THOMSON REUTERS STREETEVENTS
EDITED TRANSCRIPT
TRI.TO - Thomson Reuters Corp and Blackstone Group LP Announce Strategic Partnership for Thomson Reuters Financial & Risk Business - M&A Call

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OVERVIEW:
On 01/30/18, Co. signed a transformational deal for TRI and its financial services business to create highly strategic partnership with Blackstone with transaction value of about $20b.
Frank J. Golden - Thomson Reuters Corporation - SVP of IR

Thanks very much, and thank you for joining us today particularly on such short notice. Today, the company announced that it has signed an agreement to form a strategic partnership comprised of Blackstone and the company’s financial services business. We also pre-released highlights of our financial results for 2017, and Jim and Stephane will take us through the proposed transaction and will also discuss our preliminary results for the fourth quarter and for the full year.

So with that, let me turn it over to Jim Smith.

James C. Smith - Thomson Reuters Corporation - President & CEO

Thanks, Frank, and thanks to all of you on the phone, as Frank said, particularly on such short notice. Today, I’m pleased to announce the signing of a transformational deal for both Thomson Reuters and our financial services business to create a highly strategic partnership with Blackstone. I cannot think of a better partner for this deal than Blackstone given their unique position to accelerate our progress. And they’re a partner that has deep understanding of the global financial services market.
Blackstone also has the financial wherewithal and operational expertise to enable the business to achieve its full potential in the global financial services market. Importantly, this deal repositions the business for accelerated growth in a rapidly consolidating industry while benefiting customers across the sell side, buy side and trading venues. Blackstone’s strong relationships in the financial services industry, its long and successful history of corporate partnerships will help the business provide new and innovative products and services while also driving further efficiencies. The transaction should also send a clear message to customers that with Blackstone, the business has the capacity to deliver and compete.

I am very proud of our financial services organization and all the hard work that’s gone into turning it around over the last 6 years, and today’s announcement reflects the strength of that business, both operationally and financially. The combination of its product sets, its scale, its platforms, its free cash flow generation and Blackstone’s capacity to invest in the business will make it a formidable business competitor.

We are particularly pleased to enter in this partnership by retaining a 45% interest, permitting us to participate in a future upside. And on the Reuters News front, the partnership has agreed to a 30-year contract that will pay a minimum of $325 million per year for Reuters to supply news and editorial content. From a governance standpoint, Blackstone will have 5 board seats, Thomson Reuters will have 4 and the CEO of the new partnership will serve as a nonvoting member of the board following the closing of the transaction. And finally, with a streamlined profile, Thomson Reuters will focus on driving growth and expanding its reach in the legal, tax and regulatory markets.

So why now and why Blackstone? Those of you on this call are well aware of the fact that the financial services industry has been undergoing deep structural adjustments since 2008, which are far from finished. And during that time, we’ve invested in stabilizing and growing our financial services business. It’s been a successful journey, evidenced by Blackstone’s interest. Here are a few metrics which illustrate the progress we’ve made in turning around our financial business over the last 5 years.

From a revenue perspective, the business delivered growth in 2017 for the first time since 2011. While our growth rate is not as high as we’d hoped for, this nevertheless represents a 200 basis points improvement since 2013. And more importantly, our growth rate is not as high as we’d hoped for, this nevertheless represents a 200 basis points improvement since 2013. And more importantly, our growth rate is not as high as we’d hoped for, this nevertheless represents a 200 basis points improvement since 2013.

Finally, having largely removed legacy platforms and revitalized our product lineup and our service performance, our retention rate has improved from about 86% in 2013 to just under 90% today. From a scale and margin perspective, the business is dramatically streamlined. These product offerings have been limited and improved its margins by over 600 basis points. This is a strong performance, especially in the context of a negative to flat revenue growth environment. So this is why we feel now is a good time to look at the next chapter for the business.

First, it would not have made sense for us to even consider such transaction before turning around the business. Simply put, we could not have generated anywhere near the level of shareholder value we expect to create with this deal. Second is because the business is better positioned today that we’re able to attract and partner with someone like Blackstone. Their investment shows their confidence in the future of this business. And finally, while we feel the business is now well positioned and that we could have driven a higher growth in margins going forward, we also feel the business is even better positioned with Blackstone as our strategic partner.

So why Blackstone? In a nutshell, we believe that Blackstone is the best partner we could team up with to capitalize on the opportunity ahead. Blackstone’s uniquely positioned to identifying chief trends in the financial services industry, they will drive further efficiencies and they have the talent, the experience and the wherewithal to navigate this ongoing industry consolidation. Blackstone’s ownership will also immediately strengthen the competitive position of the business across financial markets and improve its growth trajectory.

From a Thomson Reuters perspective, we receive cash upfront equal to the investment made in Reuters back in 2008, and we retain 45% of the future upside potential in the new business. Furthermore, Thomson Reuters will focus on driving growth and expanding its reach in the legal, tax and regulatory markets to further strengthen our position.

