

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: MARCH 10, 2014 / 1:25PM GMT



CORPORATE PARTICIPANTS

Jim Smith *Thomson Reuters Corporation - President, CEO*

Stephane Bello *Thomson Reuters Corporation - EVP, CFO*

CONFERENCE CALL PARTICIPANTS

Paul Ginocchio *Deutsche Bank - Analyst*

PRESENTATION

Paul Ginocchio - *Deutsche Bank - Analyst*

So good morning. Welcome to West Palm Beach. I am Paul Ginocchio. I am the information and business services and education analyst. It is my great pleasure to have up here with me Jim Smith, CEO of Thomson Reuters.

We just picked up coverage of Thomson Reuters on Friday, so it is kind of fresh for us. I am just going to go right into questions for Jim. Jim, thanks for coming.

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

It's been wonderful. Thanks. Thanks for having me.

Paul Ginocchio - *Deutsche Bank - Analyst*

I know it's tough to get down in Florida in February.

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

It's just a sacrifice, yes.

Paul Ginocchio - *Deutsche Bank - Analyst*

So let's just go right into the Financial & Risk division. I know you never get questions about that division. Can we just talk about the current spending environment, the current demand environment in Financial & Risk, and how that affects your decision-making in what you are doing?

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

Sure. Well, I think most people in the room here today work in that industry, so everybody knows what the cost pressures are like. So on the one hand you know there have been better boom times and better environments, where all of us could sell anything that had a chance of making a difference.

I think folks are being a lot more selective today. So what we see is that there is a great deal more competitive pressure out there.

But by the same token, while everybody is thinking really hard about how they can control their costs, to the extent that we can be an active participant in those kinds of discussions we see lots of opportunity there.

And people are willing to consider now -- with all of our largest clients, people are willing to consider things they would never have considered a few years ago. If you think about it we're -- whether through foresight or just plain luck we've got the best solutions in the industry in some of the spaces, in some of the only spaces that are growing.

If you think about where big banks are still hiring, and they are hiring by the tens of thousands, it's around compliance, right? I mean, all the regulatory compliance and how that is reshaping the landscape plays in some ways right into our hands.

So the fact that we can help with KYC, with client onboarding, with monitoring all of the regulatory risk is a very promising area for us. And we've got a solid and fast-growing business in that space and one we are looking to scale up in a major sort of way.

Because as I say, every single one of our large clients is looking to figure out what they do, other than hiring 10,000 people a year, to throw more bodies at compliance. So that is very, very good.

Then I think particularly in emerging markets, the new players are looking for tools to help them connect in a compliant way with the global economy. And then stepping outside of pure financial services industry, if you look at the (technical difficulty) as we move more to the investment management side and start consolidating more of the old Thomson ONE products onto the Eikon platform.

Electricity. We're back.

Paul Ginocchio - *Deutsche Bank - Analyst*

Just talk about Eikon 4 and what is the feedback from the salesforce when you are going head-to-head versus the competitors. Can you talk about either win percentage, or how much it has changed, and I guess the confidence of your salesforce with the Eikon 4 going head-to-head?

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

Yes. Eikon 4 has not been in the marketplace long enough for me to give you win rates. We just kicked it off to our salesforces last month; got it fully rolled out around the world. I can tell you that when they see it they are pumped.

This is always a very awkward time of year for me, because I spend the year kicking the Europe by meeting lots of customers and going to our sales kickoffs, right? And the most enthusiastic people on the planet are the salespeople, right? It always bolsters your spirits.

But I can tell you it was just -- the spirit in our salesforce is better than it has ever been, and particularly on the Financial side. We closed pretty strong -- we had a pretty strong closing as well on the sales side in our Tax & Accounting business. And our Legal business as well closed solidly on sales; the scientific business had a good close to the year. So the momentum feels good inside the business.

I can also say that for the customers where we have been demoing Eikon 4, that really gives me reason for encouragement because they like what they see. Again those of you who come to Investor Day or tune in to Investor Day, you will get a good look at what we are talking about when we talk about a truly open environment, where we are putting our (technical difficulty)

Paul Ginocchio - *Deutsche Bank - Analyst*

What impacts -- from a simplification strategy, what impacts 2014?



Jim Smith - Thomson Reuters Corporation - President, CEO

Yes, 2014 we have got another big one that is underway right now and will come out, the IDN network, a real-time network that will come out this year, which will really simplify things inside the system. Then we will be moving -- we began the steps for this 18 months ago when we moved all the developers out of the old Thomson ONE world in under the Eikon development team, so they have been developing all those Thomson ONE apps to move on to the Eikon Elektron platform. That all will take place from midyear well into 2015, as we migrate those products on the common platform.

