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PRESENTATION

Vince Valentini - *TD Securities - Analyst*

Okay, everybody. Welcome back. I hope you had time to have a little break, grab some lunch. So we are going to continue the program on with our -- call him our keynote luncheon speaker. Thrilled to have Jim Smith with us today, the CEO of Thomson Reuters. It's been a busy year for the Company with share price action, as well as corporate developments, a very exciting Investor Day in March that I think many of you were probably at, seeing the new version of Eikon to rave reviews. It was a fantastic upgrade and hopefully, Jim will be able to give us some updates on how that progress is going, as well as the rest of the firm. So, Jim, thanks very much for joining us here today.

James Smith - *Thomson Reuters - President & CEO*

Thanks, Vince. I'm delighted to be here. Thanks for inviting me.

Vince Valentini - *TD Securities - Analyst*

Great. Let me throw you a bit of a curveball. I know everybody always asks you about Financial & Risk so let's hit the other area of the business first just so people don't forget it exists, but the Legal segment. WestlawNext was a fantastic new product within Legal. It is now I think about 70% of your law firm customers use that, but even with that uptick in product, which I think comes with an uptick in price, we haven't seen much organic revenue growth from the Legal segment. I think that is a mixed picture. I think you have some segments that are growing, some that aren't, but, on an overall basis, do you think that Legal business can get back to mid-single digit revenue growth in the future? If so, what will it take to get there?

James Smith - *Thomson Reuters - President & CEO*

It is surprising to get asked the first question about Legal. We generally spend 80% of the time talking about -- or 90% of the time talking about the Financial business, so thanks for that one. The short answer is yes, I think that we can get back to mid-single digit organic growth in that business. It won't be the same way that we got there at the top of the last cycle in the days when basically the core legal research business was growing at 8% and it was kind of driving everything else.

I think there have been some big fundamental shifts in the Legal marketplace and I think that while WestlawNext is a really important part of the portfolio of solutions that we sell into law firms and to lawyers and to governments, they are by no means the only thing we sell and we are seeing a lot of other products that are growing a lot faster.

I think when you look at the growth challenges, we are seeing what we have seen through every other cycle, I think, which is that the most cyclically sensitive thing that we have is the Legal print publications and we have about $600 million of Legal print publications in the core of that portfolio. And those are always the most sensitive and the first to decline when people start to cut. We have seen that again through this last cycle.

We have seen with WestlawNext actually a really positive impact upon our relationship with firms and the retention rates around that product because it is so strong have been very, very high. As I think lots of you know, we have faced a good bit of price competition in that space with the product. That price competition has impacted gross sales, certainly did last year, but our retention rates went up because of product quality, so actually our net sales were up overall and quite strong.

We have seen really good traction on the solutions that we sell into the law firm space. Remember, Westlaw is an important product, but it is $1.3 billion of a $3 billion plus Legal business and those other parts of the business are growing quite nicely. Things that we sell to help lawyers manage their practice, to grow their businesses and to be more effective and efficient in the way they work. Those are all tools that are growing really nicely whether it is managing your caseload, doing business development, knowing more about your clients.

And then we have developed two new suites of products this year, one for the corporate General Counsel who is gaining far more power really in the dynamic out there. It seems the buy side everywhere is gaining power in the equation and the corporations are the buy side certainly in large law firms. We have got a whole new suite of products for them to help them manage their legal manners and their relationships with outside counsel. Those are seeing very nice traction.

We have got a new product as well that is really an ERP in a box for a small law firm, which integrates not only their legal research, but their contact management, their matter management, time and billing system into a unified desktop by which they can really run their practice. That has had really good traction again in the first two quarters in terms of sales.

So I think we will continue to see outsized growth in the things that we are doing to help lawyers and law firms grow their businesses and manage their businesses and to be more effective and efficient. And I think we will see continued challenges around core legal research, but that core legal research itself is still a solid position for us. It is a highly profitable business and it is an incredible foundation for that broader relationship that we have with law firms, certainly in the US.

Vince Valentini - *TD Securities - Analyst*

Right. Now as you expand from that core relationship with research and get more into these software and services into the front office/back office at the law firms, it is all great in terms of revenue growth. Are there any margin implications from that as you go through a period of development, whether it be sales development or acquisitions? Should we expect there to have to be a little bit of compression in margins as you shift gears in the growth or can you achieve it seamlessly?

James Smith - *Thomson Reuters - President & CEO*

Well, we have traditionally done that. Our goals over the cycle would be to maintain margins in the Legal space. And I think it is realistic to think that we will maintain margins over the cycle, but you need some level of organic growth to do that because what happens, particularly in the core legacy businesses that we have, is the flow-through is incredible. So if you can get that 2% to 3% organic growth on the top line, you can get lots of flow-through that can offset other investment spend.