Now let me ask Stephane to take us through the structure of the deal and what Thomson Reuters will look like following the transaction’s closing.
Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Thank you, Jim. From our perspective, the benefits of this deal boil down to 3 things. First, the transaction will strengthen our financial business and it will be better positioned to grow and compete in a rapidly consolidating industry. Second, Thomson Reuters will now be a more focused business with the financial wherewithal to bolster its position in key growth segments both organically and inorganically. More that in a moment. And finally, the transaction strengthen our news business through the security of a long-term contract with an annual revenue stream of at least $325 million for 30 years.

Now as to the structure of the proposed deal. The transaction values the business at about $20 billion. We will receive about $17 billion of cash proceeds at closing, and we will retain a 45% equity interest in the business. Blackstone will deliver these cash proceeds through a mix of new debt and preferred equity raised by the business, approximately $14 billion net of fees and a $3 billion check for 55% ownership that they are purchased.

Now there’s still a number of moving pieces, but at the high level, we expect the cash proceeds to be deployed as follows. First, cash taxes and transaction expenses are expected to amount to somewhere between $1.5 billion and $2.5 billion. This amount includes a number of items that are still to be determined exactly, such as cash contributions to cover any onetime costs. These cash costs will be incurred over the course of 2018 and 2019, and we expect to have a more precise estimate by the time of closing, which we expect to take place early in the second half of this year.

Second, we expect to pay down about $3 billion of debt. This will allow us to remain below our target debt ratio of 2.5x. We also intend to maintain cash on hand in the amount of like $1 billion to $3 billion, which would -- which we would expect to use to fund focused acquisitions in order to bolster our position in key growth segments. And finally, we expect to return the balance of the cash proceeds, which will amount to somewhere between $9 billion and $11 billion, to our shareholders via a tender offer shortly after the closing of the transaction. And we expect our major shareholder, Woodbridge, to participate in this tender offer in order to facilitate a successful completion of the deal.

Now upon completion, Woodbridge expect that its ownership level will drop into the 50% to 60% range, which is also the ownership range they are targeting over the longer term. Furthermore, Woodbridge has also advised the company that it plans to re-invest between 30% and 50% of its dividend in Thomson Reuters shares for at least 3 years following the closing of the transaction. So the combined impact of the restatement of our dividend reinvestment plan along with the reduction in the number of shares outstanding for the tender offer will enable us to maintain our dividend.

Now a particularly exciting aspect of the deal, aside from retaining a 45% interest in the financial business, is that our company will be more cohesively aligned with common vision of providing trusted answers to professionals at the intersection of commerce and regulation. This next slide shows a pro forma breakdown of our expected revenue base once the transaction closes.

At a high level, we will have about 40% of our revenue in high-growth segments, primarily of Global Tax and Legal Software & Solution businesses. Another 36% represents our core legal and regulatory online information segments, primarily Westlaw in Legal and Checkpoint in Tax and Accounting. These segments are the bedrock of our business. They are leaders in their respective markets, and they continue to grow.

Finally, a little less than 1/4 of our revenue base will consist of our global trend business, which is highly profitable but in secular decline, and our media and news businesses. Now that business represented about $300 million in revenue last year, declining at 3%. Going forward, this business will double in size as a result of the addition of the long-term contract with the partnership, and it will be reported as a separate business unit alongside our legal, tax and regulatory businesses.

Let me now turn it back over to Jim.

James C. Smith - Thomson Reuters Corporation - President & CEO

Thank you, Stephane. Importantly, we will have the capital and flexibility to execute on our ambition. We plan to ramp up investment in our business both organically and inorganically. As you know, we’ve taken significant steps over the last several years to improve customer experience, and we...
see that technology developments are creating opportunities for all parts of our business. Our customers are demanding that solutions be delivered digitally, seamlessly and in the cloud.

Bringing together our data with that of our customers and third parties, applying advanced analytics is increasingly important. Artificial intelligence, machine learning, cognitive computing are all making possible the automation of knowledge work, and we're finding the most traction here in our legal and regulatory domains where we have the leadership mantle. So from an organic standpoint, we will now have the ability to accelerate these initiatives through improved analytics and digital-driven sales performance, by building a digital customer experience and a channel for smaller sized tax and legal firms, by increasing penetration of corporate customers, by accelerating partnerships to increase sales and codevelop new businesses and by accelerating the pipeline of new technology-led products. I believe that we have a very bright future by doing what we do best, combining information, technology and human expertise to provide trusted answers. We will also have the capacity to make selective acquisitions within our core professional markets to further advance growth and expand our positions. These acquisitions will align with our strategy to grow faster in our identified high-growth market segments, such as Legal Software & Solutions and Global Tax.

So to conclude, today’s announcement is a result of a successful turnaround of our financial services business, and it reflects the strength of that business and its future potential. We believe the business will be even stronger with Blackstone as a partner. We also believe that the transaction will provide value to Thomson Reuters’ shareholders, and our ownership interest in the business will allow us to participate in the future upside of that business. That’s why we are retaining a 45% ownership interest.

