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EDITED TRANSCRIPT

TRI.TO - Q3 2012 Thomson Reuters Corp Earnings Conference Call

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OVERVIEW:

TRI announced 3Q12 adjusted EPS of $0.54. Management reaffirmed its 2012 outlook.

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PRESENTATION

Operator

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

Frank Golden - *Thomson Reuters - SVP, IR*

Good morning and thank you for joining us as we report our third-quarter results today. 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 and I ask that you 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.

Now 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. Let me begin by apologizing for having to postpone our earnings release. Like many of you, we have been dealing with other critical issues related to Hurricane Sandy over the course of this week. Our priorities were focused on the safety of our 7000 employees in the storm's path and servicing our customers around the world. I am very pleased to report that all of our employees are safe.

Though many of them are dealing with personal challenges, I am incredibly proud of the way our team has worked to minimize the impact of Hurricane Sandy on our customers. The vast majority of our products and services were unaffected by the storm and continue to operate as normal. There was no impact to our Legal, Intellectual Property, Science, Tax or Accounting clients. Our next-generation financial platforms, Eikon and Elektron, performed well and critical services in Dealing, Matching, FXall and Tradeweb were unaffected.

We did have unexpected disruptions to a few services in a few regions primarily related to outages at data centers in New York City and New Jersey and last-mile connectivity problems at some customer sites. However, those issues have been relatively few and our services were completely restored as of my last check this morning.

I want to thank our customers for their patience as we have worked to keep services up and running. I am proud of the way our people have gone above and beyond to help our customers recover and I want to thank them as well.

Now to our results for the third quarter. Today, I want to cover three topics. I will begin with a review of the third-quarter results. Two, I will update you on the progress we have made over the past nine months against the priorities and strategies I outlined at the beginning of the year. And three, I will discuss the progress we are making and how that progress is shaping our thinking for 2013 and beyond. I will then turn it over to Stephane who will provide you with further details on the results for the quarter.

Our results year-to-date can be characterized as on track for the Company as a whole and in line with our prior discussions. Let me remind you that given the nature of our business, quarter-to-quarter comparisons often do not accurately reflect underlying performance of the business as compared to full-year results. As expected, our third-quarter results were weaker than our performance during the first half of the year due to a number of factors we will cover in greater detail in a moment. However, we knew Q3 would be our weakest quarter this year in terms of revenue growth and that margins would decline both sequentially and period-on-period.

That said, we remain on track to achieve our full-year 2012 guidance. Obviously, we have not been able to fully assess the impact of the storm, but given the largely recurring nature of our business, we do not anticipate that the impact on our Q4 results would be material.

In the third quarter, total revenues increased 1% with Legal, Tax & Accounting and IP & Science again reporting good performance. In aggregate, these three businesses were up 4%, lower than the first half rate of 8% and also lower than what we expect for the full year. Financial & Risk revenues were flat for the quarter in what continues to be a challenging and volatile global financial services market, particularly in Europe.

As a result of the lower growth in Q3, the EBITDA and operating profit margins both declined as expected. It is also worth noting that the year-over-year margin comparison was particularly challenging this quarter as Q3 last year was the high watermark for margins last year due to several timing factors. Adjusted earnings per share in the quarter were $0.54, unchanged from the prior-year period, helped in part by a lower-than-anticipated tax rate.

Let me remind you that, during the quarter, we acquired FXall and MarkMonitor, two acquisitions that buttress our position in two foundational businesses and markets, foreign exchange and intellectual property. They are reflective of the strategy we are employing to shift revenues towards markets and businesses with higher growth prospects and where we have leading positions. And as mentioned earlier, based upon our year-to-date performance, and our expectations for the fourth quarter, we are reaffirming our full-year 2012 outlook.

Now let me turn to our results by business segment. Financial & Risk's total revenue growth was flat for the quarter and organic revenue declined 2%. Growth in Marketplaces and Governance, Risk & Compliance were offset by weakness in Trading. Investors revenue was flat for the quarter; yet was its best performance since the second quarter of 2011.

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Revenues by geography saw the Americas up 1%; Europe, Middle East and Africa was unchanged; and Asia declined 1% due to softness in Japan. Tax & Accounting revenues rose 10%, 3% percent organic. IP & Science grew 3% from acquisitions and Legal's revenues increased 2%, 1% organic, driven by FindLaw, Elite and the global legal businesses, including Latin America.

As anticipated, US print revenues declined 9%, impacting Legal's overall growth rate in the quarter. Excluding print, our revenues in Legal rose 5% with organic revenues up 3%. We expect print revenues to decline again in the fourth quarter and for the full year, they will be down about 5% as law firms continue to be very cost-conscious.

And lastly, our global growth businesses continued to perform very well growing 16%, 8% organic. By year-end, these businesses will represent nearly $1 billion in annual revenues. For reporting purposes, the GGO numbers are included within the appropriate business segment results.

So our performance thus far in the year must be viewed in conjunction with the overall global economic environment, which continues to be challenging. Large global banks continue to be under pressure to reduce costs and despite improving net sales figures over the past three quarters, we expect F&R's net sales will be lower in Q4 than in Q3 due to the flow-through of cutbacks announced at several global banks over the past few months. That said, we expect Q4's net sales to be substantially better than Q4 last year.

