

EQUITY RESEARCH

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Flash Research

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THOMSON REUTERS CORPORATION

Selling \$1 Billion In LSEG Shares To Microsoft

Outperformer

Our Conclusion

Thomson Reuters announced an agreement to sell a portion of its stake in the London Stock Exchange Group (LSEG) to Microsoft for expected gross proceeds of \$1 billion. TRI will sell ~10.5 million shares of its 72.4 million share stake in LSEG that resulted from the sale of Refinitiv in 2019, accelerating the monetization process that is scheduled over the next three years. We see the share sale as increasing the likelihood of a larger M&A transaction or significant share repurchases, given TRI's strong capital position and the progress already made on internal initiatives through the change program. TRI remains eligible to sell ~24 million shares in 2023, and we expect monetization to begin in March 2023 and take place over the course of the year.

Key Points

Lock-up Amended: As a part of the transaction, LSEG has agreed to amend the terms of the lock-up attached to the shares. Prior to the transaction, one-third of TRI's 72.4 million LSEG shares were scheduled to come off lock-up in each of January 2023, January 2024 and January 2025. Following the sale to Microsoft, the number of shares eligible to be sold from January 2024 to January 2025 will be reduced by half, effectively pulling forward the monetization of the 2024 tranche into 2023. The number of shares eligible to be sold from January 2023 to January 2024 remains unchanged, which we expect will provide TRI with a further \$2.2 billion in gross proceeds.

Use Of Proceeds: In the press release announcing the sale, TRI noted plans to use the proceeds to pursue organic and inorganic opportunities in key growth segments and provide returns to shareholders. With an additional \$3.2 billion in liquidity (\$1 billion from the sale to Microsoft and \$2.2 billion from additional shares coming off lock-up) and leverage of ~1.8x prior to monetization, TRI has significant flexibility for capital allocation. We see the accelerated monetization of the LSEG stake increasing the likelihood of a larger acquisition or significant share repurchase activity. A larger acquisition could look to add a new vertical while a number of bolt-on acquisitions to the core Legal, Tax and Corporate segments also remain an option. Management specifically noted its interest in ESG on its most recent conference call, given the complex rules, regulations and data inputs that give it a similarity to its existing lines of business. We note that TRI returned \$6.5 billion to shareholders through a substantial issuer bid after selling a portion of Refinitiv to Blackstone in 2018, with majority shareholder Woodbridge (67% ownership) participating on a proportionate basis.

TRI-NYSE, Sector: Industrials

Current Price (12/12/22): US\$114.94

Price Target (12-18 mos.): US\$124.00

All figures in US dollars unless otherwise stated.

Please see "Price Target Calculation and Key Risks to Price Target" information on page 2.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 3.

Price Target Calculation

Our base case price target is based on our EV/EBITDA valuation where we apply a 22x EBITDA multiple to TRI's core Legal, Tax & Accounting, and Corporates segments, a 7.5x multiple to value Global Print and Reuters News, and back out normalized corporate costs using a 20x multiple. We also carry TRI's stake in LSEG at a mark-to-market value.

Key Risks To Price Target

Execution Risk With Change Program: The change program is expected to result in a material lift to EBITDA margins given a number of operational changes. If the change program does not meet management targets for margin improvement, investors are likely to discount the multiple they are willing to pay.

Execution Risk With New Product And Version Launches: Part of Thomson Reuters' growth strategy involves developing new products or services and improving existing products to meet the needs of end-customers. There is risk in new product introduction and stemming from missed product expectations and disruptions of service.

Acquisition Risk: Some portion of Thomson Reuters' growth still stems from acquisitions, and the company continues to look for opportunities to enter new product markets that complement the existing business lines. There is risk associated with realizing returns from these investments and elevated costs associated with integration.

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Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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None	NA	Sector rating is not applicable.

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CIBC World Markets Inc. Price Chart

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