The transaction allows us to significantly de-risk our exposure to the financial services industry at a time where valuations are quite attractive, while at the same time retaining the upside potential which we believe this partnership with Blackstone will deliver. I also believe that Thomson Reuters’ prospects are now stronger than ever, and coupled with our remaining ownership interest in the financial services business, we are in a position to deliver long-term, sustainable value for all shareholders. This includes maintaining a healthy dividend and a strong capital structure that provides us with significant resources and flexibility.

From a strategic standpoint, we are very well positioned to further capitalize on the leading positions in our remaining businesses. And I am confident that Thomson Reuters will grow faster, having done this deal. And I believe that the resulting proceeds and the management focus will enable us to push further and faster in the legal, tax and regulatory segments of our business. In addition, let me assure you that we will continue to execute our inter-buy strategy across the company as we work to continue to improve performance, increase efficiencies and achieve further savings.

Let me now turn it back to Stephane before we turn to your questions.

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

Thank you, Jim. Now in connection with the announcement of this partnership, we also pre-released our fourth quarter and full year results, which you can see summarized on this slide. And we did that in advance of our full release next week on February 8. We are very pleased to report that we expect to meet or beat the key guidance metrics that we provided for the full year 2017, including the earnings per share target which we set out 3 years ago and which we updated last July.

Reported revenue growth is expected to be approximately 3% for the quarter and 1% for the full year. On a constant currency basis, revenue growth will be 1% for the quarter and about 2% for the year. We expect operating profit to range between $1.74 billion and $1.76 billion for the full year. Our EBITDA margin is expected to range between 30.1% and 30.4%, again, for the full year. And adjusted EPS is expected to range between $2.48 and $2.51 for the full year, which would represent a record high for the company. And last but not least, our financial business achieved positive net sales in the fourth quarter, which represents a significant improvement for the fourth quarter performance in the prior year.

Now one final point to make. We will not provide 2018 guidance for the company in connection with our Q4 results next week. Given the complexity of the transaction and the cuts in allocation that will need to be made between our financial business and our other businesses, we are targeting to provide guidance in connection with the release of our first quarter results in early May. Let me assure you that we will strive to have that information to you as soon as possible, but that we do not expect to be in a position to do so much before when we report Q1 earnings.
Now let me turn this back over to Frank so that we can take some of your questions.

**Frank J. Golden - Thomson Reuters Corporation - SVP of IR**

Thanks, Stephane and Jim. And that concludes our formal remarks and presentation, and we would now be very pleased to take any questions you may have. So I’d like to take the first question please, operator.

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**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions) And the first question comes from Paul Steep from Scotia Capital.

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**Paul Steep - Scotiabank Global Banking and Markets, Research Division - Analyst**

Stephane or Jim, I maybe missed your comment there. Could you give us more detail around what the time frame is for allocating the organic growth investments that you alluded to of $1 billion to $2 billion? Over what time frame you guys think you’d sort of come to a conclusion on that? And I’ve got one quick follow-up.

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

Yes. Hi, Paul, and thank you. Look, we don’t really have a specified time frame to do this. We obviously will not let the cash burn our pockets. We want to be very deliberate in that process. But we just want to make sure that as we generate the significant amount of proceeds from this deal, we obviously deploy some of them towards strengthening our positions in the highest growth segments of the portfolio that we will have after this transaction. And we do expect that with a few well-positioned acquisitions, we can really, hopefully, accelerate the growth trajectory of that portfolio.

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**Paul Steep - Scotiabank Global Banking and Markets, Research Division - Analyst**

Great. And do you have a sense as well, Stephane, on the corporate cost of the new entity would sort of pro forma end up taking on post the deal?

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

Yes, it’s a good question. Look, all guess at this time -- or educated guess, I should say, is that this transaction will result in 3 categories of what generally I’ll refer to as stranded costs. The first thing is that as we separate the 2 organizations, we were going to have to like duplicate certain capabilities that had been consolidated in the last few years as part of our transformation program, so we had to like reestablish independent capacities on one or the other side. The second point is that we will have more traditional stranded costs that will arise from the deal. And then finally, we will also essentially have to rightsize the organization to its smaller size. In total, I would say that the outset, our estimate is that we’re going to have about $200 million of these 3 categories of cost in aggregate. Our goal is to, as we’ve done -- as you’ve seen us done in past deals, is to like put a program in place to grow at these costs and to essentially bring them down to $50 million or less by the end of 2020. So that’s what I would tell you. So if you try to think about the pro forma of the new entity, I think you can look at the -- your EBITDA forecast for our legal and tax accounting business. You know what our current cost center structure is. It’s about $280 million or so at the EBITDA level, assume that you keep half of that number and then -- and assume that stranded cost on top of that, as I just described, that will -- as I said, that will gradually decline and we’re going to try to go at that cost basis as quickly and efficiently as we can.
Paul Steep - Scotiabank Global Banking and Markets, Research Division - Analyst