But you do need some core level of growth to maintain those margins. I think that it is very unlikely that any of our growth businesses would match the incremental flow-through or margin contribution of legal print, which is all the content is there, it's whatever it costs to print and ship the book, which is pennies on the -- certainly pennies on the dollar. That is all very, very profitable stuff.

But what we have seen over time, particularly in our Tax & Accounting business, right, is that many of those businesses, while they may be lower margin to start than a very high-margin print business, actually grow to have very healthy margins as they get more mature and they get more sticky. So we think we can maintain margins in the Legal space over the course of the cycle and then, of course, we have opportunities to I think increase margins in both Tax and our Financial business particularly.

Vince Valentini - *TD Securities - Analyst*

Well, we will come back to Financial I am sure for at least a couple minutes.

James Smith - *Thomson Reuters - President & CEO*

I wouldn't be surprised.

Vince Valentini - *TD Securities - Analyst*

But before we get there, I have got a human resources question that I don't think you get from investors very often, but it is intriguing to me that you guys need some very highly skilled, technological people to do the type of search engines and metadata that you do. How do you compete for talent with the Googles of the world out there trying to get all these top people out of better schools and so forth? How do you convince somebody to come work at Thomson Reuters instead of Google?

James Smith - *Thomson Reuters - President & CEO*

Well, it is quite interesting. That is something we talk about a lot and it is kind of surprising. I was literally just talking to my Chief Technology Officer, James Powell, about this last week, and the truth of the matter is we are working on a lot of really interesting, complex challenges that the smart people in this space like tackling. So the work that we offer is inherently challenging to folks. Everybody is talking about Big Data, Big Data, Big Data. Well, that is just what we have been doing for a long, long time.

I mean if you go back to the Legal example, we were among the first to apply technology to vast amounts of data and then to put vast amounts of metadata on top of that data. We have got more -- we have been loading and linking for decades now to build those intelligent connections and we have got some people who really understand information science in a pretty profound way and those -- that is challenging to people who like the space.

We have got some of the most complicated, real-time networks in the world and handle incredible volumes of data and it is inherently exciting work, so that is attractive. What we are talking about now is where and how do we locate those folks? I think, like lots of people, we have gone through the distributed development world where you put a lot of stuff offshore and you try to look to maximize for efficiency. We are actually finding more effectiveness at bringing those really great resources and co-locating them alongside businesses.

So we have a pretty strong technical presence in London. We are increasing our technical presence in New York, and we literally just a couple days ago were beginning the discussion about what kind of physical footprint we need to create the kind of work environment physically that those folks need. The more we talk about it, I think the less likely we are to say, geez, we have to go set up an outpost in Silicon Valley just to have one.

And you are right there because there is so much turnover there amongst the technology crowd and, frankly, the people we are attracting are people that are attracted to the challenges in the industries that we serve and we are finding more stickiness if you can get people working right alongside the business partners. So you get the technology folks, you get the product development folks and you get them next to customers and P&L owners and that creates a more cohesive unit.

So that is our bet that we have inherently attractive opportunities to work on. We have got some really smart people that folks like working with and we are going to pay a lot more attention about the fiscal environment because there is no question that a lot of the best and brightest technology folks want to work with other great technology folks. And the environment is a little different than a traditional publishing cubicle environment that we would naturally tend toward.

Vince Valentini - *TD Securities - Analyst*

Great. Just one more line of questioning before I get into Financial & Risk that I know most of the audience wants to talk about is the asset portfolio and the overall mix of businesses at Thomson Reuters. Maybe you can talk about just yourself where you see the asset mix today, whether you think there is any big divestitures or acquisitions required. Maybe you can package into that any thoughts about the change in leadership at Woodbridge recently and if that has any impact on how Thomson Reuters could view their assets going forward or whether it is a non-event.

James Smith - *Thomson Reuters - President & CEO*

Yes, look, I think -- I would never say a change at Woodbridge was a non-event, but I would say it is certainly not something that affects the day-to-day operation of the business. We have had a great relationship with Woodbridge for a long time. As you know, I am a 26-year Thomson veteran, so I have great familiarity with that relationship. And Woodbridge has been a fantastic and supportive owner of the business over time and nothing really changes in that regard.

I have a great relationship with Woodbridge today and I think that will continue largely as it has in the past. We would not -- no one in the business would notice any change in impact of that change in Woodbridge and it wouldn't change our strategy because the strategy has always been to invest for the long term, make the right decisions for the business, and to support the right decisions with conviction and again, that eye to building a sustainable, long-term business, so that doesn't change.

