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# PRELIM TRANSCRIPT

## Q3 2017 Thomson Reuters Corp Earnings Call

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## PRESENTATION

**Editor**

Please stand by for real-time text

**Operator**

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

**Frank Golden**

Good morning and thank you for joining us as we report our financial results for the third quarter of the year. Our CEO Jim Smith and our CFO Stephane Bello will review the results for the quarter in a moment. Following their presentation we will open the call for questions that we'd appreciate it if you would limit yourself to one question each to enable us to get to as many as possible. Two reminders before we get started. First 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, on the final page of today's earnings release there is a supplemental schedule that provides depreciation and amortization expense by business unit and also 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. With that I would now like to turn it over to Jim Smith to take us through the results for the third quarter.

**Jim Smith**

Well, thank you Frank and thanks to those of you on the call for joining us today. Let me begin by saying that we are pleased with our overall profit and earnings per share performance in the quarter. Our results clearly demonstrate that our transformation initiatives continue to deliver significant inefficiencies and savings. Resulting in an EBITDA margin above 30% for the third consecutive quarter. And adjusted EPS of $0.68, the highest ever recorded by our Company. That said, overall revenue growth was lower than we expected but as we said before turnaround stories don't always follow straight line up. Most promising growth initiatives continued to perform well but other parts of the business underperformed expectations. With that in mind me assure you that we are committed to driving a growth initiatives forward and we continue to invest in key product improvements and in customer service. Overall, the business continues to move in the right direction just not as fast as we had expected. In addition, transformation program continue to make good progress and are delivering greater operating leverage. This improved leverage is expected to continue to generate bottom-line growth in the near to medium term and provide the added fuel we need to accelerate top-line growth in the future. We believe the additional savings from our transformation initiatives can find this increment investment while at the same time delivering both record EBITDA margin and adjusted EPS for the full year 2017 with further improvements expected in 2018. Now, turning to our third quarter results revenues were up 2% on a reported basis and were up 1% in constant currency. The revenue performance as well as additional savings from our simple petition initiatives led to a 70 basis point improvement in the EBITDA margin. Currency had no impact on the margin improvement. This along with some timing factors which favorably impacted our tax rate resulted in adjusted EPS of $0.68, a 26% increase in the quarter and a 30% increase for the nine-month period both as compared to prior year. Now let me turn to the results for the quarter by business. Q3 revenues for Legal and Tax came in as expected but the Financial business was below our expectation. Financial revenues decreased 1% with the Americas and Asia positive and EMEA down 1%. Growth in the quarter was driven by a 5% increase in the Elektron Data Platform and Risk revenues and a 7% increase in transactions revenues partly offset by a 4% decline in both Desktops and Recoveries. Now as pertains to sales, Financial did achieve positive net sales for the quarter but the performance was below our expectations. This weaker than expected net sales performance combined with longer lead times for these sales to convert into revenues put strain on our recurring revenue performance during the quarter. Now, we do expect revenue growth to improve year over year in our Financial business and 2017 and in 2018 but the extent of the improvement will depend on our net sales performance in Q4. Stephane will elaborate on Financial's revenue performance in a moment. Turning to Legal revenues grew 1% is recurring revenues which represent about three quarters of Legal's revenue base grew 3% partly offset by declines in US Print and in Transactions and finally Tax & Accounting continued his strong performance growing 5% in the quarter and was up 6% year to date. Now let me conclude by expectations for the balance of the year and provide some initial thoughts on 2018. First based on our year-to-date performance we now expect adjusted EPS for 2017 to be at the top end of the range that we provided last quarter. This represents a $0.10 increase to EPS compared with our initial guidance in February and in 18% improvement over last year. This demonstrates our ability to continue to take cost out of the business. As I said last quarter, more progress on that front the more opportunities we see. Now achieving greater efficiencies and additional savings are critical to the health of the business but generating higher revenue growth is essential for our long-term success and that's why we are continuing to invest behind a key initiatives and in our high-growth businesses. We believe that this incremental investment can contribute to year over year improvement in revenue growth and that further savings from a simplification program can drive attractive EPS and free cash flow growth in 2018 even if the trajectory of improvement in our revenue growth rate is not as steep as we had previously anticipated. So to conclude we still have work to do. We aren't satisfied with our top-line growth and we are addressing these issues by controlling everything that is within our control. Now let me turn it over to Stephane who will discuss our results in more detail.