Super helpful. One clarification I just thought of. I didn’t see it mentioned anywhere in here, and I know you’re reasonably up-to-date, pension cost in terms of Reuters because I recall they did have some pension that came with them initially. Is that accounted for already in the $1.5 billion or $2.5 billion of deal cost?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Thank you for that question, Paul. It’s a very [foreign] question, and we will be working very closely with the trustees of our U.K. pension plans. This – we have like 2 large pension plans in the U.K. that will remain with the joint venture company, so remain with our financial business. And we absolutely expect as part of this transaction that we will make cash contribution to shore up these 2 pension plans, and we've included an estimate of that in the onetime cost estimate that I just gave you. Yes, so that's included.

Operator

The next question is from Andrew Steinerman from JPMorgan.

Andrew Charles Steinerman - JP Morgan Chase & Co, Research Division - MD

I wanted to get more color on how you think the F&R business will be run differently as a private company than as part of a public company. And when you said accelerate growth in a rapidly consolidating industry, I think you meant the consolidations in the financial information services business. So I think you're saying that there'll be more acquisitions. And any other color that you think will be different as a private company even though you're retaining the 45% ownership?

James C. Smith - Thomson Reuters Corporation - President & CEO

Sure, Andrew. That’s a good question. I think that one of the things that was most attractive to us about Blackstone as a partner was the deep relationships that they have across the -- all the facets of the financial services industry. So I think just their knowledge of the industry, their relationships in the industry, their clout in the industry will go a long way in helping us get into the right kinds of conversations. I think it’s clear that one thing that they have the appetite for and have demonstrated the appetite for is to continue to build value in assets that they acquire and to do that in a pretty quick way. And there are just differences in the pace at which a privately held company can take on some challenges, not worried about the quarter-to-quarter reporting that all of us public companies have. And I’m sure they’re going to set forth a very ambitious program for our joint financial services business in a way, I think, we all can understand. But I think a real attractive part of what they’ll be able to do alongside of us is to be able to use their relationships in the industry, particularly to protect the top line of that relationship and to grow that top line through those relationships.

Andrew Charles Steinerman - JP Morgan Chase & Co, Research Division - MD

And Stephane, could you just talk about disclosure of your 45% interest? How much disclosure will we get on the F&R business?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

We try to give you as much disclosure as we can so that you have the ability to value what that stake is over time. So more on that to follow, Andrew, but we understand that this is going to be important for investors.
Operator

And the next question is from Peter Appert from Piper Jaffray.

Peter Perry Appert - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

So Stephane, can you talk about how F&R will be consolidated? And given the debt structure, I assume the expectation is that it would make minimal contribution to the earnings of the new Thomson Reuters going forward. Is that fair?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

That’s probably fair early on, but we expect that hopefully over time they will -- it will grow the earnings. But just for the reason that Jim just described, right, we would expect a fair level of volatility in the earnings of that business, as being a private company, obviously, there’s more flexibility to do what they need to do for the business without having to worry too much about the repercussions in their results. So I suspect what the impact for us will be that obviously we will no longer consolidate their revenue, their EBITDA or their debt. We will have minority interest on the equity line. And we’re still thinking about how we’re going to treat that from an adjusted EPS perspective, but we might very well exclude that line from our adjusted EPS going forward simply because of the inherent volatility of it.

Peter Perry Appert - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

And then the F&R business, reconfigured is going to be very highly leveraged. I would think that would be a fairly significant limiting factor in terms of the ability to grow it and invest in it. Can you talk about that, Jim?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Well, look, I think that it’s a business who benefits from a very steady, reliable revenue base that’s heavily subscription-based. So the cash flow of the business are fairly predictable. I think that in Blackstone, we have a partner who has a reputation of really being quite prudent in terms of, obviously, leveraging the business as a private equity, but doing it in a way that is quite proven and doesn’t endanger the ability of the business to reinvest either organically or inorganically. I think the ability of the business to delever over time as it makes progress is going to be pretty rapid. And so I think that both Blackstone and ourselves feel really comfortable with the capital structure of the business and how quickly it may evolve over time.

Operator

The next question is from Toni Kaplan from Morgan Stanley.

Toni Michele Kaplan - Morgan Stanley, Research Division - Senior Analyst

Can you talk about how the transaction should -- how we should think about the tax rate of the remaining business just given that primarily both Legal and Tax & Accounting are going to be more U.S.-based?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Yes, Toni, I don’t think it’s going to be fundamentally different from what it would have been absent that transaction. We obviously still are going through the impact of the recent U.S. tax reform. I would say at a high level, we do not expect much of an impact of that reform on the tax rate in 2018. So we would expect our effective tax rate to remain in the same range as what we saw last year, so probably like 10% to 12%. And then over time, it’s -- like ’19 and beyond, I would expect that the net impact of the U.S. tax reform will be to drive the tax rate upwards at least from an
effective tax rate perspective, and there's probably going to be also an impact in terms of cash -- sorry, cash taxes, but that impact should be much more muted.

