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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Thomson Reuters Second Quarter Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Mr. Frank Golden, Senior Vice President of Investor Relations. Please go ahead.

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

Thanks, and good morning. And thank you all for joining us today. Our CEO, Jim Smith; and our CFO, Stephane Bello, will review the results for the second quarter and the half year and will update you on our outlook for the balance of this year. And then Jim will close with a discussion of the acquisition of Refinitiv by the London Stock Exchange Group that was announced earlier this morning. (Operator Instructions)

As a reminder, we do not control Refinitiv as we own 45% of the partnership. We account for our ownership interest as an equity method investment on our income statement. And I'll remind you that Refinitiv is not included in our adjusted earnings or in adjusted earnings per share.

Now 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.

Now today's presentation does contain 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.

Let me now turn it over to Jim Smith.

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

Thank you, Frank, and thanks to all of you for joining us today. The second quarter was another eventful period for our organization and one that was marked by a number of significant steps forward in the execution of our strategy.

Operating performance came in a bit ahead of our expectations. We launched new AI-powered products that we developed in-house, and we completed 2 acquisitions that will help us fulfill our ambition of building world-class platforms to help our customers work more effectively.

Additionally, the merger of our former market data and trading assets with the London Stock Exchange Group will create even more value for our shareholders in the coming years. I will provide more detail on this transaction at the end of our formal remarks.

But first, let me expand a bit on our Q2 results. Reported revenues were up 9% in the quarter, which included the quarterly payment from Refinitiv to Reuters News. Revenues at constant currency were up 10%. More importantly, our organic revenues grew 4% in the second quarter, which represented our highest reported organic growth rate since 2008. That solid organic revenue growth performance was driven both by recurring revenues, which were up 5%, and by transaction revenues, which were up 2%.

Adjusted EBITDA was $355 million, up 2% due to the benefit of currency. Pre-currency adjusted EBITDA was unchanged from the prior period, that despite much higher onetime costs.

On an underlying basis, the adjusted EBITDA margin was 31.2% for the quarter benefiting somewhat from favorable timing of expenses. We do expect the margin to be a bit weaker in the third quarter due to timing of expenses and other factors, which Stephane will speak to in a moment.

And finally, adjusted EPS was up $0.12 to $0.29 per share versus $0.17 per share a year ago. Our Legal, Corporate and Tax & Accounting segments was comprised about 80% of our revenues lead the way with strong organic revenue growth of 5%. The recurring revenues for these 3 segments, which make up about 88% of total revenues, grew a healthy 6%. We continue to expect strong performance for these 3 segments for the full year. And as you've seen, this is where we've been targeting our inorganic investments as well.

Reuters News revenues were up over 100% including the quarterly payment from Refinitiv. With organic revenues up 2%, you will recall that Reuters News revenue growth rates will be distorted this year until the fourth quarter, at which time, we will lap the first quarterly payment that was made in the fourth quarter of 2018.

Global Print continues to outperform our expectations by successfully slowing the rate of decline. Organic revenues declined 3% and made up 12% of total revenues. Since consolidating all of our Global Print businesses under one management team last year, that team has done a terrific job driving new sales, developing new commercial offerings and increasing retention. And the team also continues to find ways to operate more efficiently as evidenced by the EBITDA margin exceeding 44% for the quarter, an increase from last year. For the full year, we now forecast the Print revenues will decline mid-single digits.

So we're encouraged by our first half results, and we expect to deliver solid performance in the second half of the year as well. As we look to 2020 and beyond, we're working to build a faster growing business based on a sustainable, recurring revenue model that should drive consistent margin improvement and steady growth in free cash flow per share. We believe we're on a path to achieve that aspiration by executing on 3 key objectives.

First, we are focusing on the fundamentals in order to deliver on our 2019 and 2020 targets. Our first half results indicate that we're making good progress, but that we have more to do as we work to achieve our targets for this year and next.

Second, we're continuing to build on our strengths as a market leader. The strong positions we hold in our markets provide us with an opportunity to better understand and meet to challenges that our customers face. Demand for technology lead workflow solutions that help our customers save time and deliver more valuable -- more value to their customers is increasing. And we are working to capture new customer spin by serving those evolving needs. That helps us drive our commitment to develop new AI solutions, which our customers are demanding and expecting from us.

And third, we're supplementing organic growth by selectively acquiring businesses and capabilities that are truly complementary and that have a multiplier effect when combined with our existing workflow solutions. When we evaluate a potential acquisition, we always ask ourselves, why would we be a better owner of this business? The answer must be that the business or capability can be plugged into our existing offerings and that it will accelerate growth for our entire enterprise. We are not adding businesses to a portfolio. We are building industry workflow platforms.

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That's precisely what we believe Integration Point is doing for our global trade management offerings and what confirmation will do for our Tax & Accounting solutions, and what HighQ will do for our Legal and Corporate businesses.