I would say from my perspective, I believe we are at a bit of an inflection point as a corporation. I think the era of portfolio optimization and endless portfolio churn is over. I think we have got the footprint that we need today. I think we have ample runway within the customer sets that we have and I think a commitment to the prudent capital structure that we have is equally as important and there is certainly nothing out there that I see that would convince me to stretch that capital structure at this time.

So I think we have largely got the portfolio that we have. We will always do those fold-in tactical acquisitions that we are very fortunate to have a business that is highly cash generative, that produces enough free cash flow for us to continue to pay a decent dividend, to keep our debt in line and pay it off as it matures and all that stuff, to buy back enough shares to offset any dilution that we are going to have in terms of compensation schemes, and then also with enough left over to fund those tactical acquisitions going forward.

We have come through a period of extraordinary acquisition growth and we have bought more than our fair share over the last three years as we look to expand more into the solution space in some ways and also in buying up some core foundational businesses in new geographies that we thought were attractive and necessary. We will not continue the same pace of acquisitions, even of the tactical acquisitions and I think also we are looking really long and hard about all of our acquisition activities because the bigger we get, the less the small, really small acquisitions move the needle.

So we are really (technical difficulty) small stuff making the build versus buy decision and I think we lean a little bit more toward the build side than the buy side, specifically because of the complexity sometimes that a rash of very small acquisitions bring in. And what I am trying to do in talking inside the firm right now is to talk about a pivot from that portfolio solution being a natural default to growing, the natural default to how we move the business forward to more of a platform pivot. How do we get the advantages of scale now that we've set out the footprint that we have and how do we perhaps use more savings from efficiency and effectiveness inside the business to fuel more organic growth inside the business.

So you're going to see a real push -- in fact, over the latter half of the year, a whole bunch of my activity internally is going to be around getting the organization more focused on customers, more focused on the opportunities within those current customer sets and it is all about driving more organic growth. And I think that has to be a significant -- a more significant part of the pie for us going forward.

Vince Valentini - *TD Securities - Analyst*

That's good to hear. I am sure the investors in the audience will be happy to hear that, but even more so my associates who are going to be thrilled they won't have to restate the model yet again for more divestitures

So I will segue into Financial & Risk. I certainly hear what you are saying about -- that the portfolio is okay as it is today. No need for any more major divestitures, but because the question keeps coming up, just want to ask you, theoretically, if there were a decision to get rid of some of the slower

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growth legacy parts of Financial & Risk, to what extent is that even possible? How much do you need the core content and the engine of information that is fed by those, sort of even if they are lower growth services, in order to be able to do the faster growth stuff you want to? Is it possible to even sever that thing and take the good out without hurting it by getting rid of the bad?

James Smith - *Thomson Reuters - President & CEO*

Well, it is not impossible, but the truth of the matter is there is a whole bunch of core information that would have to be collected any way, that you are just vending into different markets in different ways. And the first challenge for us -- obviously, we have looked at that and what happens is you can sell -- you can sever things off, there is no question, and there will be -- look, there will always be things around the edges that you will be thinking about whether they fit or they don't fit. Markets will change, opportunities will change.

But, at the core, we reuse a heck of a lot of the data throughout all of the customer sets that we serve. And you are still going to have to do that and right now -- you would never say never in this world, right -- right now, our greatest opportunity lies in not doing things four different times within the Financial business, but rather doing it once and becoming more effective and efficient in taking the complexity out of the relationships between those businesses. And I don't think that ever precludes in the future any flexibility that you might have.

But task number one for us right now is to make sure that all of the businesses we own today are firing on all cylinders because any future strategic optionality or opportunity that you might muse about require that you are firing on all cylinders and you are not just kind of separating off and looking for a portfolio solution to a problem. So that is what we are focused on right now. You are right in your questioning. If we were to split that business up, you would still have to do a lot of the work to gather the core fundamental data, to gather -- you have to have a real-time network. The question is where would the stranded costs go and how would you handle that, so --.

Vince Valentini - *TD Securities - Analyst*

Great. Let's just turn to the market environment with the global financial institutions. Any updated thoughts there on the conversations you are having with them in terms of hiring and IT spending and feel free to break your answer into pieces if there is a significantly different answer for North America versus Europe versus Asia, as you wish.

James Smith - *Thomson Reuters - President & CEO*

Sure, and I think it does differ by geography and it differs by asset class and it differs by part of the bank and whether or not you are a global or local institution. It is a dramatically changing market space right now. And to get specific in truth, North America feels like it is getting better. It just feels like it is getting better. We see in our results a lot more traction.

