THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

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

EVENT DATE/TIME: MARCH 09, 2015 / 5:30PM GMT

THOMSON REUTERS

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PRESENTATION

Ato Garrett - *Deutsche Bank - Analyst*

Good afternoon. I'm Ato Garrett one of the analysts on Deutsche Bank's business services team, and I'm here with Jim Smith, CEO of Thomson Reuters. And we're jumping right into the questions.

Can you give us an update about what you've done so far with the Transformation program, and where we still have to go with that program? And any sense of timing or goals with that?

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

Sure. Look, we're making great progress with the Transformation program. It's something we announced in the -- I guess along with the third-quarter earnings report in 2013, what we were -- the way we were what I was calling pivoting toward an enterprise, and taking a complete fresh look at how we put together the Company, and looking at opportunities to both streamline our cost base and also become more effective and efficient and improve our time-to-market.

That's going really, really well. We've really made a lot of progress.

We're on track on all the major initiatives, particularly along the technology side and as we identified a number of product platforms that we can consolidate. We've identified things for closure, and I think we're well underway there.

We've identified a number of key product platforms that we wanted to migrate to new and improved infrastructure. We've ticked off the vast majority of those.

We have three more big platform closures to accomplish in 2015, and those are the last of the big platform consolidations and will end that phase for us. Those frankly will be the ones that will have the most significant savings impact, because collectively they represent a global real-time data delivery system that will be replaced with a newer, more modern infrastructure.

Right now we're running dual costs as the new network is being switched over and the old network is being maintained. But as soon as we get switched over there, that's where we'll be able to take really a step change down at the end of this year.

That should begin flowing through into 2016 in terms of significant cost savings. So we're very, very pleased with that.

Additionally to the big platform migrations on the technology side, we've also got a number of workstreams that are addressing things like how we put together content inside the Company, how we can do that more effectively. And by effectively I mean how can we take costs out, but also how can we handle our content in such a way to make it more readily accessible across the breadth of our many businesses? And how can we deliver it up on new and modern technology platforms and in more effective applications by being more consistent across the Company? Those things are well underway.

Doing lots of stuff around people effectiveness, around workforce planning for the future, around where we want our key locations to be, how we can consolidate sites, lessen our geographic footprint. So it's a pretty broad, sweeping program that we put in place with the Transformation.

It's well underway, and I would say in fact it's changed the way we're operating inside the Company because it's given us new metrics, new visibility, and new way of really operating the Company. It's helped us to install a lot more rigor and discipline into decision-making across the Company.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Then is it -- now, I know when you last revisited the Transformation program I believe you mentioned that there's $400 million of savings that you targeted for 2017. Is that in addition to the $300 million that you mentioned before in third quarter?

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

Yes, it is. That is in addition. The $300 million that we mentioned in the Q3 of 2013 has been delivered, and pleased to say that; and we're on track for that $400 million. Again a lot of that's backloaded, and the first big step comes when we can shut down what we call the IDN/BON network, which is on track to be shut down at the end of this year.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Looking at some of the benefits from where you're taking out costs and shutting down platforms, how do you feel about your -- or can you revisit the expectation of getting to a 30% margin for the F&R business in 2015?

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

Yes, that's still our target. We've said that all along; we thought that business was capable of getting near a 30% margin this year. That's still our target. That's what we're shooting toward.

I think that realistically we expect that we will build toward that target throughout the year. The most important thing we're shooting for is to make sure that we exit the year at that ongoing margin rate and that that's the basis for which we enter 2016.

There are lots of moving parts in that. But as you know, the vast majority of that is on the cost side; and everything we have on the cost side is on track today.

There's a little bit of revenue required for us to get there. That's got a little bit of headwind in terms of just the overall mix.

Last year we saw, as everyone did, a marked drop in transactions revenue. Those transaction revenues are very, very high-margin revenues for us. They were offset by a bit of an uptick in pass-through revenues, where we essentially bill for exchange data that's passed straight through to the exchanges.

So we got a little bit of a mix challenge there. But look, that's still our target, that's what we're tracking toward, and we're driving very hard to be at that rate as an exit rate for the year.