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**Stephane Bello**

Thank you, Jim. Before discussing the results I would like to remind you that I will quote the revenue growth at constant currency as we always do because we believe this is the most appropriate way to judge our performance. So on that basis third-quarter revenues grew 1% with Financial & Risk and Legal both up 1% and Tax & Accounting up 5%. Adjusted EBITDA grew 4% with a margin increasing 70 basis points 30.4%. This was primarily driven by better operating performance in each business offset by higher corporate cost where we made investments in our customer experience transformation program as Jim mentioned earlier. Currency had no impact on the quarter sorry currency had no impact on the year over year margin improvement during the quarter. I will now provide some additional color on the performance of our individual segment starting with Legal. Overall Legal revenues were up 1% during the third quarter. Recurring revenues which make up about three quarters of the total were up 3% and this was the ninth consecutive quarter of recurring revenue growth rate of at least 3%. Transactions about 11% of the total were down 8% and the U.S. Print which makes up the balance was down 7%. From a margin perspective, Legal's revenue growth and continued effective expense management led to an 80 basis points margin improvement versus the prior year period topping 40% and this was a strong performance given the tough prior-year comparison. Here is a more detailed look at the revenue performance of the main subsegment in our Legal business during the third quarter. U.S. Online Legal Information which contributed 42% of total revenues was up 3%. Similar to what we saw last quarter, this was a function of favorable rounding and we continue to expect that the segment will grow about 2% for the year. These Solutions Businesses made up about 45% of revenues and grew 1%. Recurring revenues in that segment which comprise about 80% of the total increased 4%. And by contrast, Transactions continue to be a drag and were down 9%. Again this was predominantly driven by lower revenues from our Legal Managed Services is is and but the climbing print revenues in Latin America. And finally U.S. Print comprised 13% of total revenue and was down 7%. Looking ahead we continue to expect revenue growth for Legal for the full year to be in line with what we see for the first nine months of the year. Now turning toward tax and accounting business, third-quarter revenues grew 5%. Recurring revenues represented 87% of the total and were up 2%. Lower than usual performance was driven by a number of small factors mostly timing related as we have often said in the past for Tax & Accounting business results by quarter can fluctuate and therefore it is better to look at the performance for the full year. Transactions revenues 13% of the total increase 33% and the strong performance was in part driven by an adjustment to revenues in the Government which was less than the prior year which made for an easier year over year comparison. Moving on to profitability, EBITDA was up 9% with a margin up 100 basis points versus the prior year to 27.9%. At constant currency the margin was up 70 basis points. Now looking at Tax & Accounting's results by segment you can see on the slide that our Professional and Corporate businesses delivered another strong quarter posting revenue growth of 7% in a% respectively. Knowledge Solutions was down 2% and finally the Government segments are revenue increase by $3 million with this increase versus the prior year period resulting primarily from the negative adjustment that we made last year. Now turning to our Financial & Risk business, third-quarter revenues were up 1%. As Jim pointed out this was below our expectations due to several factors. First our net sales performance while positive was lower than expected. The me give you a bit more color on this point. Overall, we did see a slowdown in gross sales during the third quarter primarily in Europe and Asia while the sales pipeline remains relatively healthy we are not closing on sales opportunities as quickly as expected. Second, cancellations across F&R were actually at their lowest level since the first quarter of 2016 which was in part driven by the end of the product migration for (inaudible) segment. However, this expected improvement was partly offset by higher level of Desktop cancellations on the sell side particularly in Europe and Asia. Second, we are also seeing longer lead times between sales and revenue recognition due to a combination of longer free of charge period and changing sales mix. Simply put, Risk and Feeds products take longer to install so in essence the Desktop cancellations came through immediately where as the new installs are taking longer. Away from recurring revenues Transactions growth although good was also below our expectations due to lower trading volumes that affected afflicted large banks in the third quarter. For perspective, while Transactions were 7% overall 5% of that came from acquisitions and only 2% was organic. Importantly, our Financial business continues to drive efficiencies and solid margin improvement. During the third quarter EBITDA increased 8%, $495 million resulting in a margin of 32.1% which was up 180 basis points from a year ago. This performance was primarily