Asia, ex-Japan and Australia, as we look at it, is looking solid, is looking really solid and we are having a lot of success there. Japan and Australia are both a challenge. Europe is still extremely challenged and I think very fragile still as particularly the big banks are really trying to figure out what the future looks like and one really doesn't have a clear picture of what the local country bank -- banks are going to look like country by country. That is still very much a work in progress and feels very fragile still.

It is interesting as we are seeing a lot of the global banks retrench, though, that economic activity does go somewhere else. Our focus right now is on those regional hubs and the places that are emerging as regional hubs, the Hong Kongs and the Singapores and Dubais of the world, where -- Sao Paulo -- where the globals are retrenching and locals are stepping in, either local banks and players or local hedge funds or other regional players coming in and trying to do what we call lowering our center of gravity in those markets so that we are going to be in position to capture that economic activity when it leaves the big global banks with whom we've had the relationships and starts out somewhere also.

So that has been -- we have had some encouraging success there, but there is a timing leg on that as it restructures. It isn't like a big bank pulls out, 200 desks go away and those 200 desks walk across the street and open up at one address. It doesn't work like that. 20 go over here and 40 go over there and six months later, 12 go over here and we have got to be closer to the ground to be grabbing that and we are putting more resource and more senior resource on the ground in those regional areas.

I will say on the whole (technical difficulty) and I will give all the cautionary warnings to saying this. On the whole, things are better this year than they were at this time last year, and if you look at the results in the first quarter, the first quarter was the first time in a long time where everything wasn't getting worse. If you think about it, everybody was cutting in every area for the last two to three years and every quarter, you would look at it and that kind of -- the external metrics, the seats, the desktops, the layoffs, employment, all that stuff, everybody was cutting everywhere.

That wasn't the case in the first quarter. There was more stability and we actually had a number of our customers adding heads and beginning to think about how they would construct a winning path in whatever the new normal is going to be. So one quarter doesn't make a trend, but if we see another quarter like that (technical difficulty) in the second quarter, you will feel even more confident that maybe we are approaching whatever this new normal is going to be and it is no longer that kind of freefall.

Vince Valentini - *TD Securities - Analyst*

Great. Maybe an opportunity for you. The Bloomberg snooping incident, any fall-out from that that has helped you guys in terms of sales momentum or conversations with customers?

James Smith - *Thomson Reuters - President & CEO*

Gosh, that's -- I have worked really hard particularly inside the firm to keep everybody focused on our business and certainly not be out trying to capitalize on any miscue from others because, at the end of the day, at the end of the day, the market will decide whether or not this is a big deal or whether or not it is a temporary tempest in a teapot. And at the end of the day, we will win based on the quality of our products, the quality of our service, and the relationships we form with our customers.

So that said, it has given us an opportunity to talk about the differences and the different approach we bring to the market, their closed approach, our open approach. It gives us an opportunity to talk about the fact that this is a company that was founded on the principles of news and that separation of church and state is alive and well inside our business today. And in fact, our policies and procedures and practices are different in those areas and that's -- and they always have been.

But again, time will tell how significant that issue is. I have been saying for 18 months that the market wants viable competitors as suppliers and vendors. The market wants a viable competitor to Bloomberg. They don't want Bloomberg to be too dominant; they don't want us to be too dominant either, by the way. But I certainly don't think that that incident does anything to change (technical difficulty) and in fact, it gives us an opportunity to explain the differences between approaches.

Vince Valentini - *TD Securities - Analyst*

Okay. Now you mentioned the real key to longer-term success is making sure you have got the right quality products and services. So that is a good segue into Eikon, which I think is a much better product than you have had in the past. So maybe you can give us an update on how the sales and installation progress is going with Eikon or any recent developments in terms of deployment.

James Smith - *Thomson Reuters - President & CEO*

Yes, I sound like a broken record and it is hard to stay on track, but Eikon continues right on track. We have given all the numbers and our focus on it. We only report the numbers at the quarter, but we are looking forward to reporting the numbers at the next quarter, after the second quarter because we do remain on track in rolling out. We have got really good responses. We are starting to get broader scale exposure to the product in the C-suites of the customers that matter and we are starting to get those kinds of placements that I think could lead to some really important opportunities for us to move numbers.

We are seeing the same kind of -- we are just on track. We are seeing that same kind of pace of installations on average. In fact, we've had a couple really big weeks in the past couple of months where we have had some nice big spikes and we have been able to handle that. So, look, I feel very encouraged about Eikon.