So a great deal of activity really for the next 18 months to two years, as we continue to move that migration over. But it's all encouraging.

Paul Ginocchio - Deutsche Bank - Analyst

But IDN is not as big as shutdown as Xtra 1000.

Jim Smith - Thomson Reuters Corporation - President, CEO

No. It's complicated spaghetti inside. But it is nothing like -- no, it is nothing like Xtra 3000.

Paul Ginocchio - Deutsche Bank - Analyst

Great. Maybe we'll move on to Legal. How much time is left, just so I -- because I think the clock stopped. I have no idea.

Jim Smith - Thomson Reuters Corporation - President, CEO

We started over twice.

Paul Ginocchio - Deutsche Bank - Analyst

Yes. So let's just talk about the demand environment for Legal services.

Jim Smith - Thomson Reuters Corporation - President, CEO

Sure.

Paul Ginocchio - Deutsche Bank - Analyst

We cover some companies that play in the legal space and it's been a tough end-market. Is there any -- you'd think with the market all-time highs and you pick up in activity, that the law profession would benefit a little bit from that. But what's happening?

Jim Smith - Thomson Reuters Corporation - President, CEO

Yes, look, I think we saw -- I was a bit disappointed to see -- we saw some improvement in demand in Q3. And again because we run the Elite time and billing system, we take all that exhaust and then have the right to use them on an anonymized basis, and then we're able to sell benchmarking services back into large law firms. So we have pretty good visibility into what's going on in demand rates and all that, and utilization, stuff like that.

In fact I was encouraged at Q3 because we saw a pretty solid pickup in demand for the first time in a long time. And then Q4 we saw that demand drop off a bit.

I think the large law firms that I am talking to today, the largest of the large are pretty bullish coming into the year. Cautiously optimistic, but relatively optimistic.

I think what we are seeing in terms of demand is we are seeing some real differentiation between the winners and the losers in the large. Because the generic demand isn't there, so at the top of the food chain the biggest Am Law 100 firms, the biggest Magic Circle firms are doing just fine, thank you. Growing quite well in many cases, and in some cases even consolidating positions.

Boutique firms in certain areas are doing well. But the middle is getting squeezed there, and that is an interesting phenomenon.

Overall though, I think it's something that plays again into something we have been building toward. When I first started in this business people said: be careful talking about productivity tools to people who bill by the hour. That was a different kind of world where we could sell a lot of product; and anything, any charges for legal research just got passed along to the end customer and everybody was fat, dumb, and happy in that ecosystem and it worked really, really well.

Well, you know what? In this kind of environment productivity tools are really important.

So luckily we have been investing behind productivity tools and workflow improvement tools for a number of years. And I think those are going to be the solid growth leaders of the future.

We are embarking upon a project this year that is underway right now about reinventing the way lawyers work in the modern world. I think things around practice area solutions, workflow solutions, more practical guides like those that were created by the Practical Law Company, which we acquired two years ago and is doing really, really well now in its first full year of integration, doing really, really well. I think that has a lot promise for content on the Legal side.

And then the software tools that we are building are all growing quite nicely. If you look at it, half our business today in the Legal space is now in those practice management software productivity tools. And I think that is just only going to continue, that that will be an ever-increasing part of our package.

Paul Ginocchio - Deutsche Bank - Analyst

[It appears] (inaudible) a couple years ago. What inning do you think you are in, in that transition? Are we still early innings?

Or do you think -- I mean 50% of your revenue now is in (inaudible) [Financial]. We are pretty well -- that strategy is pretty well developed.

Jim Smith - Thomson Reuters Corporation - President, CEO

Yes, I think the strategy is pretty well developed. As far as the Practical Law Company integration, the Practical Law Company integration has gone really, really well in the UK and Ireland particularly. We went from the number 3 player to the number 1 player in that space overnight.

And more importantly we almost did a reverse integration, because there are a lot of really, really good people in that company, and if you look at the senior management team, the majority of our UK-Ireland businesses comes from the Practical Law side. The business obviously has been led by Susan Taylor Martin, who at the beginning of this year I appointed to head the whole of the Legal business, and we have great hopes for rethinking what that means.