Despite the environment, our customers are telling us they want a true partner, a partner they can engage with now and one that will also be there in the future to grow with them. We're working hard to meet their needs and we are seeing the results in improving trends. We have also made strides in achieving greater transparency and accountability, particularly in the Financial & Risk business. This is particularly encouraging as we put together our 2013 plans and make decisions around capital allocation and expense management.

We are also seeing a more rigorous and disciplined approach is beginning to drive results. Streamlining administrative and commercial processes leads to simplification, which leads to better customer experience and improved customer service. For example, onboarding new Eikon customers has been reduced from weeks to hours; customer satisfaction trends continue to improve, especially with Eikon customers. We also continue to launch new products such as Datastream Pro, Eikon for Compliance Management and while we upgrade our customers to a more robust and user-friendly Eikon desktop. And momentum is building with a number of Eikon customers now at approximately 26,000, up 35% from Q2.

And lastly, the F&R team has built targeted, pragmatic metrics enabling us to more accurately measure profitability, sales performance, product development, customer satisfaction and a variety of other items, which is enabling them to make better decisions faster.

On the back of this steady progress, we have great confidence in regarding what we can accomplish, which enables us to state that we are expecting good performance in the fourth quarter across the Company and we expect to achieve our full-year 2012 outlook.

So what does this mean for the balance of the year and for 2013? Well, the points you see on this slide are the 2012 key priorities I outlined earlier this year and we have made significant progress against each of them. As we near the end of the year, there is no question we are far better positioned to make informed decisions about where we should or should not allocate capital to achieve profitable growth and we certainly have a far better understanding of the real drivers of our business. We are confident we can return to mid-single digit organic growth rates by continuing our strategy of focused investment in higher growth businesses, which will enable us to gradually shift our revenue mix toward these higher growth segments thereby lifting the average growth of our portfolio.

However, the global financial services market is likely to remain challenged in the near term. And therefore, it is imperative that we continue to, one, push for faster growth in markets and businesses where we have strong positions and two, invest in fast-growing geographies where we continue to have success. This is the playbook we utilized when I managed the Professional division and we are now employing it across the entire Company and it is working.

But, in my view, it is not enough to focus only on the top line. As I said last quarter, and I want to reiterate again today, we will give equal attention to the cost side of the equation and we will cut our coat according to our cloth, to quote the saying. As we work to balance our focus on growth with the imperative of maximizing free cash flow and profitability in 2013 and beyond, we believe we can deliver attractive earnings and free cash flow growth over the next couple of years even in what is likely to remain a difficult environment from a revenue growth perspective. 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 third-quarter revenues were up 1% with acquisitions contributing 2%. So organic growth was down 1%.

As Jim mentioned earlier, quarter-to-quarter comparisons do not always accurately reflect the underlying trends in our business. This is why we believe that it is better to look at the full-year numbers, which eliminates some of the noise that may affect our performance in a given quarter.

Adjusted EBITDA was down 5% with a corresponding margin of 27.3% representing a decline of 120 basis points. The benefit from the elimination of integration expenses incurred in 2011 was offset by lower revenue growth and the timing of high-margin, one-time revenues in 2011 that did not repeat in 2012.

Our underlying operating profit decreased 15% and the corresponding margin was 18.5%, a decline of 310 basis points, due to the same factors that impacted EBITDA, as well as higher software amortization from investments made during prior periods.

Let me remind you that both our EBITDA and operating margin performances faced difficult year-on-year comparisons as margins in 2011 reached their peak in the third quarter.

Finally, foreign exchange had no material impact on our overall operating margin during the quarter.

Now, let me briefly discuss the third-quarter results for our individual business segments starting with Legal. As we indicated during the second-quarter earnings call, we were expecting a slowdown in growth for the third quarter for our Legal business driven by the timing of print revenues. Overall, growth in the US legal market continues to face headwinds; yet, we see good growth in areas away from core legal research. Gross sales during the quarter were up from the second quarter and retention rates, primarily due to WestlawNext, remain high relative to 2011. We have now converted 73% of our annual contract value to WestlawNext and so we're well on our way to achieve our 75% conversion target by year-end.

During the third quarter, Legal's overall revenues were up 2%, 1% on an organic basis. US print revenues, which accounted for just under 20% of Legal's revenues in the third quarter, were down 9%. Excluding these print revenues, Legal grew 5% in the third quarter, 3% organically. In fact, if you exclude US print revenues, the organic growth rate for our Legal business would have been a steady 3% in each of the first three quarters of the year.

Let me now briefly discuss the performance of the three subsegments within our Legal business. US Law Firm Solutions, which is our largest subsegment, grew slightly. This was driven by a 13% increase in Business of Law Services while research-related revenues decreased 3%. In Corporate, Government and Academic, revenues were up 1% and flat organically. This was driven primarily by the strong performance of our legal process outsourcing business. Now about 40% of this segment's revenues are from print, which explains the low growth rate this quarter.

Lastly, revenues in our Global Legal businesses were up 9%, 5% organic and this was once again driven by strong growth in Latin America, which was up 22%, about half of that organic. So in aggregate, 60% of Legal's revenues grew 6% in the third quarter while the remaining 40% core legal research sold to US law firms declined by 3% during the quarter.

EBITDA was up slightly versus the prior year and the corresponding margin was up 10 basis points. Excluding the benefit of foreign exchange, the margin declined by 40 basis points, largely due to the change in business mix -- that is the decline in our highly profitable core research business and the growth in other legal businesses, which have attractive margins, but just not as high as in Core Legal Research.