The most important thing about Eikon I think is that not only are we upgrading the Reuters 3000 terminals very quickly, but about 20% of the sales are new. Meaning for every five or so that we upgrade, we sell one new because someone will come along and say, geez, they will see the quality of the product, and I think everyone who has either seen the demo or taken a trial of the product, it is a fortunate place to be when your product is the strongest thing you are selling and it can speak for itself.

So we feel very, very, very confident and comfortable with our progress. I wish we could go faster, but, in fact, the team has accomplished a great deal in the last 18 months. They will accomplish a great deal over the next 12 to 18 months, and we continue to add features and functionality. Just last week I think was Eikon 3.3 and the most amazing thing to me about that is it wasn't a big deal because we had engineered the infrastructure of the place so that you could just sit down as I did at my desk in London, turn it on, see I had an update, hit update, it just happened and I got new real-time functionality and the things that had been some static sheets on mine and then when I got to New York, I hit the same button and it happened kind of seamlessly.

So we are pleased that, in the whole of the product, scaling is robust enough to actually fulfill the promise, so touch wood. I wish we -- we kind of joke and we joked with some folks this morning. I wish we could've done it the other way around because we spend so much time with you guys -- we spend so much time with you guys that we wish we had had Investment Management at the beginning of the process instead of (technical difficulty) at the end of the process. But that is just the way it works; it takes a lot longer to get the portfolio analytics that so many of you need locked and loaded onto the new platform.

And we had a very deliberate strategy here to not go big bang and roll it out before it was fit for purpose. And the best way for us to do that was to go kind of asset class and function by function where we have strength. So we have a world-class product in commodities and energy, and so we went first with that. We had to support our FX franchise and we have strong -- so we led with that and then we started doing everything we could to get the rollout schedule in place.

And the funny thing about being in the middle of a turnaround is the world doesn't see the progress that you are making until a lot later and we were feeling pretty good about the progress we were making on Eikon a long time before we did the 3.0 in January, and a long time before we did the investor day in March. And I can tell you, for the stuff where we are working to bring a lot of the Thomson One functionality onto the Eikon platform, that started in June of last year when we took the whole development team that was developing all the investor products and features and moved them under the Eikon team so that they would start developing and really hardwiring into that platform the functionality that we knew investment managers needed.

So the truth of the matter is we know that work has been in progress for a year. We know they are progressing toward their deadlines and in the fourth quarter, you guys will see the product with new features and functionality and hopefully, you will like what you see. So we are pretty confident in the -- in that Eikon roadmap.

Vince Valentini - *TD Securities - Analyst*

So just to clarify, what is the updated timeframe then for the last few product segments to get it? Is it another 18 months still to have every single end customer unit served or is it six months?

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James Smith - *Thomson Reuters - President & CEO*

We will have all of the Reuters Xtra 3000s converted over by the end of this year. We will then begin selling into the Investment Management space in the fourth quarter of this year is the plan. I suspect it will be throughout the balance of next year, as we sell through that to get things over. And I don't -- have we set a hard target for when we get all the Thomson Ones over? I don't think we have communicated that yet, but that will be the big push next year.

Vince Valentini - *TD Securities - Analyst*

Investment Management?

James Smith - *Thomson Reuters - President & CEO*

Investment Management, yes.

Vince Valentini - *TD Securities - Analyst*

And your experience to date and your thoughts about the future of when you're force-migrating people off legacy platforms onto Eikon, any risk that you see that you lose a lot of them who just won't make the migration? Do you have any data to date to --?

James Smith - *Thomson Reuters - President & CEO*

Yes, we do have some data. You always worry about that when you do a migration. I am less worried about that with this migration than any I have ever done because the product is so much better and there is so much more feature and functionality. And we are just not getting a lot of push back to it. We are not getting that kind of typical, boy, this is an opportunity to reopen negotiation. That happens to some extent always, but it is not -- it is just not the same because there aren't necessarily multiple comparable products that are out there in the marketplace.

We haven't to date seen material defections. We did -- we set a date to shut down one of our platforms, which is a variant of Reuters Xtra 3000 called Hosted Terminal Access. I think there were 16,000 users, Tim? Tim Collier, CFO of our Financial business, is here today, so I will look to him to correct me if I am wrong, but it was 16,000 users on that platform. We migrated them all over. That shut down in May or March? March. At the end of March, we lost 230 some, something like that of the 16,000 who didn't go with us, so that is not a material impact.

And if you think about that, what we are really willing to do is to sacrifice that top line or think about the complexity you start to take out. When we took -- when we shut down that platform, we were able to turn off the power to 2000 servers that were powering that separate instance of Xtra 3000. And you think about those servers plugging into all of our content systems, plugging into all of our entitlement systems, plugging into all our customer service systems, plugging into all of our billing systems, the complexity that that removed, boy, sure paid for a heckuva lot more than the 234 customers that's -- and I anticipate that we are going to be in that kind of range of not material defections going forward.