Let me now speak to our recent acquisitions a bit more and our new AI products, which we believe will contribute to an accelerated revenue growth rate.

Building that growing, sustainable, recurring revenue model, of course, requires healthy organic revenue growth, and that's what these 3 AI solutions on this slide are expected to do. Each of these solutions further strengthens our position and enables us to tap into white space where we can increase our share of wallet by improving customer productivity. AI solutions are now part of our developmental fabric, and we plan to release additional AI solutions in each of our 3 core business segments over the next 18 months that will also contribute to growth.

Westlaw Edge was released 1 year ago. It has been very well received in the market, and it continues to command a premium. We are also enriching the product having, just last month, released Quick Check, a new module available in Westlaw Edge that furthers the lead we have in legal information and analytic tools to help lawyers work more effectively.

Quick Check quickly reviews a user's motions, briefs or other legal documents to find highly relevant authority, secondary sources and other related briefs and memorandum to ensure that Westlaw Edge customers find what they may otherwise miss in traditional legal research. It provides lawyers with peace of mind that their research is thorough. They can also know that they've decided the most relevant authority, the most accurate law. It can also help find weaknesses in an opponent's brief and delivers the best work product possible for the client while also saving an attorney time.

As evidenced by the quote on this slide from a law firm partner, the clients know this exists every firm will have to have Quick Check. Our customers are already recognizing the benefits, and we are pleased with the positive reception thus far.

And finally, Checkpoint Edge is our recently released AI-enabled intelligent Tax & Accounting research and guidance tool, which is also being well received in the market. Checkpoint Edge delivers the most relevant and accurate information that Tax & Accounting Professionals need to respond to the challenges their clients face with constantly changing act and regulatory landscape. We expect this solution also drive sales in the second half of the year as it has adopted a commercial model that's very similar to the one we used with Westlaw Edge.

Now as you've seen by our recent acquisitions, we are supplementing our improving organic growth rate with fast-growing and strategically aligned businesses like the ones listed on this slide. I've consistently said since closing the Refinitiv deal last year that we plan to use our investment fund of $2 billion primarily to strengthen our positions in Legal, Tax & Accounting businesses by pursuing cloud-based software businesses. That's exactly what these acquisitions do.

Specifically, each of these acquisitions is highly complementary to our product suite and also expands the geographies where we operate. They're in high-growth market segments, and they are growing at 10% to more than 30%. They will be able to utilize our significantly larger distribution networks and sales forces, and each of them fits an essential acquisition criteria. They are cloud-based software businesses that help our customers work more effectively with their customers. They are important building blocks in the construction of industry platforms.

So within these 3 acquisitions, we have utilized approximately half of our $2 billion investment fund. So given our first half performance, we are raising guidance for 2019 and '20 for both revenue growth and EBITDA margin. We now expect 2019 revenue to grow between 3.5% and 4%, and we expect 2020 revenue growth to range between 4% and 4.5%, a reminder that these are organic growth rates. And for EBITDA, we forecast that both 2019 and 2020 will be at the upper end of the ranges that we have previously provided. EBITDA is expected to be between $1.45 billion and $1.5 billion this year, and the margin is forecast to be approximately 31% in 2020.

In spite of the traditional impact associated with the acquisitions we just completed, I remind you here that all 3 of our recent acquisitions will be accretive to free cash flow next year.

And last, we now expect that we can fully eliminate stranded cost by the end of 2019. Therefore, corporate costs in 2020 are expected to range between $140 million and $150 million versus the prior estimate of $140 million to $190 million.

So with that, let me turn it over to Stephane

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Thank you, Jim, and good morning or good afternoon to all of you joining us today. As we always do, let me start by reminding everyone that our results exclude the performance of Refinitiv. Also, I will talk to revenue growth before currency.

So on a constant currency basis, second quarter revenues were up 10%. Currency had a $21 million negative impact on revenue or just under 2%. On an organic basis, revenues grew 4% during the second quarter, which excludes the impact of the Reuters News contract with Refinitiv, the Integration Point acquisition and a few small divestitures. I will provide more detail about the breakdown of our organic revenue growth rate on the next slide.

But first, turning to profitability. Adjusted EBITDA was $355 million in the second quarter, up 2%. That performance reflects additional costs and investments related to the separation of the 2 companies offset by margin expansion across most segments. And as Jim mentioned, we do expect the margin to be weaker in the third quarter given the higher costs we will incur related to our ongoing transformation programs as well as a diluted impact of our recent acquisitions. From a timing perspective, we spend about $30 million less in the second quarter related to onetime corporate cost than we have planned, but this is expected to fully reverse in the third quarter.

Importantly, we still expect to finish the year with EBITDA in the top half of the range we have provided earlier for our full year outlook. I will provide more specific details on our outlook for corporate cost in Q3 and Q4 in just a moment.