driven by the actions we took in the fourth quarter of last year. Currency had a 30 basis points favorable impact on the margin and as such EBITDA market was up 150 basis points from the prior year at constant currency. If you look at the Financial & Risk revenue and a bit more detail, you can see on the slide that Desktop related revenues represented 37% of the total and declined 4% during the third quarter. The balance of recurring revenue is comprised of Elektron Data Platform which we used to refer to as our Feeds business and Risk which an aggregator 40% of the total and grew 5%. That was a good performance below the 9% Ruth rate base on the prior period which obesity may for a tough year on your comparison. Recoveries made up 8% of the total and were down 4%. And finally Transactions 15% of the total were up 7% in the quarter where growth was driven by acquisitions and by a strong performance from Tradeweb. Foreign exchange transaction revenues were down versus the prior year driven by low volumes during most of the quarter. Now let me update you on our readings per share in free cash flow performance. I will start with our third-quarter earnings per share. Adjusted EPS increased $0.14 to $0.68 per share which was a 26% increase. Now about half of that increase versus last year was driven by a combination of better operating performance from higher EBITDA and lower depreciation and software amortization and by our share buyback program. The remainder of the increase was driven by two items income taxes benefited from the release of certain reserves related to favorable developments in various income tax (inaudible). This is a timing issue as we expect our tax rate to be negatively impacted by a number of offsetting factors during the fourth quarter. In fact we expect our effective tax rate for the fourth quarter to be somewhere between 18% and 20%. This will mean that our full-year tax rate will likely come in at the lower end of our 10% to 30% guidance range. Also interest expense was $10 million lower than it otherwise would have been in the third quarter primarily due to the reversal of interest expense previously accrued on the tax reserves that were released. This will not recur in the fourth quarter and therefore we do expect higher interest expense of Q4 than what we have seen in the prior three quarters. We do expect the full-year interest expense lower end of the range that we gave earlier at about $400 million. Currency had a $0.01 positive impact on EPS in the quarter and for the nine-month period. And finally let me add that during the first nine months of the year we repurchased 18.5 million shares at a cost of $808 million leaving a little under $200 million capacity within our current share buyback program. Now this next slide reflects our free cash flow performance. Given that there are several items impinging on free cash flow in 2017 I will focus on our performance over the first nine months of the year. So working from the bottom of the page upwards, you can see that our reported free cash flow was $526 million after three quarters versus $1.3 billion last year. The prior year period benefited from the inclusion of our IP & Science business which we sold last October and the year over year variants related to this disposal was about $200 million. In addition, as we have referred to in prior skulls, there are two other significant factors impacting free cash flow in 2017. First we made a $500 million pension contribution in the first quarter and second we have paid $137 million related to the severance charges that we took in the fourth quarter of 2016. So the aggregate impact of these three factors I just described was about $840 million negative. If you exclude these items are free cash flow in a comparable basis would have been $1.2 billion in the first nine months of 2017 versus $1.1 billion last year which represents an 8% improvement driven primarily by better operating performance. On a comparable basis for the quarter, free cash flow was up 3% versus the prior year. And for the full year, we continue to expect free cash flow to range somewhere between $900 million and $1.2 billion and since the pension contribution and the cash impact of the charger clearly temporary we do expect to return to a stronger free cash flow performance in 2018. Now let me conclude with a metric that I know most of you on this call follow closely return on invested capital. In addition to the progress we've made over the past several years increasing profitability earnings per share we have also made solid progress on improving our ROIC. As you can see on this slide in 2016 excluding charges are ROIC was in line with our weighted average cost of capital of 7.4%. The current estimate for 2017 is that ROIC will end up somewhere between 7.5% and 8% exceeding our weighted cost of capital for the first time since the Reuters acquisition. This would represent an improvement of about 250 basis points over the past four years resulting from the improved profitability of the business and from the more effective and efficient use of our capital base. With that let me now turn it back over to Frank so that we can take some of your questions.

**Frank Golden**

Thanks very much Stephane and Jim and that concludes our formal remarks and we would like to open the call now for questions, operator. So the first question please.

