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TRI.TO - Q2 2012 Thomson Reuters Corp Earnings Conference Call

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OVERVIEW:

TRI announced 2Q12 adjusted EPS of $0.54 and reaffirmed its 2012 guidance.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Thomson Reuters second-quarter 2012 earnings call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Frank Golden, Senior Vice President, Investor Relations. Please go ahead.

Frank Golden - *Thomson Reuters - SVP, IR*

Good morning and thank you for joining us as we report our second-quarter results. We will begin today with our CEO, Jim Smith, followed by our CFO, Stephane Bello. Following Jim and Stephane's presentations, we will open the call for questions. Please limit yourselves to one question each.

Throughout today's presentation, keep in mind that when we compare performance period on period, we look at revenue growth rates before currency as we believe this provides the best basis to measure the underlying performance of the business. In addition, today's results are presented on an ongoing basis and exclude disposals announced to date.

Today's presentation contains forward-looking statements. Actual results may differ materially due to a number of risks and uncertainties discussed in reports and filings that we provide to regulatory agencies. You can access these documents on our website or by contacting our Investor Relations department.

Let me now turn it over to the CEO of Thomson Reuters, Jim Smith.

Jim Smith - *Thomson Reuters - President & CEO*

Thank you, Frank and thanks to those of you on the call for joining us. Today, we will review the second-quarter results and update you on the progress we have made over the past six months against the priorities and strategy I outlined earlier this year. I will then turn it over to Stephane who will provide you with further details on results for the quarter.

Our results for the quarter and for the first half of the year can be characterized as on track for the Company as a whole. In the second quarter, total revenues were up 3% with Legal, Tax & Accounting and IP & Science again recording good, consistent performance. In the aggregate, these three businesses were up 7% of which 3% was organic. Financial & Risk grew modestly in what continues to be a very challenging and volatile global financial services market, particularly in Europe.

EBITDA increased slightly and the margin was flat with the prior period. Operating profit declined 8% and the margin declined 190 basis points as expected. The operating margin was impacted by Financial & Risk recording nominal revenue growth offset by planned investments in products, customer service, customer administration as we work to get more product in the pipeline and to improve our service and support levels on the front and back ends.

Adjusted earnings per share for the quarter were $0.54 compared to $0.51 in Q2 2011, a 6% increase. Also, last month, we closed the sale of our Healthcare business for $1.25 billion in cash and expect net after-tax proceeds of about $1 billion. As discussed during our Q1 earnings call, the proceeds plus our free cash flow will be used for tactical acquisitions, organic investment and for share buybacks on an opportunistic basis. Lastly, and importantly, we are reaffirming our full-year 2012 outlook.

Now let me turn to our results by business segment. Financial & Risk revenues rose 1%. Growth in Marketplaces and Governance, Risk & Compliance were offset by declines in Trading and Investors. Revenues by geography saw the Americas up 3%, Europe, Middle East and Africa was flat and Asia declined 2% due to continued softness in Japan.

Tax & Accounting had another solid quarter with revenues up 25%, 5% organic, driven by strong sales of ONESOURCE and software sales to professional accounting firms. IP & Science grew 4% and Legal had another good quarter with revenues up 3%, 2% organic, driven by Elite, FindLaw and the global legal businesses, including Latin America.

Finally, our fast developing global growth businesses grew 19% in the quarter, 8% organic and now represent about $900 million in annual revenue. For reporting purposes, those GGO numbers are included within the appropriate business segment results.

If there was one word I would use to characterize our formal Professional division businesses it would be consistency. Our Legal, Tax & Accounting and IP & Science businesses continue to achieve good results and on a combined basis recorded their seventh consecutive quarter of 5% plus growth. We are reaping the rewards of the investments we've made in these businesses over the past several years as we have strengthened our market position and we are achieving profitable growth.

This solid performance is a result of having had a clear strategy and playbook, having a deep understanding of the markets in which we operate, staying close to our customers, focusing on where we can win and investing behind those opportunities has led to consistent results quarter after quarter. For example, while we have been rejuvenating Legal's core legal research business, by investing in products such as WestlawNext, we have also been investing for growth as we evolved to more of a solutions business.

This mix effect resulted in 60% of Legal's revenues growing 7% in the second quarter and improved retention rates reflecting customer satisfaction in our products. We are working to provide a full suite of services to law firms thereby enabling them to operate more effectively and efficiently, the critical objective we regularly hear from our law firm partners.