But first and similar to last quarter, before turning to the segment results, I'd like to go a little deeper into our organic revenue growth performance in the first half.

Overall, organic revenue growth was 4%, which represents an improvement of about 170 basis points over the performance in the first half of 2018. As shown on the left-hand side of this graph, this was driven by better organic growth performance in all 3 of our core businesses: Legal, Corporates and Tax & Accounting.

Overall, both recurring and transaction organic revenues are contributing to the 170 basis points improvement, which is reflected on the right-hand side of the slide. Starting at the top, our recurring revenues in the first half grew about 5.5% organically, an improvement of 130 basis points from last year. Recurring revenue growth in the second quarter ended slightly below 5.5%, which was very marginally below the first quarter performance. This was driven by strong net sales, improved retention as well as improved price realization. The year-over-year improvement in recurring revenue growth was particularly visible in the Corporate segment while Legal and Tax & Accounting professionals each grew by about 100 basis points.

Now shifting to the bottom-right portion of the slide, you will recall that in the first quarter, Transaction revenues had declined 3% driven by our Legal segment. Now despite a better performance in the second quarter, during which transaction revenues were up 2%, our transaction organic revenue growth was down 1% during the first half of the year. However, that performance reflected an improvement of 190 basis points over the prior year period, and the improvement was all concentrated in our Corporate segment with both Legal and Tax & Accounting Professionals slightly worse than the prior year. So we are encouraged by our first half revenue growth performance, which gives us the confidence in the trajectory of the business, and that is the reason why we raised our revenue growth guidance to the top half of our guidance range of both 2019 and 2020.

Now let me provide some additional color on the performance of our individual segments starting with Legal. Legal revenues were up 3% during the quarter with organic revenue up 4%. Recurring revenues, which were 92% of the total, were up 4% organically while transaction revenues were up 6% organically primarily driven by growth in our Elite products.

From a profitability perspective, the margin of 38.5% was up 500 basis points over the prior year period driven primarily by revenue growth, productivity savings and some favorable timing of expenses. We continue to expect the full year EBITDA margin to be up from last year driven by the factors I mentioned earlier.

And here's a more detailed look at Legal, Professionals revenues performance for the second quarter. Law firms, which include small, mid and large law firms and represented about 2/3 of total revenues, law firms grew 2%, up from 1% growth in the first quarter. Government was up 6% and the global segment was up 3%. Now that performance was negatively affected by the divestitures of some of our transactional-based businesses in Canada, which had a negative impact of about 650 basis points.

Finally, Legal's retention rate in the second quarter climbed about 91%, which speaks to the health of the business and is also contributing to revenue growth.

Now moving to our corporate segment. Corporate's revenues were up 9% during the quarter with organic revenue growth up 7%. The acquisition of Integration Point largely explains the difference between the total and organic growth rates. Recurring revenues, which made up 85% of the total, were up 9% organically. And Transactions revenues were down 2% organically due to softness in our former Legal Managed Service business, which, as a reminder, we sold to EY on May 31. From a profitability perspective, the margin of 32.2% was up 20 basis points from the prior year despite the dilutive impact of the Integration Point acquisition.

Now looking at Corporates result by subsegment. Large Corporates grew 10% driven both by tax and legal solutions in addition to the newly acquired Integration Point business. Organic growth in that subsegment was 7%. The medium-sized Corporates grew 7% and Global Corporates grew 4%, thanks to a steady of performance from our Asia business.

Now moving on to the Tax & Accounting Professionals segment. Second quarter revenues grew 6% and organic revenue growth was also 6%. Recurring revenues, which were 81% of the total, were up 9% organically driven by a strong performance in our Latin American business as well some favorable timing factors. Transaction revenues declined 4% organically and the adjusted EBITDA margin for the segment was 33% compared to 23% in the prior year period due to revenue growth, efficiency savings and favorable timing of expenses.

As a reminder, the Tax & Accounting segment is our most seasonal business with nearly 60% of full year revenues typically generated in the first and fourth quarters. Because of this, the margin performance in this segment is generally higher in the first and fourth quarters as costs are incurred in a more linear fashion throughout the year.

Now looking at the Tax & Accounting revenue by subsegment. Small, mid and large accounting firms, which make up nearly 80% of the total, grew 4%. Our global businesses rose 27% primarily driven by our Latin America business. And our government segment, which makes up just 6% of revenues, declined 11%. With a solid start of the year coupled with the recent launch of Checkpoint Edge and the acquisition of Confirmation, we believe that this business is on a positive trajectory as we look to the second half and to next year.

Moving on to Reuters News. The second quarter results include $84 million of revenues from Refinitiv, which explains the revenue growth rate exceeding 100% in the quarter. The third quarter will be the last quarter of higher growth rate before returning to a more normalized level. Organic revenues grew 2%, which was mainly attributable to a price increase related to the Refinitiv contract. And EBITDA was $10 million, which we expect higher costs and investments in the second half, which will result in a weaker EBITDA performance over the balance of the year.