## QUESTIONS AND ANSWERS

**Operator**

Ato Garrett. Please go ahead.

**Ato Garrett**

Hi, good morning guys. Just want to focus on the Financial & Risk on some of the trends you highlighted there a couple to go through the factors underscoring the revenue performance in the quarter but just as we think about the Elektron and Risk business going forward you mentioned some of the longer sales times that are impacting the business. Can you just help us frame out how we could think about that business going from here and in 2018 given those factors?

**Stephane Bello**

Yes, hello, it's Stephane. Thank you for your question. What we have seen in the quarter and we can elaborate on that little bit is a general slowdown in closing deals and we can come back on the factors that led that and we saw that on a pretty broad basis of both on the Desktop and on the Risk and Feeds piece of the Elektron Data Platform business. And we think this is primarily related to the upcoming regulatory changes that we can see over the coming months. As you look at our that portion of our revenue base F&R's revenue base I think I've said in the past that we would expect that business to continue to experience good growth characteristics and I would characterize the growth at mid-single digit, 8%, 9% given the size of this business is probably not something that we can sustain every quarter there's going to be better quarters and worse quarters but on an ongoing basis we see that business going in single-digit given the dynamics and the underlying trend that we are seeing there.

**Ato Garrett**

Great, thanks, guys.

**Operator**

Paul Steep.

**Paul Steep**

Great, thanks. Could you talk maybe a little bit more about what you've seen out of MiFID? Do you think the slowdown is a temporary effect or do you think there's maybe more of a structural change going on just in terms of buying behavior anything on that front? And then a follow-up on Stephane. Can you just give us a little more commentary around the sustainability of the 40% margin in Legal? Thanks.

**Jim Smith**

Thanks, Paul. Jim here. I will take the first part of that in Stephane can specifically respond to the latter question. We think long-term MiFID is a plus for us and it's a positive for us. We do believe that short-term it's putting some lack of clarity in some indecision in the pipeline and it slowed deal decisions in the third quarter and if I could step back for just a moment I think there are a couple of factors there. If I look at the third quarter what I see is really a tale of two cities or perhaps more importantly a tale of two continents. As Stephane I think accurately described earlier, if you look at our growth initiatives, they grew nicely as we thought they would grow. If you look in the areas where we expected headwinds to lessen they did indeed lessen as we completed the migration from the old Thomson ONE products through asset management onto Eikon those headwinds lessened in the trends improved. If you look at the pricing actions that we got on our foreign exchange terminals from last year those headwinds lessened. If you look in the Americas in fact the Americas overall performed quite solidly for the quarter as they have all year but if you go to the UK and Europe you see a different picture and we saw some unexpected softness around gross sales particularly in Europe. While we did see an improvement in retention overall we saw softness in gross sales and if you look at 75% of the miss in our gross sales number came from Europe. I think that's two factors in one of those falls right to your question is MiFID and if you think about our clients they are solely focused on what they have to do on what final regulations are actually going to look like and what the implementations of schedules will be on what the enforcement environment is going to be. So there is little room for any dialogue right now that isn't around MiFID II and folks are waiting to make final decisions around MiFID II. And Stephane also alluded in addition to that if I look at the slowing pipeline we enter with a strong pipeline we exited with an even stronger pipeline. But one of the issues was that Stephane alluded to earlier the Feeds and the Risk sales are longer lead time with a longer lead time to close the deal and it's a longer lead time from the time we actually close the deal to when we recognize revenue. So I think all of those factors came into play. If I think about MiFID II I think it's a long-term plus for us. I think it is a near-term governor on decision-making until there is more clarity on what the implementations schedule is going to look like as to how long that lasts, Paul, I don't think it's a one quarter phenomenon. I think we are going to see MiFID rollout over a multi-quarter. Call and we will just have to see until we have more clarity about what that looks like.

**Stephane Bello**

And regarding your second question I think that the margin that we saw for our Legal business during the quarter was pretty exceptional. It was a pretty exceptional level. What we have said in the past is that we are starting to do in our Legal business is keep margins relatively flat where we are making the transition from businesses that are slow growth very high margin to high-growth businesses where the margin is still in the process of improving. So looking forward I would not expect us to deliver 40% margin. I think we will be pretty pleased if we can see the margins pretty steady in that business. I will add that as you look at the period between now and the end of the year we will make some investments in our Legal business both in new products that you are going to see come out next year and also to drive efficiency through the business as we always do.