In the US and around the rest of the world, taking that kind of practice-based Practical Law solution mentality of developing products, that's in a very, very early innings. The fact that that has been so successful in the UK and that the early initiatives in the US are so promising with customers, not only amongst law firm practitioners but particularly amongst corporate counsel, we think there are great legs there with just looking at the relative size of the market.

We also think it is a great concept to be spreading around the world, so it has global legs as well.

Paul Ginocchio - *Deutsche Bank - Analyst*

So if you are doing a full productivity suite selling into a firm, what does the revenue look like on that versus the old model? Is it a major step-up higher? Or is it less, but more profitable?

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

Oh, I think it's a -- I think all in all what I care about is the total offtake of a law firm or a corporate customer. If you look at the profitability, there are few things -- well, I have not experienced anything as profitable as Legal Print, if you think about it.

Because all the content is there, or are you selling it online? Some people just prefer to have the books as well. So that is kind of an add-on sale; it's the incremental cost of sale and distribution and printing, which is very low.

So the new solutions are lower margin than the old core. But they are still nice healthy margins in the upper 20%. I mean all-in if you look at those, they are probably 25% to 25%-plus. Plus they are very scalable, because once you build them you can deploy them very effectively.

Additionally, the thing that -- and increasingly the way we look at the Legal business, I used to be fond of saying that the Legal business is a multi-domestic business. And that is true when it comes to content and it comes to jurisdiction. If you think about the old publishing world, it is multi-domestic really.

But if you look at the solution space, at the software space or the practice management space, those are scalable global platforms. So I think what you will see increasingly is that we will be managing our productivity solutions, our workflow management solutions, case management solutions, those are things that we can scale globally and then think domestically about how we organize content.

Paul Ginocchio - *Deutsche Bank - Analyst*

So your Tax & Accounting businesses and your scientific and IP business is growing very nicely.

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

They are doing really well.

Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Is there any way to get those bigger, make those more meaningful to the organization? Or is there anything else to --



Jim Smith - Thomson Reuters Corporation - President, CEO

Sure. I look at it and I think they're two tales but they're both pretty similar. The tailwinds that these businesses have are considerable and the opportunities are considerable.

In the tax space we have just begun to tap really global growth. That business was three years ago 95% US domestic; and now a ton of the growth is coming overseas. And we are seeing incredible opportunities to scale software solutions across the world, and in the most complex tax jurisdictions.

So we've bought a couple of companies in Brazil, because Brazil is the most complicated tax environment I've ever seen. And software that can work there can be adapted lots of other places.

So we were doing it on the corporate tax side. We're doing it on the individual tax preparation side for professional accountants preparing tax returns.

Then also in an aligned area but very, very similar and the same customer set, we are working to build out global trade flow software that helps not only the tax compliance that you have to do to move across borders, but also complying with all of the cross-border regulations and whatnot. Then if you marry that up with some of the stuff we have in our Governance, Risk & Compliance business on the financial side, we have got a team working together right now for a complete end-to-end FATCA solution.

So we are seeing a lot of convergence around workflow tools and software that build upon the underlying regulatory content that we have, and we are pretty excited about that.

On the scientific side, that business has been a consistent high-margin, mid-single-digit growth business for a long time. We got a couple of legs that are growing very, very fast, and we are encouraged by our opportunities there, particularly if we can build out more corporate channels from that underlying scientific and patent data that we have.

Paul Ginocchio - Deutsche Bank - Analyst

Great. I will ask just one more and then I will open it up to the audience if there's any questions from anyone. Could you remind us the free cash flow guidance and talk about the restructuring cash costs going through that? And then maybe how long till those fade away and we see the clean number as the reported number?

Jim Smith - Thomson Reuters Corporation - President, CEO

Sure; and I will ask Stephane to actually chime in on this and just give a very quick high-level. We think that we've got some of that that is going to continue to flow through into 2014. Everything we've seen today as far as restructuring charges we've told you about, and it's there. There's not another lurking thing there.

So our intention will be that we get through 2014 and then we're into 2015 with a clean number. Stephane, do you want to add quantification to that?

Stephane Bello - Thomson Reuters Corporation - EVP, CFO

Just to add that our revenue guidance for this year is like \$1.3 billion to \$1.5 billion; and we said that includes an estimate of about \$300 million or so restructuring charges. So we would expect most of the impact of the restructuring that we've done to hit 2014 free cash flow. There may be a little bit of a tail in 2015; but it shouldn't be that large.



