The Pros and Cons of Investing in Thomson Reuters Corporation

Description

Investing in **Thomson Reuters Corporation** (TSX: TRI)(NYSE: TRI) has been a true roller coaster ride over the past few years. The steep drop came back in 2007 and 2008, when Thomson and Reuters merged right before the financial crisis. Then shareholders got tossed side to side when the company botched the release of its new financial product, Eikon.

Nowadays shareholders are starting to breathe easier, as Thomson is gaining traction with Eikon and is having some success cutting costs. But at the same time, there are still many investors (especially south of the border) who are betting against the company.

So should you hop on this ride? Below we take a look at two arguments for doing so, and two arguments for staying away.

Why buy?

1. Diversification of earnings

Over the last five years, Thomson has certainly struggled in some of its business lines. But we must maintain proper perspective.

When looking at the 2013 annual report, you can see things aren’t so bad. Many of the Financial & Risk segments are holding up well, as are the other divisions, including Legal. So even when one or more products suffers (as will surely happen again), there are plenty of healthy divisions to prop up the numbers, and the share price.

2. Subscription-based revenue

When Thomson botched the Eikon release, other competitors such as Bloomberg stepped in to take market share. But despite all of Thomson’s troubles, it only lost about five percentage points of share in its Financial & Risk division. Why was it able to hold on to so many of its customers? After all, **BlackBerry Ltd** made similar mistakes and saw its market share evaporate.

The reason is that Thomson sells subscription-based products, and these products can be a pain to switch away from. This is good news for shareholders, because it helps protect earnings even when the company falters.

Why to avoid

1. Poor track record

When you devote part of your life savings to a company's shares, you want to be sure that management is up to the job. And Thomson's management team has yet to demonstrate that.

This is a big problem, because this is an industry that requires constant innovation. And if Thomson botches any more product releases, its customers could lose patience. That would be bad news for the company's shareholders.

2. Fierce competition

As mentioned, Bloomberg was one beneficiary of Thomson's mishaps. Bloomberg is a company that competes fiercely, consistently comes out with top-notch products, and rarely loses. You don't want to compete with this company.

There are other companies that compete with Thomson's Financial & Risk division, such as **Factset Research Systems Inc.** and Capital IQ. These companies are not as powerful as Bloomberg, but are willing to offer lower-priced products. Over in Legal, Thomson competes with **Reed Elsevier**, which is another company known to offer steep discounts.

So Thomson is somewhat vulnerable to competition, something that will become much more apparent if the company falters again. So your best bet may be to stay on the sidelines.

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1. Investing

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