And we are doing the same thing for their corporate customers. With special offerings for general counsels that help them manage their complex mix of legal matters and outside law firm relationships, no other company is better suited to connect the entire legal community than Thomson Reuters.

Our Tax & Accounting business was ahead of the curve over five years ago as it began to build a holistic offering for corporate tax and accounting professionals, which is our ONESOURCE product offering. Today, we are extending that leadership with growing positions in rapidly developing economies and by serving governments around the world.

And our IP & Science business is executing a similar playbook as it puts some more commercial skin on its products and services. I am confident that the acquisition of MarkMonitor will put us on a path toward an even faster growing, highly profitable, intellectual property business over the next several years. More on this in a moment.

Now let me turn to our Financial & Risk business. Year-to-date revenue performance, though tepid, has held up relatively well despite growing headwinds in the global financial services industry. I am pleased with the operational progress we continue to make. We are controlling those things within our control and our competitive position is improving by the day. Customers are noticing the difference.

I am encouraged for a number of reasons. First, we now have a robust pipeline of new products being launched on time, on budget and to good reviews. Second, Eikon is gaining traction, up 20% this quarter and as I sit here today, we are no longer selling Reuters 3000 Xtra to new clients in the FX, fixed income and C&E sectors where Eikon is our premium desktop solution.

This withdrawal marks an important milestone in our commitment to Eikon as our primary desktop platform. And we expect this story to continue across other asset classes as we deliver against the Eikon roadmap. We are delighted that customers now see Eikon as a compelling product with rich functionality and content.

Third, customer satisfaction is up. We have seen a marked improvement in customer satisfaction scores through the first half of the year. Earlier this year, I noted how important it was that we dramatically improve customer experience. I am pleased to see we are making progress. And lastly, net sales in F&R continued to show improvement in Q2, though they remain negative. So Q2 was better than Q1 and Q1 was better than Q4. The moves we are making are having an impact where they matter most -- with our customers.

But many of those customers are hurting right now. It is fair to say the external environment is worse than we had expected at the beginning of the year, particularly in Europe and with the big global banks. It goes without saying this makes it more challenging for us to gain good visibility. Nevertheless, we continue to work toward improved sales performance over the balance of the year. Ultimately, the external environment will determine the timeline for when we return to a positive growth footing in F&R.

While we remain confident in the trajectory of our business, achieving positive net sales in the fourth quarter will be challenging if the market environment continues to deteriorate. Against this backdrop, we will continue to focus on the things within our control, to keep close to our customers, to improve our ability to execute and to focus our investments on supporting our many areas of strength.

So allow me to elaborate on what I mean when I discuss investing behind our strengths. We recently announced our intent to acquire FXall and MarkMonitor. Both of these acquisitions will represent a deployment of capital in the foundational assets supporting key growth businesses such as foreign exchange and intellectual property management.

FXall is a fast-growing, highly profitable business that has a leading position in the dealer-to-customer FX workflow. It is highly complementary to Thomson Reuters's position in the interdealer and FX desktop segments. FXall is used worldwide by over 1300 institutional clients, primarily on the buy side. We were particularly pleased with the positive feedback from our customers following the announcement.

MarkMonitor is a leading provider of domain name management, online brand protection and Internet anti-piracy solutions, bringing together the MarkMonitor brand and domain capabilities with our existing IP management assets will give Thomson Reuters an opportunity to be a leading provider in the fast-growing online brand management space for years to come.

As I said on our Q4 call in February, we will continue to shift our investment toward higher growing segments and close adjacencies across the business. Both of these acquisitions are prime examples of that strategy.

Let me conclude by saying that I am pleased with the continued resilience of the vast majority of our businesses. Legal, Tax & Accounting and IP & Science not only are proving the reliable, stable profit engines we have come to expect, they are also finding ways to grow even in challenging markets.

In Financial & Risk, I am pleased with the operational progress we are making. The team is executing well against our strategy. We continue to push for faster growth in markets and businesses where we have strong positions, particularly at the intersection of regulation and finance.

Governance, Risk & Compliance is a $6 billion market that will continue to grow strongly over the next five years and there is no one better positioned to capitalize on that opportunity than us.

We will also continue to invest in fast-growing geographies, managed by our Global Growth & Operations group, where we have built strong positions by leveraging our platforms, talent, know-how and financial wherewithal and where we are achieving good success.