As a reminder, the revenues from Refinitiv essentially cover the cost of providing the new services, and therefore, this contract has a dilutive impact on our overall EBITDA margin.

And last but not least, our Global Print revenues declined 3% over the prior year with organic revenues also down 3%. This better-than-expected performance was attributable to improved sales growth and improved retention, which has increased some 500 basis points over the last 5 years.

EBITDA margin for the quarter actually increased from the prior year period ending at about 44%. This new global segment structure is enabling the management team to better identify areas to leverage scale on both the revenue side and the cost side. Best practices are being implemented in each geography of contract renewals, which is helping sales and retention. And on the cost side, savings are being achieved in a variety of areas including having recently announced the consolidation of old North American printing in our Minneapolis facility. For the full year, we continue to expect global print revenues to decline mid-single digit.

Now before turning to the Refinitiv results, let me provide you with a quick snapshot of the projected financial impact associated with the acquisitions and divestitures we recently completed. The information provided on this slide is somewhat directional. But hopefully, it should give you a good idea of which business segments will be mostly impacted by that recent M&A activity.

Overall, the 3 businesses we have acquired over the last 8 months are expected to generate about $135 million in annualized revenues in 2019, and they are growing at about 25% in aggregate.

Now please note that the revenue base shown on this slide represents their expected annualized revenue base. And since we only acquired Confirmation and HighQ 2 weeks ago, these businesses contribution to TR revenue in 2019 should be about half of the amount indicated on the slide.

We also divested businesses with an annual revenue base of about $70 million. These disposals will reduce our exposure to services and transaction revenues going forward. From a profitability perspective, we expect the acquisitions we recently completed to be dilutive to our margins in the near term due to onetime deal-related integration costs. But this in no way reflects the long-term potential of these businesses. In fact, we do expect all 3 acquisitions to become accretive to our margins within a 24-month period.

Let me now speak for a moment to the performance of the Refinitiv business. As a reminder, our previously reported results for the F&R business are not fully comparable to the basis on which Refinitiv currently reports its financial performance. For instance, Refinitiv must apply specific purchase accounting rules, which were obviously not applicable before the closing. Also, Refinitiv's management team uses slightly different definitions to calculate its non-IFRS metrics. So what you see in this table are the results as provided by Refinitiv's management.

Now to the results for the second quarter. Refinitiv revenues before currency were up 3% in the second quarter rounding to $1.6 billion. Recurring revenues excluding recoveries grew 2% and continued market volatility lead to a 10% growth in transaction revenues. Adjusted EBITDA of $555 million excludes the transformation cost of $126 million during the quarter. And on that basis, the adjusted EBITDA margin was just under 36%.

Free cash flow for the second quarter was $89 million, debt outstanding was just under $13 billion and the preferred equity outstanding was about $1.1 billion. And lastly, Refinitiv achieved run rate savings of $380 million as of the end of Q2 and expects to achieve over 2/3 of its total run rate cost saving target by the end of this year. So the company is very much on track to achieve its full run rate target of $650 million by the end of 2020.

Now let me turn to our earnings per share and free cash flow performance, and I will also update you on our expectations for corporate costs. So starting with earnings per share, adjusted EPS increased by $0.12 to $0.29 per share resulting from fewer shares outstanding and lower interest expense following our debt repayments in 2018 using part of the Refinitiv transaction proceeds.

The EPS increase is partially offset by higher depreciation, mainly due to the adoption of IFRS 16 as well as higher income taxes, which is very much in line with what we have projected in the guidance we provided earlier this year. And finally, currency had a $0.01 positive impact on EPS during the quarter.

I will now turn to our free cash flow performance for the first half. Our reported free cash flow was negative $176 million versus a positive $675 million in the prior year period. So that was a decline of about $850 million. Consistent with previous quarters, this slide will hopefully help you remove the distorting factors impacting our free cash flow performance during the first half. Working from the bottom of the page upwards, the Refinitiv-related component of our free cash flow was down $502 million from the prior year, and that was primarily due to Refinitiv no longer be included in our results.

Also in the first half, we made a pension contribution and part of payments totaling $370 million, all related to the Refinitiv separation. So comparable free cash flow from continuing operation was $380 million, an improvement of just over $20 million over the prior year period primarily due to stronger EBITDA performance before stranded and onetime costs and also to lower interest expense.

Now a quick update on Corporate costs for 2019 and 2020. Let me start by saying that the 2019 annual estimate has not changed from what we've showed in our original 2019 guidance.

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For the full year, we continue to expect to spend about $570 million. Looking at are spent during the second quarter, it was lower than we had expected at $140 million, and that was primarily timing related. We now expect onetime spend to peak in the third quarter driving Corporate cost to a quarterly high point of about $160 million.