**Operator**

Andrew Steinerman.

**New Speaker**

Hi, this is Michael calling in for Andrew. I just want to ask one more on the F&R segment trends. Just one on particularly around the sell side cancellations in Europe and Asia that you noted. Are these like you said more MiFID related permanent headcount reductions or do you get a sense it's more driven by competition? And then just one follow-up you mentioned that you talked about the near-term puts and takes from MiFID but from the longer term so why do you think MiFID II is a long-term positive for Thomson?

**Jim Smith**

Well, first if I think about what's happening on the Desktop side we think that's not competitive losses but rather just a general cost reduction continued cost reduction efforts at European banks and again I say not competitive losses. And when it comes to MiFID I think one, the bar has been raised for supplying MiFID compliant solutions in the market data space. I think everything around the transparency requirements are going to require more market data and increase the demand and they are going to have to be presented in a compliant way. We have released some special product enhancements and indeed some special products that help our clients to be compliant. So we think that we are very well positioned to benefit from the increasing focus on transparency and the increasing need to make sure all the market data is supplied in a transparent and compliant fashion. So we feel pretty good about that long-term.

**Operator**

Vince Valentini.

**Vince Valentini**

Thanks very much. Two things and apologies still on the same topic but I think just the most important thing today guys. The outlook you are giving certainly suggest correct me if I am wrong that we should not expect a bounce back in the organic revenue for F&R enqueue for these temporary issues and delays and purchase decisions as well as installation probably not a one quarter thing. Is that the right way to think about what you are saying?

**Jim Smith**

I think that's accurate, Vince. Look, again I just want to frame it with what we expected. We said we expected growth this year to be better than last year but we still do. We've said that we expect to be better than 2017; we still do. The trajectory of that is I think what's in question and what will be determined by what the level of net sales are going to be in Q4 because that will determine the rate at which we go into 2018. Trendlines are moving right direction. The question is pace and again until there is some more clarity around MiFID II and frankly there is some other uncertainty when you look at Europe like GDPR like Brexit that are factoring into the dialogues and I don't think that uncertainty is going to clear up in the next 90 days.

**Vince Valentini**

Great. And on MiFID II I fully get the long-term it seems like your businesses are well-positioned especially the Risk and Compliance software and services you have to help these banks become compliant with all these new regulations but I don't get one thing if they have to be compliant as of January 1 shouldn't they already be implementing your software and services to be ready so they would be in full trial mode already in beta testing to make sure they are compliant a one so it seems to me that they haven't bought the systems yet. Is it a second-order effect that you are expecting the once they get into it they are going to realize oh, crap, we don't have the proper internal systems we tried to do it on our own and it didn't work and now we need to look to outsource it to somebody like Thomson Reuters who has got expertise? Is that what you are hoping will happen?

**Jim Smith**

No, I think what's happening Vince and what we are hearing all across the entire ecosystem that's feeding MiFID II is that there are lots of players that just aren't ready yet to be compliant and the regulators know that. And the regulators are trying to decide which bits are going to be enforced early and what enforcement schedule is going to look like because if you just look at the sheer amount of work that has to happen to make it work all the new venues that have to be onboarded a lot of opaque markets that have to be opened up to provide visibility into pricing. It's frankly going to be impossible for everyone to be completely MiFID compliant in January. So what we are hearing is it will be a rolling schedule of implementation and that schedule is not clear yet.

**Vince Valentini**

That's very helpful clarification. Thank you.

**Operator**

Anj Singh.

**New Speaker**

Hi, good morning, thanks for take my question. A question for Stephane. Could you talk a bit about your margin guidance range which was maintained in light of the strong year-to-date performance that you guys have shown it seems to imply 4Q margins could be flattish year over year but potentially down so am I looking at that correctly and I know you reference some investments in Legal so is this outlook driven by just new product investments is it just some conservatism or any other factors you could call out?