Operating profit was flat and the margin decreased 50 basis points. Again, excluding the benefit of exchange, the margin declined 100 basis points, primarily due to flow-through from lower print revenues and higher depreciation. For the nine-month period, revenues grew 3%, EBITDA margin was flat and operating margin was down 10 basis points.

Now turning to our Tax & Accounting business, revenues grew 10%, of which 3% was organic. Revenue growth during the quarter was driven by acquisitions, by revenues derived from our ONESOURCE platform sold to corporations and by software sales to accounting firms. This was offset by lower government-related revenues. As a reminder, Tax & Accounting faced a difficult comparison as the organic growth rate in 2011 reached its high watermark at over 8% in the third quarter last year.

In the quarter, EBITDA grew 3% and the EBITDA margin was 24.8%, a 120 basis point decline. The EBITDA margin decline was due to the dilutive impact of acquisitions and the flow-through of lower revenues in our government business. Operating profit decreased 8% with the margin down 230 basis points due mainly to the same reasons I just mentioned, as well as higher software amortization from acquisitions.

Tax & Accounting's recent acquisitions continue to perform well and as I discussed last quarter, we have high expectations from our government tax information business. Governments around the world are seeking ways to improve tax collection management by modernizing their tax automation systems. [It is being said] government-related contracts can be lumpy in that they can be large and fluctuate from quarter-to-quarter. In the third quarter, government revenues declined by 13% organically from the prior-year period. So if you exclude the government business, Tax & Accounting's organic growth rate would have been closer to 5% during the quarter versus the reported 3% growth rate.

Also, please remember that Tax & Accounting is a seasonal business with a significant proportion of its operating profit traditionally generated during the fourth quarter. For these reasons, full-year margins are more reflective of this segment's underlying performance. And for the nine-month period, revenues rose 22%, EBITDA was up 25% and the corresponding margin was up 110 basis points.

Our IP & Science business achieved revenue growth of 3% in the third quarter all coming from acquisitions. Growth was driven by a 3% increase in IP Solutions and an 8% increase in Life Sciences. Scientific & Scholarly Research revenues decreased 6% due to strong back-file sales recorded in Q3 2011 that did not repeat this quarter. As we say on every call, quarterly revenue growth for IP & Science can be uneven due to the impact of such large sales in the Scientific & Scholarly Research business.

EBITDA and operating profit both declined with corresponding declines in margins. The uneven nature of the revenue growth contributed to a 200 basis points decline in EBITDA margin while the acquisition of MarkMonitor negatively impacted margins by about 100 basis points. And as we said in the second-quarter call, the acquisition of MarkMonitor is expected to continue to cause margin dilution next year, but should rebound thereafter. For the first nine months of 2012, EBITDA was up 1% with the corresponding margin down 40 basis points.

Let me now turn to Finance & Risk where revenues were flat with a 2% contribution from acquisitions, so organic revenue was down 2% in the quarter. Recurring revenues, which represent about three-quarters of F&R's revenue base, were down 1% as the benefit from this year's price increase was offset by the impact of negative net sales in the last several quarters. Recoveries revenues declined 1% and outright revenues were up 2%.

Finally, transactions revenues, which represent about 10% of F&R's revenue base, were up 4% due to the acquisitions of FXall and Rafferty. However, organic transaction revenues declined 8%, reflecting lower market volumes across most asset classes over the summer. If you exclude transactions, organic revenue growth for F&R would've been minus 1%, which is in line with the Q2 performance.

EBITDA and operating profit both declined during the quarter. This was attributable to two main factors -- first, the decline in organic revenue at roughly a 200 basis points impact on margins. And second, we continue to make investments into the business to drive customer satisfaction, including product enhancement and better customer service and customer administration. These investments are yielding tangible results as we are seeing a gradual improvement in our customer satisfaction scores. As I mentioned last quarter, these investments are incorporated within our full-year outlook. For the nine-month period, revenue grew 1%, EBITDA was down 10% with the corresponding margin down 230 basis points.

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Now I will briefly review the results for the individual segments within our Finance & Risk business. Trading revenues declined 4%. We experienced solid growth in our commodities and energy and data feeds businesses. However, this was offset by desktop cancellations in equities and fixed income, as well as lower revenues in Omgeo related to the lower transaction volume environment.

Investors revenues were flat with Enterprise Content revenues up 12%, offset by a 4% decline in Investment Management due to weakness in Europe and Asia. While Investment Management is still negative, this represents a sequential improvement as compared to the 5% decline we recorded in the second quarter and a 10% decline in the first quarter. Wealth Management revenues were up 1%, Banking & Advisory revenues were down 1% and the Corporate business was also down 1%.

Marketplaces revenue increased 7% driven by acquisitions. Organic revenues declined 2% in that segment due to lower transaction volumes. For instance, foreign exchange volumes declined 23% year-on-year during the third quarter as a number of key currency [pairs] traded in a very narrow range.

And finally, our Governance, Risk & Compliance business continues to perform strongly with revenues increasing 17% organically. Demand continues to be strong for financial crime and reputational risk products.