We have a number of initiatives slated for the third quarter including building out our own communication networks and shifting several products to the cloud. As a result, we do expect Q3 to be our heaviest quarter from a onetime cost perspective.

And finally, as you previously mentioned, we are raising our full year 2019 guidance for organic revenue growth to 3.5% to 4%. And even after considering the diluted impact of our recent acquisitions, we now anticipate being in the upper half of our adjusted EBITDA guidance range of $1.45 billion to $1.5 billion.

For 2020, we are updating our organic revenue growth guidance to 4% to 4.5%, and we are taking our guidance for adjusted EBITDA margin to the top of the range at approximately 31%.

Finally, as mentioned earlier by Jim, we expect to eliminate all stranded cost in 2020 such that total corporate cost will decrease to between $140 million and $150 million next year. All other guidance metrics remain unchanged.

Let me now turn it back over to Jim for some comments regarding the transaction that was announced this morning between Refinitiv and the London Stock Exchange Group

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

Thank you, Stephane. At the time we announced our partnership with Blackstone 18 months ago, we mentioned that one of the key reasons to do that deal was to position the business for what we saw coming on the horizon, which is a phase of consolidation in the financial services industry. Separating the financial business from Thomson Reuters was a necessary first step to put us in a position to participate in the industry consolidation. It also enabled us to focus 100% of our attention and resources on our remaining legal and regulatory businesses.

The second quarter results indicate that we are well on our way to accelerating growth in those core businesses, and the transaction announced this morning by us and the LSE Group confirms our initial thesis about consolidation in the global financial services market. This transaction transformed LSEG's position as a leading global financial markets infrastructure business, and it increases its ability to capture global growth opportunities with a greater range of leading market positions.

Now the value creation that Refinitiv since we began working with Blackstone has largely been driven by operational enhancements and cost savings. This transaction with LSE Group will double down on operational enhancements with significant additional cost and revenue synergies expected to be realized once the transaction closes.

As an investor, we are comforted by LSE Group's strong track record of integrating acquisitions, realizing synergies and driving growth and profitability. And with Blackstone remaining a very significant shareholder in the business alongside us, we are even more confident that this transaction will create significant further value going forward.

At a high level, the transaction creates an $8 billion company and positions the LSE Group to the next phase of sustainable, long-term growth. The 2 businesses are highly complementary. Their combination will create a globally diverse company with a well-balanced mix of stable, developed markets as well as emerging markets with good growth opportunities. The business will also bring together 2 leading global market infrastructure businesses, 2 companies that have successful, open access philosophies and similar customer partnership approaches, 2 companies that are systemically important, world-class businesses serving a global customer base. And the combined company will be a market leader across most of its business segments. Just 25% of revenues will come from desktops, down from 38% at Refinitiv alone.

Now this slide was used by the LSE Group earlier this morning during its investor call. The slide lays out their forecast across key metrics and the financial returns they expect to achieve including financial targets for revenue growth, cost and revenue synergies, expected returns for earnings per share and return on invested capital and their capital management framework for leverage and dividends. The combined company will have an attractive financial profile with mid- to high single-digit projected revenue growth and strong EPS accretion in the first full year post completion supported by cost savings and revenue synergies. I would direct you to the LSE Group if you have further questions regarding this information.

Turning to financial performance. The LSE Group has demonstrated strong and consistent financial results with both revenue and EBITDA growing mid-teens on a compound annual growth basis since 2010. And this consistent revenue and EBITDA growth was achieved through a successful combination of organic and inorganic investments, and by any measure, it's an impressive performance.

Let me now turn to several specific points about the transaction that are pertinent for our shareholders. As I mentioned a moment ago, the transaction validates the rationale for our original deal with Blackstone, and it represents a logical next step along our path to the full monetization of investment. The transaction provides a balance of additional long-term value creation with a greater certainty on the path and timing of future liquidity down the road.

Having received now $17 billion of cash in October of last year when we closed the deal, we also benefited from substantial increase in the value of our equity stake in Refinitiv, increasing from approximately $2.5 billion to more than $6 billion. This increase was a result of swift implementation of operational enhancements at Refinitiv and the value unlocked from the Tradeweb IPO. Importantly, the proceeds that we received from the sale of F&R were used to strengthen our operating strategy and our capital structure. We repurchased $10 billion of our common shares at prices well below the current level. We repaid over $3 billion of debt and reduced our leverage to a very modest level. And we set aside a $2 billion investment fund to make acquisitions that further strengthen our businesses.