Nevertheless, we understand that the global financial services market is likely to remain challenged and therefore, we will give equal attention to the cost side of the equation and we will cut our coat according to our cloth as we work to balance our focus on growth with the imperative of maintaining profitability. With that, let me turn it over to Stephane.

Stephane Bello - *Thomson Reuters - CFO*

Thank you, Jim. As Frank indicated earlier, I will speak to revenue growth before currency throughout today's presentation. Reported revenues are also highlighted on each slide. In total, our second-quarter revenues were up 3% with acquisitions contributing 2%. Adjusted EBITDA was up slightly from the prior year with a corresponding margin of 28%. The elimination of integration expenses and higher revenues were offset by higher expenses in Financial & Risk aimed at improving product offerings, customer service and customer administration as Jim just explained.

Underlying operating profit decreased 8% and the corresponding margin was 19.3%, a decline of 190 basis points due to the previously mentioned factors, as well as higher depreciation and amortization from investments we made in prior periods. Foreign exchange had a 20 basis point negative impact on our operating margin during the quarter.

Now let me briefly discuss the second-quarter results for individual business segments starting with Legal. Overall, growth in the US legal market remains muted, yet we continue to see good growth in areas away from core legal research. Based on our Peer Monitor Index, second-quarter demand for legal services moved to flat from slow growth in the first quarter. Transactional practices such as M&A, real estate or bankruptcy contracted while the litigation practices were broadly flat.

While we have seen a slowdown in gross sales during the quarter due to this environment, this was in part offset by higher retention rates, which reflect the better retention profile of WestlawNext. We have now converted 69% of our annual contract value to WestlawNext and are on track to achieve our 75% conversion target by year-end.

During the second quarter, Legal's overall revenues were up 3%, 2% on an organic basis. If you break down the second-quarter growth rate by revenue type, subscription revenues were up 2%, transaction revenues were up 15% while US print revenues were down 1%. We are expecting somewhat slower revenue growth in the third quarter due to print timing with growth rebounding in Q4. Since print is a highly profitable business, this is likely to have a dampening effect on Q3 margins.

Now looking at the performance of the three subsegments in our Legal business, US Law Firm Solutions, which is our largest subsegment, with 55% of the revenue base, grew 2%. This was driven by a 17% increase in Business of Law, while research-related revenues decreased 2% versus the prior-year period.

In Corporate, Government & Academic, revenues grew 5%, all organic, driven primarily by the strong performance of our legal process outsourcing business. And finally, revenues in our Global Legal segment were also up 5%, 3% organic and this was once again driven by strong growth in Latin America, which was up 7% during the quarter.

So in aggregate, you can see on this slide the continuation of the revenue dynamics we experienced in the last two quarters. While revenues derived from core legal research sold to US law firms declined 2%, the balance of the business, representing 60% of legal [store] revenue base grew by 7% during the quarter.

As we discussed before, these revenue dynamics drive some downward pressure on margins as our declining core legal research business enjoys higher margins than the other fast-growing businesses in the portfolio. This is reflected in the Q2 results. EBITDA was up slightly versus the prior year, but the margin was down 60 basis points, primarily due to the change in business mix, which by itself cost an 80 basis points negative impact on the margin. Operating profit was flat and the margin decreased 40 basis points and for the first half of the year, revenue grew 3% and our EBITDA and operating profit margins were both flat.

Tax & Accounting had another good quarter. Revenues were 25% of which 5% was organic driven by acquisitions, revenues derived from our ONESOURCE platform and software sales to professional accounting firms. In the quarter, EBITDA grew 22% and this was the eighth consecutive quarter of double-digit EBITDA growth. Operating profit increased 19% with the margin down 70 basis points due mainly to the dilutive impact from recent acquisitions. These acquisitions continue to perform well and we have high expectations for our government tax automation business. Governments around the world are seeking ways to increase the effectiveness of their tax policies while also seeking ways to improve tax collection management by modernizing their tax automation systems.

Also, please remember that Tax & Accounting is a seasonal business with a significant proportion of its operating profit traditionally generated in the fourth quarter. For these reasons, full-year margins are more reflective of the segment's underlying performance.

The IP & Science business achieved revenue growth of 4% in the second quarter, all organic. Growth was driven by a 4% increase in IP Solutions and a 5% increase in Life Sciences. Scientific & Scholarly Research revenues increased 3% driven by growth in Web of Knowledge and other publishing solutions. Again, I'd like to remind you that the quarterly revenue growth for IP & Science can be uneven due to the impact of large sales in our Scientific & Scholarly Research business. EBITDA and operating margins both expanded during the quarter and for the first half, EBITDA was up 7% with the corresponding margin up 130 basis points.