Ato Garrett - *Deutsche Bank - Analyst*

Great. You mentioned that there's some revenue growth that's going to be required for that 30%. Can you talk about your expectations for revenue growth?

And within Financial & Risk in 2015 whether we're going to see positive growth this year? And also just some color around the external demand environment for Financial & Risk.

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

Yes, sure. I don't know where to start. If I think about -- I'll start with revenue and talk about the outside world I guess. Or let me turn that around, because it's probably more important to do that.

I think that the environment in financial services is one that, surprisingly I can say, has become far more stable than it had been in the past. I think if you look at all the regulatory change that impacted financial services, the good news is we've come to the end of that seismic regulatory change. It feels very much to me like the business has bottomed out.

It may be a rocky bottom that we've found, and we may not like where we are, and many people might not like where we are. But there is more stability.

As I said before, a couple of years ago everything was getting worse all the time. Well, we're out of that cycle of everything getting worse all the time.

Certainly there's still some tough news; certainly we're in a far more cost-constrained environment. We're in a world where people are being very, very conscious about cost and we, like everyone, had to adjust our game plan, so try to take advantage of that situation to be a more significant strategic provider to financial services world.

And frankly that's -- use that as an opportunity to say we can come in, in many ways, and help them reduce costs by being a more significant provider, by perhaps outsourcing or providing services that they used to provide in-house that we could do on a third-party basis more effectively. So we are seeing some opportunity there.

Again, it's a very cost-conscious environment, as everybody knows. But frankly there is some opportunity in that as well.

As far as revenue growth in our Financial business, we expect to see a marked improvement in the revenue profile in our Financial business. Remember, last year we had a 3% revenue decline in that business. We will be markedly better than that this year.

In fact on an underlying net sales basis we were net sales positive in that business for the full-year last year. I will remind everyone that we have a lagging subscription model, so the revenue in any year is largely a reflection of the sales activity in the prior year.

I think that one dynamic that will affect us in 2015 as we set the stage for 2016 is that, while we expect to see the annual price realization that we've seen in the past on the net sales in 2015 -- the net sales from 2014 flowing into 2015, that will be offset this year as we move from the sell-side to the buy-side, where we're going to have a bit of price compression as we move to a new product set.

I will just again remind everyone: when we went into the sell-side we replaced like-for-like. We had a Reuters Xtra 3000 terminal, and then we had an Eikon terminal; and we just replaced the Reuters 3000 Xtra terminal with an Eikon terminal. Same price, terms, conditions; much better product, service, reliability all that stuff. Same price, no impact.

As we move to the buy-side, we don't have a similar Reuters Xtra 3000 terminal. We have a lot of products, many products. And what we will do as we move the Eikon packages out is we'll go through a different bit of a commercial model.

If, for example, you were buying five Thomson ONE products, your combined price for the new Eikon might not be $500. It will be a bundled price, and that will have an impact on price realization overall for the Financial business next year.

Similarly in the foreign exchange space, we had separate prices on our dealing and matching, on our information terminal, on our FXall service. We're putting those together into what we think is a far more attractive package for our customers, and it's certainly meeting with great response in the marketplace.

But the net-net of all that will dampen our ability to realize price in 2015, but we think form a really attractive base for seeing the uplift then flowing through into 2016. So we're going to see a dramatic improvement in the revenue performance in our Financial business in 2015, and we should set the stage for even further improvement in 2016.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Now that we've gotten through -- I think that's three or four questions not about net sales, we have to turn to that. Can you talk a little bit more about how net sales might vary by geography? And disaggregate those trends between what you've seen on a gross basis versus any change in the cancellation rates.

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

Yes, frankly that's the reason I'm so excited about what we've seen; it's been an improvement in both. We've seen an improvement in gross sales -- and we've see an improvement in gross sales around the world, right across the board. And we've seen a pretty marked increase in the retention rates where we've got the new product. Where we've got Eikon rolled out with a fit-for-purpose product we see retention rates go up.

So we believe that not only will we continue to see improvement in the traditional Eikon sell-side footprint but that, as we move to the buy-side and provide that improved product, improved features and functionality, that we'll exceed an increase in retention rates on the buy-side as well. So, frankly, we have seen it across the board.

