

MARKET DATA INSIGHT

A MONTHLY INTELLIGENCE BRIEFING ON INFORMATION AND TECHNOLOGY FOR FINANCIAL MARKETS

Thomson to Reverse Reuters into Financial Unit Creating Market Data Giant to Take On Bloomberg

Thomson Corp.'s prospective deal to acquire Reuters for around £8.8 billion is the biggest story in the market data business. Oddly, the marketplace seems quite befuddled by the news. Why?

The answer probably lies somewhere in the surprise factor in Thomson's offer to acquire Reuters, in the 'reverse' nature of the proposed deal itself, and in the fact that most people in the industry – though they may not acknowledge it – are held in a kind of awe at the cleverness of the proposed arrangement.

Yes, in hindsight, Thomson was the obvious candidate in a tie-in with Reuters. Indeed, Reuters CEO Tom Glocer had been canvassing the Thomson family about a Reuters purchase of Thomson Financial for two years or more, and now, in essence, he's got what he wanted. But who guessed that Thomson Financial would be effectively reversed into market leader Reuters, and that Glocer would emerge as CEO of the proposed Thomson-Reuters conglomerate, including its legal, scientific and healthcare operations?

In short, Glocer has managed to engineer a reverse of Reuters into Thomson, while maintaining the Reuters brand and leadership of the combined financial information and technology businesses, which ostensibly would have the scale, clout and content to take on Bloomberg, supported with the kinds of delivery technologies that are required as the trading industry

moves from being human-led to server-led. It's clever stuff.

Why now? It could be that Rupert Murdoch's move on Dow Jones may have been the catalyst for Thomson to approach Reuters. With the sale of its Learning operation earlier this year, Thomson appears to be in an aggressive, pruning mood. It may have concluded that in the increasingly zero-sum game of financial information, the only way to grow meaningfully is to buy up scale, and that such a route was preferable to scratching at basis-point market share gains with Reuters, Bloomberg and Interactive Data Corp.

The terms of the deal – still a proposal and not set in stone by any means – call for the creation of a dual-listed company, with each's primary listing in Toronto and London being maintained. Without getting into too much detail, based on the respective issued share capital of the two companies, and of Woodbridge, the Thomson family holding company, Thomson-Reuters would be owned 53% by Woodbridge, 23% by other Thomson shareholders and 24% by Reuters shareholders.

The proposed deal valued Reuters at 705 pence a share, based on share values on May 3, the day before the plan was officially announced, representing a premium of some 43% over and above Reuters closing share price that day.

This means good value for Reuters shareholders. His 'appointment' as CEO casts Glocer as the architect of the deal.

Much has been done already, in terms of sorting through detail, and some say it's been David Turner, Thomson Financial CFO, who's been driving the detailed work through since the news broke. Turner worked alongside Glocer in Reuters America during the Michael Sanderson era, and joined Thomson Financial a few years ago. He is believed to have set his sights on becoming the CFO of the whole shebang, although it's more likely – now that Thomson CFO Bob Daleo has been named to become parent Thomson-Reuters CFO – that he'll make a play for CFO of the Reuters unit.

With Glocer kicked upstairs to corporate, and Thomson CEO Richard Harrington set to retire when and if the deal goes through, the initial question who would run the Reuters financial information and technology business unit has been swiftly answered in the companies' outline of how they see the combined entity structured. The lucky winner is – Devin Wenig, who has been Glocer's right-hand man at Reuters ever since he took the helm. Wenig's selection appears to leave another prime candidate, Sharon Rowlands, in the cold, although it's unlikely that

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Thomson won't have taken good care of her prospects for fear of her departing, which would leave Thomson Financial in a tricky place should the Reuters deal fall through.

For the record, Thomson chairman David Thomson will be chairman of the combined group, with W. Geoffrey Beattie and Reuters chairman Niall FitzGerald as deputies. Jim Smith, currently COO of Thomson, will be CEO of Thomson-Reuters Professional (the rest of Thomson-Reuters, outside of Reuters). Michael Wilens, currently Thomson CTO, will become CTO; Stephen Dando, currently Reuters Group HR Director, will become chief human resources officer; and David Schlesinger, currently Reuters editor-in-chief, will become editor-in-chief of the combined entity.

Already, then, a lot has been put in place. From the statements issued so far by the two companies, it's plain to see that a lot of thought has gone into the arrangement. The statements, though, also makes it plain that a lot of work remains to be done, and raise the possibility that a deal may not close until early next year.

Indeed, there's no guarantee that it will close at all. One potential hurdle appears to have been excised from the equation. The Reuters Founders Share Company, created to protect the integrity of Reuters as a news organization and a potential spoiler of the deal, has given the proposal its blessing.

Thus, Glocer's recent lobbying of Reuters Founders Share Company representatives, to offer assurances about the safe pair of hands that Thomson represents, appears to have borne fruit. Indeed, the companies had originally stated that: "No transaction will be announced without the support of the Reuters Founders Share

Company. This is a non-waivable precondition." Their assurances that Thomson-Reuters and Woodbridge would support the Reuters Trust Principles protecting editorial integrity and that "Woodbridge has further agreed that it would use its voting control to give effect to this support," though, seem to have won the day.