Now turning to our Financial & Risk business, revenues were up 1% with a 2% contribution from acquisitions, so organic revenue was down 1% in the quarter. Recurring revenues, which represent 76% of F&R revenues, were flat as acquisitions and the benefit of a price increase were offset by the impact of negative net sales in the last several quarters. Excluding acquisitions, recurring revenues were down 1%. Transaction revenues were up 4% due to Tradeweb and acquisitions, which offset lower foreign exchange values. Excluding acquisitions, transaction revenues were down 3% organically, which was in line with the first-quarter decline.

Recoveries revenues were up [a full] 1% and [outright] revenues were down 3%. EBITDA and operating profit both declined during the quarter and this was attributable to two main factors. First, the decline in organic revenues had a 100 basis point impact on margins. And second, as explained by Jim earlier, we needed to make some investments in new products to strengthen our pipeline and we also made investments to improve our execution capabilities in areas such as customer administration and customer service. Let me underscore that these investments are reflected in our full-year [audit].

Now I'll briefly review the results for the individual segments within Financial & Risk. Trading revenues declined 2%. We experienced solid growth in our commodities and energy and data feeds businesses. However, this was offset by desktop cancellations in exchange-traded instruments and fixed income. Investors revenues declined 1% with enterprise content revenues up 4% offset by a 5% decline in Investment Management due to weakness in Europe and global banks. While Investment Management is still negative, this represents a sequential improvement as compared to the 10% decline we incurred in the first quarter. Wealth Management and Investment Banking were unchanged versus the prior-year period and our Corporate segment was up 2%.

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Marketplaces revenues increased 6% driven by acquisitions and Tradeweb, which grew 24% in the second quarter, 6% organic. Foreign exchange revenues declined just under 1% impacted by lower transaction volumes compared to the prior-year period. Foreign exchange volumes declined 7% year over year as a number of currency [pairs] traded in the narrow range.

And finally, our GRC business continues to perform strongly with revenues increasing 18% organically. There has been a strong interest in our new Eikon for Compliance Management product, which we just launched during the quarter.

Now let me turn to our consolidated results. Our second-quarter adjusted EPS was $0.54 per share, a $0.03 increase versus the year-ago period. The $0.03 increase was attributable primarily to the elimination of integration expenses and lower taxes offset by lower underlying operating profit. Foreign exchange also had a $0.01 negative impact on EPS.

Our effective tax rate in the quarter was 17% and it is still early in the year, so we are not altering our outlook at this time for a full-year tax rate between 21% and 23%. However, based on our year-to-date experience, it looks more likely that we will be at the lower end of that range.

Turning to free cash flow, we reported an $81 million improvement in reported free cash flow for the first half of the year. And more importantly, free cash flow from ongoing businesses, which excludes cash flow from businesses which have either been sold or put up for sale over the last 12 months, was up $134 million or nearly 30% better than a year ago. Approximately $100 million of this improvement came from the elimination of integration spending with the balance coming from lower cash tax payments and lower capital expenditures. Year to date, CapEx spending was 7.5% of revenue, in line with our guidance of 7.5% to 8% for the full year.

We are pleased with our [first-year] performance, but it is not indicative of the full year. We are reiterating our full-year outlook as some of the benefits from lower cash taxes and capital expenditures are timing-related.

Now let me discuss our 2012 outlook, which we reaffirmed today. We continue to expect revenues to grow low single digit. We also expect our EBITDA margin to range between 27% and 28% and our underlying operating profit margin to range between 18% and 19%. The acquisitions announced to date are expected to have a dilutive impact on consolidated margins this year, but this impact is not expected to push us outside of our full-year margin guidance, which we have provided earlier this year.

For the third quarter, we expect a sequential decline in EBITDA and operating margins and Q3 is expected to be the trough for year-over-year profit growth. However, as we highlighted in the first-quarter earnings call, we expect a more pronounced improvement in total company margins in the fourth quarter, both sequentially and on a year-over-year basis, due to the elimination of reorganization costs and integration expenses, which were incurred in the fourth quarter last year. Our reported free cash flow is expected to be up 5% to 10% while free cash flow from ongoing businesses is expected to increase between 15% and 20%. With that, let me turn it back over to Frank for the questions.