**Toni Michele Kaplan - Morgan Stanley, Research Division - Senior Analyst**

Got it. And can you give us an update on what you're seeing in the F&R business from, let's say, if you're seeing any changes since the third quarter earnings? I know you had mentioned some slowdown in customer decision-making at that time. But have you seen that continue? Has it gotten worse? Just wanted to understand the environment.

**James C. Smith - Thomson Reuters Corporation - President & CEO**

Sure. I think, in fact, we saw a nice spurt in the month of December in terms of sales where people are looking to make sure they have MiFID-compliant solutions in place. I wouldn’t read anything into any of these trends as people are trying to get their arms around MiFID. But in fact, December was a very strong month for us, and a lot of that was folks buying MiFID-compliant solutions.

**Toni Michele Kaplan - Morgan Stanley, Research Division - Senior Analyst**

And just lastly, can you just clarify the incremental value we should be expecting from these Reuters News payments that you'll be receiving? Just basically, are these payments incremental to the value of the transaction? Or how should we be thinking about it?

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

No. Most of these payments essentially reflect -- think about it this way, Toni. Most of these payments reflect the internal allocation that used to exist in the past going from our financial -- from our news business to our Financial & Risk business. So it's really not incremental. The value of the contract is obviously that it gives certainty in terms of the amount that we will receive -- that our news business is going to receive every year for 30 years. And it's an amount that -- it obviously provides enormous stability and strength to our news business. I don't think there's many media businesses around the world that have like a 30-year commercial agreement with a guaranteed minimum payment.

**Operator**

The next question is from George Tong from Goldman Sachs.

**Keen Fai Tong - Goldman Sachs Group Inc., Research Division - Research Analyst**

You indicated that one of the key attractive elements of this partnership is Blackstone's capacity to invest in the business. How do you plan to balance the investment responsibility for F&R between you and Blackstone? Is it the 45%, 55% split? Or are your investments going to be primarily geared towards the tax and accounting and legal businesses?

**James C. Smith - Thomson Reuters Corporation - President & CEO**

I think we will weigh each and every investment opportunity as it presents itself, and we'll make our decisions accordingly. And I don't think we go in with a prejudice to one side or another. As I say, we'll be very opportunistic about looking at where we think we're going to get the best return from how we're deploying our assets.
Keen Fai Tong - Goldman Sachs Group Inc., Research Division - Research Analyst

Got it. So you're obviously maintaining a 45% stake in the business. Can you refresh us on what your intermediate and longer-term growth and margin outlook is for that business? As you still are going to have a pretty big stake in it, is the expectation that with this change in ownership structure, the top line growth will accelerate to mid-single digits, EBITDA margins in the sort of mid-30s? What’s sort of your longer-range expectations or goals for this change of ownership?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

As Jim said, we do think that this business has good prospects on a standalone basis if we had not entered into this partnership. As we said in prior calls, we would expect both the top line and the margin to continue to improve. There’s certainly still some room to improve the margins. And having all these big adjustments that you’ve heard us talk about for the last few years behind us, things like pricing adjustments or others, we would have expected the top line growth to start showing some improvement. We do think that with Blackstone as a partner, both of these 2 trends can be accelerated and I think that’s their belief also, and that’s really what we got excited about this partnership.

Keen Fai Tong - Goldman Sachs Group Inc., Research Division - Research Analyst

Right. And then lastly, with your estimated $1 billion to $3 billion of spend for potentially organic or inorganic opportunities in Legal and Tax & Accounting, are there specific areas in Legal and Tax & Accounting that you feel are areas you’re looking to expand in? Or are there holes in the portfolio where you’re looking to fill with those investments?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

If you look at the slide we discussed in the presentation on the buy slide, there’s a pie chart, you’d see that the area there that’s on the left-hand side, what we call software and solutions, which represents today, close to 40% of the portfolio. Both in our Global Tax business and our Legal business, we do see that’s -- 40% of the revenue base is growing at 7%. That would be a prime area for us to invest. That’s really where we see still, pretty good opportunities to improve growth. And the advantage of having like, a small revenue base is that if you do a few well-calibrated acquisitions, you really have a chance to move the needle a little bit more easily than when you’re dealing with a $12 billion business.

Operator

And next, we go to the line of Hamzah Mazari from Macquarie. (Operator Instructions)

Okay. We’ll go on to Doug Arthur from Huber Research.

Douglas Middleton Arthur - Huber Research Partners, LLC - MD and Research Analyst

Stephane, if Blackstone’s paying $17 billion for 55% of F&R, can you take us through the math components that get you the value of the entire business at $20 billion? Is that sort of post-tax, post one-time impacts? I’m just trying to equate the 2.

