What Investors Need to Know About Thomson Reuters

Description

On Wednesday morning, information services provider **Thomson Reuters** (TSX: TRI)(NYSE: TRI) reported results for the first quarter of 2014. And it was a great quarter, with earnings per share of $0.46, beating analyst estimates by $0.08.

So what are the biggest takeaways from the company's latest news release? Below we identify three key themes.

1. Eikon gaining traction

The Financial & Risk (F&R) segment has been a struggle ever since Thomson merged with Reuters in 2007. First came the financial crisis. Then came a disastrous launch of the company's new flagship product, Eikon. And at the same time, the company has had to face increasingly intense competition from rivals like Bloomberg, **Factset** (NYSE: FDS), and Capital IQ.

At this point, Thomson is going to have trouble stealing market share – its brand is not as strong as Bloomberg's, and other competitors offer cheaper alternatives. Worse still, the industry is not growing particularly quickly. This showed up in the numbers, with organic revenue shrinking 3% year over year.

The good news is that Thomson seems to finally be getting some traction with Eikon. And with the company consolidating its legacy products onto Eikon, that should help drive down costs. The EBITDA margin was 24.1% in the first quarter, but could easily go even higher.

2. Legal still very strong

Although F&R gets most of the attention, it is the Legal division that is really the crown jewel for Thomson. The problem is that like F&R, Legal is facing slow growth; first-quarter revenue was flat on an organic basis. But unlike F&R, legal is already very well-run, and there aren't many opportunities for cost-cutting.

The problem is that law firms are facing a low growth environment, partly due to clients being less willing to pay inordinate fees. This is translating into sluggish demand for Thomson's Legal information products like Westlaw.

The good news is that things change very slowly in the world of legal services. And this means that demand for products like Westlaw will stay strong for many years to come.

3. Shareholder returns

Thomson Reuters does have a couple other smaller segments that are growing much more quickly, but growth is still hard to come by. In the first quarter, revenue decreased 1%. So where will the shareholder returns come from?

The good news is that Thomson generates very stable, high-margin, subscription-based revenues. And that enables the company to generate a lot of cash – it expects free cash flow to total about $1.4 billion in 2014 ($1.70 per share). Thus Thomson has plenty of opportunity to return cash to shareholders, which is what it plans on doing.

Thomson's board of directors recently approved a $0.02 increase in the annual dividend to $1.32 per share – the shares now yield 3.7%. The company is on track to make $1 billion in share repurchases in 2014. At current prices, that would be enough to retire 3.4% of its shares outstanding.

Foolish bottom line

Thomson Reuters is certainly not a growth story, but with such smooth revenue and cash flow, shareholders can still earn a decent return. Dividend investors may want to consider Thomson for their portfolio.

CATEGORY

1. Investing

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