Frank Golden - *Thomson Reuters - SVP, IR*

Thanks very much, Stephane and operator, we would now like to open the call for questions please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Drew McReynolds, RBC.

Drew McReynolds - *RBC Capital Markets - Analyst*

Yes, thanks very much and good morning. Just my one question just in and around Investment Management, Stephane, you just alluded to the sequential improvement from Q1 to Q2. And if I look kind of back to Q4, you did negative 4%, then negative 10% in Q1 and then negative 5% in Q2. Just wondering is this certainly kind of a trend, straight-line trend. I think for a subscription business, I am just interested in the volatility from quarter to quarter and just was wondering whether that had to do with the kind of seasonal timing of cancellations or contract renewals. And just a related question, can you just update us on where Eikon deployment is for this segment? Thank you.

Stephane Bello - *Thomson Reuters - CFO*

Sure. On the trend for Investment Management, the decline we experienced in the first quarter was probably not reflective of the trend. The 10% decline we experienced in the first quarter was higher than the trend that you will see.

Look, our focus on Investment Management has really been to work on improving the retention rate in that segment while we are building the capabilities to essentially start providing new products. We started rolling out Datastream for Investment Management across the globe, which before that was only confined to regions outside of the US and we are experiencing some success with that deployment. However, Investment Management is at probably the tail end of the Eikon deployment and as such, in the US, we do not expect to be able to deploy Eikon until the latter half of 2013. So that obviously continued to weigh on the growth rate that we see in Investment Management going forward.

Operator

Sara Gubins, Bank of America.

Sara Gubins - *Bank of America-Merrill Lynch - Analyst*

Thank you. I just wanted to confirm your comments about 2012. It kind of sounds like underlying operating margin will probably be in the lower half of that 18% to 19% given acquisitions. Is that fair?

Stephane Bello - *Thomson Reuters - CFO*

Look, as I said, we haven't changed the guidance, but as we put the guidance forward, we knew that we were going to have to do some acquisitions -- we would do some acquisitions and we expected these to be dilutive. So obviously as we do these acquisitions, we do them in a measured way, in a way that enables us to stay in the guidance, but obviously they have a negative impact on margins, but not, as I said, not enough to push us outside of the range.

Operator

Peter Appert, Piper Jaffray.

Peter Appert - *Piper Jaffray - Analyst*

Thanks. Stephane, can you give us any incremental color on the negative net new sales in the current quarter? You said I think it was better than the first quarter, but any further quantification of that? And also just any color on pace of cancellations you are seeing?

Stephane Bello - *Thomson Reuters - CFO*

Sure, Peter. Jim mentioned right net sales in the quarter were still negative; they were better than in the first quarter. So I would say there were marginally better than the first quarter. So we see an improvement, which is by itself good given the deteriorating environment that we are facing. But the improvement was modest in the second quarter as we continue to see and receive tremendous pressure from our customers in terms of headcount reductions that they are implementing and that we see having an impact on the number of desktops being sold. So I mean Q2 was directionally better than Q1, but it was a modest improvement.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

Thank you. Staying on Financial & Risk, given you have had negative net sales year to date and you're now, given the macro environment, fully understandable, a bit cautious about getting positive by Q4, it sounds like you will have a negative flow into 2013. So I am wondering about margins in that segment. Is there anything you can do if you continue to have flat or even negative revenues through 2013 to give us confidence that we won't see a pretty substantial drop in margins given the high fixed cost base?

Jim Smith - *Thomson Reuters - President & CEO*

That is a very good question and in my comments, I deliberately noted that we were going to take a very thorough look at '13 and that we would be very measured in balancing the need to continue to get growth with the absolute imperative to maintain profitability.

The truth of the matter is that as we get better clarity into the cost base, particularly in F&R, I see increasing opportunities for us to keep the cost structure under control and appropriate to whatever the external environment might be.

Operator

Suzi Stein, Morgan Stanley.

Suzi Stein - *Morgan Stanley - Analyst*

As you look at your portfolio in Financial & Risk, it seems like you are selectively making acquisitions, but is there an expectation that there will be any significant disposals to rationalize your business? And then you talked a lot about the macro environment, but can you just comment on the impact that the competitive environment is having on the space?