**Stephane Bello**

Sure, thank you for the question. We look at margins and as you know we don't really manage the business for a given quarter we really manage the business in terms of the trajectory of the long-term and we look at streams on year on year improvement. As we look at the fourth quarter so we are not ready to (inaudible) what the fourth quarter we do intend to make somatic investment in the fourth quarter and the investments will go into new products and as we are trying to accelerate and they will also go through some very specific programs to improve customer experience and we have a number of initiatives that we have launched and we will fund them in the fourth quarter. And make sure we do that within the guidance that we have given. I would say within the improved guidance for EPS that we have given. So as a result of that it may well be that the margin in the fourth quarter is not what we would traditionally be expecting for the fourth quarter but as I say we are not really worried about that because we know exactly where we are spending that money and it's to very, very specific investments program which we hope are going to help us drive further growth going forward which is for very obviously around the call what we are very, very focused about almost obsessed about at this point in time.

**New Speaker**

Okay, got it. That makes sense. Thank you.

**Operator**

Manav Patnaik.

**New Speaker**

Hi, this is actually great calling on for Manav. Just wondering if the growth for Elektron and Risk is more in the mid-single digit range than the high single digit range where do you think you need to get the Desktop business to to get the acceleration that you are looking for and then just maybe a little bit more color on the longer lead times in Elektron and Risk from it failed to installation and what's are some of the moving pieces there? Thanks.

**Stephane Bello**

Sure. So on your first question we need growth in the Desktop to improve from where it is today and two things need to happen for that. One we need to have a lower cancellation rate and let me step back and give a little bit more color on our net sales that we usually do because obviously it such a big issue on this quarter. As we said, we've seen net sales positive in the quarter but below our expectations. Where we were expecting essentially the ability to maintain same level of gross sales as we had seen prior quarters that did not happen for the reasons that Jim explained we did expect to see a nice improvement in cancellations. Actually we did see that. Our cancellation levels were at the best levels so (inaudible) that we've seen since Q1 of 2016 and that was a performance that we were counting on and it was very much driven by essentially much better performance on the Desktop buy side following the end of the migration in the second quarter. The only area where we saw some weakness was sell side and Desktop sales to the sell side. And that's within very much driven by continuing focus from our sell side client on bringing the cost basis down. Overall, we would need the Desktop growth rate to improve where it is today minus, 4 also get closer to breakeven. That is really where we are what we want to see and what we hope to see and that would be a combination of continuing improvement in the cancellation rate and hopefully no more reduction in gross sales. We have to see how this gross sales performance does improve in our Desktop -- developing in Q4 and beyond. So that's the answer to your first question. In the second question to ask I think was about the time it takes to install the products, the time between sales and installation. And I would say there are really honestly two factors here that we are dealing with. One is the change in mix as I said in his dimension when you sell a Desktop you get it sold particularly within like two hours to two days ago was very fast. When you sell a Risk or a Feeds product the installation times are longer and so that tends to expand the time between the time you book a net sales and the time you start booking revenue on the sales. The other factor to be completely honest is that we are extending longer free of charge periods on some new sales in some very few particular instances and so we are trying to be very disciplined about this of course but we have seen a slight increase of that during the quarter.

**Operator**

Peter Appert.

**Peter Appert**

Thank you, good morning. So you are coming up on the anniversary of the fourth-quarter restructuring actions and I'm just wondering if more restructuring is going to be required to continue to sustain margin improvement. Basically have you used up the benefit of the savings from the previous actions?

**Stephane Bello**

Well Peter as Jim always says we really try to implement these transformation initiatives in the least possible disruptive way or disruptive way and we try to do that as much as we can in the run rate of the business and in fact that's what we done over the last four years. We have taken some actions particularly on the real estate front where we have shut down a number of sites that we had closed offices and took some (inaudible) leases as a result. We have been able to ride the attrition curve as much as we could but in some cases in some pockets of the organization we had to take some actions. But we have managed to do that very much in the run rate of the business as we could. We always said if we see an opportunity to accelerate that and do something more meaningful we will but right now there's not much in the plan to do that.

**New Speaker**

May be code I just rephrase it a little bit? In the context obviously soft revenue performance just confidence level in the sustainability and margin improvement next year?