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Sure. Let me try to do that. So we are receiving $17 billion in cash proceeds. This is the combination of the debt that’s going to be going into the company and dividend out to us at closing, as well as the $3 billion of equity check that we will receive from Blackstone. That’s $17 billion in cash. On top of that, we still have a 45% ownership in the company. So if you look at the 55% being worth split over $3 billion or 45% is worth on that basis, at the starting point of the company, only $2.5 billion. In addition to that, we are keeping a few selected risk assets, which has some value...
and we can -- also keeping a few real estate assets as part of the transaction. And that's how you get for an estimated value for the financial restatements, which is a little over $20 billion.

Operator

The next question is from Tim Casey from BMO.

Tim Casey - BMO Capital Markets Equity Research - Equity Research Analyst

Three questions for me. Could you -- are you able to talk about how this relationship with Blackstone came about? Did they call you? Did you call them? Just curious how this deal came out, any color you can provide there. And then just a couple of confirmations. I'm sorry, the mic was a bit muffled. Can you just reaffirm what Woodbridge's commitment you said they're going to commit to a drip for 3 years? Could you just give us the numbers there and confirm you're going to keep the dividend -- you intend to keep the dividend metrics as they were? And just on the nature of the buybacks that you're talking about, how should we think about the timing on those? Will those -- are we talking about a Dutch auction here? Is this going to be through normal course issuer bids? Could you give a little color on what we should expect there?

James C. Smith - Thomson Reuters Corporation - President & CEO

Why don't I take the first on the relationship and Stephane can deal with the question on the dividend and the buybacks and how that mechanism will work. The truth is, this is a relationship and a dialogue that began about 4 years ago when I sat down with a senior Blackstone executive in London. And we were just talking about the industry, their interest, our interest. We thought the business was evolving, what we thought opportunities were going to be. They expressed an interest in staying close and keeping that dialogue alive. We had subsequent dialogues. I think clearly, as we noted in the presentation this evening, we did not believe our business was in a position to be talking about stuff like this 4 years ago, or even 3 years ago, we wanted to make certain we got a lot of things kind of fixed, we got the platform stabilized and we had a business that would be capable of realizing the value that we have today. And it would be a good partner to build upon, and that’s what we’ve been trying to do, I think, all along, whether for us or in a different kind of combination, to build a platform that we could build upon for the future. And we think we have that kind of platform. And then again, I guess in about the middle of this year, we rekindled those dialogues. One of the very, very interesting aspects of that discussion is, of course, given our devotion to the News business and our commitment to the News business, we had some specific concerns. And Blackstone was very thoughtful about how we would best address those concerns and how we would be able to maintain our commitment to the News business going forward. And I think the proposal that we’ve come up with together to provide that 30-year contract that supports our News business is indeed a novel and creative structure. And we’re very grateful to their openness to that concept and to get the resulting agreement that we were able to strike. And so it’s been a result of an ongoing, multiyear dialogue about the industry, about our desires for our business and plans for our business and their desires for the space and where the saw the opportunities in the space. Stephane?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

And, Tim, let me try to answer your other question. I apologize if I -- if you didn’t quite hear me. So yes, we intend to maintain our dividend, even though as a result of this transaction, our company is going to be roughly half its size and our free cash flow is going to be half its size. We’re going to -- we think we are able to do that through 2 key mechanisms. The first one is obviously the share buyback, and to answer your question specifically there, we would expect to implement that share buyback through a pretty large tender offer shortly after the closing of the partnership. And as I said, Woodbridge does intend to participate in that tender offer, which should hopefully, given the very high likelihood of success, this large tender offer will enable us to retire a number of our shares outstanding, which obviously is going help in terms of the dividend burden going forward. And the second step we take is we’re going to reenact our dividend reinvestment program after the close of this transaction, and we’re going to make it open both for public shareholders, of course, and also Woodbridge has committed that they would reinvest anywhere between 30% and 50% of their new dividend in shares of the company for at least 3 years.
Operator

And the next question is from Manav Patnaik from Barclays.

Manav Shiv Patnaik - Barclays PLC, Research Division - Director and Lead Research Analyst

First question is in all the scenarios you've laid out for your use of cash. I was just wondering what your net conclusion is in terms of the accretion, whether that's in year 1, 2, just some broad thoughts that you could give us there.

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

No, we've been very focused on frankly, on the EBITDA and free cash flow generation of the company more than on the earnings per share at this point in time. As I said, we got to go through like a cycle where we're going to like have to eliminate stranded costs as I said earlier, and that's going to take us, as I said, probably through 2020. So we really haven't tried to say -- to try to calculate the accretion or dilution of the transaction.

Manav Shiv Patnaik - Barclays PLC, Research Division - Director and Lead Research Analyst

Okay, fine. And then just back to the point on the $325 million annuity for Reuters. How much of that cost was already allocated into the F&R EBITDA today? In other words, what's the incremental cost you'll be taking on with that deal?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

So this $325 million more than cover the costs that is currently allocated. There is a very tiny small number, I forgot exactly what it was. It's not very big but [with that fee] it covers entirely, the allocation that used to be made from our News business to our Financial business.