Jim Smith - *Thomson Reuters - President & CEO*

Sure. So two questions there. On the first one, I think we will pursue the same strategy that we have pursued for a long, long time, first at the old Thomson Corporation and then at the Professional division, which is to work very hard to execute a growth strategy and to invest behind the places where we can win. We have a number of those fronts we are sizing up right now. We have a number of those initiatives we're working and if we can find a way to grow and a way to be really competitive in the space and a place to win, we are going to invest behind it.

By the same token, as we try to work our growth strategy, sometimes we conclude that our resources are better spent elsewhere and we will exit those spaces and we are just in the process right now of kind of working the growth strategies across the face of the Financial & Risk business and

I would expect that we would continue to take judgments on various segments and various businesses as we have done continually over the past years on the first space.

When it comes to the competitive environment, frankly, as I noted, our competitive position improves by the day and I think that, frankly, we are far better positioned competitively today than we were at the beginning of the year and frankly, we are holding our own in a tough marketplace right now. But we are holding our own with an improved position.

Operator

William Bird, Lazard.

William Bird - *Lazard Capital Markets - Analyst*

Can you give us a sense of just your point of view on when you are likely to hit the trough quarter for F&R? And maybe you could talk a little bit about just some of the insights you are gleaning from pushing corporate costs down to the business units and where you are in that process. Thank you.

Stephane Bello - *Thomson Reuters - CFO*

Sure. It is hard to predict where we are going to hit the trough for F&R. It really depends on the external environment. What I can certainly say is that we have been experiencing negative net sales now for a number of quarters. We have seen a slight improvement in the trend of the negative sales in the last couple of quarters, but obviously our revenues are still going to be impacted by the net sales performance we had in the last fourth quarter and the balance of 2012 and 2013. So it is very hard to call the trough given the uncertainty and unpredictability of the external environment, frankly, at this point in time.

And with regard to your second question, what you are referring to I think is the fact that we are trying to push down costs that was managed centrally within F&R down to the segments of F&R and we continue to make progress there and this is absolutely critical as we enter the 2013 budget and plan period. We see that we are much better equipped than we were last year at this point in time. We have essentially now pushed down on average about 60% of the cost basis of F&R to the segments and about two-thirds of that money is controlled directly by the segments and another third is essentially managed at the center, but with the levers clearly in the hands of the individual segments. So it becomes easier for us to identify -- to be much more surgical in terms of looking at the customers trying to identify areas where we need to make cuts going forward.

Operator

Adam Shine, National Bank Financial.

Adam Shine - *National Bank Financial - Analyst*

Thanks a lot. I guess one question on margin for Stephane, another margin question for Jim as well. With respect to F&R and the spending in Q2 related to customer service and administration, are these costs that sort of reset the cost base going forward or were they one-time in nature in the Q2?

And as it relates to Legal, Jim, you talked about a changing mix. Was this a one-time issue as it related to the 60 or 80 bps decline in margins related to mix in Q2? Or similar to Vince's question earlier, do we see margin pressure as the mix changes going forward into 2013?

Stephane Bello - *Thomson Reuters - CFO*

Let me try to take both questions starting with your question on Legal. The mix issue is not a one-time issue. It is essentially reflective of the change in revenue mix you see in the portfolio. So what is happening is that we have the 60% of the portfolio that is growing at 7% has lower margins and actually these margins are improving as we gain scale in these new sectors, but as they are like smaller segments, we don't quite yet have the scale that the core legal research business has.

And so what is happening essentially is that you are seeing dynamics which are in a way positive or accretive from a growth perspective because the portion of the portfolio that is comprised of these high-growth businesses gets bigger and bigger. So obviously it has a dilutive effect on margins and what I mean by that is that even if the margin of each group, if you want, the high-growth business and the core legal business remain the same, just simply because of the growth dynamics, you see mathematically a negative impact on margins.

So what our legal business is doing essentially is two things. Number one, trying to gain scale as quickly as possible in these faster-growing businesses so that we can improve the margins there and we are essentially doing that. And second, looking sharply at the cost basis in the core legal just to make sure that we adjust the cost structure as we don't experience the growth that we used to have there.

Let me remind you this is not a new phenomenon; this is something we have been dealing with for the last -- probably for the last three years or so and we have been able in the last three years to do exactly what I just described, meaning keeping the margins pretty robust while we are improving the top line by investing behind higher growth segments. So certainly not a one-time quarter, something we've experienced for a while, something we're going to continue to experience for a while also.