Now as part of this deal, Thomson Reuters is expected to receive up to $82.5 million of LSE Group shares valued at $6.7 billion based on the closing price of the LSE Group yesterday. And when I locked in the office this morning, that stake would now be valued at $7 billion. That number of shares reflects the exercise of warrants we've negotiated with Blackstone as part of the original deal. There will be a 2-year lockup on all LSE Group shares that we receive with 1/3 salable in years 3, 4 and 5 after closing. This transaction also crystallizes the value achieved to date by the original Refinitiv deal. Having largely achieved the targeted synergies, Refinitiv can now contemplate another round of attractive synergies as it becomes part of the enlarged LSE Group. And as a future shareholder, we will benefit from the value creation that's expected to be generated over the next several years until we achieve full monetization.

Furthermore, this transaction significantly derisk our investment in Refinitiv through greater diversification and significantly lower leverage with the LSE Group.

And finally, we expect to receive a dividend stream from our investment, which is something we hadn't received from our investment in Refinitiv. Following closing, we look forward to being a supportive shareholder and partner.

Now let me go back to Frank for any questions.

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

Thanks very much, Jim and Stephane, for those opening remarks. And now, operator, we would like to take questions, please. So first question.

QUESTIONS AND ANSWERS

Operator

Our first question comes from the line of Toni Kaplan with Morgan Stanley.

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

Jim, you just touched on this. But just wanted to understand...

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

Toni, can you just get a little closer to your phone? It's just a little hard to hear you.

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

Sure. Sorry. Jim, you just laid out the capital allocation strategy here. But I guess if you could just talk a little bit more about what this means for a couple of years out in terms of any changes to capital deployment. You're obviously -- this investment assuming it closes and post the lockup period obviously could be significant in terms of value. So I guess could you just talk about capital allocation with the proceeds from this transaction announced this morning?

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

Yes. Thank you. I mean, obviously, it's a bit premature to be very specific about that, Toni. And it's a good question, and certainly one that we've been discussing a good deal.

The way we handle our capital allocation decisions is that we sit down with our Board once a year, take a look at the current environment, look at the current needs of our business, what our opportunities are. And then we're in a very fortunate position already, and that we have a business that is highly accretive from a free cash flow perspective. So we generate a lot of cash and the decision and discussion is all around where to best spend that cash. So -- and at any given year, we will make decisions about what are dividend increase is going to be, how much we're going to allot for buybacks, how much CapEx is needed, how much we need to allot for acquisitions. But we kind of tune that every year on an annual basis. And traditionally, we've done that in September. So we'll have a robust debate about that next month. And based upon that, we'll kind of proceed along the path we're along right now, frankly. There won't be any near-term changes shortly because there's not going to be any near-term distributions that we would be expecting. I would say, however, that, frankly, we're very happy to have the cash flow that will be coming in from the dividends, and we will never turn our nose up at additional cash flow-through. Although I don't think it will be significant enough to change our overall capital strategy. It will be nice nonetheless.

And I just -- one point that I want to underline here. When I think about our business and is that kind of virtuous cycle that we have of having the ability if we can grow our top line at the mid-single digits, right, then we're going to get some leverage that falls through to the bottom line. We're going to see continued growth in our free cash flow, and that free cash flow can then be reinvested to the just the kind of acquisitions that we've done to help that top line keep growing and actually to add a little bit to the headline number every year. So I don't think we'll change that basic model, but it will be a good problem to have and a good discussion with our Board.

Operator

Your next question comes from Drew McReynolds with RBC.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Just want to talk about organic revenue growth and the updated guidance either for Jim or Stephane. Just -- I wouldn't mind, just kind of peeling this away little bit. I guess the broad question is when you look at your asset mix going forward, I mean it sounds like 4% is kind of the new baseline growth for the business. Can you talk about just how -- what's driving that? In your prepared remarks, you talked about recurring, and that's really the basis for today's upward revision. But talk about the upsell and cross-sell initiative if you can, that the drag in transaction revenues ultimately reverse when you look forward.

And then lastly on the calculation of organic revenue growth, are you including the organic revenue growth of the acquisitions that you add, i.e., their apples-to-apples, year-over-year growth organic goes into that calculation?

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

Sure. Difficult to begin, that's quite a mouthful, but I'll start. Look, is 4% kind of the new floor? It's a very, very interesting question. And as you noted, 80% of the business is kind of on this recurring revenue model. And if you look underlying, as we reported here, that's growing nicely. In fact, it's growing 5%, 6% across core businesses. So that's highly repeatable. That's highly recurring. That gives us a great confidence.

We do have 20% of the revenue that's in this transactional and print. On space, print schedules aren't always exactly like-for-like, year-over-year in terms of what is published and what those schedules look like. So am I going to tell you that in any particular quarter, transactional revenues, the 20% transactional and print couldn't have a surrounding down to 3%? No, I wouldn't tell you that. But I would say if you look at that underlying recurring base, right, and the performance we see in that, we look to 2020 thinking that a quarter beginning with the 5% is far more likely than a quarter beginning with a 3%.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Thank you. And maybe, Jim, if I could follow up or one for Stephane. Just if you can talk to just what the tax implication ultimately is here for Thomson on the flow-through from what's happening with Refinitiv in this transaction?