Paul Ginocchio - *Deutsche Bank - Analyst*

Great. Any questions from the audience? Okay, I will keep going.

Let's go back to Finance & Risk. I guess there has been some -- I've seen emails internally, banks no longer allowing people to be in chatrooms. Can you talk about -- is there an impact on your business?

I think you also have a relationship with Markit. Can you just talk about your chat initiatives?

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

Sure. Look, I think chat is a very interesting subject right now, and it's a subject that we are engaged in discussions with each and every one of our customers. I think that we obviously have a very active networking community out there. We know who all the other players are.

Our interest around that has been to provide a secure area where the customers can control who is in there and the customers have control of the conversation. So to that regard we have always offered a secure, monitored, and bank-controlled capabilities there. And that is, if anything, even more interesting to customers today than some of the current alternatives.

I think it's going to be really interesting to see where and what emerges as the new de-facto standard. There is no question that things are going to change there, and there is no question that it's going to be more structured and it's going to be more monitored by compliance officers than it has been in the past.

I think there is a great potential for the landscape to change when it comes to messaging. And yes, we have joined with an industry consortia of several large banks, with competitors like Markit, to say: let's all just open up our address books and let's make it easier, in this day of truly open platforms and truly open social media, for all the participants in the financial industry to be able to participate with one another, regardless of where they are working and/or which information or trading device they are working across. Just connecting buyers and sellers in a more efficient way.

There seems to be a lot of interest in that, and we will see where it goes. I think there are going to be lots of alternatives out there, and the market will decide what the preferred method is. I think that.

But I do think it's going to be more open, but at the same time the banks are going to retain the ability to control particularly that real-time multithreaded chat experience. There is going to be a lot more control.

Paul Ginocchio - *Deutsche Bank - Analyst*

You just think about chat as a demand driver, as a way to keep your users engaged?

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

Yes.

Paul Ginocchio - *Deutsche Bank - Analyst*

You're at 30% EBITDA margin target for Financial & Risk for 2015. I think to get there you need a little bit of organic growth. I think that is your baseline assumption.



Jim Smith - Thomson Reuters Corporation - President, CEO

Yes. Look, our baseline, the plan we are working through calls for us to get approaching a 30% operating margin in Financial & Risk in 2015; and the current plan assumes modest revenue growth. We believe there's a lot of cost opportunity in the business as well.

So I would hope our plan plays out as our plan plays out. If we don't get some modest revenue growth, we will have to go harder on the cost side.

Paul Ginocchio - Deutsche Bank - Analyst

Okay. Than can we just talk about the volume-driven businesses, the exchange businesses in FX and fixed income? How are they going? Overall market demand?

Jim Smith - Thomson Reuters Corporation - President, CEO

Yes. It's just -- it's the demand that everyone sees. The year started off with a bang, particularly with the stuff going on with the offshore RMB as well, and the fluctuations there have been pretty dramatic.

It's the one area of the business that is just impossible to predict. It just kind of happens, right? And we are always surprised, up or down; but year in, year out, it continues to grow.

I think if you look at it, particularly on FX we had a really good share year, last year; and I think we will continue to do that. FX all continues to really, really hit the ball out of the park with the customers; that is a great thing.

I think our Tradeweb business continues to do a solid job, dependent upon just levels of activity; but I think in terms of share it's in a good position. So we feel very good about those businesses, but they are the most difficult to predict.

Paul Ginocchio - Deutsche Bank - Analyst

Right. I'm unsure of the time. What time is it? Is it 9? Okay; still got 7 minutes. Questions from the audience? Okay, I'll keep going.

Jim Smith - Thomson Reuters Corporation - President, CEO

There is one.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Do you have any sense on the Legal what percent of your business are those biggest firms that you talked about, that are doing fine; and what percent are those middle firms that are getting squeezed? So we can get an idea how to predict that business going forward.

Jim Smith - Thomson Reuters Corporation - President, CEO

Sure. If you looked at it at the aggregate, the business is about half-and-half what we call large law: half large law and half small law. The disproportionate amount of revenue would come from the larger firms, right? So it's a significant chunk of revenue that would come from the largest of the large firms.



If you think about that business, it's a very -- the strength of that business historically has been just the breadth of the customer set. There's no one individual customer in that that moves you.

And based on any given year, the largest customer of our Legal business -- outside the US federal government -- would be a large law firm that had a large software deployment going on in that given year. But all the large firms are within the ballpark of one another.

But that would be a disproportionate amount. Stephane, would you know how much the Am Law 100 would represent of large law?