Now turning to your question about the costs we incurred in F&R. Well, that is really a couple of things. It is product development and it is, frankly, adding people to our customer administration and customer service department so that we can improve customer experience. This is not a one-time Q2 event. As I said, we have improved the level of service and so we essentially had to do that in order to improve the competitive position in the marketplace. And as Jim mentioned, we are pretty pleased to see some impact of these actions. And as Jim said also, as we enter the 2013 plan period, we are carefully reviewing our cost structures just to make sure that we can accept these increasing cost reductions elsewhere.

Operator

Tim Casey, BMO Capital Markets.

Tim Casey - *BMO Capital Markets - Analyst*

Good morning. Could you contrast I guess the net sales in the underlying performance in F&R between Europe and North America? You highlighted that obviously Europe has got its challenges. Is there a material difference in the performance of that unit by geography right now or is it all feeling the pain?

Stephane Bello - *Thomson Reuters - CFO*

Look, we are feeling the pain across the globe, but it is clearly where we are having the largest amount of negative net sales is in Europe by a pretty large margin, I would say. And that is not surprising when you look at what is happening in the external environment, but there is clearly like a pretty large negative drop in Europe at this point in time.

I would say I mean to give you another perspective, net sales are about 3 times more negative in Europe than they are in the Americas to give you an order of proportion.

Operator

Doug Arthur, Evercore.

Doug Arthur - *Evercore Partners - Analyst*

Yes, just a question on the Marketplaces business, which formerly Enterprise. Organic growth, very strong in '11, mid-single digit in Q1, 1% in Q2. Is that timing? Is it -- you cited the foreign exchange-related revenue declined in the quarter. So is that sort of a cyclical issue? I mean what is going on there and what is the outlook?

Stephane Bello - *Thomson Reuters - CFO*

So Marketplace is comprised of two main businesses; it is our Tradeweb business and it is our foreign exchange dealing and trading business. And as I mentioned on the call, Tradeweb continues to do pretty well. They grew 6% organically during the quarter. That is down a little bit from the growth rate that we were experiencing last year, but it is still a pretty appreciable growth rate that we see.

And the foreign exchange business, which really is not the Enterprise business, it is something -- it is a different business. The foreign exchange business, as I said, was down marginally, just about 1%, during the quarter and that really reflects I think mainly lower volumes that we are seeing in the market. So I mean in terms of trends, again, this is a business that is very heavily transaction-driven, so it is one of the places that is the hardest to predict for that reason.

Operator

Brian Karimzad, Goldman Sachs.

Brian Karimzad - *Goldman Sachs - Analyst*

Good morning, gentlemen. I wonder if you could first give us an update on the progress of selling those three businesses you put on the block at the beginning of the year, which I think Property Tax Services, the Law School Publishing business and a little bit of Wealth Management in there. And then perhaps help us understand why the revenue in those businesses has declined about half from the $500 million first-half run rate last year.

Stephane Bello - *Thomson Reuters - CFO*

Okay, well, I mean the three divestitures that we announced earlier this year are progressing well. I would say we're in the final negotiation stage for those divestitures. So we're hopeful that the three deals should be signed in the third quarter, during this quarter.

And with regard to your second question, I'm not sure exactly what you're referring to, but I think that what drives the decrease in revenues from disposals is mainly the Healthcare business, which we divested earlier in the quarter. And that was a much larger business that we had for the entirety of the second quarter last year and which we sold earlier in the quarter. So that is what has driven the big drop in revenues. Hopefully that is what you were referring to.

Operator

Nick Dempsey, Barclays.

Nick Dempsey - *Barclays Capital - Analyst*

Yes, good morning, guys. First of all, just looking at the investigation into the Municipal Market Data Index, which you guys run, I wonder if you could be in any way liable if they discover any foul play in the compilation of that index or is that not something we should worry about.

And the second question, just going back to net sales at F&R, can you remind us how you think about the lag between net sales growth and when they impact on divisional revenue growth or how precise can you be?

Stephane Bello - *Thomson Reuters - CFO*

Okay, I will take the net sales question first. You see the impact of the net sales performance (inaudible) through revenue over really the ensuing 12 months, so it is a pretty long lag effect that you are expecting to see. And with regard to your other question, I will probably turn it over to Jim to answer your first question.

Jim Smith - *Thomson Reuters - President & CEO*

Yes, sure. Obviously, on a number of these regulatory fronts, we get lots of questions just across the board on these issues and we are always very forthcoming and cooperative with all regulatory agencies on all the matters that they are investigating. But at this point, we do not believe we have any exposure at this point at all.