**Jim Smith**

I can answer that one it is still high. As again as I said on the last quirkily call and repeated in my remarks today the further we go with our transformation the more we achieve the more opportunities we see and we still have areas that we haven't touched yet where we think is great opportunity for increased efficiency but also effectiveness as we continue to move to digitize the business further and so I've said before we are late early innings or early middle innings and that's kind of still where we are in the transformation program. And again just for context I think you have to remember this is a corporation that was managed in a very decentralized fashion and was built with hundreds of acquisitions over decades and we are beginning to get that together. We went after the most promising platform investments that we could make early on but there's still plenty of opportunity for us to continue to work on our effectiveness and our efficiency. And that should do both things. That should allow stick at the bottom line going in the foreseeable future here and also generate the kind of savings that we need to give us investment dollars to try to hit the top line we need even faster.

**Operator**

Toni Kaplan.

**Toni Kaplan**

Hi, good morning. As a result of MiFID I guess one indirect outcome that's been discussed is potential for industry consolidation in the asset management industry. Could you give us an update on what impacts you typically see when two of your F&R clients merge and this is somewhat this is my second question since everyone is asking two your margins were really great this quarter and I just want to know like basically if a part of this is headcount related basically how would you expect it to impact future growth? Thanks.

**Stephane Bello**

I'm sorry, can you repeat the last question? Thank you. On the margin expansion related growth

**Toni Kaplan**

No, sorry. Basically if you are cutting heads can that impact future growth as well or is it really just automation?

**Stephane Bello**

I think it's more the latter. It's more being more effective to eat if you look at our headcount it remains pretty steady since the beginning of the year. We try to push growth by redeploying resource where they are more useful and really using the attrition rate by reducing headcount where we feel there is room to do so but deploying resources in areas where we needed resources. So I don't think that the actions that we are taking are actually -- better helping the margins are negatively impacting the growth rate we achieve. We pay very close attention to make sure that that is not the case. And Jim do you want to take the first question?

**Jim Smith**

Happy to. Look, consolidation usually results in a decision process and to the extent consolidation reduces headcount then that generally means some Desktops will go if you have two folks who are are taking our Desktops and they take headcount down that will have an impact on Desktops. There is no question about that. Consolidation also though may mean that two different providers are coming together and then there will be a bake-off. So there is opportunity from time to time as well. So I think it just depends upon who consolidates.

**Operator**

David Ridley Lane.

**David Chu**

Hi, this is David Chu for Ridley Lane. So can you help quantify the difference in net sales levels versus the second quarter I ask because desktop revenue was down 100 basis points but it sounds like the net differences were more meaningful.

**Stephane Bello**

I would just say that the net sales were below the level we saw in the second quarter and below what we saw in Q3 of last year. They were still positive so that's about the range that I would give at this stage.

**David Chu**

And then how are you thinking about pricing for Eikon and Elektron as we head into 2018 and can you remind us when you institute price increases?

**Stephane Bello**

We do that at the beginning of each year. And to be honest with you it's too soon for me to say what the number will be exactly but I would expect it's going to be very much in line with what we have done in prior year which is a price increase in line with the inflation rate pretty much.

**David Chu**

Okay. So should we expect these longer free periods to continue at least to start in 2018?

**Stephane Bello**

Again I don't want to make too big of a deal. This is not the majority of our sales these are very, very distinct cases that are the exception more than the rule and we do that with a very, very small number of customers in very, very specific circumstances. So we will do everything we can to make sure that obviously we contain that as much as we can.

**Operator**

Tim Casey.

**Tim Casey**

Thanks, sticking with the top line story, is there anything we should think about in terms of tax accounting back that you are expecting? And know it's lumpy quarter to quarter but maybe just a bit of color on that business and on F&R you've talked recently about cross-selling and removing some of the friction points with customers in terms of invoicing just an update on how those initiatives are going.

**Jim Smith**

I am happy to take this. Stephane please jump in and clarify. The Tax & Accounting business continues to one, perform well and show great promise and it's doing it across all fronts. The corporate channel is particularly interesting and exciting right now. We think this great growth opportunity there. The Professional segment what we sell medium and small accounting firms continues to perform well. So we think that is a high single digit growth business for us depending on what you think is high, mid- to high but when depending upon -- in a given year and how many tax changes there on that sort of stuff then it's been very solid business for us and we think it should continue to be a solid well into the future.

