



Thomson Reuters Regains Its Dominance

Description

by Gaurav Seetharam

Better-than-expected third quarter results from Thomson Reuters (NYSE:TRI; TSX:TRI.to) have been pushing the stock price higher since Tuesday. Upper management has made serious efforts at reorganizing the company and it's finally showing results.

First, there's the cost-cutting. Over 3,000 workers, mainly from the Financial and Risk division, are unfortunate victims of a necessary downsizing. Huge losses in the department have been almost balanced out by improving sales of the company's signature Eikon desktops. Yet F&R revenue still declined by 2%. The layoffs come amid a shift away from acquisition growth, indicating that the company wants to simplify their business model. Markets have long been impatient with TR's constant M&A, waiting for them to settle down and focus on organic sales growth. Well, CEO James Smith is telling us that time is here.

Mr. Smith worked his way up the ranks at the Thomson Corporation to become its Chief Operating Officer. After the merger with Reuters, he led the Professional division before being named CEO in January 2012. He understands that his company needs to earn the trust of the market while also focusing on their underlying business. The planned \$1 billion share buyback and promise to keep increasing Free Cash Flow is meant to buy room for further debt financing. It's apparent that they are setting the stage for higher profitability ratios.

Excluding F&R, the quarter went fairly well for Thomson Reuters. Legal revenue saw a 1% organic increase, mainly from the strength of business law products. Tax & Accounting was the big winner at 7% organic growth, despite a substantial drop off in public sector purchases. Sales to governments fell by 19%, in parts due to a weak economy and shrinking budgets. However, a rush of new subscribers pushed Intellectual Property & Science up 5%.

The Foolish Bottom Line

This company has been a mess for some time, even though it's conducive to cranking out free cash flow. It seems that management is finally getting serious about cleaning up the operation by aiming to

consolidate their dizzying lineup of products and concentrate on expanding margins. If successful, improved profitability along with its prodigious free cash could lead to sizeable returns for investors

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Disclosure: Gaurav Seetharam does not own any shares of Thomson Reuters.

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TICKERS GLOBAL

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