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

Let me turn it over to Stephane.

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Sure. Look, we would expect to pay taxes on the gain, which we will eventually realize on our investment when we monetize that investment. Our expectation is that the closing of the proposed transaction will not give rise to any significant taxes as we simply exchanging -- it's a share-for-share exchange, so the tax should not be triggered at the time of closing.

There are some circumstances where the deferred tax liability that we will book in connection with the transaction could potentially be accelerated, for instance, if we receive cash for a portion of the investment. And you may have read in the announcement from the LSE that LSE has an option to pay up to $2.5 billion of the proceeds in cash rather than shares. And under that scenario, obviously, since we will be monetizing part of the adjustment, there would be a portion of the deferred taxes that would be accelerated.

But by and large, I think what you should assume is that taxes should be deferred until such time we actually realize the gain on the investment, and that will happen when we eventually sell our shares based on the stock price of the LSE at which we settle shares at that time.

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

And Drew, I just realized, I didn't answer the last part of your multi-factored question about how we calculate our organic growth rate. Generally, we do not include acquisitions in the first year that they are acquired, right? And then as we -- but once we lap them, they would contribute. So they contribute a small amount to organic growth in any given year.

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Yes. So I think it works exactly the way you described in your question. We can confirm that that's the way it's calculated.

Operator

Our next question comes from Gary Bisbee with Bank of America Merrill Lynch.

Gary Elizabeth Bisbee - *BofA Merrill Lynch, Research Division - Analyst*

Congratulations on the quarter and the transaction. I guess if I could sneak in one question on the transactional, one on the operations. Over the weekend, when the first reports of potential deal came out, it talked about the $27 billion valuation. And I think between you and Blackstone, 37% ownership, LSE stocks up 20% some this week. So is $27 billion really the right number? Or are we north of $30 billion transaction value at this point given that it's going to be largely based on shares?

And then a fundamental question, just as we think out over the next couple of years with the new AI-powered cloud offerings that you're rolling out across your businesses. Is there any reason to think that those won't be adopted by the vast majority of the customer base? Or are there some reasons that either in Legal or in Tax that those are likely to appeal only to the very largest segment of customers or anything else?

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

Stephane, if you please address the first one and I'll take the second.

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Sure. So your premise is correct. The number of shares that Blackstone and us are receiving as part of the transaction was based on the ineffective stock price of the LSE. So it was based on a weighted average stock price before the recent jump in the stock price. That was the result of the announcement eventually. So what you're describing is correct. Effectively, the implicit value for us is greater than the $27 billion headline number.

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

And as to the second one, it's a great question and frankly, one we're learning a lot more about. Our technology team now is operating over the theme, and that theme is AI everywhere. And I do think AI is going to affect our products and our offering mix across every segment and every product that we deliver. And in fact, if you look at the early results on Westlaw Edge, if I've been positively surprised, I've been actually positively surprised by a lot of things, but I did not expect the level of take-up that we've seen in the small law firms and mid law firm sized segment. So actually, these productivity tools could be even more effective in smaller operations where that efficiency is ever more valuable.

Operator

Our next question come from the line of Kevin McVeigh with Crédit Suisse.

Kevin Damien McVeigh - *Crédit Suisse AG, Research Division - MD*

Let me add my congratulations. In terms of -- was the EBITDA -- kind of the boost to the 2020, was that all of the result to the acceleration of the stranded cost or was it a combination of just the improving fundamentals as well? And then just around the acquisitions, the 10% to 30% growth, I mean really, really impressive growth. How does that look like as you scale that -- those deals across the core Thomson platform? I guess another way saying is, is there any way to think about what they can look like if you're cross-selling them across kind of the legacy business, if you would?

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

Stephane, do you want to take the first one, I'll take the second, 2 points?

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Yes. So the first question, I'm sorry, was...

Kevin Damien McVeigh - *Crédit Suisse AG, Research Division - MD*

It was just...

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

The 2020 margin.

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

The 2020 margin, it's a combination of the 2 factors. It's obviously the fact that we're now at the level of confidence that we will be able to fully offset the stranded cost. So it's Refinitiv and it's also a reflection of the higher growth rate, which obviously comes with pretty good flow-through. And these 2 factors are outside by the slightly dilutive impact of the acquisitions on the margins. But all in, that I would say we feel comfortable at this stage that we can achieve a margin of about 31% next year. So it's a mix of these 3 factors if you want.