We will know -- we will have -- I guess by the time we do the second-quarter call, we will have better data because we will have another proof point at the end of this month. We shut down another variant called the European mid-tier, so we will be able to tell you how that process went and how many people were able to be converted over. I think the aggregate numbers look good and we are just not seeing huge risk in that right now, and again, primarily it is such a better product.

Vince Valentini - *TD Securities - Analyst*

I will come back to the margins you alluded to in a little bit, but let me just stick with the Eikon pricing and the terminal itself. Correct me if I am wrong, but you migrate people to the better Eikon product, you don't raise their price immediately on that conversion. I think your plan is to let them get hooked on it a little bit and see how much better it is and then maybe in the future start to raise their rates. So can you give us any sense of how long you think it is going to be for the superior functionality of this product to start to lead to some higher pricing for you?

James Smith - *Thomson Reuters - President & CEO*

Look, I think that the notion for me is not about higher pricing. The notion is about more logical, sticky pricing and more effective yield of price because of the way we're going to go at it. And you are dead right. Our strategy was this. We want to replace Xtra 3000 as quickly as we can because Eikon sticks a lot better. You've got a good product, as quickly as we can get that rolled out and onto desktops, the better off we are going to be because we are not going to suffer the kind of attrition that we were suffering on the Reuters Xtra 3000. We were in a position where, as everybody is retrenching, you are doing bakeoffs of 2 to 1, or 3 to 1, or 3 to 2. We were always losing every time, so we want the superior product.

We have gone from product as a weakness to product as a strength and we wanted to do that as quickly as we possibly could. And so we didn't want to reopen commercial negotiations. Whatever you are paying for your product you got today, you're going to get the new and improved Eikon version for the same price and start using it.

At the same time, we have been involved in a pretty significant study of price points, and what we intend to do is -- we are different than our primary competitors in many ways, but one I think special way is that we can offer multiple versions of the product based upon your need, how much functionality you need. It is not a (technical difficulty) you can buy, and most of our customers do, by the way, buy the fullbore Eikon with all the features and content and functionality. But if you don't need that, you don't have to buy that; you can buy other variants.

And what we have been working very hard on is a kind of tiered package program, which will allow you to buy full price, fullbore, full features and functionality or to step down for your particular job function and maybe then to step down for a regional variant if you are only working in a region, for example. But having say three to four price points and packages per user group as we define them. So that is a lot more choice than you get from many of our competitors, from any of our competitors, frankly, head-to-head.

But it is a lot less choice than we had in a pretty undisciplined selling environment where salespeople were free to construct lots of custom packages for individual users and then, as has been my experience everywhere, pricing integrity starts to slide somewhere and one person's custom package is another person's discount or another way of discounting the product.

So I think what we will get when we get the same rigor and discipline into our pricing policies, as we have put into our analysis of our cost base, I think we will actually start to see kind of a net lift in price realization as there is less effective ad hoc discounting out there because somebody is constructing a package as a way of -- I don't want to say concealing a discount, but as of creating a selling opportunity through discounted prices. I think it will give us a lot more price integrity and I think our yield will actually go up by being more disciplined.

Vince Valentini - *TD Securities - Analyst*

Okay, that's fair. An offshoot to that question though is is there a point where you think you start to take enough marketshare from Bloomberg? And just state the obvious, yours is a recently developed sort of modern user interface. Theirs is built on 20, 30-year old architecture still. They constantly upgrade it, but you could always argue your product has leapfrogged them temporarily. If you start to get a bunch of marketshare from them, do you think they will finally blow up their one price -- one box, one price model and go with a bit more of a tiered structure like you have?

James Smith - *Thomson Reuters - President & CEO*

Boy, the last thing on earth I can do is speak for what a competitor is likely to do. So I have no insight into that. And I think we try to think through what our response would be to all kinds of competitive scenarios, so we have thought about it. History shows that (technical difficulty) that has quality product and that competes on quality and features and service, very, very good customer service.

We know from being on the other side of that gain in the Legal space, having a preeminent position and being the premium price provider in the space, that when you are faced with those kinds of decisions, it is really difficult to -- you have to think long and hard before you start effectively reducing price or doing anything that is likely to effectively shrink the market for you. And I think that would be a tall order for them. I don't think it is something they would do lightly. It is always possible, but I would expect them to (technical difficulty) quality of their product and the quality of their service and to continue to improve their product. That is what I would expect and I would expect that any blue water that we may have opened up will get closed and we have to continue to innovate and to get better and better all the time.

