

EQUITY RESEARCH

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Flash Research

THOMSON REUTERS CORPORATION

Selling Majority Stake In Elite At \$500 Million Valuation

Outperformer

Our Conclusion

TRI announced yesterday that it had sold a majority stake in its Elite business to TPG, with TPG planning to establish the business as an independent legal tech company. The transaction values Elite at \$500 million and we calculate a rough valuation multiple in the 10-15x EBITDA range. We note that the EV/EBITDA multiple TRI sold at is light relative to TRI's own multiple (25.5x on 2022 EBITDA), but a limited growth profile and lower margin profile led to a lower multiple. We believe that TRI was willing to sell the Elite practice management business due to a lack of integration with the majority of its research and workflow products that are directly built for lawyers rather than finance/accounting/operations staff. We expect management to provide further financial details with Q1 results (May 2nd) and will update our model when more concrete details are made available.

TRI-NYSE, Sector: Industrials

Current Price (4/4/23): US\$132.85

Price Target (12-18 mos.): US\$126.00

Key Points

What Is Elite And Why Is TRI Selling? Elite is a suite of financial and practice management ERP solutions used by large and mid-sized law firms to improve law-firm finance and accounting operations. Features include billing, invoicing, payments, and financial reporting. The user base of the Elite product suite is finance/accounting/operational professionals rather than the lawyers that are the typical users of TRI's research, content and workflow products. We believe that the Elite business was sold in an effort to focus legal segment growth investments on products that serve lawyers directly and products that leverage TRI's large database of proprietary legal content. As a part of the change program, TRI has been more selective with its growth investments, preferring to focus on content-enabled technology that can be integrated across the legal product suite.

Financial Terms: Based on information included in TRI's Q4 earnings presentation, we believe Elite generated ~\$175 million in revenue in 2022. Conversations with management have suggested that Elite was operating at a lower margin profile than TRI's consolidated 35% margins. If we assume margins in the range of 20%-30%, the sale valued the ELITE business at 9.5x – 14.5x 2022 EBITDA, compared to TRI's 25.5x valuation on 2022 EBITDA. While TRI is maintaining a minority stake in ELITE, we expect that TPG acquired a large majority of the business, and that TRI will receive proceeds close to the \$500 million total valuation.

Elite Had Been A Headwind To Growth: The Elite product was called out in Q4 earnings as a headwind to growth, as an ongoing transition to the cloud resulted in Y/Y revenue declines due to lower professional services revenue associated with the SaaS product vs. on-premise. Post the sale of Elite we expect a modest improvement to consolidated Legal organic growth and EBITDA margins, although given the size of Elite relative to the entire legal business (~6%) the improvement will be somewhat negligible.

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 20x 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 18.7x multiple. We also carry TRI's stake in LSEG at 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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None	NA	Sector rating is not applicable.

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CIBC World Markets Inc. Price Chart

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