Obviously -- and we talked about Q4, it's just been interesting. we've seen pretty steady improvement over the past eight quarters, save the fourth quarter of 2013; pretty steady improvement in the net sales performance. And we've seen it, as I say, across the world with the Americas being strongest, Asia next, but marked improvement in Europe as well.

Marked improvement in Europe. And if you'll recall, in the third quarter of 2014 we were actually net sales positive in Europe with everything going on in Europe. So that's a reflection of both a terrific job by our salesforce and the stickiness of the product, frankly.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Let's see. Looking at the slight improvement in transaction volumes that we saw in the fourth quarter, would you expect that to continue going forward? And how might we see that impact overall revenue growth within Financial & Risk, as it's a smaller portion of the business?

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

Yes, it is. But who knows what transaction revenues are going to do? No one certainly predicted what they would do last year or certainly before the beginning of the year.

They did pick up toward the end of the fourth quarter last year. We're just into this year, and the published numbers are there for January. We did see an improvement over January 2014 in January 2015; we'll cross our fingers and hope those volumes stay up.

Look, they have a bigger impact on overall profitability in the Financial business than they do in the aggregate growth because they are just such highly profitable revenues and virtually all flow through to the bottom line. So we're rooting for lots of volatility out there, and we shall see.

That's just a reflection of the market. We try to focus on executing the stuff within our control. The good news is January was up over January of 2014.

Ato Garrett - *Deutsche Bank - Analyst*

Great. One last one on the Financial & Risk business, can you update us about the Know Your Customer offerings and growth rates there? And if you see -- and how you've seen that competitive landscape changing with a number of other offers or products that are coming out from some of your competitors?

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

Yes, it is getting a little more competitive. That's still a great double-digit growth business for us all-in if you look across the face of products that we had there.

I think it's also a place where we're having some of the most wide-reaching conversations with our customers about really accomplishing what I referred to earlier, where we could in fact provide a lot of services that many, many banks are replicating again and again. But -- in fact those screening services we think are really important and ones that can be continued growth drivers for us across the business.

One of the really interesting things, and it's I guess a bit of a transition away from the financial services space, but there's a whole bunch of those services and products that we developed for KYC anti-money laundering for banks that are now, interestingly, being repurposed for general industry. In fact, if you look at the number of customers for our screening products now, we actually have more customers on the Corporate side than we do on the Financial side.

Because if you think about it, it's one thing to know about what client onboarding so you don't run afoul of anti-money laundering rules. But if you have a global supply chain you've got issues as well. You need to be vetting your various suppliers, sales reps, and agents around the world.

And we've seen a pretty good growth vector in the general corporate world as well. In fact we think that's an area that we can exploit and an opportunity for the future.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Moving on to Legal, we've seen some improvements within, like, the demand for talent and hiring trends within Legal. I know that when you talk about the drivers within the Legal business you say the legal activity is the big -- is what drives so much of the revenue for that business. Have you seen a similar increase in demand for Legal? And can you talk about your expectations for growth there?

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

Sure. I think the legal sector has improved as well. In fact I think the last two quarters if you looked at our Peer Monitor Index, which measures demand in the legal services industry, we've seen demand increase in back-to-back quarters for the first time since 2008. That was the last -- in the last two quarters.

So it has improved, and it's improved across practice areas. It's hardly robust, though, so it's still a more muted environment certainly than it was before 2008; but it's one that I think is strengthening.

That said, I think the legal marketplace, the legal environment, is one that's becoming more competitive. I think it's one that's witnessing a lot of the same phenomenon that we witnessed in the financial services industry: namely, the move in power from the sell-side to the buy-side.

And by the buy-side in the legal space I mean corporate counsels, who are wielding a lot more power and a lot sharper pencils than they used to. That's driving a need for efficiency in the law firm space.

If you look at our business we have about half of our business is in our traditional legal research products, but the other half of our revenues are coming from what we call our Solutions business, which are primarily software tools and information products that help lawyers be more effective and efficient. I'm unfortunately old enough to remember getting into the legal business and being warned not to talk about productivity to clients who charge by the hour. But I tell you, today large law firms are very concerned about productivity, as more and more work moves to fixed-fee basis as opposed to hourly charges with add-ons for other costs.