Vince Valentini - *TD Securities - Analyst*

Okay. Let's switch gears to the margins. Obviously, some excitement at your Investor Day as well, not only the Eikon (technical difficulty) doesn't know the Financial & Risk segment, which is around 25% EBITDA margin. Now, you want to get that to 30% by 2015. So a pretty aggressive objective in a short period of time. Can you give us some updated color on -- not only do you think you can get there and some of the things you are doing, platform consolidation, to get there.

But also I am a little curious, maybe you can level-set our expectations on the slope of getting there. Is this mostly back-end loaded in the second half of 2015 or do you think over each of the next 9 to 10 quarters, we will see a reasonably even progression upwards in margins towards that target?

James Smith - *Thomson Reuters - President & CEO*

No, I think we will take baby steps and then we will take some really big steps because it comes on the back of, and we have said that we think we can get toward 30% in three years. That is the notion and if we can get there faster, we would love to get there faster. If it takes longer, it will take longer, but that is not some aspirational target. That is what we think is imminently within the wheelhouse of the initiatives that we have underway.

It will -- as I say, baby steps, then big steps because they will come out in waves as we are able to shut down more and more platforms than we get more and more complexity out. We've just talked about the HTA platform that got shut down. We turned off 2000 servers; that's great. We got some cost out of maintaining those servers; that's great. But we couldn't fundamentally rearchitect our customer service operation quite yet.

We will shut down the European mid-tier variant at the end of this month. (technical difficulty) move through and you reduce that complexity even further, you get to take out the kind of -- all the knock-on costs. So I think you will see greater steps in those out years as we decommission the entire platform and then simplify the operations that used to have to accommodate all of these variants. So I think it will be a solid progress, but it will come in big leaps as we take the big steps of platform consolidation.

Vince Valentini - *TD Securities - Analyst*

Okay, good. And in terms of the costs to get at these margin efficiency gains, you have taken -- you have articulated about $100 billion of restructuring costs for 2013.

James Smith - *Thomson Reuters - President & CEO*

For this year, yes.

Vince Valentini - *TD Securities - Analyst*

Thinking about all -- I guess for the entire Investment Management segment next year and I think there is a lot more servers to take out and data centers to consolidate, is it possible to get to that 30% margin target without another round of severance and restructuring costs? Have you already provisioned enough or could there be more in 2014 or 2015?

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James Smith - *Thomson Reuters - President & CEO*

We can get to the (technical difficulty) within the spending envelope that we have outlined for you. And I think this year is probably instructive. What we have tended to prefer -- what I preferred since I became CEO was not to set aside, oh, here is a huge bucket of [this] and we're going to have this massive program to do X, Y or Z over a period of time. But rather to come say here is what we're going to do this year and here is the impact it is going to have on these numbers and we're going to operate within this envelope.

I think we have the wherewithal within our current expectations to get these costs out because, again, we have said this is over three years. Some of this we can get through attrition. Some of this we can manage toward. Some of the people can be repurposed. Remember, if you look at the turnover that we have, we hire several thousand people a year. To the extent we can repurpose and create opportunities for our existing employees, we're going to work really hard to do that as opposed to going on a massive severance program.

All that said -- we do not have plans for another big charge to come talk to you about. That said, we are managing the business in real-time. If we see an opportunity to accelerate our savings, an opportunity to get this done faster where we know we could get payback in a reasonably quick turnaround time, we'd let you know that and we wouldn't hesitate to be more aggressive and not go at it in such a paste away.

The main thing I have been very, very careful to do, though, is to make sure we are moving surgically through the organization and that when we take costs out, they are taken out in such a way that they stay out. We want to fundamentally reengineer the way we're doing things, not just have a one-time program that everyone takes a sigh at the end of and goes back to business as usual.

So we are looking pretty aggressively at lots of stuff across our various platforms, looking for ways to do lots of things more effectively and efficiently and to the extent we see opportunities, we will come back to you and we will tell you what we are doing, but I haven't started out with a goal of getting X dollars out of Y program. Rather how do we reengineer the business and get things out in a sustainable way?

Vince Valentini - *TD Securities - Analyst*

Okay. That's fair. I'm going to have -- I will ask one more question, then open it up to the audience. So if you have anything, get ready. So let's think through to once you sort of get to the 30%, you've got all the platforms consolidated, all the data centers you can shut and everything else, one thing that concerns me, and to be blunt, I have followed this Company for 20 years, so far before your time was this criticism created, it always seems to me that whenever we go through a favorable cost reduction program or we have a couple years of really good revenue growth, you expect you should see the margins go up a certain level, the Company always seems to then greenlight a whole bunch of new product development initiatives and basically reinvest a lot of that money.