**Stephane Bello**

All right, great. So I wouldn't take too much -- we are not too concerned by one quarter performance especially the subscription revenue growth rate in the quarter as we say we are one quarter doesn't set a trend in that business and we continue to see good long-term financial as Jim said in the overall business. With your other question in terms of eliminate friction points for the customer business there are a number of initiatives under the customer experience transformation program we are trying to implement a number we actually ours doing some exciting things into pilot initiatives in our small law business and in our tax business here in Canada where we are trying to have like an end to end digital solution which we have never had where we would essentially enable our customers to be able to do everything from (inaudible) the product trying to product ordering it to everything digitally without having the need to have any human contact. We are trying to bring together various solutions we have across each of our businesses and how they manage their accounts and how they are going to be even in our Financial & Risk where large accounts will be able to make changes online themselves without having to go through the sales rep, trying to give the experience of if you go to our website is kind of like right now still very dispersed number of different websites in terms of front door if you want from a customer perspective trying to rationalize that, trying to really look at how better aligning our sales resources to the highest growth opportunities and really following a very disciplined approach that we have done in one business successfully that we are trying to evolve in other businesses. So there are probably 10 initiatives that we are pursuing each with very rigorous plans behind them specific funding and budget and timeline behind them as we are in the process of implementing and that will ramp up in the fourth quarter.

**Jim Smith**

And if I could just add a little bit of color to that this has been our big theme to our management conferences and sales conferences this year was all about transforming the customer experience and taking that kind of rigor that we had in the transformation program including behind those initiatives that Stephane has just outlined and we have engaged third-party research to measure how does the whole goal of this is to make it easier to do business with us for our clients to do business with us. And the third-party research that we have been doing with clients on that do show an improvement in our performance and their rating of how it is to do business with us. So one has to hope that that transfers into and maybe already is part of the increased retention rates but certainly that transfers into customer satisfaction and greater retention rates. And that's what it's all about.

**Frank Golden**

Operator, we like to take one final question.

**Operator**

Drew McReynolds.

**Drew McReynolds**

Yes, thanks for a much. Just back to the key topic here. So Jim and Stephane you have commented with pretty good granularity on the F&R front on the revenue side. So just to clarify in terms of the overall operating environment if you essentially strip MiFID out, you are not seeing any particular change to the recent quarters? In the second question just on the M&A front clearly we are going through or you are going through a slower growth period ramp up here them which would've thought into 2018. Is there any appetite here with pretty good balance sheet to accelerate growth through acquisition or are you still sticking to that focus on organic growth? Thank you.

**Jim Smith**

There is not a material change of sudden change in the competitive environment or in the market environment. I think it is a steady continuation of the trends that we have seen and if anything I think we are more competitive than we have ever been and that prompts some more competitive responses from other competitors in the market. But I think our position continues to strengthen and outside this unexpected and a delay in the pipeline we haven't seen material changes in the market so that is not some kind of seachange that we weren't expecting. As far as M&A goes low, we have dramatically shut down M&A for the last few years. You will have noticed we have made a few more acquisitions in the last few quarters then we have made. They tend to be smaller and tactical. As we build out a platform that's better able to integrate things we'll continue to look for opportunities to support our strategy to give us a stronger positions in the growth areas that we are driving for organically right now. But we don't have any intention of radically changing what we are doing on the M&A front always keeping our eyes open for really good opportunity but we want to make certain that we are using M&A in support of a strategy not as a strategy.

**Frank Golden**

So that will be our final question and we would like to thank you all for joining us for our third-quarter results.

**Operator**

Ladies and gentlemen, this conference will be available for replay starting today at 10:30 a.m. and going through November 8 at midnight. You may access the AT&T Teleconference Replay system at any time by dialing 1-800-475-6701 and entering the access code 430323. For international participants in number to call is 320-365-3844. Again those numbers are 1-800-475-6701 and 320-365-3844. In the access code is 430323. That does conclude your conference for today. Thank you for using AT&T executive teleconference service and you may now disconnect.