So we've seen really nice growth rates on those Solutions businesses we're selling, and that's an area where we're very much shifting a great deal of our investment toward those Solutions. And now we're at a place where we're approaching half of our Legal business being in those, that Solutions space, growing 6% plus.

So we feel very good about the Legal business. I think that started flowing through along with a stabilization in our online legal research in the United States last year.

The continued growth of those Solutions businesses, that started flowing through in the fourth quarter, when the trends we'd seen in terms of sales and retention -- retention for Westlaw was off the charts last year even among small law firms, which frankly surprised me -- pleasantly surprised me, because it's good to know that a quality product does indeed stick and a quality product can indeed achieve a premium price across the board. But as all those dynamics came through, you started to see an uptick in the Legal revenue rate in the fourth quarter, reflecting the underlying sales trends we'd seen earlier in the year.

We think that's a business that's on a very good trajectory. That growth will continue to get back into growth and improve its growth rate in the future.

It's a very stable and reliable business for us, and it's been a great part of the profit machine for our organization for a long time. It's so encouraging to be excited about the future for it and to realize that it's going to be a contributor for a long time to come.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Now that you're going to be sunsetting Westlaw Classic this year, what are your expectations for how that might affect profitability within the segment, or even revenue growth if there's any changes in price realization associated with that change?

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

No, I think not. It's just this is the last longtail customers who will be switched over to WestlawNext. I don't anticipate any significant Financial impact from doing that. We had been gradually doing that over time.

If you look at the -- much of the many of the features and functionalities had been migrated over to the new infrastructure over time. We'll get some, but not material, savings from shutting down those remaining platforms. But we've already taken a ton of that cost out slowly over time.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Let's see. Then also the US Print business I know that's one of the very high-margin products within Legal. Can you talk about how that's trending, even as many of your customers you mentioned before are transitioning more towards the solely online base. I was just wondering what the trajectory might be for the print?

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

Look, I think that's going to continue. The good news is it continues to be a smaller and smaller percentage of the overall Legal business.

But it's a business that's been in decline for a number of years. I think it declined 7% last year or so; we would expect a similar kind of decline this year.

It won't go to zero. We looked at it very carefully. But when we look at our US Print business, it's a business that we're harvesting, quite frankly, right now.

It's very highly profitable. It's all-in about $500 million, just under $500 million of revenue; declining as I say about 7% a year. And it won't go to zero, but it's going to decline for a while.

In the US, unlike other places around the world, every single bit of information we sell in print we already sell online. So it's a really nice double-dip that we can take as long as there's a demand for it.

And there still is a demand obviously for that size of revenue; it just becomes a declining bit of demand. We've been, I'm sure like many businesses, going through a harvest cycle. We're seeing volumes decline; so we're trying to make certain that we're maximizing price wherever we can.

We're trying to make certain that we're bundling print with online services whenever we can. We've developed an e-reader platform we'd like to move people to if we can.

Interestingly, the e-reader platform for tablet is working much better outside the United States than inside the United States, because it's a different dynamic. We have books outside the United States that we don't have online; where in the US, as I said, everything was already online, so it's a bit of a tougher putt there.

But I think that's a business that's going to be -- it's just in secular decline, but it becomes a smaller and smaller part of the mix. We're managing it very carefully, and we think the revenue growth that we're going to get in the Solutions side of the business will be able to overcome that in the very, very near future.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Looking at one of your fastest-growing businesses, the Tax & Accounting business, where are you seeing the greatest demand from that? Within that business what's driving that growth that's still -- it's outgrowing the rest of your business overall. So what's really behind that strong growth?

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

Yes, it's been a delightful business for us. I think we're seeing demand really across the board, but particularly as we take that business global.

A reminder about our Tax & Accounting business: we have products, software products that we sell, and information products that we sell to professional accountants in the US to do tax preparation in the US. And then we also have really the best global corporate tax platform out there, where we serve directors of tax for multinational corporations in all aspects of their job, from planning to provisioning to remitting their taxes. That's been a very, very good business for us and has done a great job of penetrating lots of global MNCs.

Where we've seen a great deal of growth of late, on top of just that core business, has been as we've begun to that business global. Three years ago that business was 99.5% US domestic; last year, 20% of the revenues came from outside the United States.