So it is good permanent cost saving, but shareholders and investors don't really ever see the results in the bottom line because a lot of the money is reinvested. So can you give us any confidence that the sort of targets here are pretty firm that we need to get to this new level of profitability and we are not going to get a little greedier in greenlighting new R&D projects to spend a lot of that money before we -- shareholders even see it?

James Smith - *Thomson Reuters - President & CEO*

Well, it is -- and you are right. I guess I don't think you have seen that in businesses -- in business units that I have run in the organization. I have always viewed my job with any business that I have been running is to solve for the maximum sustainable rate of profit growth. The maximum sustainable rate of profit growth, and that's -- and for me, again, 26-year Thomson guy, that is cash, right? That is cash that you take to the bank.

Some years, you are able to get more of that on the top line; some years, you are able to get more of that on the bottom line, but always you are solving for that maximum sustainable rate of profit growth, maximum sustainable rate of free cash flow growth and that is the way we're going to continue to run the business. I don't think we have any desire to make temporary progress on our profitability only to reinvest it in questionable initiatives.

We have always said that we would trade a point of margin for a point of growth any day and I still would do that. I just have a pretty skeptical view, when I look at those investment proposals, to say I got to know that point of growth is actually achievable, not know that we will get it with absolute certainty. You have to take risk in business. But it is an awfully easy thing to argue about, build it and they will come.

So I think you'll see a lot more rigor around our internal investment process as well and around our analysis on organic investment. Again, I think -- I think we have a lot of room in our profit performance. We have room in our margins compared to our peers. I know you guys all do all the same analyses that we do, and it is clear to me that we have got opportunity and we won't just plow every penny that we save back into a hope that we can grow it on the top line. We're going to manage it pretty effectively and prudently. And at the end of the day, the proof will be in the pudding and we will deliver or we won't. But I would hope that, over the past 18 months, you would agree that we have told you what we were going to do and then we have pretty much done it. And we told you what we were going to do and then we've pretty much done it.

We are committed to seeing profit growth. We are committed to seeing a solid balance sheet and to keeping our capital house in order, and we're going to be very smart about how we drive the top-line growth of the Company, but also the bottom line growth of the Company. And I think we have within our control inside the Company plenty of opportunities to do both.

Vince Valentini - *TD Securities - Analyst*

Good. A couple minutes left. Any questions from the audience? It's lunchtime, so I don't think we served heavy beef, but assume you are all asleep. Nobody? Okay, I will ask just one more then. The dividend, so I believe the target payout ratio for the Company has been notionally 50% of free cash flow. It is not a hard firm target every year, but it is sort of where you want to get to long term.

Right now, based on my free cash flow forecast for this year, your payout ratio is around 62%. So in order to keep dividend growth going during this past few years of difficult times, you have let the payout ratio creep up a little bit . If we do see some better free cash flow growth over the next two or three years for a whole host of reasons we have talked about, is it fair to say we should see dividend growth slightly less than free cash flow growth for a little while while that payout ratio creeps back down, or do you think we can say at this higher level for another few years?

James Smith - *Thomson Reuters - President & CEO*

Yes, look, our goal -- we will make that decision every year with the Board as we always do. It is fair to say we are committed to the dividend. We are committed to growing the dividend. The rate at which we grow the dividend will be something that we would discuss. As long as we are outside our -- yes, our kind of traditional ranges, but we will discuss those as well. We have always said we are more comfortable with it being in the 40% to 50% payout range and it has been higher.

My gut is that, like this year, until we kind of creep down into that range, we might see a lower rate of dividend growth than we have in the past, but still see dividend growth. But there are a couple ways to do that. The quicker we can get our free cash flow up, then the less of a problem that becomes. So we are committed to the dividend I mean obviously, and we will take that decision each and every year based upon what we think the most effective uses of our cash are. And as you guys know at least as well as I do, we have seen things in the market in recent years that would -- we never thought we would see in terms of interest rates, in terms of what buyback opportunities might do.

We take a hard look at all of those things, so we are going to maintain the dividend and are committed to increase it. We are going to buy back enough shares to offset our equity dilution. We are always going to look first to make those tactical acquisitions that support and fuel our organic growth in the out years, but we measure those against the opportunities that present themselves, and we look hard at every lever that we can pool. So we will be thoughtful about it and take that decision with the Board as we do every spring.

Vince Valentini - *TD Securities - Analyst*

Great. Well, there is still no questions in audience. We will call it there, Jim. Thanks very much for your time and your insightful comments.

James Smith - *Thomson Reuters - President & CEO*

Thank you.