Now let me turn back to our consolidated results. Our third-quarter adjusted EPS was $0.54 per share, unchanged from the year-ago period. The third-quarter EPS reflected lower income tax and the elimination of integration expenses, which were offset by lower underlying operating profit primarily from our Finance & Risk business. Foreign exchange had a $0.01 negative impact on EPS.

During the quarter, we favorably concluded negotiations with tax authorities in several jurisdictions that resulted in the recognition of about $100 million in prior-year tax benefits. As we have done in the past, we have excluded these benefits from our adjusted earnings. But those favorable negotiations will also provide an ongoing benefit and consequently, we have reduced our projected tax rate for 2012 and now expect our full-year 2012 effective rate to be between 16% and 18%. This in turn resulted in an effective tax rate of 11% for the third quarter, so the impact of the change in the third-quarter tax rate versus last year was about $0.05.

Turning to free cash flow, we reported a $97 million improvement in reported free cash flow for the first nine months of the year. More importantly, free cash flow from ongoing businesses, which excludes cash flow from businesses we have either put up for sale or sold over the last 12 months, was up $184 million, or nearly 23% better than a year ago. Approximately $150 million of the improvement came from the elimination of integration spending with the balance coming from lower cash tax payments and lower interest paid. Year-to-date CapEx spending was 7.5% of revenue, within our guidance of 7.5% to 8% for the full year.

We are pleased with our free cash flow performance for the first nine months of the year, but it is not indicative for the full year. We are reiterating our full-year outlook as some of the benefit from lower cash taxes and interest paid are timing-related. In addition, the businesses which we divested over the last 12 months generated about $80 million in free cash flow in the fourth quarter of last year, which we will obviously not benefit from in the fourth quarter of this year.

So let me conclude by saying that, as Jim mentioned earlier, we are reaffirming our full-year 2012 outlook today. The only change to our guidance relates to our effective tax rate, which we now expect to be in the range of 16% to 18% for the reasons I discussed earlier. With that, let me turn it back over to Frank for the Q&A session.

Frank Golden - *Thomson Reuters - SVP, IR*

Thanks very much, Stephane, and we would now like to open the call for questions, operator. So if we could have the first question, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Drew McReynolds, RBC.

Drew McReynolds - *RBC Capital Markets - Analyst*

Yes, thanks very much. Good morning. Just a question on the Legal business. Just with respect to the print business, you gave some nice granularity there in terms of the impact this quarter and what your expectations for going forward. Just wondering -- I know it is a heavily free cash flow-generative business, but given obviously the print world as it stands today and tomorrow, would there be any plans to ultimately divest the print business just to boost your organic revenue growth rate so that folks could see the kind of underlying electronic revenue trends a little bit better? Thanks.

Jim Smith - *Thomson Reuters - President & CEO*

I think that is a very interesting question. The truth of the matter is there is still a strong demand for it, even if you look within our US legal business, where that is still about $600 million or so of revenue. Every time -- it does prove to be the most cyclically-sensitive thing in our portfolio and every time we have hit a downturn, it is the first thing that gets hit.

But there is still a nice strong demand for print out there and certainly what we have seen in past cycles is that print is kind of the first thing to get hit and then as things improve, it stabilizes and then stays at a new level. So it is a sizable chunk of revenue and it is there because the customers like it. So we tend to try to provide the customers with what they want, so it is still an important part of the mix today.

And I think importantly, the same content is produced and served up online, so that is just another sales channel. We would do the same production, the same content gathering. The only difference would be the printing expense and frankly, it is highly profitable revenue for us.

So once upon a time -- I have been around long enough to remember the day where we used to associate all of the editorial costs with the print product and measure the incremental online sales. We are probably in a reverse position today where we should be thinking about it and actually we do think about it centrally now, but we should look at the incremental online print sales as something that subsidizes what we need to produce for our online product.

Drew McReynolds - *RBC Capital Markets - Analyst*

Okay, thanks, Jim.

Operator

Sara Gubins, Bank of America-Merrill Lynch.

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

Yes, hi, thank you. Jim, in your prepared remarks, you made some comments about expectations for F&R net sales to be worse in the third -- versus the third quarter, but up substantially year-over-year. I am just hoping you could -- first, I wanted to clarify that that is what you said. And then second, if that is right, do you think that the tide has turned and that you would expect continued year-over-year growth in net sales in 2013? And if you could maybe break out trends in the US versus international, that would be helpful as well. Thank you.

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Jim Smith - *Thomson Reuters - President & CEO*

Let me give you the high-level view and then I will turn it over to Stephane for the detailed and more granular explanation. We did say that net sales in Q3 were better than Q2, which was better than Q1, which was better than Q4. So we have had three consecutive quarters of improvement in net sales, still not in positive territory, but improvement.

We do expect that net sales in Q4 will not be as good sequentially quarter-on-quarter, right, but will be substantially better than we were in Q4 of the prior year. That is because just the number of contracts that we have in the renegotiation phase and the kind of cumulative effect of cutbacks that have already been announced in the marketplace.

So I would say, overall, what I feel is a great sense of momentum inside the business. Our gross sales performance continues to improve. We continue to feel very good in the marketplace. I think we are far better positioned competitively. It is just that, in the near term, the cutbacks at the big global banks and pressures in Europe make it difficult overall for us to get into that kind of positive territory.

As to projections about 2013, it is just too soon to say; although I can't imagine that we wouldn't be in a better position entering '13. In fact, I know we are in a better position entering '13 than we were entering this year. Stephane.