Operator

Phillip Huang, UBS.

Phillip Huang - *UBS - Analyst*

Good morning. My question is on the legal side. We have some increasing softness in the US core Legal margin recently as Stephane had mentioned earlier, particularly in litigation where it has turned flat in Q2 after six consecutive quarters of growth. Do you see the challenges sort of persist through the remainder of the year into next year? And also unlike the prior cycle, you now have stronger growth outside of core Legal. I was wondering if you believe overall Legal organic revenue can lead to positive growth in the foreseeable future. Thanks.

Stephane Bello - *Thomson Reuters - CFO*

Well, hard to predict what the litigation market will do in the US. It has been -- I would say, demand for legal services has been kind of, I would say, around flat since early -- since say the third quarter 2009 after incurring a bigger decline for the 12 months prior to that period. Hard to predict where that is going to go. What we focused on is really to make sure that we don't pin our hopes for organic growth in the Legal business on our core legal research segment.

It is really -- the whole strategy was really to essentially invest heavily behind broader solutions that we offer to our customers away from core legal research. And I mean thankfully we have been reasonably successful in that endeavor and that is why you're seeing now organic growth rates for our Legal segment, which are frankly above what you would expect if our business had been just constrained to core legal research and that is what we aim to continue doing and that is how we hope to be able to continue to deliver what are attractive organic growth rates for the business relative to competitors and relative to what the market would give us if we were, as I said, purely invested in core legal research.

Frank Golden - *Thomson Reuters - SVP, IR*

Operator, we would like to take one final question please.

Operator

Matt Walker, Nomura.

Matt Walker - *Nomura - Analyst*

Thanks very much. Just a couple questions please. The first is in -- the first is actually on the Legal business. I think the WestlawNext, the usage is actually, if I am understanding rightly, the usage is going down because the searches are faster. What is going to be the pricing mechanism going forward because you used to look at how much people use the product and then sort of charge them accordingly. So is there a new kind of charging model coming along?

And the second question is on the markets business, is there some project -- obviously you are investing in some of the existing products. Is there something that you are working on, a terminal or a product, which goes beyond Eikon to sort of a next-generation product?

Jim Smith - *Thomson Reuters - President & CEO*

Well, I can try to take a stab at both of those. I think in the Legal business, you are right. The time spent online has gone down because the searches are dramatically faster. They are just dramatically faster and more thorough and you get to the right answer a lot quicker. At this point, that has not changed the dynamic in any negative way. It has, in fact, changed it in a positive way because what we are seeing is increased renewal rates for people who are using WestlawNext.

So that is a very positive thing and we also, particularly over the first half of this year, have taken a very, very strong stance in holding the line on our pricing models and we have added more and more transparency for our customers in explaining to them why they're being charged what they are being charged and how much more effective the product is. And to date, that is holding and it has been quite successful and we have been quite pleased with renewal rates of having that better product.

I do think it is safe to say that we have seen a steady decline over the last three years I think in our ancillary revenues of customers paying by the drink when they search outside of their plans and I think that is just again an ongoing trend and predictability is important. So we, when renegotiating contracts, have been rolling more things into the plans and trying to provide more predictability and transparency for our customers. I think that is something that is here to stay, but to date faster search has resulted in happier customers and improved renewal rates. So I think that is a very good thing.

As far as beyond Eikon, we have a number of products in the works that I think are very, very compelling. One lesson we have learned from the past is that we are not going to be trumpeting new products before we know that they are scalable and they are ready to be released on the market, so I will keep quiet about that for now. But it is fair to say that, while we are working to roll out the current generation of Eikon, making it better and better and better with each product release and while our customers are very happy with it, we have no shortage of ideas for how we can continue to improve Eikon and continue to offer innovative products and services to our customers. So we are pretty excited about the way the product pipeline is shaping up for the next couple of years.

Frank Golden - *Thomson Reuters - SVP, IR*

Thanks, Jim. That will conclude our call and we would like to thank you for joining us today.

Operator

Thank you. Ladies and gentlemen, this conference call will be available for replay starting today after 10.30 a.m. going through August 7 at 12 midnight. You may access the AT&T teleconference replay system by dialing 1-800-475-6701 and entering the access code 254380. For international participants, the number is 320-365-3844. Again, those numbers are 1-800-475-6701 and 1-320-365-3844 with an access code of 254380. That does conclude your conference call for today. Thank you for using AT&T executive teleconference service. You may now disconnect.