And we continue to see increasing opportunities to take that business global, in the corporate tax offerings particularly, but also we see some very interesting midmarket opportunities in some countries. When you look at the size of opportunity out there for our legal and regulatory universe, it's funny. Because our Legal business in the United States was our biggest business, we went around and planted flags on the Legal side first. But as we've gotten to learn the markets and size the market opportunity we believe that the market opportunity for our tax products are actually double those of the opportunity for our Legal and regulatory products, so we have made a pretty aggressive push in that regard.

You might have noticed a bit of degradation in margin in that Tax business in the fourth quarter of last year, which was simply a reflection of us putting feet on the street in emerging markets in order to continue to expand our presence in those markets. Because we have great conviction that that business can continue to grow at high single digits organically for the foreseeable future; and in some quarters -- and touch wood, with a little luck, last year they grew organically 10% in the first quarter of last year. So that's one of our star growth businesses.

Ato Garrett - *Deutsche Bank - Analyst*

Great. From there let's open it up to any questions from the audience. All right. Well, I can continue with a couple more.

I know at your last Analyst Day you put out some EPS targets out into the future; I think one of them was getting near to that $2.80 in 2017. Can you help bridge us from where we are now to there and what the moving parts will be?

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

Well, sure. Look, I think Stephane had a pretty interesting waterfall chart as we walked right toward that. The vast majority of that comes on the back of our Transformation program and it comes -- the savings that we've gotten built in through all the earlier steps that I talked about: from the consolidation of technology platforms, from being more effective and efficient across all of our operations. All of those fronts we are dead on track.

It also calls for some level of improved revenue growth. Touch wood, we know we're going to see marked improvement in revenue as I say, particularly in the financial services sector this year; but as a Corporation overall we'll get back to growth in 2015.

We hope to accelerate that growth over the next couple of years. We have plans in place to do that. And again, touch wood, we're holding to that target. We think that target is achievable.

We just did a rescrub of it a couple of weeks ago and think it's quite achievable. The caveat I would put out there is that we certainly when we put $2.80 out there didn't anticipate what was going to happen to the dollar/euro exchange rate. We talked about that at our year-end call. So there will be some impact there.

But I think as Stephane said on that call, it's way too early to go backing off a target for 2017 because we have no idea how exchange rates might move between now and 2017. And we're going to continue to drive hard toward that target regardless.

Ato Garrett - *Deutsche Bank - Analyst*

Okay. Great. You announced another $1 billion tranche in your buyback. Please update us to you are, as far as how much you purchased already.

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

Yes, we're about halfway. We're about halfway through that buyback, and I think it's been a very effective use of capital on all fronts.

Ato Garrett - *Deutsche Bank - Analyst*

Great. Then finally, Jim, turn back to Legal and looking at your margin outlook for 2015, can you talk through some of the puts and takes behind that, as we mentioned the declining US Print business and the strong growth you're seeing from your services business as well?

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

Yes, look, our goal -- the Legal business has very high and attractive margins, and we believe they are appropriate margins. But our goal there is not to increase margin in our Legal business. Our goal is to maintain margins in our Legal business. And/or if we find a way to grow the bottom line faster, we'd even take them down if we could guarantee the growth a bit.

But we think these are -- it's a business that can for the foreseeable future give us nice margins, mid-30%s margins, and as I say be an effective contributor to the growth and profitability for the Company for some time to come. But we are more focused on maintaining margins there, given all of the mix issues that you've talked about.

What the team there has done has been very effective. In fact, if you look across all of our operating units they've been the most effective at ruthlessly moving resources from those products of the past behind those products of the future. So what we've seen actually is an increase of margins in some of the legacy products.

But at the same time as some of the new Solutions products have now gotten to scale we're starting to see those margins go from being much lower moving up into the mid-20%s in many of those products. And then we think that over time as those products scale, they can scale like some of our more mature software products and be equally high-margin businesses over time. So there will just be a bit of a mix and transition issue there, and as we work through that transition our goal is to try to hold the margin in that business.

Ato Garrett - *Deutsche Bank - Analyst*

Great. I just want to check if there's any other questions in the audience. All right, great. Well, thank you very much for your presentation and the talk.

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

Thank you very much. Glad to be here.