Stephane Bello - *Thomson Reuters - CFO*

Yes, and Sara, let me try to give you some additional color regarding the third-quarter net sales performance. I mean from a regional perspective, Europe continues to be by far the biggest drag. I would say over two-thirds of the negative sales performance was really caused by Europe, but all three regions -- Americas, Europe and Asia -- all showed sequential improvement from the second quarter in the third quarter.

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

Great, thank you.

Operator

Vince Valentini, TD Securities.

Vince Valentini - *TD Securities - Analyst*

Yes, thanks very much. Maybe I can expand on Drew's questions just to the overall portfolio of assets. Have you continued to review what may not fit with your vision going forward, Jim? There has been some talk about some of the subsegments in F&R, including Corporate, that may be on the block. So wondering if you can give us any update on your strategic thinking on other potential divestitures.

Jim Smith - *Thomson Reuters - President & CEO*

Yes, obviously, as you know, we don't comment on those things until we're ready to take some kind of action and that shouldn't imply that we're ready to take some kind of action. But certainly we always take the same critical look at all of our businesses and I just want to reiterate we don't do that and I certainly don't do that by sitting back with an investment banking approach to it and looking at sectors by sector, by sector and imagining what you might do with the portfolio.

We take the businesses that we are responsible for, we try and develop growth plans for them. We work really hard to see where the areas of opportunity lie. Then we go out to prosecute those growth plans that we have put together and where we are convinced we can win, we invest and we play. Where we are convinced that we are not going to win, we kind of get out and move on and invest behind the places where we can win.

We are at the place where we have developed those growth strategies across all of our businesses and we are at the place where we are testing those. And I am confident that there will be some that will prove to be just as attractive as we think they could be and there will be some where it is going to be more difficult for us to execute or where the capital might be better applied somewhere else. But it is just too soon for us to make that call and when we do make that call, we will let you know.

Again, I don't want to pull out this card too often, but we are kind of three-quarters into our first year in the role, both Stephane and I and I should say it took us a huge chunk of this first year, probably the first six months, to really get a granular grounding in the expense levers inside the business and what was actually going on. You will recall that we mentioned several times that in the old markets might business now, our F&R business, about 80% of the cost base was handled in the central bucket. We have now got a lot more visibility into that and that helps us kind of ground our thinking on each of the segments and come up with those growth plans. But we are pleased with the progress that we are making. It is just too soon to talk about any impact on the portfolio from that work.

Vince Valentini - *TD Securities - Analyst*

Okay, thanks.

Operator

Andrew Steinerman, JPMorgan.

Frank Golden - *Thomson Reuters - SVP, IR*

Go to the next question. Then we can come back to Andrew again and see if he's back.

Operator

Paul Steep, Scotiabank.

Paul Steep - *Scotiabank - Analyst*

Great, thanks. Jim, maybe you can talk, and I guess Stephane as well, but the major investment priorities in terms of product cycle heading into 2013 and what that would imply or not for free cash flow use next year? And just sort of adjunct to that, for Stephane, what sort of EPS opportunity or lift from refinancing? It looked like there is a decent amount of debt out there that could be refinanced at substantially lower rates. Thanks.

Stephane Bello - *Thomson Reuters - CFO*

Let me take the second question, Paul. As you know, we have been opportunistic in the past in looking at refinancing opportunities. So it is actually -- I don't have much more to say other than we are just in the midst of our annual capital strategic review and that is obviously one topic that is going to be part of it. So we are very conscious of the very attractive interest rate environment that we face currently in the marketplace and we will be opportunistic.

I mean our effective tax rate -- our effective interest rate, sorry, in the portfolio is reasonably low, but certainly can be lowered through some refinancing activities. So maybe more to say on this in future calls, but not at this time.

Jim Smith - *Thomson Reuters - President & CEO*

And as far as priorities for continued investment, I think it probably wouldn't surprise you that there aren't any big surprises there. As we've said all year, we have laid out kind of an eight-quarter plan for our platform migration on Eikon and Elektron and we will continue to prosecute that. That has been well laid out since the first quarter of this year and we are executing against it and will continue to execute against it. We have scheduled releases and scheduled migration plans in place throughout all of next year. We will continue to progress along there. If there is any chance for us to accelerate that, we will do so.

I think on the legal and regulatory side of the house, we have a very strong product pipeline. In fact, as strong as I have seen. We will continue to invest behind workflow tools that I like to call and talk internally about to get us out of the library and onto the desktops and iPads of practicing attorneys. So we have some exciting new product that will come out and be put into our sales channels at the beginning of next year and we will continue to iterate on those workflow tools.

In Tax & Accounting, the continued buildout of functionality both in our Corporate and Accounting Tax solutions and also growing around the world. As Stephane noted earlier, our new government sector in Tax & Accounting is more lumpy with more big sales to government than our predictable past business or legacy businesses, but it has also got a heck of a lot of opportunity around the world and we will continue to invest behind that. We are seeing great growth, particularly in Latin America there and I think we have opportunity to both continue to acquire in some foundational tools and content, but also to build solutions for specific markets.

So I think executing against the growth vectors that we have had in Professional for some time now will take priority and then completing and executing against the Eikon and Elektron roadmap in F&R will take priority.

Operator

Phillip Huang, UBS.

