as well.

Doug Arthur - *Huber Research - Analyst*

Great, thank you.

Frank Golden - *Thomson Reuters Corporation - SVP, IR*

So that is our final call -- final question rather and that will conclude our call. We'd like to thank you all for joining us for our second-quarter and half-year results and we look forward to speaking with you again on the third-quarter call.

Operator

Thank you. Ladies and gentlemen, that does conclude your conference. We do thank you for joining while using AT&T Executive Teleconference. You may now disconnect. Have a good day.

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