ONEX Corporation Gets Analytical

Description

Thomson Reuters Corp. (TSX:TRI)(NYSE:TRI) announced in July that it was selling its Intellectual Property & Sciences (IP&S) business to private equity firms **ONEX Corporation** (TSX:OCX) and **Baring Private Equity Asia** for US$3.6 billion.

The deal, which closed October 3, is a win/win for both Thomson Reuters and ONEX.

Thomson Reuters divested itself of a business that, while substantial in size, didn't fit its laser-focused dedication to its core strategy of providing finance professionals with the information they need to be successful. ONEX got a substantial business that it can grow over three to five years and then take public or sell to a strategic buyer.

The new name for the former Thomson Reuters's division is Clarivate Analytics–a global firm with 4,000 employees operating in more than 100 countries. Totally independent, the Philadelphia-based company will utilize ONEX and Baring Asia's familiarity with the Asian market to grow its business.

ONEX and its investment funds will invest US$1.2 billion in equity in the deal, Baring Asia another US$400 million, and the remaining US$2 billion to pay for Clarivate will come from debt.

What does ONEX get for $3.6 billion?

It gets a company that generated US$313 million in EBITDA in 2015 from US$1 billion in revenue. Although the IP&S business saw limited revenue growth in 2015–up 1% year over year, excluding currency–it did manage to grow subscription-based revenues by 3% to US$780 million thanks to the success of its Mark Monitor brand protection solutions along with its Web of Science research subscriptions.

In other words, ONEX got a business with a number of industry-recognized brands that just didn't fit into Thomson Reuters's future plans. In addition, IP&S only accounted for 8% of the company's overall revenue, making it a difficult fit with the rest of its businesses.

On its own, Clarivate can do what's necessary to grow.

Say what you want about private equity, but it's these type of situations where companies like ONEX come in handy. Especially right now, when the IPO markets aren't exactly brimming with enthusiasm. Thomson Reuters would have had a tough time spinning it off into its own public company. Perhaps in five years the IPO markets will be stronger, providing ONEX with the perfect out.

Until then, it will work with its Asian partner to figure out a plan of attack.

I like this deal because it truly benefits everyone involved. Thomson Reuters eliminated an unnecessary distraction, and ONEX gets a deal that's right in its wheelhouse in terms of size. Additionally, ONEX is currently sitting on US$2.2 billion of cash and near cash, along with US$3 billion in uncalled committed capital from its limited partners.

Although ONEX CEO Gerry Schwartz regards current company valuations as excessive, he's extremely happy to have invested in what is now Clarivate Analytics.

"Despite a quiet start to the year, we're delighted to have found three great new businesses [including Clarivate] and continue to grow our credit platform," said Gerry Schwartz, chairman and chief executive officer of ONEX, in its Q2 2016 report August 11. "We've had to be very selective in these markets, but our patience has paid off."

ONEX wouldn't have done the deal just to spend some cash. For this reason, I believe Clarivate Analytics will deliver an above-average return on investment once the exit strategy is played out in three to five years.

It's a meaningful acquisition indeed, and just another reason to own ONEX stock, in my opinion.

CATEGORY

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