Phillip Huang - *UBS - Analyst*

Hi, good morning, guys. If I recall correctly, in the 2009 cycle, the then Markets division organic revenue declined for just four quarters and reached a trough at minus 6%. I know it is a little bit tough given the microenvironment is kind of beyond your control, but based on your current visibility, is it fair to assume that you expect the current cycle to have more of a shallower and perhaps a briefer dip for F&R organic revenue decline?

And also, this quarter, the organic revenue decline rate is partially impacted by the tough comps on transaction revenues. I was wondering if you could remind us when the comps become easier for transaction revenues. Thanks.

Stephane Bello - *Thomson Reuters - CFO*

Okay, let me try to take that question. On the second part of your question first, this is, if I recall and Frank and [Mark] could correct me if I am wrong, but I think this is the weakest quarter we have had, at least in the last eight quarters from a transaction revenue perspective. So it is a particularly tough comparison. Organically transaction declined by 8% in F&R and as I say, this is the weakest performance in the last eight quarters driven really by the environment. It is not reflective of any kind of share (inaudible). It is purely reflected by the environment.

In terms of the first part of your question, we have been in this last downturn now for a number of quarters and as you have seen, F&R has been able to keep the organic growth rate. Although the organic growth rate has turned negative; it is minus 2% now. We are not seeing the same negative numbers as we saw earlier. It is hard to predict what it will be going forward, but I would say based on what we have seen so far, and the net sales activity that we have seen so far, we do not expect it to go back to the levels that we have seen in prior cycles.

Operator

Adam Shine, National Bank Financial.

Adam Shine - *National Bank Financial - Analyst*

Thanks a lot. Jim, you highlighted maybe one question or so ago in regards to the evolution of the Eikon roadmap heading into next year. Clearly, it is one of your priorities. Certainly progress was made sequentially in this Q3. Can you talk about sort of where the inroads were achieved to drive some of the incremental Eikon desktops?

And number two, you highlighted earlier regarding the number of contracts perhaps up for renewal or in discussion now. Can you maybe talk about sort of the pricing dynamic and the ability to drive sort of the annual 2%, 3% price increases in the face of the market backdrop? Thanks.

Jim Smith - *Thomson Reuters - President & CEO*

Yes, sure. I think we made Eikon progress across the board. So obviously it is stronger in places where the products built out with greater capability and as we like to say, more fit for purpose. So commodities in energy and in FX and lots of areas where we have great functionality and content kind of lead the way, but we saw progress across the board in Eikon. And behind the scenes, we are continuing to make great progress in building out capabilities for other sectors and in working very closely with our customers to build out the capabilities that they need on their trading desks and on their floors and in their businesses. So our progress on Eikon is really across the board and quite encouraging as to our competitive position.

The second part of your question, could you clarify again?

Phillip Huang - *UBS - Analyst*

Yes, just talking about the ability to drive annual price increases in the face of the market backdrop.

Jim Smith - *Thomson Reuters - President & CEO*

It is one of the, I guess, surprising aspects of this time in that we are still able to command price. And it is interesting when we look at our business going forward, and it is important to keep that in mind as you model out what the revenue looks like, volume is one thing and price is another and we have seen price because price is built into all of our multiyear contracts and the price escalators kick in and we have not seen a significant pushback on price.

The discussion we have had with all of our customers has been around total cost of ownership, total cost of their operations and what they are spending in totality, not necessarily fixed round price. And our team has been very focused on not giving in price concessions, but rather to enter into value discussions with customers and to talk about what features, functionality and services they need. So price has held up surprisingly well in this environment.

Adam Shine - *National Bank Financial - Analyst*

Maybe if I may just push you on that. I guess as it relates to the value of contract discussions in totality, progress in regards to incremental growth or I guess that ultimately ties into net sales as we await the recovery there into next year.

Jim Smith - *Thomson Reuters - President & CEO*

Yes, I am not exactly -- I will try to answer your question as best I can. We do see progress toward growth in some sectors. We do see progress toward growth in some customers and clients with net gains, but today, and what we anticipate in Q4, is that those will be offset by some downdrafts at a handful of very big customers who have a disproportionate impact on our overall sales trends.

Adam Shine - *National Bank Financial - Analyst*

Thanks a lot.

Operator

Andrew Steinerman, JPMorgan.

Andrew Steinerman - *JPMorgan Chase - Analyst*

Good morning. When you say low single digit growth in constant currency, given that we only have one quarter left for the year, could you be more specific? Does low single digit growth mean kind of 2% to 3% for the year? Does it mean really anywhere in the 1% to 4% bucket?

Stephane Bello - *Thomson Reuters - CFO*

I don't know how to answer that question, Andrew. We say low single digit growth. I think it's -- mid-single digit growth is clearly like 4% to 6% in my mind. I don't know, low single digit growth is like positive, but below that range.

Andrew Steinerman - *JPMorgan Chase - Analyst*

Okay, that is fair enough. Thank you. And on your FX Alliance acquisition, besides for the capabilities that they are bringing, it was also thought at time of acquisition that this could enhance Thomson Reuters' relationship more broadly with investment management clients. Have you seen any of this derivative benefit yet?

Jim Smith - *Thomson Reuters - President & CEO*

I would say it is very, very encouraging; early days, but very encouraging.

Andrew Steinerman - *JPMorgan Chase - Analyst*

Okay, thank you very much.

