



Research Update

Blackstone & Thomson Reuters F&R Buyout

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CHARON SPECIAL SITUATIONS GROUP

Hyunjae Lee
INVESTMENT ANALYST
Hyunjae.lee@gatech.edu

Information Services

Deal Highlights

Sponsors:	The Blackstone Group (Blackstone, BX), Canada Pension Plan Investment Board (CPPIB), Government of Singapore Investment Corporation (GIC)
Target:	Thomson Reuters's Financial & Risk Business (Thomson Reuters F&R, TRI)
BX Advisors:	Canson Capital Partners, BAML, C, JPM, Simpson Thacher & Bartlett (legal)
TRI Advisors:	Guggenheim (lead), TD, Centerview, Wachtell Lipton Rosen & Katz (legal)
Structure:	New acquisition vehicle King HoldCo with 55% sponsor and 45% company ownership
Financing:	\$17BN gross proceeds in \$14.5BN debt and preferred equity, \$2.5BN equity
Debt Leads:	JPM (admin agent, leading bonds), BAML (leading loans), C
JLA:	WF / MS / GS / UBS / CS / HSBC / DB / Barc / RBC / SMBC
Other Books:	MUFG / MIZ / SOCG / SC / Natixis / BMO / TD / UNIC / INTES / ING / Jeff

Executive Summary

Blackstone is leading the biggest private equity transaction since the financial crisis: a landmark strategic partnership that values Thomson Reuters F&R business at \$20BN and will likely accelerate M&A activity in the financial information space. Thomson Reuters F&R is a financial data and technology business. It enables financial transactions such as foreign exchange and fixed income trading, supplies data and information to financial firms (including through its terminal business), and provides wealth management and risk and compliance services.

Financial Clients	Investment banks, asset managers, hedge funds, proprietary trading shops, sales desks, brokers / dealers, alternative market makers, wealth management firms, research analysts			
Risk Clients	Corporate compliance, risk professionals, money laundering reporting officers, audit, custodians, banks, insurance, law firms, pension funds, hedge funds			
Competitors	Bloomberg MarketAxess	FactSet LexisNexis	Dow Jones IBM Watson	S&P Capital IQ ICE Data Services

The F&R buyout has been a five year transaction. Blackstone first looked at Reuters in 2013 but couldn't reconcile financials until 2016 when they decided to approach via corporate partnership, the thesis of which was how the business would be bettered by Blackstone. The PE sponsor anticipates it will be able to help with clients on both sell-side and buy-side, drive efficiencies through its data-oriented portfolio companies, and support F&R's M&A activity. By investing and accelerating growth, Blackstone believes it can provide faster governance, decision making, and synergies in the following areas:

Secular Trends	<ol style="list-style-type: none"> (1) Increasing demand for alternative data, cleaning, brokering (2) Accelerating move to cloud computing and technology (3) Investment in service quality as an add-on to information products (4) Machine learning replacing human data processing
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Investment Considerations

Blackstone is marketing two term loans worth \$8BN and \$5.5BN bridge loan to high-yield bond issues with a \$750MM revolver. Additional funding comes from a combination of preferred, cash, and existing equity that adds up to the \$20BN valuation. Secured leverage is expected to be around 4.5x with total leverage at 5.6x after EBITDA adjustments (expected to be up 30%) since the transaction is a carve-out and involves reallocating costs. This implies EBITDA of about \$2.4BN, including around \$650MM in cost savings based on the LTM 6/29/2018 EBITDA of \$1.7BN for the F&R unit.

The King HoldCo board will consist of five sponsor members and four TRI. The President and CEO will be a non-voting member. F&R and Reuters will also sign a 30-year agreement for Reuters to supply news and editorial content for a minimum of \$325MM annually. After the deal, F&R unit will be renamed Refinitiv.

THOMSON REUTERS

+ Minority Ownership in F&R. Remaining a 45% owner allows Thomson to gain if Blackstone successfully improves the operational performance of F&R.

+ Potential Upside from Warrant Coverage. Should Blackstone achieve an internal rate of return greater than 20%, Thomson's warrants would increase its stake to 47.6% at the sponsors' expense, exercisable upon an IPO or Change of Control (CoC). Since TRI only has an equity position while Blackstone has preferred, Thomson will always have a higher weighted average return. The bigger F&R grows, the more the original owner's return will outpace Blackstone's.

BLACKSTONE

+ Defensive Insurance from Warrant Coverage. If Blackstone does not hit an annualized return of 16%, then the investors' F&R stake automatically inflates to 57.1% at TR's expense, exercisable upon an IPO or CoC.

+ PIK on Preferred Compounds Upside. Regardless of F&R performance, the payment-in-kind coupon built into the preferred equity portion will continue to accumulate at 14.5%. Should F&R not grow, Blackstone would still make a profit though Thomson would show a loss. The more F&R falls, the wider the difference between returns.

It seems that holistically this is a defensive investment on the part of Blackstone and an ambitious one on the part of Thomson Reuters. TRI will benefit immensely if the investment IRR \geq 20%, okay $>$ 16%, and subpar \leq 16%. Blackstone will benefit regardless so long as IRR $>$ 0%, well between 16% and 20%, and a little sweeter towards the limit of 16%. BX seems to anticipate returns being at or almost 16% while TRI is more optimistic at 20% despite BX's lack of incentive to create that 4%.

