1 Media-Related Company That Is Not What it Seems

Description

If there has ever been a company that I was wrong about regarding its operations, that company would be **Thomson Reuters** (TSX:TRI)(NYSE:TRI). I always thought of this company as solely a news organization, which, I have to say, has kept me away from it more than drew me to it. It is really only because of the growing, approximately 3% dividend that I even decided to take a look at this company.

I started looking into Thomson Reuters with a biased view. I was under the firm impression that this was one of those residual media firms that would be facing stiff competition from online news formats, the kind of competition that is putting pressure on newspaper businesses and other traditional news providers in general. It turns out this line of thinking is certainly incorrect.

While Thomson Reuters does operate a traditional media division, the total media segment of the business provides only 20% of its total revenue base. Media consists of two operating segments: News and Global Print. The News segment contributes 6% of revenues and Global Print provides only 14, a much smaller portion that I originally suspected.

As a result, the potential negative impact of a potentially declining news business is not as relevant as I first suspected. Besides, these segments only represent two of the company's five segments. It is the rest of the company operations that are really interesting.

Thomson Reuters remaining three divisions, Legal Professionals, Tax Professionals, and Corporates provide the majority of its revenues. These are areas of its business that I didn't even know existed before I began to look more deeply into the company.

The Tax Professionals segment, for example, provides 14%, the same as its global print division. The Corporates segment provides 23% of its revenues and Legal Professionals provides 43%. Instead of being highly pressured by technological change, the business may, in fact, be insulated from these pressures, which may, in the long run, lead to higher revenues and earnings.

While the financial results were not that amazing in the second quarter, it is possible that most of the negative results were the result of one-time costs resulting from the company's strategic repositioning. Overall, the company increased revenues 2% year over year. It was operating profit (down 6%), adjusted EPS (down 11%), and free cash flow (down 4%) that seemed particularly negative.

The upcoming Q3 results may provide more clarity as to the company's performance, once the repositioning costs have begun to filter through. This company is much more interesting than it first appeared. Its 3% dividend initially drew my eye, but it is the sources of its revenues that make this stock much more appealing. The fact that the majority of its revenues are from sources other than media makes the investment case that much more attractive.

That being said, the fact that its earnings and revenues were falling in the first quarter is something of a concern, especially when the stock is not terribly cheap (trailing P/E of 36) at these prices. Therefore, it would be prudent to wait and see how the company performs for a few quarters after the one-time costs filter through before entering a position.

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