Operator

Matthew Walker, Nomura.

Matthew Walker - *Nomura Securities - Analyst*

Thanks and good afternoon. Just a couple of questions please. The first is on the Legal side. Can you just repeat what you said about the print percentage; I wasn't sure what the universe of that was? I think you mentioned something like 20%, but wondered was it 20% of what for the print business.

The second question is also on the Legal business. Can you remind us what is the barriers to entry into the core litigation research business that you have in terms of accumulation of content? What is to prevent competitors from even if gradually building up a similar business? I think there are significant barriers to entry in that business, but if you could just remind us of them, that would be very helpful.

And the last question is on the tax rate. You have guided down the tax rate for the full year this year to 16% to 18%. Can you tell us, for next year and the year after, what are you going to look for in terms of adjusted tax rate? Is it going to be now below 20%? Thank you.

Jim Smith - *Thomson Reuters - President & CEO*

So why don't I start and talk about the barriers to entry in Legal quickly and where we are and then let Stephane follow up with specific answers to your more granular question.

We feel very good about our position in Legal and the barriers to entry start with a business that, for more than a century, has been in the legal information business and one that was the first to apply technology and a first to apply really sophisticated technological tools to core legal research. It also was before technology the first to apply the most sophisticated -- well, at that time, I guess we'd call it metadata in print and our key numbering system was the forerunner of kind of metadata and indexing capabilities.

And I think the thing that makes our business so sticky is just decades upon decades of interlinking. We have millions and millions of links between the documents that tie together the data in our vast databases and they are incredibly vast. And it is a combination of both the technology and the human expertise that goes out and links relative legal information together so that when one searches for an answer, one gets a solution whether or not -- and gets a complete range of solutions whether or not you have keyed in exactly the right kind of words or the right kind of search phrases and the search terms.

So it is a very, very long history of understanding legal and regulatory content, linking that together first through key numbers, then by applying technology and then by applying the combination of human knowledge of the legal system and of how lawyers work with that technology to build really an unrivaled ability to determine what the right answer is to a question. So it is a not trivial advantage that we have.

Stephane Bello - *Thomson Reuters - CFO*

Okay, Matthew, let me try to take the other two questions that you posed. The first one regarding what I said about legal print, the 20% I referred to was essentially the proportion that US print represents as a percent of our total Legal business. So that is, as Jim said I think earlier in his remarks, that is about $600 million worth of revenues a year. So in the third quarter, that was about $150 million roughly. That what I referred to and what I said is that if you exclude that print business from the numbers, the organic growth rate of the Legal business would have been a steady 3% organically in each of the last three quarters.

Matthew Walker - *Nomura Securities - Analyst*

So the print for a full-year basis would be $600 million?

Stephane Bello - *Thomson Reuters - CFO*

Correct.

Matthew Walker - *Nomura Securities - Analyst*

Thanks.

Stephane Bello - *Thomson Reuters - CFO*

Okay. And in answer to the question on the tax rate, let me give you maybe a little bit more color on what I said on the call. As I said, we did reach a favorable outcome in discussions with several tax authorities, primarily in the US and Taiwan actually during the quarter and this has triggered two favorable outcomes for Q3 results. The first one is that it led to the recognition of a little over $100 million in what we call prior year's tax benefits. And this obviously has no immediate impact on cash flow and as we always do, we have removed the benefit of these tax -- what is essentially tax reserve releases, if you want, from our adjusted earnings because otherwise it would have had a very distorted impact on our results.

The second impact is that these favorable negotiations have also allowed us to lower our estimated tax rate for the full year from 21% to 23%, which was our prior guidance, to 16% to 18% as I mentioned on the call. And as a result of that, we really had to normalize our tax rate for the year-to-date results, which is why the reported tax rate in the third quarter is only 11%. And a simple explanation is that essentially the third-quarter tax expense reflects the impact of the lower estimated tax rate for the first three quarters, not just for the third quarter and that is why it is 11% compared to the guidance for the full year that we have given of 16% to 18%.

As I mentioned, the impact of the change in tax rate on a year-over-year basis was about $0.05 on the EPS. But if you look at '13 and beyond, it is still too soon for us to provide you with very specific projections regarding the effective tax rate next year. We are in the midst of the planning process and as I am sure you can appreciate, figuring out the tax rate comes after we have figured out the operating profit we are going to have in various jurisdictions. So we are going to need to wait until we provide our guidance in early next year to give you something more specific. But based on the development in the third quarter, I would say directionally that we would expect the guidance we provide to you early next year to be lower than the guidance we are providing to you early this year.

Operator

Tim Casey, BMO.

Tim Casey - *BMO Capital Markets - Analyst*

Thanks. Jim, just on the net sales trends, you have indicated they will be lower year-over-year in Q4, but sequentially you expect growth. I think I have got that right.

Jim Smith - *Thomson Reuters - President & CEO*

The other way around. The other way around, Tim.

Tim Casey - *BMO Capital Markets - Analyst*

Oh, pardon me, right. Yes, I have got it. Do the comps get tougher as we go into next year? I know you're not giving guidance, but just directionally how do you feel about that? And if I could sneak one other one in, there has been some real breathless commentary in the press about your potential interest in the FT. I'm wondering if you could comment on that. Thanks.