So that's that, then.

The next worry is what the regulators might think. Some in the industry believe the acquisition of Dow Jones by Murdoch's News Corp., for example, stands a far higher chance of getting through than the Reuters/Thomson tie-in. We'll see. But regulators will certainly have a lot to sift through in this highly complex transaction. Moreover, this isn't a rescue job, like Reuters' acquisitions of Bridge Information Systems or Telerate. Reuters and Thomson Financial are both large, viable competitors in the market data business, perhaps representing 60% or more of the marketplace, depending on whose numbers you believe.

This market share point is a key one. Despite having their own views on their respective shares of the marketplace, the companies appear to be happy to let the mainstream media pick up market share stats that indicate they're both trailing significantly behind Bloomberg in terms of market share. Indeed, figures used by the media have ranged from just 23% to 27% for Reuters, between 7% and 11% for Thomson Financial, and between 28% and 34% for Bloomberg. Using some combination of these, it's easy to build a case that the proposed tie-up would create not a monolith, but merely a viable player the size of the current market leader. Convenient.

One of the 'compelling drivers' behind the proposed tie-in, the two

companies have suggested, is the possibility of wringing some \$500 million of annual savings from the combination. It's worth pointing out, though, that while that may be appetizing to shareholders, the figure represents a mere 10% of total cost, which again plays to the overall message that regulators should have nothing to fear from the proposed deal.

Of course, how 'monopolistic' the combined entity would look depends, like all things relating to market share, on the methodology for viewing the marketplace. Reuters is historically strong in foreign exchange and global equities, Thomson Financial in fixed-income securities and international equities. Without having a robust methodology to hand, it's been our experience that Reuters and Bloomberg for much of the past decade have each maintained about a one-third or thereabouts share of the market (Reuters officially reckons 27% these days). Adding Thomson could make the combined Thomson-Reuters quite a bit bigger than its nearest rival, depending on which figures you use.

And while media attention has focused on how blasé the prospective combined entity's client base appears to be about the whole affair – "We don't care whose feed pipes in the data we need" and so on – it could just be that these same people might start caring when a key price deflator (i.e., a viable competitor) is taken out of the equation. When this dawns on them – and it probably already has dawned on the savvy ones; the London-based Information Provider Users Group (IPUG) says it's going to take a look – they'll be picking up the phones to regulators, which could add some complexity to the partners' challenge in bringing the transaction to fruition.

Key areas of the combined businesses

that could raise regulators' eyebrows:

- **Market Data Terminals.** Reuters' 3000 Xtra and Thomson Financial's Thomson ONE compete for trader, investment banker and investment manager desktops. Reuters' 3000 Xtra appears on some 120,000 desks world-wide, and Thomson ONE considerably fewer, while Bloomberg claims 250,000. But by combining the No. 2 and 3 offerings, the deal could remove a key depressor of terminal prices; Bloomberg allegedly cut monthly fees for existing clients seeking additional equities data-populated terminals to as low as \$500 per month last year in the face of cut-price offerings from Thomson ONE. Regulators don't like that kind of thing.
- **Market Data Feeds.** Reuters is clearly the market leader here with its established Reuters Data Feed offering. Thomson has legacy services – through the former GlobalTopic and ILX operations – but recently signed a strategic deal with Wombat Financial Software to develop and market a new range of consolidated and direct exchange feed capabilities, the latter to compete with Reuters' RDF Direct. From an operational

standpoint, the Wombat arrangement may not make much sense given Reuters' existing product line, so the point may be moot.

- **Newswires.** Thomson Financial has been moving aggressively to fill the news hole in its overall offering. Thomson Financial News, spawned with help from Dow Jones' MarketWatch unit, and by the acquisition of AFX News in Europe, and – if the number of journalist job vacancies listed on Gorkana is anything to go by – in the midst of a major expansion, has been created to compete directly with Reuters, Bloomberg News and Dow Jones Newswires. Its disappearance into Reuters News might not please regulators, although it's too young to have made a major impact in terms of market share.
- **Research Aggregation and Distribution.** Between them, Reuters and Thomson Financial dominate this market. Reuters bought Multex a few years back. Thomson owns the Institutional Brokers Estimate Services by virtue of its Primark Corp. acquisition, and counts First Call as one of its early home-grown product wins. Bloomberg recently kicked

IBES off its network, in favour of its own offering in the space. But it's going to be tough to reassure worried regulators.

From a synergistic point of view, opportunities for the merged company abound and are too many to mention all here. Clearly, the fortitude of Thomson Financial's Datastream offering in Europe would give Reuters the kind of fundamental and historical data it has long craved in order to give Bloomberg a real fight in the equities investment management marketplace. Reuters has the Bridge data set in the U.S., Thomson has Worldscope/Disclosure and host of other highly specialized database products. A global combination would be a formidable one.

It's worth remembering, too, that Reuters was the disappointed party when Thomson Financial acquired Tradeweb a few years back. Since then, Tradeweb has been a powerhouse, driving Thomson's growth in the fixed-income space. The multi-dealer platform could provide a useful addition to Reuters' stated aim of transactions everywhere, and in bolstering its fixed-income offerings, where it has been traditionally weak versus Bloomberg.

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