Manav Shiv Patnaik - Barclays PLC, Research Division - Director and Lead Research Analyst

Okay, that's interesting. And then just maybe, Jim, one broader question. I mean, it clearly sounds like you're excited about the Blackstone partnership from a revenue perspective. You guys obviously already done a really good job on the cost side and I think as of last quarter at least, it sounded like there was still a lot more opportunity there. So I was wondering if you could just comment on if there's an accelerated opportunity there by going private. Or is this really just more on the revenue side of things?

James C. Smith - Thomson Reuters Corporation - President & CEO

Yes. I think we saw a continued opportunity to go after the cost side, and I don't think that Blackstone will disagree with the opportunity on the cost side, and they'll go after it the way they'll go after it. But for all my excitement about the financial services side and that partnership as well, I don't want to short strip the excitement that I have about our kind of Legal, Tax and Regulatory businesses as well. We spend a lot of time on this kind of part of the business because it's completely and utterly understandable. As have many of our calls or most of our calls and dialogue have been for the last 6 years, if not the last 10 years, but we're pretty excited as well about the opportunities on our Legal, Tax and Regulatory sides as well.

Operator

The next question comes from Drew McReynolds from RBC.
Just first, sorry, Stephane, just continue to be confused on the $320 million in annual revenue on Reuters News. I think in your prepared remarks, you said it was incremental to the $300 million that’s in there, and then I heard something that it isn’t incremental. But just to have certainly, can we just kind of clarify that? And then I think this was asked, but I didn’t really understand the answer. Just if it is incremental, like what overall EBITDA is this generating?

Okay, Drew. So the $325 million, and if you look at what we reported in terms of revenue from our media business, it’s the $300 million that they sell to customers other than our financial business. Going forward since our financial business is no longer consolidated, the revenues we’re going to get from our financial business is going to be reported as through external revenue, third-party revenue going forward. So they were getting that $325 million if you want to cover a portion of their cost basis earlier but we were -- in consolidation, we were removing that because if you wanted to have like, revenue for our Media business but cost for our Financial business both offset one another. Going forward with the joint venture being created in which we get a minority interest, we can have both the $300 million of existing to our non-Financial business, to our outside media customers plus that $325 million we’re going to get from this financial joint venture that we’re having. So the total revenue base for our media business now grows to $625 million, call it, which is just a little bit higher than the current cost base. So it’s not additive to EBITDA but it’s going to be additive to revenues. Does that make sense?

That does, that’s great. Thank you for that clarification. Just a follow-up here, are there any agreement here with the SpinCo, is there any kind of exit rights and can you just talk about the ability to kind of upstream some dividends? Obviously, not a priority near-term just with a debt, but anything you can talk about there?

Yes. And I think that initially, that financial joint venture, obviously the free cash flow that it will generate will be used to accelerate investment in the business, both to drive efficiencies even faster than we could have done ourselves and also to drive revenue. And so we’re not really counting or anticipating a lot of dividends coming from the joint venture in the near term. We see the value creation more in the form of an increase in the value of that enterprise in which we will benefit for a 45% ownership.

Okay. And just wondering, only because I got the question throughout the day. Just as you look at this from a board level or a Woodbridge level or a Thompson family level, given the state of the balance sheet and obviously, a very healthy cash position, was there any -- can you comment at all whether a privatization of Thomson Reuters overall has or was being considered as part of this kind of transformational event?

Well, I would just say as I always do, we certainly can’t speak for the Thompson family and/or for Woodbridge. But I would say, we never really had a conversation with them about privatization as part of this event. I think they have always been, in my experience, committed to the public flow and committed to making certain that the public shareholders were in a solid position of having a structure that benefited the public shareholders frankly, and sometimes, to their own detriment. And that’s been our long history and that’s not a serious conversation that we’ve had.
Drew McReynolds - RBC Capital Markets, LLC, Research Division - Analyst

Okay. And one last one from me, maybe for you, Stephane. We've gone through a bunch of numbers obviously on the $20 billion enterprise value and some puts and takes just at the EBITDA level. Just what kind of transaction multiple should we put down on paper here from this transaction?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Well, look, you can look at it also like you said, based on your EBITDA projections for the F&R business in 2018, right? But if you -- I would say at a high level, what can be done is look at what your projection is for the EBITDA of that business and deduct, as I said earlier, about half of the corporate center cost that we have assuming that it's about half of our business that's growing. So since our corporate center costs are about $280 million, I would say that's about $140 million. And I think you need to make an adjustment also for the trade or minority adjustments. So deduct from the EBITDA whatever portion of the trade where EBITDA is doesn't belong to us, I think Ben and Frank can help you with this. But for all calculations, you will arrive to a transaction multiple that is somewhere between 11x to 12x 2018, maybe around 11.5x or so.