Stephane Bello - Thomson Reuters Corporation - EVP, CFO

No, I don't know the exact --

Jim Smith - Thomson Reuters Corporation - President, CEO

No, I don't know that number.

Stephane Bello - Thomson Reuters Corporation - EVP, CFO

(multiple speakers) right in the US. (inaudible) roughly half and half between the (multiple speakers) law firms (inaudible).

Jim Smith - Thomson Reuters Corporation - President, CEO

Yes, so we are disproportionately tied to the largest firms. They would be our biggest revenue sources.

Paul Ginocchio - Deutsche Bank - Analyst

Okay. Maybe going back to Eikon, could you talk about -- and maybe another way to ask the question I asked earlier was Eikon 3.0. Can you talk about how that changed the dynamic particularly in head-to-head or bake-offs with clients?

Jim Smith - Thomson Reuters Corporation - President, CEO

Sure. I think all along the thing that 3.0 did is it gave us a great end-user tool. We can talk all we want to about being on the side of the angels and being the preferred choice of the purchasing managers if we can help save money by offering a cheaper solution.

But at the end of the day if the users don't want to use it, because the product isn't as good, it's still a tough sale. And frankly, even though we can put programs together for competitive displacements, you have still got to win that battle desk by desk throughout the firm.

And in a period when we had a product that wasn't anything close to what Eikon 3.0 was, that still became a really tough battle. Let me tell you, when you had Reuters Xtra 3000 sitting on their desk and the choice had to be 3 to 1 or 3 to 2, and you have got an antiquated product, your product is the one that's going.

Today, with a product that in fact -- and particularly with 4 now, but even with 3 -- we had a product that people said: man, this is modern. We had users who preferred the product in addition to the support of central management and of the purchasing officer. So it made the sale of hell of a lot easier.



And it's not just about making the sale one time. It's getting the product deployed; it's getting users on it. It's then watching that improvement in underlying customer satisfaction rates; it's watching the time spent in the product, the time spent with the [end-users] going up. That is the stuff that then drives the stickiness.

And it's the -- the most important thing is that, not in the four-year place, but the fact that someone saw the product, liked it, and we would sell an additional one on. So it really did change the competitive dynamics, because we had a really good high quality end-user tool that people actually wanted to use.

I think for those of you who haven't seen 4, particularly when you start to see 4 and you will see how we opened that up, not only to make the Eikon experience itself more customizable, but also to make the Eikon experience itself work alongside, whether you're working in Excel or Word or browsing the Web, and tying all that together into a real seamless experience -- I think that is going to be even more compelling.

So at the end of the day it's all about going to the end-user. I think one of the biggest changes for us in this professional information space is we used to focus a lot on selling to the information gatekeepers. Whether it is a legal librarian or a head of market data or something like that, and those were always the intermediaries.

The thing that has changed in technology, particularly since the advent of mobile, I think, has been that our end-users are bringing their consumer expectations into the workplace, and they expect more seamless operation. They don't expect to have to know every bell and whistle and command.

They don't expect to have to be a Boolean ninja to be able to find something in your database. They just expect stuff to work together.

And I think the fact that we are able to capitalize on that technology, and we are able to do things like just common-sense natural language search in a way that's completely intuitive, I think that is a real game-changer for us. And that changes the competitive dynamics in the marketplace, because we are actually giving the end-users tools that they would prefer to have.

Paul Ginocchio - Deutsche Bank - Analyst

Do I have time for one more? I will just ask the last one then. We have talked to our data person in charge of data at Deutsche Bank. Yourselves and Bloomberg are, I think, two-thirds of our data spend, with hundreds of other providers in that final one-third.

If DB's overall budget is going down -- based on my pay over the last few years -- then how do you navigate that? How do you get more money with less of a budget?

Jim Smith - Thomson Reuters Corporation - President, CEO

It's really simple. It's share. I mean, it's all about share.

And DB is a good example. We have plenty of opportunity to take share, and that is what we are going after.

Paul Ginocchio - Deutsche Bank - Analyst

While still saving DB money?

Jim Smith - Thomson Reuters Corporation - President, CEO

Absolutely while still saving DB money. We can save DB money by shifting a greater percentage of their spend to us.



Paul Ginocchio - Deutsche Bank - Analyst

Great. Well, we will leave it at that. Jim, thanks very much for your time.

Jim Smith - Thomson Reuters Corporation - President, CEO

Thank you.

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