Sources & Uses

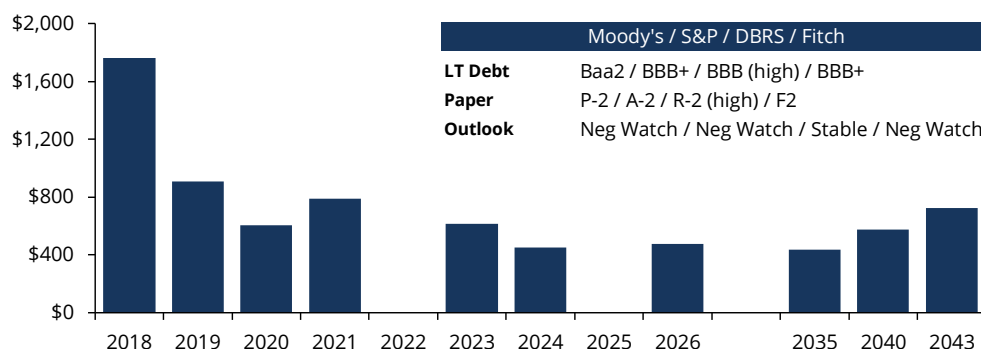
Sources	\$ in Billions	Uses	\$ in Billions
Term Loan B	\$8.0	Taxes and Transaction Expenses	\$2.0
Secured Notes	3.0	Repay Existing Debt	3.5
Unsecured Notes	2.5	Investments and acquisitions	2.0
Preferred Equity (PIK)	1.0	Partial Tender Offer	9.5
Existing Equity	2.5		
Total Sources	\$17.0	Total Uses	\$17.0



Financing Structure

\$ in Billions	Margin	Tenor	Jun-18	% Total	EBITDA x
Undrawn Revolving Credit Facility			-	0.0%	0.0x
Term Loan B (USD)	400bp		5.5	27.5%	2.3x
Term Loan B (Euro)	400bp		2.5	12.5%	1.0x
Secured Bridge Loan (USD)	400bp	7.5 yr	2.0	10.0%	0.8x
Secured Bridge Loan (Euro)	400bp	7.5 yr	1.0	5.0%	0.4x
Senior Secured Debt			\$11.0	55.0%	4.5x
Unsecured Bridge Loan (USD)	625bp	8 yr	1.8	9.0%	0.7x
Unsecured Bridge Loan (Euro)	625bp	8 yr	0.7	3.5%	0.3x
Senior Debt			\$13.5	67.5%	5.6x
Preferred Equity (14.5% PIK)			1.0	5.0%	0.4x
New Cash Equity			3.0	15.0%	1.2x
Existing Equity			2.5	12.5%	1.0x
Total Capitalization			\$20.0	100.0%	8.3x
LTM 6/29/18 Financial & Risk Adj. EBITDA					\$2.4

Thomson Reuters Debt Profile



Capital Structure Overview

\$7.3BN debt outstanding
Net debt / EBITDA < 2.5x
Avg term maturity ~7 years
Average interest rate < 5%
2018 includes ST paper

F&R Standalone Financial Position

F&R is a cash generative & diversified business that can support some degree of leverage. It has a predictable subscription revenue base (~80% of revenues) but will face challenges given its flat operating performance and capital-intensive nature. Cutting costs could anger customers and impair business, so likely sales will come from synergies. F&R has 1,400 suppliers and new contracts that will be separated from TRI from Day 1.

	1Q16	2Q16	3Q16	4Q16	FY16	1Q17	2Q17	3Q17	4Q17	FY17	1Q18
Revenues	1,509	1,524	1,516	1,508	6,057	1,485	1,517	1,542	1,551	6,112	1,583
YoY Growth	-2.8%	-1.8%	-0.1%	-1.2%	-1.5%	-1.6%	-0.5%	1.7%	2.9%	0.9%	6.6%
Adj. EBITDA	437	443	460	289	1,629	461	477	495	481	1,916	526
Margin	29.0%	29.1%	30.3%	19.2%	26.9%	31.0%	31.4%	32.1%	31.0%	31.3%	33.2%
YoY Growth	8.9%	3.2%	9.5%	-35.8%	-4.2%	5.5%	7.5%	7.6%	66.1%	17.6%	14.0%



Additional Notes

Sources Used, Ordered by Date Published

07/23/18	Reuters News	Blackstone wins EU approval to buy Thomson Reuters unit
07/18/18	Nasdaq	Blackstone gets “insurance” on \$20 bln F&R deal
06/29/18	Reuters News	Blackstone selling two jumbo loans for F&R
05/30/18	Thomson Reuters IR	Investor Booklet
05/24/18	Blackstone	Blackstone’s Thomson Reuters F&R Partnership
05/11/18	Thomson Reuters IR	2018 First-Quarter Results
05/04/18	Reuters News	Blackstone’s F&R acquisition to close in late summer
02/23/18	S&P LCD	Thomson Reuters F&R buyout debt expected after Easter
01/31/18	S&P LCD	Thomson F&R buyout by Blackstone nets \$14B financing
01/30/18	Bloomberg	Blackstone to Buy Thomson Reuters Unit in a \$20 Billion Deal
01/30/18	Reuters News	Thomson and Blackstone Announce Strategic Partnership for F&R
01/30/18	Thomson Reuters IR	Financial & Risk Strategic Partnership with Blackstone
01/30/18	SEDAR	Transaction Agreement filed on SEDAR and furnished to SEC EDGAR

About Charon Special Situations Group

The Charon Special Situations Group (CSSG) is a student-managed investment advisory service focused on pitching distressed debt, special situations, and event-driven strategies to institutional investors.

About the Analysts

Hyunjae (Brian) Lee is an incoming Global Markets Summer Analyst in RBC Capital Markets’ FICC Origination division with previous experiences in leveraged finance and credit research at SunTrust Robinson Humphrey and private wealth management at Morgan Stanley. Brian studies computer science and finance at the Georgia Institute of Technology.

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