Jim Smith - *Thomson Reuters - President & CEO*

I will let Stephane talk about the comps because I will take the easy one, which is we never -- first of all, I've read the same commentary that you have read. I certainly haven't been the source for any of it because we just don't comment on those kinds of things. I will say that we have lots of attractive places to invest behind our core growth initiatives today and we just wouldn't comment on any speculation about any acquisition opportunities that would lie out there, especially of things that aren't for sale.

Stephane Bello - *Thomson Reuters - CFO*

Okay, Tim, let me try to get at your question on net sales. I think just to repeat what Jim said in his remarks, what we are expecting is the Q4 net sales to not show a sequential improvement compared to the third quarter, but be better than in the fourth quarter of last year and both in the fourth quarter of this year and last year, we had several like large contracts or negotiations with large customers. So they are somewhat comparable from that perspective, but Q4 is a heavier quarter both in '11 and '12 in terms of contracts and negotiations with big banks, which is, and as Jim said, these banks have suffered pretty heavy headcount reductions. So we can -- obviously, we do expect to see reductions in these contracts.

When you look at next year, we're not going to make any projections in terms of when the case will turn positive next year, but the comparison should hopefully get easier because we are certainly overall on an improving trend, which is the result of all the actions that we have implemented in the last nine months.

Tim Casey - *BMO Capital Markets - Analyst*

Thank you.

Operator

Nick Dempsey, Barclays.

Nick Dempsey - *Barclays Capital - Analyst*

Yes, good morning, guys. A couple of questions for you. Just going back to Core Legal Research, I am looking at if half of that is print and the other half is Westlaw, then roughly Westlaw grew 1% to 2% in the quarter. Given that you've told us you are migrating quite a few customers still onto WestlawNext, which you have invested in heavily, wouldn't we have hoped to have a bit more price and therefore a bit more growth coming through in Westlaw?

Next question, just Reed Elsevier, at their Legal Investor Day, talked about the legal information services market growing mid-single digit in the medium term. I just wondered if that was a number that you also agree with.

And then, lastly, for housekeeping, on corporate costs, those where a bit lower at the nine-month stage than last year. Can we expect those to be down year-on-year for the full year or are there some phasing issues there?

Stephane Bello - *Thomson Reuters - CFO*

Let me start with the easy question, the last one. It is on corporate costs. You can look at it on the quarter-to-quarter basis, so I would keep last year's number as the basis for the full year. There are certainly items, which may impact the corporate costs from one quarter to the other.

And in terms of your first question, I think that if you look at Westlaw -- remember, when we speak about Core Legal Research, we speak about Core Legal Research sold to US law firms. That is the 40% that we refer to. There is also Core Legal Research sold to other groups, corporate general counsels and government in particular. So as you look at the overall core legal research, I would say print is about a third of the total, not half of the total, about a third of the total at $600 million.

There are factors that we haven't spoke about in a number of quarters, but I'm sure you remember that Bob and I were speaking to you about, which is the fact that we have still a sizable proportion of the revenue in Westlaw. That is what we call ancillary or transaction usage revenues and these continue to be pretty heavily impacted obviously. They are still down in the area of like 15% to 20% very quarter and that is what's essentially driving down the overall growth rate for Westlaw or WestlawNext.

So -- and I forgot what the last question was that you had. I think it was about --.

Nick Dempsey - *Barclays Capital - Analyst*

It was about the mid -- just Reed Elsevier said, in the medium term, a couple of years out, they expected that the overall market that you guys and they are in, legal information services, to grow mid-single digit. I just wondered if you wanted to comment on that prediction.

Stephane Bello - *Thomson Reuters - CFO*

I don't think we would take any exception with that prediction, but saying that we expect the Legal -- growth in our Legal segment to be around these levels. I think a lot of the growth will come from the new workflow solution products, not so much from Core Legal Research. So there's really -- we are really seeing a transition there and we are aggressively investing behind these new products that are higher growth and as a greater proportion of the revenues in the future arises from these new type of solutions, that is how we can return to these mid-single digit targeted growth rate. That is what we are very much focused on.

Nick Dempsey - *Barclays Capital - Analyst*

Okay, thank you. That's very clear.

Frank Golden - *Thomson Reuters - SVP, IR*

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

Operator

Toni Kaplan, Morgan Stanley.

Toni Kaplan - *Morgan Stanley - Analyst*

Hi, thanks. Can you comment on whether there was more aggressiveness in pricing in the competitive environment this quarter over last quarter and are there certain areas of maybe F&R where pricing was more aggressive? Thanks very much.

Jim Smith - *Thomson Reuters - President & CEO*

Sure. No, I don't think we saw any change in -- a material change in pricing pressure. It has been a competitive environment for a long time, but there was -- I am certainly not aware of any change in pricing policy.

Toni Kaplan - *Morgan Stanley - Analyst*

Thanks, that's very helpful.

Jim Smith - *Thomson Reuters - President & CEO*

Okay, that will conclude our call and we do very much appreciate you joining us this morning. Thanks.

Operator

Ladies and gentlemen, today's conference will be made available for replay after 10.30 this morning until November 6 at midnight. You may access the AT&T playback service at any time by dialing 1-800-475-6701 and entering the access code 267406. International participants may dial 1-320-365-3844 and again, the access code is 267406. That does conclude your conference for today. Thank you for your participation and for using AT&T Executive Teleconference service. You may now disconnect.