Operator

And next, we go to the line of David Ridley-Lane from Bank of America.

David Emerson Ridley-Lane - BofA Merrill Lynch, Research Division - VP

Any help you could give us on free cash flow in the go forward Thomson Reuters entity, given you won't be receiving much cash flow from your 45% stake in the Financial & Risk entity?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

Sure. So look, as I said, some of the costs at our -- or transaction expenses associated with this transaction will essentially transpire both in 2018 and 2019. So our free cash flow results are going to be muddied by these expenses. And the reason is that some of that relates to actions we need to take to bring down stranded costs and tax related costs that we'll have -- some in ’18, some in ’19. We will be able to give you a much better picture, as I said, by the time of the closing and perhaps, even a little earlier. But I would say once the dust settles, we see the business that continues to have like pretty strong cash generation. But again, we're losing half of the revenue base so it's probably not too different in terms of free cash flow once the dust settles.

Operator

And next question is from Adam Shine from National Bank Financial.

Adam Shine - National Bank Financial, Inc., Research Division - MD, Head of Montreal Research and Research Analyst

I just want to circle back to some of the questions that Paul had, just regarding the corporate cost. And it might have been in the context, Stephane, regarding that $200 million specifically. So we drop down to about $140 million, no big adjustments as we pull out Media because as you clearly alluded to, a bit of a wash there. So are we jumping up an extra $200 million from the $140 million and then working that down obviously, to maybe $140 million plus $50 million context by 2020? Or was I missing something, what you said earlier to Paul?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

I think you articulated it much better than I could.
Adam Shine - National Bank Financial, Inc., Research Division - MD, Head of Montreal Research and Research Analyst

Perfect, all right. Just wanted to confirm that. And then maybe as another clarification point, just to the last question. You said earlier, we should be thinking about maybe somewhere around $1 billion or so half of free cash flow on a go-forward basis. But obviously, in the next year or 2 as you go through these additional adjustments, clearly, we're tracking arguably materially below that, at least for the next couple of years and then we're heading back towards about $1 billion or so free cash flow content, let's call it in 2020. Is that fair?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

I think that's fair. Yes.

Operator

Next question is from Anj Singh from Crédit Suisse.

Anjaneya K. Singh - Crédit Suisse AG, Research Division - Senior Analyst

One for Jim, on your expectations that the growth profile can improve here, it seems you're optimistic on the new products or innovation and the relationships Blackstone can bring. So the new products and investments required there, I can understand as a private company. But were the relationships a gating factor for organic growth under your ownership? Because it seems you're fairly well entrenched in financial services today.

James C. Smith - Thomson Reuters Corporation - President & CEO

No. I don't think they were at all a gating factor. In fact I think we've worked to build very strong relationships and the reaction that we've received from our clients today after the news broke last night has been very encouraging to that regard. I think it's -- we have a very strong relationship with our clients. I just think that Blackstone has a different kind of relationship with their clients, in that they are more of a -- our clients are more clients of theirs and they are more clients of our clients, so that may be a way of stating it. They'd have a broader, deeper relationships with our clients than we do. In most of our cases, we would be -- in our financial services clients, certainly our largest financial services clients are much bigger customers of ours than we are of theirs. And it's a more equal footing kind of a relationship with Blackstone, given their pervasive footprint across the financial services industry. And I just think that's deeper, broader relationships. I don't think we were necessarily disadvantaged. I think they are in a unique position of a handful of companies to have again, that level of deep and broad relationships in the industry. And so I would expect that they can have some dialogue that we couldn't have, and would have a lot of long-term sticking power based upon those relationships.

Anjaneya K. Singh - Crédit Suisse AG, Research Division - Senior Analyst

Understood, that's helpful. And a follow-up, one for Stephane. Related to some of the prior questions but more explicitly, any change in the capital intensity of the remaining Thomson businesses going forward versus what you have today?

Stephane Bello - Thomson Reuters Corporation - CFO and EVP

No, I don't think so. I don't foresee any major change. Again, we want to make sure we invest behind all our businesses. Jim gave you a few ideas of what we're going to go after in terms of improving our capabilities to sell digitally and try to expand in the corporate initiative, in the corporate world and so on. So we absolutely want to continue to invest in these businesses. So I would not expect any major change in the capital intensity of the business going forward, at least not in the near term.
Thanks, Anj, for that question and everyone for your questions. That will be our last question this evening. Again, we would like to thank you all for joining us on such short notice and appreciate it very much. We know that this is a complex deal and the slides will be on our website immediately following this call, so you can access that with all the details that we went through on the call. And myself and my team will be available for any follow-up questions that you have. So again, thank you.

James C. Smith - Thomson Reuters Corporation - President & CEO

Thank you.

Operator

This conference will be available for replay after 8:00 p.m. tonight and run until February 6 at midnight. To access the replay, you can dial 1 (800) 475-6701. International participants can dial (320) 365-3844. The access code is 444205. And that does conclude our conference, and you may now disconnect.