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

And on the second one, I think there's a significant opportunity for us to accelerate the growth rates on those business that are already growing much faster than our core business. But when you think about the scale of our global networks and our sales forces and these businesses are right at the right size to really, really benefit from that, and we look at them actually with our acquisition of the Practical Law company as a really good guide. And if you -- for those of you who are around then, you'll recall that we purchased the Practical Law company, which had a great footprint in the U.K. and was preeminent provider of knowhow knowledge and checklist and things like that for attorneys who were right in the middle of transactional deals and things. And they were expanding, beginning to expand in the United States and getting a hold in the U.S. And when we took that business and then pumped it through our platform, we could -- that enables a very successful business. But we travel the size of that business in 3 years, right? And not only that, there are all kinds of knock-on effects to our other online legal content businesses. And then today, when we think about the workflow solution that we've designed from medium-sized law firms, it's going to be based upon a marriage of the Practical Law taxonomy and workflow mapping, right? The matter of management maps married with our time and billing system of the lead for customized kind of solutions. So those are the kind of things we're looking at that say, yes, we can fix something and give it a bigger sales force, a bigger global presence and immediately get some benefit, but also were the addition of that capability married with what we already have can create something that's really special. I mean we would've done on our own.

Operator

Our next question come from the line of George Tong with Goldman Sachs.

Ryan Charles Johnson - *Goldman Sachs Group Inc., Research Division - Business Analyst*

You have Ryan on for George. I was wondering if -- you guys had a pretty healthy margin expansion in the quarter for Legal and Tax & Accounting. I was just wondering if you could discuss how we should think about expansion within the 3 core segments going forward. And then also, sorry if I missed this, but could you talk about what caused the corporate tax margin to decrease a little bit on that constant currency basis?

Stephane Bello - *Thomson Reuters Corporation - Executive VP & CFO*

Sure. Let me take that question. Let me start with the last part of your question. The corporate margin, actually, it was a little bit, which is not a bad performance if you take into consideration the dilutive impact of the Integration Point acquisition that they did late last year. So you still have that impact flowing through the numbers. Absent that acquisition, the margins would have been up more meaningfully.

And in terms of margin performance for the 3 sectors -- the 3 segments, sorry, as you look at it in the future, I would expect it's going to be a mix of these same 2 forces. They should be good flow-through now that all these businesses are growing at a pretty robust pace and you've seen the flow-through essentially this quarter for the Tax & Accounting business and the Legal business, which were not offset by dilution impact. But going forward, there's going to be for each of these businesses, actually, for all 3 businesses, a little bit of margin dilution coming from the recent acquisition. So I would expect margin expansion still for these businesses but not to the same extent as what you've seen recently.

Operator

Our final question come from the line of Tim Casey with BMO.

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

Jim, just looking at your increased confidence in the organic revenue growth, what's driving that? I mean are you seeing the benefits of the cross-sell? Is it more about the product mix? Or are you just seeing better market growth overall? Can you break that down for us?

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

So I do think there's some factor there, and that's a healthy market. I mean we look at our Peer Monitor Index, and we did see an increase in both demand and in headcount certainly in the Legal sector. We do have a market in which -- particularly in the United States, incredibly complex tax changes that went into effect this year. So there's no question, we do have a favorable market environment.

I think, frankly, though that it's just focus matters, right? And our ability to focus on those core customers and for management to get up every single day thinking about how we better serve those customers and working on the relationship with those customers and providing the kind of improvements to service that I think we're providing. As we look at what's driving, primarily it's increased retention, right, at this point. And the -- we've got a new sale structure now in place. But if you think about it, they're really in their first quarter of selling in the new territories with the new offerings and with the new incentive schemes that we put in and the commercial terms that we put in. So we're at the very, very early days of seeing success in that cross-sell, upsell stuff. What I can tell you -- well, it's early days, we've seen it flowing to the numbers. We do have a very exciting and excited sales force who's really learning a lot about how to do it. And what we're learning is that the more we can tailor those cross-sell, upsell opportunities to particular customers and segment, the better all it's going to be. But that's early days. It's decent market environment, yes, but it's focused increasing retention, improving service. And in the future, we've got a new form to sales force empowered by a lot more analytics and tools to better target those sales efforts and with a much broader bag to cross-sell, but early days tapping into that -- at the bad opportunity

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

Are the AI product suites moving the dial yet?

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

Certainly, Westlaw Edge is. And if you look at the -- just the face of the rollout, the answer is yes. The other 2 are really early days. But boy, oh boy, they've got a lot of interest in the market.

Operator

That was our final question.

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

Okay, terrific. We'd like to thank you, all for joining us for our second quarter call. We'll speak to you again in the third quarter, late October, early November, and hope you have a good day. Thank you.

Operator

Ladies and gentlemen, this conference will be available for a replay after 11:00 a.m. Eastern today through Thursday, August 8, 2019. You may access the AT&T Teleconference replay system at any time by dialing 1 (800) 475-6701 and entering the access code 469654. International participants may dial (320) 365-3844.
